

The English Schools Foundation Accounts for year ended 31st August 2006

Explanatory Notes

These explanatory notes do not form part of the audited accounts and are provided to put the numbers into context with some background information. There are sections on the income and expenditure account, the balance sheet, cash flow, governance and ESF Educational Services Limited.

Income and expenditure

	<u>2005/06</u>		<u>2004/05</u>		<u>2003/04</u>	
	\$M	% of total income	\$M	% of total income	\$M	% of total income
Income						
School Fees	797	72.2	769	70.8	738	69.6
Subvention	269	24.4	278	25.6	288	27.2
Other	38	3.4	39	3.6	34	3.2
	<u>1,104</u>	100.0	<u>1,086</u>	100.0	<u>1,060</u>	100.0
Expenditure						
Staff cost	890	80.6	871	80.2	875	82.5
Depreciation	61	5.5	61	5.6	57	5.4
Repair and Maintenance	42	3.8	45	4.1	33	3.1
Other Expenses	85	7.7	74	6.8	70	6.6
	<u>1,078</u>	97.6	<u>1,051</u>	96.8	<u>1,035</u>	97.6
Surplus	<u>26</u>	2.4	<u>35</u>	3.2	<u>25</u>	2.4
Average student enrolment						
Primary	6,444		6,261		6,007	
Secondary	<u>6,260</u>		<u>6,028</u>		<u>5,782</u>	
Total average enrolment	<u>12,704</u>		<u>12,289</u>		<u>11,789</u>	

Income:

1. School fees per student have been held constant since 2001/02. The increase in school fees received over the last two years is due to the increasing numbers of students enrolled.
2. The drop in subvention is a result of the Government freezing the number of classes it subvents and reducing the subvention per class by 1.8% from the 1999/2000 level with effect from September 2003, 4.8% from January 2004, 6.44% from April 2004, 9.572% from April 2005 and 12.372% from April 2006 (all figures cumulative).

3. \$38M other income for 2005/06 includes \$25.2M income derived from residential apartment leasing and renting of school premises outside school hours, \$4.3M donation, \$4.6M interest income and \$3.5M miscellaneous income.

Expenditure

1. \$19M of increase in staff cost during 2005/06 is the net effect of lower expenditure due to posts being vacant for part of the year, the retirement of long service staff offset by the increase in the number of staff employed to meet the growth in student enrolment, advancement of teacher contract commencement day and additional headcounts in ESF Centre.
2. **Repair and maintenance** expense is \$2.3M lower, partly due to shorter summer break, project reschedule and stringent review on improvement needs.
3. At ESF schools, \$2.73m **capitation funding** is underspent, resulting from proactive school management expenses. This savings has been carried forward to 2006/07 at school level for school management consumption.
4. **Utility** expenses are higher by \$1M caused by increased gymnasium, office and classroom usage.
5. **Office and general** expenses are \$3.7M higher due to \$5.7M increase in INSET and curriculum development, \$1M and \$0.8M decrease in consultancy fees and public relation expense respectively.

Balance sheet

ESF's balance sheet shows:

	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>
	\$M	\$M	\$M
Assets employed			
Fixed assets	704	741	735
Current assets and other	159	19	11
	<u>863</u>	<u>760</u>	<u>746</u>
Less current liabilities	(361)	(259)	(231)
Other obligations	(1)	(2)	-
Net assets employee	<u>501</u>	<u>499</u>	<u>515</u>
Funded by			
Reserves (retained surpluses)	501	475	439
Net Borrowings	-	24	76
	<u>501</u>	<u>499</u>	<u>515</u>

The fixed assets of \$704M are mainly ESF's furniture and equipment as well as investment in PIS schools. As the balance sheet shows, these fixed assets are financed by a combination of (1) retained surpluses built up by ESF over the years; (2) standby borrowings facility and (3) the excess of current liabilities over other assets. The trend in funding from these three sources has been improving with the portion financed by reserves increasing while that financed by borrowings is reducing

	<u>2005/06</u>		<u>2004/05</u>		<u>2003/04</u>	
	\$M	% of total	\$M	% of total	\$M	% of total
Reserves	501	71.2	475	64.1	439	59.7
Net current liabilities	203	28.8	242	32.7	221	30.0
Borrowings	-	0.0	24	3.2	76	10.3
	<u>704</u>		<u>741</u>		<u>736</u>	

ESF Management monitors the extent that the ESF's long term fixed assets are financed by its net current liabilities and reserve. It considers that the current position is reasonable given the stability of the ESF's business and hence of its level of net current liabilities. Furthermore, ESF's steady income and the internal evaluation of its residential property (\$973M as at 31 August 2006) place ESF in a position to borrow at advantageous rates of interest should exceptional funding requirement emerge.

Cashflow and capital commitments

	<u>2005/06</u>	<u>2004/2005</u>	<u>2003/04</u>
	\$M	\$M	\$M
Operating activities			
Surplus for the year	26	35	25
Depreciation	64	64	61
Gain on sales of fixed assets	-	(13)	(10)
Other operating activities	(5)	-	-
	<u>85</u>	<u>86</u>	<u>76</u>
Change in working capital	41	14	(3)
Cash generated from operations	<u>126</u>	<u>100</u>	<u>73</u>
Investing activities			
Capital expenditure	(65)	(72)	(75)
Sales of fixed assets	-	28	10
Other	4	(1)	-
	<u>(61)</u>	<u>(45)</u>	<u>(65)</u>
Financing	(2)	(4)	(3)
Increase/(Decrease) in cash	<u>63</u>	<u>51</u>	<u>5</u>

ESF's cash generated from operations exceed capital expenditure by \$63M during the year. Its capital commitment as at 31st August 2006 was \$150M, most of which relates to the Discovery Bay School and ICT investment. The long term capital expenditure programme is estimated to be \$815M for the period from 2006/07 to 2012/13. This would require sound operating surplus, donation, investment income enhancement and some borrowings.

Governance

The ESF Audit Committee was formed in December 2004 and is chaired by Peter Clark with Maurice Yap and Robert Gibson as members. Prior to the Executive Committee meeting and the Annual General Meeting, the Audit Committee has met to discuss and monitor the preparation of ESF's accounts and the work performed by ESF's external auditors and internal auditor. This Audit Committee reports to the ESF Executive Committee.

ESF Educational Services Limited

ESF Educational Services Limited is a separate charity set up to provide kindergarten, English language classes and extra curricula activities. It also runs the PIS schools and has common management with ESF but is not legally a subsidiary of ESF. Its accounts, which have been audited by KPMG, are posted on the ESF's website.