



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

**Financial Statements**  
**for the year ended 31 August 2022**

# 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 2022.

## 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 2022 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\$47,993,000 (2021: HK\$29,276,000) 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

Samuel Taylor (appointed on 2 December 2021 and resigned on 25 June 2022)

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, - 5 DEC 2022

# Statement of comprehensive income for the year ended 31 August 2022 (Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Income</b>	<b>2</b>		
Operating income		723,208	697,218
Non-operating income		39,256	39,702
		<u>762,464</u>	<u>736,920</u>
<b>Expenditure</b>			
<i>Staff expenses</i>			
Salaries and teaching resources		368,813	364,743
Gratuities and MPF contributions		61,443	61,345
Housing allowance		32,153	31,603
Medical expenses		17,859	18,002
Staff education allowance		26,239	23,759
Passage allowance		657	641
	3(a)	<u>507,164</u>	<u>500,093</u>
<i>Other expenses</i>			
Advertisements		585	778
Audit fee		268	269
Cost of goods sold		850	1,054
Depreciation	3(b), 9	44,123	45,821
Development and operating agreement payment	24(a)	9,000	11,743
Management and administrative expenses	24(a)	27,880	28,864
Office and general expenses	4	51,196	49,060
Rent, rates and building management fee	5	8,835	8,368
Scholarship fund and hardship allowance	14	51,708	50,988
Teaching materials and resources	6	12,862	10,606
		<u>207,307</u>	<u>207,551</u>
<b>Total expenses</b>		<u>714,471</u>	<u>707,644</u>
<b>Surplus and total comprehensive income for the year</b>	<b>3</b>	<u>47,993</u>	<u>29,276</u>

**Statement of comprehensive income**  
**for the year ended 31 August 2022 (continued)**  
*(Expressed in Hong Kong dollars)*

	2022 \$'000	2021 \$'000
Represented by:		
<b>Accumulated fund surplus/(deficit)</b>	8,737	(10,426)
<b>Capital fund surplus</b>	<u>39,256</u>	<u>39,702</u>
	<u>47,993</u>	<u>29,276</u>

The notes on pages 9 to 35 form part of these financial statements.

## Statement of financial position at 31 August 2022


(Expressed in Hong Kong dollars)

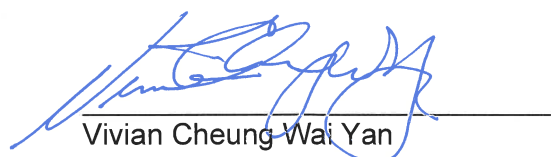
	Note	31 August 2022 \$'000	31 August 2021 \$'000
<b>Non-current asset</b>			
Properties, plant and equipment	9	258,520	252,712
<b>Current assets</b>	10		
Inventories		585	979
Rental and utilities deposits		5,268	5,721
Prepayments	11	7,314	9,062
Fees and other receivables	11	6,718	2,629
Restricted cash	12	3,071	3,849
Deposits with original maturities over three months		33,200	47,900
Cash and cash equivalents	13(a)	333,409	317,453
		389,565	387,593
<b>Current liabilities</b>	10		
Creditors and accruals		62,286	66,969
Lease liabilities	20	16,423	16,368
Nomination rights received in advance	19	510	310
Provision for staff gratuities and MPF contributions		26,735	27,825
Scholarship fund	14	15,233	12,063
Hardship allowance	14	10,091	7,366
Fees received in advance	15	85,781	92,173
Debenture	17	53,852	48,387
Deferred income			
- non-refundable building levy	18	7,339	6,902
- nomination rights	19	9,672	9,466
Amount due to the Foundation	16	3,462	5,649
Loan from the Foundation	16	7,886	8,852
		299,270	302,330
<b>Net current assets</b>		90,295	85,263
<b>Total assets less current liabilities</b>		348,815	337,975

# Statement of financial position at 31 August 2022 (continued) (Expressed in Hong Kong dollars)

	Note	31 August 2022 \$'000	31 August 2021 \$'000
<b>Non-current liabilities</b>			
Lease liabilities	20	12,620	29,032
Loan from the Foundation	16	7,813	14,936
Debenture	17	41,380	57,305
Deferred income			
- non-refundable building levy	18	43,561	42,711
- nomination rights	19	69,109	67,652
		<u>174,483</u>	<u>211,636</u>
<b>NET ASSETS</b>		<u>174,332</u>	<u>126,339</u>
<b>RESERVES</b>	21		
Capital fund		119,555	101,057
Accumulated fund surplus		<u>54,777</u>	<u>25,282</u>
<b>TOTAL SURPLUS</b>		<u>174,332</u>	<u>126,339</u>

Approved and authorised for issue by the board of directors on - 5 DEC 2022

  
Belinda Greer  
Director

  
Vivian Cheung Wai Yan  
Director

The notes on pages 9 to 35 form part of these financial statements.

