



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

Financial Statements
for the year ended 31 August 2021

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 2021.

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 2021 and the Company's financial position as at that date are set out in the financial statements on pages 3 to 35.

Reserves

The Company has transferred the surplus of HK\$29,276,000 (2020: HK\$19,866,000) 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

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, 13 December 2021

Statement of comprehensive income for the year ended 31 August 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Income	2		
Operating income		697,218	685,856
Non-operating income		39,702	33,858
		<u>736,920</u>	<u>719,714</u>
Expenditure			
<i>Staff expenses</i>			
Salaries and teaching resources		364,743	357,916
Gratuities and MPF contributions		61,345	59,682
Housing allowance		31,603	30,820
Medical expenses		18,002	15,719
Staff education allowance		23,759	22,801
Passage allowance		641	308
	3(a)	<u>500,093</u>	<u>487,246</u>
<i>Other expenses</i>			
Advertisements		778	1,027
Audit fee		269	323
Cost of goods sold		1,054	739
Depreciation	3(b), 9	45,821	38,280
Development and operating agreement payment	24(a)	11,743	23,131
Management and administrative expenses	24(a)	28,864	23,129
Office and general expenses	4	49,060	52,052
Rent, rates and building management fee	5	8,368	10,474
Scholarship fund and hardship allowance	14	50,988	52,385
Teaching materials and resources	6	10,606	11,062
		<u>207,551</u>	<u>212,602</u>
Total expenses		<u>707,644</u>	<u>699,848</u>
Surplus and total comprehensive income for the year	3	<u>29,276</u>	<u>19,866</u>

Statement of comprehensive income
for the year ended 31 August 2021 (continued)
(Expressed in Hong Kong dollars)

	2021 \$'000	2020 \$'000
Represented by:		
Accumulated fund deficit	(10,426)	(13,992)
Capital fund surplus	<u>39,702</u>	<u>33,858</u>
	<u>29,276</u>	<u>19,866</u>

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

Statement of financial position at 31 August 2021

(Expressed in Hong Kong dollars)


	Note	31 August 2021 \$'000	31 August 2020 \$'000
Non-current asset			
Properties, plant and equipment	9	252,712	238,724
Current assets	10		
Inventories		979	1,061
Rental and utilities deposits		5,721	5,467
Prepayments	11	9,062	10,089
Fees and other receivables	11	2,629	2,032
Restricted cash	12	3,849	2,877
Deposits with original maturities over three months		47,900	12,700
Cash and cash equivalents	13	317,453	293,842
		387,593	328,068
Current liabilities	10		
Creditors and accruals		66,969	76,133
Lease liabilities	20	16,368	17,219
Nomination rights received in advance	19	310	360
Provision for staff gratuities and MPF contributions		27,825	26,811
Scholarship fund	14	12,063	22,040
Hardship allowance	14	7,366	7,343
Fees received in advance	15	92,173	67,102
Debenture	17	48,387	9,556
Deferred income			
- non-refundable building levy	18	6,902	6,594
- nomination rights	19	9,466	10,148
Amount due to the Foundation	16	5,649	1,492
Loan from the Foundation	16	8,852	7,161
		302,330	251,959
Net current assets		85,263	76,109
Total assets less current liabilities		337,975	314,833

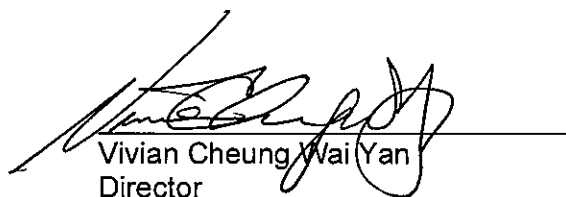
Statement of financial position at 31 August 2021 (continued)

(Expressed in Hong Kong dollars)

