

**THE ENGLISH SCHOOLS FOUNDATION MEETING**  
**THURSDAY 6 DECEMBER 2007**  
**EXPLANATORY NOTES OF**  
**AUDITED ACCOUNTS FOR YEAR ENDED 31<sup>st</sup> AUGUST 2007**

**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>2006/07</u>		<u>2005/06</u>		<u>2004/05</u>	
	\$M	% of total income	\$M	% of total income	\$M	% of total income
<b>Income</b>						
School Fees	856	72.7	797	72.2	769	70.8
Subvention	267	22.7	269	24.4	278	25.6
Other	54	4.6	38	3.4	39	3.6
	<u>1,177</u>	100.0	<u>1,104</u>	100.0	<u>1,086</u>	100.0
<b>Expenditure</b>						
Staff cost	905	76.9	890	80.6	871	80.2
Depreciation	66	5.6	61	5.5	61	5.6
Repair and Maintenance	64	5.4	42	3.8	45	4.2
Other Expenses	85	7.2	85	7.7	74	6.8
	<u>1,120</u>	95.1	<u>1,078</u>	97.6	<u>1,051</u>	96.8
Surplus	<u>57</u>	4.9	<u>26</u>	2.4	<u>35</u>	3.2
<b>Average student enrolment</b>						
Primary	6,410		6,444		6,261	
Secondary	<u>6,373</u>		<u>6,260</u>		<u>6,028</u>	
Total average enrolment	<u>12,783</u>		<u>12,704</u>		<u>12,289</u>	

## Income:

1. The \$59M (7.4%) increase in school fees received in 2006/07 is due to fees increase in 2006/07 by 8.88% in primary and 5.09% in secondary as well as a net increase of 79 students enrolled in ESF.
2. The drop in subvention is a result of the Government freezing the number of classes it subvented in 2002/03 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, 12.372% from April 2006 (all figures cumulative). No further cut in subvention was made in April 2007.
3. \$54M other income for 2006/07 includes \$32.2M income derived from residential apartment leasing and renting of school premises outside school hours, \$4.2M donation, \$8M interest income and \$9.4M miscellaneous income. Thanks to higher rental and interest yield in 2006/07, the rental income and interest income have increased by \$7M and \$3.4M respectively.

## Expenditure

1. \$15M increase in staff cost during 2006/07 is the net effect of the following:
  - Increase in the number of teaching and support staff to meet the growth in student enrolment and cater for the challenges of IB and Chinese curriculum in ESF primary and secondary
  - Advancement of teacher contract to commence on August 16 (previously Sept 1)
  - Net increase in cash allowance (which replaced the housing allowance scheme) to teaching and senior staff
  - vacancy of teaching position for part of the year
  - retirement of long service staff
2. **Repair and maintenance** expense is \$22M higher, mainly due to the catching up of delayed projects from last year (shorter summer break in the last year), project re-prioritization and \$7M provision for KGV slope maintenance work.
3. At ESF schools, **teaching resources and materials** is lower than budget by \$7.7M, resulting from proactive school management expenses. This savings has been carried forward to 2007/08 at school level for school management consumption.
4. **Information technology and consultancy fees** are higher by \$2.1M caused by increased in new technology upgrade (such as Wi-Fi) and IB curriculum support requirement.
5. **Office and general** expenses are \$3.5M higher due to \$0.9M increase in INSET and curriculum development and \$2.4M increase in schools' general office expenses respectively.

## Balanced sheet

ESF's balance sheet shows:

	<u>2006/07</u>	<u>2005/06</u>	<u>2004/05</u>
	\$M	\$M	\$M
<b>Assets employed</b>			
Fixed assets	745	704	741
Cash and cash equivalents	101	39	-
Other Current assets	81	120	19
	<u>927</u>	<u>863</u>	<u>760</u>
Less current liabilities	(369)	(361)	(259)
Other obligations	-	(1)	(2)
<b>Net assets employed</b>	<u>558</u>	<u>501</u>	<u>499</u>
<b>Funded by</b>			
Reserves (retained surpluses)	558	501	475
Net Bank Borrowings	-	-	24
	<u>558</u>	<u>501</u>	<u>499</u>

The fixed assets of \$745M are mainly ESF's buildings (school premises and residential properties) and construction in progress of Discovery College. 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, where applicable 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 bank borrowings is avoided.

	<u>2006/07</u>		<u>2005/06</u>		<u>2004/05</u>	
	\$M	% of total	\$M	% of total	\$M	% of total
Reserves	558	74.9	501	71.2	475	64.1
Net current liabilities	187	25.1	203	28.8	242	32.7
Net Bank Borrowings	-	0.0	-	0.0	24	3.2
	<u>745</u>	100.0	<u>704</u>	100.0	<u>741</u>	100.0

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 (\$1,131M as at 31 August 2007) place ESF in a position to borrow at advantageous rates of interest should exceptional funding requirement emerge.

## Cashflow and capital commitments

	<u>2006/07</u>	<u>2005/2006</u>	<u>2004/05</u>
	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>
Operating activities			
Surplus for the year	57	26	35
Depreciation	68	64	64
Gain on sales of fixed assets	-	-	(13)
Other operating activities	(7)	(5)	-
	<u>118</u>	<u>85</u>	<u>86</u>
Change in working capital	<u>42</u>	<u>41</u>	<u>14</u>
Cash generated from operations	<u>160</u>	<u>126</u>	<u>100</u>
Investing activities			
Capital expenditure	(104)	(65)	(72)
Sales of fixed assets	-	-	28
Other	9	4	(1)
	<u>(95)</u>	<u>(61)</u>	<u>(45)</u>
Financing	(2)	(2)	(4)
Increase in cash	<u>63</u>	<u>63</u>	<u>51</u>

ESF's cash generated from operations exceed capital expenditure by \$63M during the year. Its capital commitment as at 31<sup>st</sup> August 2007 was \$65M, most of which relates to the Discovery Bay School and ICT investment.

## 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 and ESL's accounts and the work performed by 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 kindergartens, English language and Sports classes and extra curricula activities. It also runs the Private Independent Schools (Renaissance College and Discovery College) 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 after its Annual General Meeting.