## Statement of changes in reserves for the year ended 31 August 2022 (Expressed in Hong Kong dollars)

	Accumulated fund surplus \$'000	Capital fund \$'000 (note 21(b))	Total \$'000
<b>At 1 September 2020</b>	14,584	82,479	97,063
(Deficit)/surplus and total comprehensive income for the year	(10,426)	39,702	29,276
Transfers	21,124	(21,124)	-
<b>At 31 August 2021 and 1 September 2021</b>	25,282	101,057	126,339
Surplus and total comprehensive income for the year	8,737	39,256	47,993
Transfers	20,758	(20,758)	-
<b>At 31 August 2022</b>	54,777	119,555	174,332

The notes on pages 9 to 35 form part of these financial statements.



# Cash flow statement for the year ended 31 August 2022

(Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
<b>Operating activities</b>			
<b>Net cash generated from operating activities</b>	13(b)	29,347	31,415
<b>Investing activities</b>			
Payments for the purchase of properties, plant and equipment (net of capital creditors)		(35,887)	(20,174)
Proceeds from disposal of properties, plant and equipment		-	-
Decrease/(increase) in restricted cash		778	(972)
Decrease/(increase) in deposits with original maturities over three months		14,700	(35,200)
Interest received		1,230	823
<b>Net cash used in investing activities</b>		(19,179)	(55,523)
<b>Financing activities</b>			
Re-payment of loan from the Foundation		(8,089)	(12,937)
Net proceeds from nomination rights	13(c)	13,951	14,800
Proceeds from non-refundable building levy	13(c)	24,455	24,237
Refund / transfer of debenture	13(c)	(41,261)	(17,272)
Proceeds from issuance of debenture	13(c)	34,801	59,043
Interest expenses paid to the Foundation		(335)	(393)
Capital element of lease rentals paid	13(c)	(16,374)	(18,290)
Interest element of lease rentals paid	13(c)	(1,360)	(1,469)
<b>Net cash generated from financing activities</b>		5,788	47,719
<b>Net increase in cash and cash equivalents</b>		15,956	23,611
<b>Cash and cash equivalents at the beginning of the year</b>		317,453	293,842
<b>Cash and cash equivalents at the end of the year</b>	13(a)	333,409	317,453

The notes on pages 9 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 2022 (2021: 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)

	2022 \$'000	2021 \$'000
<b>Operating income</b>		
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Recognised at a point in time		
- Application fee income	3,339	3,540
- Examination fees	1,381	1,536
- Resale income	3,849	3,216
- Other income	10,324	11,122
	<u>18,893</u>	<u>19,414</u>
Recognised over time		
- Renaissance College tuition fees	304,463	297,899
- Discovery College tuition fees	212,617	211,980
- Camps and educational visits	22,773	22,062
- Kindergarten tuition fees	138,357	128,872
- Language course fees	10,477	9,848
- Sports course fees	13,388	9,475
- Clubs course fees	90	380
- COVID-19 related relief grant to parents	(7,190)	(26,502)
	<u>694,975</u>	<u>654,014</u>
<b>Revenue from other sources</b>		
- Donations	1,294	1,475
- Rental income	5,442	3,852
- Interest income	1,230	823
- Government relief grants	1,374	1,140
- Transfer from previous years' scholarship fund and hardship allowance surplus	-	16,500
	<u>9,340</u>	<u>23,790</u>
<b>Total operating income</b>	<u>723,208</u>	<u>697,218</u>
<b>Non-operating income</b>		
<b>Revenue from contracts with customers within the scope of HKFRS 15 recognised over time</b>		
Non-refundable building levy	23,168	22,375
Nomination rights	16,088	17,327
<b>Total non-operating income</b>	<u>39,256</u>	<u>39,702</u>

### 3 Surplus and total comprehensive income for the year

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

	2022 \$'000	2021 \$'000
<b>(a) Staff expenses:</b>		
Contributions to defined contribution retirement scheme	10,375	10,231
Salaries, wages and other benefits	511,851	505,945
Subsidies provided by Government	(15,062)	(16,083)
	<u>507,164</u>	<u>500,093</u>

Note: In 2020 and 2022, the Company successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of the Hong Kong Special Administrative Region. 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	26,767	26,392
- right-of-use assets	17,356	19,429
Interest on lease liabilities	1,360	1,469
Impairment losses on fees receivables	256	651
Loss on disposal of properties, plant and equipment	14	111
Auditor's remuneration	<u>268</u>	<u>269</u>