	Note	31 August 2021 \$'000	31 August 2020 \$'000
Non-current liabilities			
Lease liabilities	20	29,032	23,237
Loan from the Foundation	16	14,936	29,564
Debenture	17	57,305	54,365
Deferred income			
- non-refundable building levy	18	42,711	41,157
- nomination rights	19	67,652	69,447
		<u>211,636</u>	<u>217,770</u>
NET ASSETS		<u>126,339</u>	<u>97,063</u>
RESERVES	21		
Capital fund		101,057	82,479
Accumulated fund surplus		<u>25,282</u>	<u>14,584</u>
TOTAL SURPLUS		<u>126,339</u>	<u>97,063</u>

Approved and authorised for issue by the board of directors on 13 December 2021


Belinda Greer
Director


Vivian Cheung Wai Yan
Director

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

Statement of changes in reserves for the year ended 31 August 2021 (Expressed in Hong Kong dollars)

	Accumulated fund surplus \$'000	Capital fund \$'000 (note 21(b))	Total \$'000
At 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 and 1 September 2020	14,584	82,479	97,063
Surplus and total comprehensive income for the year	(10,426)	39,702	29,276
Transfers	21,124	(21,124)	-
At 31 August 2021	25,282	101,057	126,339

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

Cash flow statement for the year ended 31 August 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Operating activities			
Net cash generated from operating activities	13(b)	31,415	24,701
Investing activities			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(20,174)	(8,644)
Proceeds from disposal of properties, plant and equipment		-	17
Increase in restricted cash		(972)	(144)
Increase in deposits with original maturities over three months		(35,200)	(9,000)
Interest received		823	3,164
Net cash used in investing activities		(55,523)	(14,607)
Financing activities			
Re-payment of loan from the Foundation		(12,937)	(7,316)
Net proceeds from nomination rights	13(c)	14,800	15,850
Proceeds from non-refundable building levy	13(c)	24,237	20,939
Net proceeds from issuance of debenture	13(c)	41,771	51,293
Interest expenses paid to the Foundation		(393)	(1,108)
Capital element of lease rentals paid	13(c)	(18,290)	(13,715)
Interest element of lease rentals paid	13(c)	(1,469)	(1,475)
Net cash generated from financing activities		47,719	64,468
Net increase in cash and cash equivalents		23,611	74,562
Cash and cash equivalents at the beginning of the year		293,842	219,280
Cash and cash equivalents at the end of the year	13(a)	317,453	293,842

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

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Background

ESF Educational Services Limited ("the Company") is incorporated in Hong Kong under the Hong Kong Companies Ordinance and is limited by guarantee. In the event that the Company is wound up, each member's guaranteed contribution to the assets of the Company is limited to \$100. The Company had 4 members as at 31 August 2021 (2020: 4 members). The directors of the Company are responsible for the preparation of financial statements.

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

2 Income

Accounting policy

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

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

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

(i) Tuition fees

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)

	2021 \$'000	2020 \$'000
Operating income		
Revenue from contracts with customers within the scope of HKFRS 15		
Recognised at a point in time		
- Application fee income	3,540	3,553
- Examination fees	1,536	1,163
- Resale income	3,216	3,520
- Other income	11,122	7,936
	<u>19,414</u>	<u>16,172</u>
Recognised over time		
- Renaissance College tuition fees	297,899	303,403
- Discovery College tuition fees	211,980	220,452
- Camps and educational visits	22,062	5,050
- Kindergarten tuition fees	128,872	129,673
- Language course fees	9,848	10,646
- Sports course fees	9,475	12,129
- Clubs course fees	380	159
- COVID-19 related relief grant to parents	(26,502)	(26,628)
	<u>654,014</u>	<u>654,884</u>
Revenue from other sources		
- Donations	1,475	1,255
- Rental income	3,852	4,570
- Interest income	823	3,164
- Government relief grants	1,140	911
- Transfer from previous years' scholarship fund and hardship allowance surplus	16,500	4,900
	<u>23,790</u>	<u>14,800</u>
Total operating income	<u>697,218</u>	<u>685,856</u>
Non-operating income		
Revenue from contracts with customers within the scope of HKFRS 15 recognised over time		
Non-refundable building levy	22,375	20,237
Nomination rights	17,327	13,621
Total non-operating income	<u>39,702</u>	<u>33,858</u>