#### 4 Office and general expenses

	2022 \$'000	2021 \$'000
Building repair and maintenance	9,632	11,647
Insurance	3,029	2,692
Minor furniture/equipment written off	1,298	1,606
Printing	686	678
Professional fees	1,409	1,033
Postage	226	259
Recruiting	1,126	735
Stationery	210	212
Training expenses	1,877	1,573
Transportation	142	225
Utilities	8,055	7,484
General office expenses and others	21,811	19,054
Interest expense	1,695	1,862
	<u>51,196</u>	<u>49,060</u>

#### 5 Rent, rates and building management fee

	2022 \$'000	2021 \$'000
Gross rent and rates for the year	10,112	9,944
Less: Recovered or recoverable from the Government of the Hong Kong Special Administrative Region	<u>(3,359)</u>	<u>(3,614)</u>
	6,753	6,330
Building management fee	<u>2,082</u>	<u>2,038</u>
	<u>8,835</u>	<u>8,368</u>

The Company receives reimbursement of rent and rates paid for premises of Renaissance College and Discovery College from the Government of the Hong Kong Special Administrative Region.

#### 6 Teaching materials and resources

	2022 \$'000	2021 \$'000
Teaching materials	9,399	7,774
Course expenses	2,308	1,439
Examination expenses	<u>1,155</u>	<u>1,393</u>
	<u>12,862</u>	<u>10,606</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 impairment losses, 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 2021	497,980	46,542	116,549	73,058	26,367	760,496
Additions	7,309	173	4,204	-	38,259	49,945
Transfers	-	511	-	-	(511)	-
Disposals/adjustments*	-	-	(610)	(17,829)	-	(18,439)
At 31 August 2022	505,289	47,226	120,143	55,229	64,115	792,002
Government grants:						
At 1 September 2021 and 31 August 2022	(328,751)	-	-	-	-	(328,751)
Depreciation:						
At 1 September 2021	42,514	37,307	69,510	29,702	-	179,033
Charge for the year	9,282	3,646	14,494	16,701	-	44,123
Written back on disposals/adjustments*	-	-	(596)	(17,829)	-	(18,425)
At 31 August 2022	51,796	40,953	83,408	28,574	-	204,731
Net book value:						
At 31 August 2022	124,742	6,273	36,735	26,655	64,115	258,520

\* 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 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)

### (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 2022 \$'000	1 September 2021 \$'000
Other properties leased for own use, carried at depreciated cost	(i)	26,655	43,356
Furniture and equipment, carried at depreciated cost	(ii)	439	1,078
		<u>27,094</u>	<u>44,434</u>

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

	2022 \$'000	2021 \$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Furniture and equipment	655	645
Other properties leased for own use	<u>16,701</u>	<u>18,784</u>
Interest on lease liabilities (note 3(b))	1,360	1,469
Expense relating to short-term leases	5,444	5,343
Variable lease payments not included in the measurement of lease liabilities	<u>492</u>	<u>173</u>

During the year, additions to right-of-use assets were \$17,000 (2021: \$23,234,000). 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 \$5,268,000 (2021: \$5,721,000), those prepayments, fees and other receivables mentioned in note 11 and creditors and accruals of \$5,962,000 (2021: \$5,704,000), 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 and including 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 and including allowance for credit losses.

	31 August 2022 \$'000	31 August 2021 \$'000
Fees receivables	5,362	3,908
Less: Allowance for credit losses	(3,342)	(3,344)
	<hr/>	<hr/>
Loans to staff	2,020	564
Amount due from the government	2,221	1,640
	<hr/>	<hr/>
	2,477	425
	<hr/>	<hr/>
	6,718	2,629
	<hr/>	<hr/>
Prepayments	7,314	9,062
	<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 \$1,525,000 (2021: \$2,124,000). 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:

	2022 \$'000	2021 \$'000
At the beginning of the year	3,344	2,972
Impairment loss recognised	256	651
Bad debt written back	-	23
Uncollectible amounts written off	(258)	(302)
At the end of the year	<u>3,342</u>	<u>3,344</u>

At 31 August 2022, the Company's allowance for credit losses in respect of fees receivables amounted to \$3,342,000 (2021: \$3,344,000). The Company does not hold any collateral over these balances.

## 12 Restricted cash

A deposit of \$3,071,000 (2021: \$3,849,000) 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:

	2022 \$'000	2021 \$'000
Deposits with original maturities less than three months	-	250,000
Cash at bank and in hand	<u>333,409</u>	<u>67,453</u>
	<u>333,409</u>	<u>317,453</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:*

	2022 \$'000	2021 \$'000
<b>Operating activities</b>		
Surplus and total comprehensive income for the year	47,993	29,276
Adjustments for:		
Interest income	(1,230)	(823)
Nomination rights	(16,088)	(17,327)
Non-refundable building levy	(23,168)	(22,375)
Depreciation	44,123	45,821
Interest expenses paid to the Foundation	335	393
Interest on lease liabilities	1,360	1,469
Impairment loss on fees receivables	256	651
Loss on disposal of properties, plant and equipment	14	111
Transfer from previous years' scholarship fund and hardship allowance	-	(16,500)
<b>Operating surplus before changes in working capital</b>	<b>53,595</b>	<b>20,696</b>
	2022 \$'000	2021 \$'000
<b>Operating surplus before changes in working capital</b>	<b>53,595</b>	<b>20,696</b>
Decrease in inventories	394	82
Decrease/(increase) in rental and utilities deposits	453	(254)
Decrease in prepayments	1,748	1,027
Increase in fees and other receivables	(4,345)	(1,248)
(Decrease)/increase in amount due to the Foundation	(2,187)	4,157
Decrease in creditors and accruals excluding capital creditors	(18,724)	(25,676)
(Decrease)/increase in provision for staff gratuities and MPF contributions	(1,090)	1,014
Increase in scholarship fund	3,170	4,773
Increase in hardship allowance	2,725	1,773
(Decrease)/increase in fees received in advance	(6,392)	25,071
<b>Net cash generated from operating activities</b>	<b>29,347</b>	<b>31,415</b>

### 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 2020	360	79,595	47,751	63,921	40,456	232,083
<b>Changes from financing cash flows:</b>						
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
<b>Other changes:</b>						
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 and 1 September 2021	310	77,118	49,613	105,692	45,400	278,133
<b>Changes from financing cash flows:</b>						
Net proceeds from nomination rights	200	13,751	-	-	-	13,951
Proceeds from non-refundable building levy	-	-	24,455	-	-	24,455
Proceeds from debenture	-	-	-	34,801	-	34,801
Refund / transfer of debenture	-	4,000	-	(45,261)	-	(41,261)
Capital element of lease rentals paid	-	-	-	-	(16,374)	(16,374)
Interest element of lease rentals paid	-	-	-	-	(1,360)	(1,360)
Total changes from financing cash flows	200	17,751	24,455	(10,460)	(17,734)	14,212
<b>Other changes:</b>						
Nomination right income (note 2)	-	(16,088)	-	-	-	(16,088)
Non-refundable building levy income (note 2)	-	-	(23,168)	-	-	(23,168)
Increase in lease liabilities from entering new leases during the period	-	-	-	-	17	17
Interest in lease liabilities (note 3(b))	-	-	-	-	1,360	1,360
Total other changes	-	(16,088)	(23,168)	-	1,377	(37,879)
At 31 August 2022	510	78,781	50,900	95,232	29,043	254,466

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

#### (d) Total cash outflow for leases

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

	2022 \$'000	2021 \$'000
Within operating cash flows	5,936	5,516
Within financing cash flows	17,734	19,759
	<u>23,670</u>	<u>25,275</u>

### 14 Scholarship fund and hardship allowance

Pursuant to the service agreement between the Company and the Government of the Hong Kong Special Administrative Region, 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 2022, Renaissance College and Discovery College have each set aside 10% (2021: 10%) of their respective tuition fees which consists of 8% (2021: 8%) for Renaissance College and 9% (2021: 9%) for Discovery College as scholarship fund and 2% (2021: 2%) for Renaissance College and 1% (2021: 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 \$30,446,000 (2021: \$29,790,000) and \$21,262,000 (2021: \$21,198,000) respectively.

	2022 \$'000	2021 \$'000
<b>Scholarship fund</b>		
At the beginning of the year	12,063	22,040
Addition	43,493	42,910
Utilisation	(40,323)	(36,387)
Transfer	-	(16,500)
At the end of the year	<u>15,233</u>	<u>12,063</u>
<b>Hardship allowance</b>		
At the beginning of the year	7,366	7,343
Addition	8,215	8,078
Utilisation	(5,490)	(8,055)
Transfer	-	-
At the end of the year	<u>10,091</u>	<u>7,366</u>

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



## 14 Scholarship fund and hardship allowance (continued)

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 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	92,173
	<hr/>
Balance at 31 August 2021 and 1 September 2021	92,173
Decrease as a result of recognising revenue during the year that was included in fees received in advance at the beginning of the year	(92,173)
Increase as a result of receipts in advance of service to be rendered as at 31 August 2022	85,781
	<hr/>
Balance at 31 August 2022	<u>85,781</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 (2021: \$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:

	2022 \$'000	2021 \$'000
Class A debenture	84,200	94,800
Class B debenture	11,032	10,892
Total debenture	95,232	105,692
Less: to be transferred to individual nomination right or repayable within one year	(53,852)	(48,387)
Repayable after one year	41,380	57,305

## 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 (2021: \$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 (2021: \$7,530) per annum for all students.