3 Surplus and total comprehensive income for the year

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

	2021 \$'000	2020 \$'000
(a) Staff expenses:		
Contributions to defined contribution retirement scheme	10,231	10,170
Salaries, wages and other benefits	505,945	493,355
Subsidies provided by Government	(16,083)	(16,279)
	<u>500,093</u>	<u>487,246</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	26,392	24,684
- right-of-use assets	19,429	13,596
Interest on lease liabilities	1,469	1,475
Impairment losses on fees receivables	651	2,586
Loss on disposal of properties, plant and equipment	111	58
Auditor's remuneration	<u>269</u>	<u>323</u>

4 Office and general expenses

	2021 \$'000	2020 \$'000
Building repair and maintenance	11,647	14,148
Insurance	2,692	2,526
Legal expenses	-	380
Minor furniture/equipment written off	1,606	1,810
Printing	678	656
Professional fees	1,033	2,865
Postage	259	288
Recruiting	735	915
Stationery	212	191
Training expenses	1,573	2,081
Transportation	225	497
Utilities	7,484	6,924
General office expenses and others	19,054	16,188
Interest expense	1,862	2,583
	<u>49,060</u>	<u>52,052</u>

5 Rent, rates and building management fee

	2021 \$'000	2020 \$'000
Gross rent and rates for the year	9,944	16,993
Less: Recovered or recoverable from the Government	<u>(3,614)</u>	<u>(8,538)</u>
	6,330	8,455
Building management fee	<u>2,038</u>	<u>2,019</u>
	<u>8,368</u>	<u>10,474</u>

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

6 Teaching materials and resources

	2021 \$'000	2020 \$'000
Teaching materials	7,774	8,348
Course expenses	1,439	1,566
Educational visit expenses	-	33
Examination expenses	<u>1,393</u>	<u>1,115</u>
	<u>10,606</u>	<u>11,062</u>

7 Directors' emoluments

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

8 Taxation

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

9 Properties, plant and equipment

Accounting policy

(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

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.

9 Properties, plant and equipment (continued)

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.

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.

(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 1 September 2020	486,917	47,694	112,588	52,204	10,029	709,432
Additions	3,374	1,967	7,492	23,059	24,027	59,919
Transfers	7,689	-	-	-	(7,689)	-
Disposals/adjustments*	-	(3,119)	(3,531)	(2,205)	-	(8,855)
At 31 August 2021	497,980	46,542	116,549	73,058	26,367	760,496
Government grants:						
At 1 September 2020 and 31 August 2021	(328,751)	-	-	-	-	(328,751)
Depreciation:						
At 1 September 2020	33,878	37,588	57,368	13,123	-	141,957
Charge for the year	8,636	2,838	15,563	18,784	-	45,821
Written back on disposals/adjustments*	-	(3,119)	(3,421)	(2,205)	-	(8,745)
At 31 August 2021	42,514	37,307	69,510	29,702	-	179,033
Net book value:						
At 31 August 2021	126,715	9,235	47,039	43,356	26,367	252,712

* 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	Other properties leased for own use \$'000	Construction in progress \$'000	Total \$'000
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)

(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 2021 \$'000	1 September 2020 \$'000
Other properties leased for own use, carried at depreciated cost	(i)	43,356	39,081
Furniture and equipment, carried at depreciated cost	(ii)	<u>1,078</u>	<u>1,548</u>
		<u>44,434</u>	<u>40,629</u>

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

	2021 \$'000	2020 \$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Furniture and equipment	645	473
Other properties leased for own use	<u>18,784</u>	<u>13,123</u>
Interest on lease liabilities (note 3(b))	1,469	1,475
Expense relating to short-term leases	5,343	4,115
Variable lease payments not included in the measurement of lease liabilities	<u>173</u>	<u>204</u>

During the year, additions to right-of-use assets were \$23,234,000 (2020: \$15,727,000). 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 13(d) and 20 respectively.