Movements in non-refundable building levy were as follows:

	2022 \$' 000	2021 \$'000
At the beginning of the year	49,613	47,751
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the year	(12,723)	(11,738)
Increase as a result of receipts in advance of service during the year	14,010	13,600
At the end of the year	50,900	49,613
Less: to be recognised within one year	(7,339)	(6,902)
After one year	43,561	42,711

## 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 schools operated by the Company. Amounts received but not yet recognised as revenue are recorded as deferred income – nomination rights.

## 19 Individual nomination rights (continued)

Movements in individual nomination rights were as follows:

	2022 \$'000	2021 \$'000
At the beginning of the year	77,118	79,595
Decrease as a result of recognising revenue during the year that was included in deferred income at the beginning of the period	(15,938)	(16,877)
Increase as a result of receipts in advance of service to be rendered as at the end of the period	17,601	14,400
At the end of the year	78,781	77,118

As at 31 August 2022, 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 2022		31 August 2021	
	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	16,423	17,165	16,368	17,669
After 1 year but within 2 years	7,647	7,986	16,417	17,159
After 2 years but within 5 years	4,973	5,186	12,615	13,167
After 5 years	-	-	-	-
	12,620	13,172	29,032	30,326
	29,043	30,337	45,400	47,995
Less: total future interest expenses		(1,294)		(2,595)
Present value of lease liabilities		29,043		45,400

## **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 \$20,758,000 (2021: \$21,124,000) 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.

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

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 2022 and 2021 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 (2021: HK\$8,424,000) and HK\$8,424,000 (2021: HK\$16,848,000), 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:

	2022		2021	
	Effective interest rate %	\$'000	Effective interest rate %	\$'000
Deposits with original maturities over three months	1.02%	33,200	0.09%	47,900
Restricted cash	0.00%	3,071	0.00%	3,849
Cash and cash equivalents	0.01%	333,409	0.002%	317,453
Loan from the Foundation	6.88%	(15,699)	3.97%	(23,788)
Lease liabilities	3.59%	(29,043)	4.03%	(45,400)
		<u>324,938</u>		<u>300,014</u>

### (ii) Sensitivity analysis

At 31 August 2022, it is estimated that a general increase/decrease of 100 basis points (2021: 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 \$3,249,000 (2021: \$3,000,000). Other components of reserves would not be affected (2021: 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 2021.

### (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 2022 not provided for in these financial statements were as follows:

	2022 \$'000	2021 \$'000
Contracted for	17,580	45,337
Authorised but not contracted for	4,983	12,700
	<u>22,563</u>	<u>58,037</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.

## 24 Material related party transactions (continued)

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:

	2022 \$'000	2021 \$'000
Fees in respect of management and administration services provided by the Foundation	27,880	28,864
School premises rental expense paid to the Foundation	5,169	5,024
Teaching and support staff salaries charged to the Foundation for staff secondments and extra-curricular programs	4,058	408
Teaching and support staff salaries charged by the Foundation for operation of kindergartens	2,442	1,662
Fees paid to the Foundation under the Development and Operating Agreement ("DOA")	9,000	11,743
Staff education allowance paid to the Foundation	5,390	5,042
Staff education allowance received from the Foundation	(4,177)	(3,406)
Course fees in respect of staff professional development provided by the Foundation	592	471
Interest expense paid to the Foundation	335	393

Cumulative fees paid to the Foundation under the DOA up to 31 August 2022 are \$267,017,000 (2021: \$258,017,000).

### (b) Key management personnel remuneration

There was no key management personnel for the year ended 31 August 2022 (2021: 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.

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.

## **25 Other significant accounting policies (continued)**

### **(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.

### **(g) Creditors and accruals**

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

## 25 Other significant accounting policies (continued)

### (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 2022, 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 2022

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 2022 and which have not been adopted in these financial statements.

	<i>Effective for accounting periods beginning on or after</i>
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
Amendments to HKAS 1 and HKFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to HKAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to HKAS 12, <i>Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction</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 2022, 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 2022 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

# 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.



Certified Public Accountants

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

05 DEC 2022