(i) Other properties leased for own use

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

(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 \$5,721,000 (2020: \$5,467,000), those prepayments, fees and other receivables mentioned in note 11 and creditors and accruals of \$5,704,000 (2020: \$5,445,000), 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.

	31 August 2021 \$'000	31 August 2020 \$'000
Fees receivables	3,908	3,891
Less: Allowance for credit losses	(3,344)	(2,972)
	564	919
Loans to staff	1,640	1,113
Amount due from the government	425	-
	2,629	2,032
Prepayments	9,062	10,089

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 \$2,124,000 (2020: \$2,627,000). The Company expects all of the other accounts and other receivables 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.

11 Prepayments, fees and other receivables (continued)

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:

	2021 \$'000	2020 \$'000
At the beginning of the year	2,972	639
Impairment loss recognised	651	2,586
Bad debt written back	23	-
Uncollectible amounts written off	(302)	(253)
At the end of the year	<u>3,344</u>	<u>2,972</u>

At 31 August 2021, the Company's allowance for credit losses in respect of fees receivables amounted to \$3,344,000 (2020: \$2,972,000). The Company does not hold any collateral over these balances.

12 Restricted cash

A deposit of \$3,849,000 (2020: \$2,877,000) 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 and other cash flow information

(a) Cash and cash equivalents comprise:

	2021 \$'000	2020 \$'000
Deposits with original maturities less than three months	250,000	190,000
Cash at bank and in hand	<u>67,453</u>	<u>103,842</u>
	<u>317,453</u>	<u>293,842</u>

13 Cash and cash equivalents and other cash flow information (continued)

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

	2021 \$'000	2020 \$'000
Operating activities		
Surplus and total comprehensive income for the year	29,276	19,866
Adjustments for:		
Interest income	(823)	(3,164)
Nomination rights	(17,327)	(13,621)
Non-refundable building levy	(22,375)	(20,237)
Depreciation	45,821	38,280
Interest expenses paid to the Foundation	393	1,108
Interest on lease liabilities	1,469	1,475
Impairment loss on fees receivables	651	2,586
Loss on disposal of properties, plant and equipment	111	58
Transfer from previous years' scholarship fund and hardship allowance	(16,500)	(4,900)
Operating surplus before changes in working capital	20,696	21,451
	2021 \$'000	2020 \$'000
Operating surplus before changes in working capital	20,696	21,451
Decrease/increase) in inventories	82	(139)
Increase in rental and utilities deposits	(254)	(146)
Decrease/increase in prepayments	1,027	(2,330)
Increase in fees and other receivables	(1,248)	(2,035)
Increase in amount due to the Foundation	4,157	2,850
(Decrease)increase in creditors and accruals excluding capital creditors	(25,676)	9,446
Increase/(decrease) in provision for staff gratuities and MPF contributions	1,014	(1,127)
Increase in scholarship fund	4,773	4,571
(Decrease)/increase in hardship allowance	1,773	1,374
Increase/(decrease) in fees received in advance	25,071	(9,214)
Net cash generated from operating activities	31,415	24,701

13 Cash and cash equivalents and other cash flow information (continued)

(c) Reconciliation of liabilities arising from financing activities:

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

	Nomination rights received in advance \$'000 (Note 19)	Individual Nomination rights \$'000 (Note 19)	Non- refundable building levy \$'000 (Note 18)	Debenture \$'000 (Note 17)	Lease liabilities \$'000 (Note 20)	Total \$'000
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 and 1 September 2020	360	79,595	47,751	63,921	40,456	232,520
Changes from financing cash flows:						
Net proceeds from nomination rights	(50)	14,850	-	-	-	14,800
Proceeds from non-refundable building levy	-	-	24,237	-	-	24,237
Proceeds from debenture	-	-	-	59,043	-	59,043
Refund of debenture	-	-	-	(17,272)	-	(17,272)
Capital element of lease rentals paid	-	-	-	-	(18,290)	(18,290)
Interest element of lease rentals paid	-	-	-	-	(1,469)	(1,469)
Total changes from financing cash flows	(50)	14,850	24,237	41,771	(19,759)	61,049
Other changes:						
Nomination right income (note 2)	-	(17,327)	-	-	-	(17,327)
Non-refundable building levy income (note 2)	-	-	(22,375)	-	-	(22,375)
Increase in lease liabilities from entering new leases during the period	-	-	-	-	23,234	23,234
Interest in lease liabilities (note 3(b))	-	-	-	-	1,469	1,469
Total other changes	-	(17,327)	(22,375)	-	24,703	(14,999)
At 31 August 2021	310	77,118	49,613	105,692	45,400	278,570

(d) Total cash outflow for leases

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

	2021 \$'000	2020 \$'000
Within operating cash flows	5,516	4,319
Within financing cash flows	19,759	15,190
	25,275	19,509

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 2021, Renaissance College and Discovery College have each set aside 10% (2020: 10%) of their respective tuition fees which consists of 8% (2020: 8%) for Renaissance College and 9% (2020: 9%) for Discovery College as scholarship fund and 2% (2020: 2%) for Renaissance College and 1% (2020: 1%) for Discovery College as hardship allowance.

Tuition fees of Renaissance College and Discovery College transferred to scholarship fund/hardship allowance during the year amounted to \$29,790,000 (2020: \$30,340,000) and \$21,198,000 (2020: \$22,045,000) respectively.

	2021 \$'000	2020 \$'000
Scholarship fund		
At the beginning of the year	22,040	17,469
Addition	42,910	44,113
Utilisation	(36,387)	(39,542)
Transfer	(16,500)	-
At the end of the year	<u>12,063</u>	<u>22,040</u>
Hardship allowance		
At the beginning of the year	7,343	10,869
Addition	8,078	8,272
Utilisation	(8,055)	(6,898)
Transfer	-	(4,900)
At the end of the year	<u>7,366</u>	<u>7,343</u>

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

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

15 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 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	<u>67,102</u>
Balance at 31 August 2020 and 1 September 2020	67,102
Decrease as a result of recognising revenue during the year that was included in fees received in advance at the beginning of the year	(67,102)
Increase as a result of receipts in advance of service to be rendered as at 31 August 2021	<u>92,173</u>
Balance at 31 August 2021	<u>92,173</u>

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

16 Amount due to and loan from the Foundation

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

Loan from the Foundation is unsecured and bears interest at the higher of 3-month HIBOR plus 1% and the average external borrowing cost of the Foundation plus 1% per annum. The amount is repayable by 72 equal monthly instalments from 30 September 2018 to 31 August 2024.

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 (2020: \$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.

At 31 August, the analysis of the carrying amount of debenture is as follow:

	2021 \$'000	2020 \$'000
Class A debenture	94,800	51,300
Class B debenture	10,892	12,621
Total debenture	105,692	63,921
Less: to be transferred to individual nomination right or repayable within one year	(48,387)	(9,556)
Repayable after one year	57,305	54,365

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 (2020: \$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 (2020: \$7,530) per annum for all students.

Movements in non-refundable building levy were as follows:

	2021 \$' 000	2020 \$'000
At the beginning of the year	47,751	47,049
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the year	(11,738)	(9,018)
Increase as a result of receipts in advance of service during the year	13,600	9,720
At the end of the year	49,613	47,751
Less: to be recognised within one year	(6,902)	(6,594)
After one year	42,711	41,157

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:

	2021 \$'000	2020 \$'000
At the beginning of the year	79,595	77,516
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the period	(16,877)	(13,771)
Increase as a result of receipts in advance of service to be rendered as at the end of the period	<u>14,400</u>	<u>15,850</u>
At the end of the year	<u>77,118</u>	<u>79,595</u>

As at 31 August 2021, 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:

	31 August 2021		31 August 2020	
	<i>Present value of the minimum lease payments</i>	<i>Total minimum lease payments</i>	<i>Present value of the minimum lease payments</i>	<i>Total minimum lease payments</i>
	\$'000	\$'000	\$'000	\$'000
Within 1 year	16,368	17,669	17,219	18,539
After 1 year but within 2 years	16,417	17,159	8,287	9,037
After 2 years but within 5 years	12,615	13,167	12,550	13,403
After 5 years	-	-	2,400	2,475
	29,032	30,326	23,237	24,915
	45,400	47,995	40,456	43,454
Less: total future interest expenses		(2,595)		(2,998)
Present value of lease liabilities		45,400		40,456

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.

During the year, the Company transferred \$21,124,000 (2020: \$19,645,000) 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 2021 and 2020 and are repayable within one year or on demand. The contractual undiscounted cash flows for loan from the Foundation repayable within 1 year, and, between 1 and 5 years are HK\$8,424,000 (2020: HK\$8,424,000) and HK\$16,848,000 (2020: HK\$33,696,000), 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.

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

	2021		2020	
	Effective interest rate %	\$'000	Effective interest rate %	\$'000
Deposits with original maturities over three months	0.09%	47,900	0.49%	12,700
Restricted cash	0.00%	3,849	0.01%	2,877
Cash and cash equivalents	0.002%	317,453	0.16%	293,842
Loan from the Foundation	3.97%	(23,788)	5.53%	(36,725)
Lease Liabilities	4.03%	(45,400)	3.88%	(40,456)
		<u>300,014</u>		<u>232,238</u>

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

(ii) Sensitivity analysis

At 31 August 2021, it is estimated that a general increase/decrease of 100 basis points (2020: 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 \$3,000,000 (2020: \$2,322,000). Other components of reserves would not be affected (2020: 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 2020.

(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

The Company has certain capital commitments relating mainly to the renovation of the schools. Capital commitments outstanding at 31 August 2021 not provided for in these financial statements were as follows:

	2021 \$'000	2020 \$'000
Contracted for	45,337	68,841
Authorised but not contracted for	12,700	5,277
	<u>58,037</u>	<u>74,118</u>

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.
 - (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.

24 Material related party transactions (continued)

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

	2021 \$'000	2020 \$'000
Fees in respect of management and administration services provided by the Foundation	28,864	23,129
School premises rental expense paid to the Foundation	5,024	3,159
Teaching and support staff salaries charged to the Foundation for extra-curricular programs	408	148
Teaching and support staff salaries charged by the Foundation for operation of kindergartens	1,662	2,367
Fees paid to the Foundation under the Development and Operating Agreement ("DOA")	11,743	23,131
Staff education allowance paid to the Foundation	5,042	4,646
Staff education allowance received from the Foundation	(3,406)	(2,958)
Course fees in respect of staff professional development provided by the Foundation	471	271
Interest expense paid to the Foundation	<u>393</u>	<u>1,108</u>

Cumulative fees paid to the Foundation under the DOA up to 31 August 2021 are \$258,017,000 (2020: \$246,274,000).

(b) Key management personnel remuneration

There was no key management personnel for the year ended 31 August 2021 (2020: nil).

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.

25 Other significant accounting policies (continued)

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.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

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 27).

(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.

25 Other significant accounting policies (continued)

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.

(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.

25 Other significant accounting policies (continued)

(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 2021, 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 2021

Up to the date of issue 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 2021 and which have not been adopted in these financial statements.

*Effective for
accounting periods
beginning on or after*

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, <i>Interest Rate Benchmark Reform — Phase 2</i>	1 January 2021
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023

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 35, which comprise the statement of financial position as at 31 August 2021, 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 2021 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 ("HKSA") 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
10 Chater Road
Central, Hong Kong

13 December 2021