



## THE ENGLISH SCHOOLS FOUNDATION

### REPORT TO THE BOARD

#### FOR THE MEETING ON 15 DECEMBER 2009

#### ANNUAL ACCOUNTS FOR YEAR ENDED 31<sup>ST</sup> AUGUST 2009

#### 1. 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 and cash flow.

#### 2. Income and Expenditure

	<u>2008/09</u>		<u>2007/08</u>		<u>2006/07</u>	
	\$M	% of total income	\$M	% of total income	\$M	% of total income
<b>Income</b>						
School Fees	943	72.6	883	71.8	856	72.7
Subvention	269	20.7	268	21.8	267	22.7
Other	88	6.7	78	6.4	54	4.6
	<u>1,300</u>	100	<u>1,229</u>	100.0	<u>1,177</u>	100.0
<b>Expenditure</b>						
Staff cost	945	78.8	878	76.3	905	76.9
Depreciation	87	7.2	65	5.6	66	5.6
Repair and Maintenance	60	5.0	108	9.4	64	5.4
Other Expenses	109	9.0	100	8.7	85	7.2
	<u>1,201</u>	100.0	<u>1,151</u>	100.0	<u>1,120</u>	95.1
Surplus	<u>99</u>	7.6	<u>77</u>	6.3	<u>57</u>	4.9
<b>Average student enrolment</b>						
Primary	6,090		6,089		6,410	
Secondary	<u>6,601</u>		<u>6,503</u>		<u>6,373</u>	
Total average enrolment	<u>12,691</u>		<u>12,592</u>		<u>12,783</u>	

#### 2.1 Income

1. The \$60M (6.7%) increase in school fees received in 2008/09 is due to fees increase in 2008/09 by 7.5% in primary and 5.0% in secondary, as well as an average of 99 additional students across ESF for the year.
2. Government subvention remained at a level consistent with last year, with an additional \$1.1M grant received for the learning support centre at West Island School.

3. \$88M other income for 2008/09 includes \$39.3M (07/08:\$32.4M) income derived from residential apartment leasing and \$13.5M (07/08:\$11.7M) from renting of school premises outside school hours, \$4.7M (07/08:\$6.4M) donation, \$5.0M (07/08:\$7.1M) interest income and \$25.6M (07/08:\$20.0M) miscellaneous income, as below

**Miscellaneous Income**

	2008/09	2007/08	Var
Admin & Mgt exp	2.5	2.5	0
Income received from ESL re Development and Operating Agreement	13.5	8.6	4.9
Surety income	2.2	2.8	-0.6
Others	7.4	6.1	1.3
	<u>25.6</u>	<u>20.0</u>	<u>5.6</u>

The additional income compared to prior year is made up of non-recurring income, such as write-back of forfeited deposits \$3M, write-back of forfeited gratuity provision \$3M.

**2.2 Expenditure**

**Staff costs** increased \$68M (7.6%) during 2008/09 and is explained by the following:

- Staff salary increases of between 4% -7%.
- New position initiatives – EA’s, Chinese Curriculum rollout, EPICOR and eNet staff in schools.

**Depreciation** increased by \$22M in 2008/09 due to the start of depreciation of Discovery College \$9.9M and a revision of the capitalization policy, which resulted in a \$10.8M increase.

**Repairs and maintenance** expense is \$48M lower, mainly due to clear guidelines for distinguishing capital and repair and maintenance work. The total spent on school refurbishment during summer works for 2008/09 was capital \$44M (2007/08:\$12M) and repairs and maintenance \$36M (2007/08:\$51M). This indicates the overall spend was higher in the current year, but saw a shift in classification from repairs and maintenance to capital.

**Other expenses** is \$9M higher, mainly due to higher utilities \$4.2M, ICT \$3.7M, teaching materials \$2.5M and rental cost for Fortis Centre \$3.7M. Spending on recruitment and advertising was \$3.8M lower year on year.

**3. Balance Sheet**

ESF’s balance sheet shows:

	<u>2008/09</u>	<u>2007/08</u>	<u>2006/07</u>
	\$M	\$M	\$M
<b>Assets employed</b>			
Fixed assets	804	775	745
Cash and cash equivalents	347	224	101
Other Current assets	53	55	81
	<u>1,204</u>	<u>1,054</u>	<u>927</u>
Less current liabilities	<u>(469)</u>	<u>(417)</u>	<u>(369)</u>
<b>Net assets employed</b>	<u>735</u>	<u>636</u>	<u>558</u>
<b>Funded by</b>			
Reserves* (retained surpluses)	735	636	558
Net Bank Borrowings	<u>-</u>	<u>-</u>	<u>-</u>
	<u>735</u>	<u>636</u>	<u>558</u>

\* This does not represent cash balances

The fixed assets of \$804M are mainly ESF's buildings (school premises and residential properties) and the investment costs for PIS.

	<u>2008/09</u>	<u>2007/08</u>
<b>Fixed assets</b>	<b>\$M</b>	<b>\$M</b>
ESF school premises	477	473
PIS investment costs	241	232
Residential properties	18	15
Leasehold improvements	8	-
Computers	30	31
Furniture and equipment	30	24
	<u>804</u>	<u>775</u>

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>2008/09</u>		<u>2007/08</u>		<u>2006/07</u>	
	<b>\$M</b>	<b>% of total</b>	<b>\$M</b>	<b>% of total</b>	<b>\$M</b>	<b>% of total</b>
Reserves*	735	88.5	636	82.0	558	74.9
Net current liabilities	96	11.5	140	18.0	187	25.1
Net Bank Borrowings	-	0.0	-	0.0	-	0.0
	<u>831</u>	<u>100.0</u>	<u>776</u>	<u>100.0</u>	<u>745</u>	<u>100.0</u>

\* This does not represent cash balance but accumulated surplus/deficit results since 1967.s

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 external valuation of its residential property at around \$1,400M as at 1 April 2008, place ESF in a position to borrow at advantageous rates of interest when additional funding requirements emerge.

ESF is planning the redevelopment of Kowloon Junior School and King George V School. The estimated cost of these redevelopments is approximately \$620M, being \$400M and \$220M respectively.

#### 4. Cashflow and Capital Commitments

	<u>2008/09</u>	<u>2007/08</u>	<u>2006/07</u>
	<u>\$M</u>	<u>\$M</u>	<u>\$M</u>
Operating activities			
Surplus for the year	99	77	57
Depreciation	88	68	68
Gain on sales of fixed assets	-	-	-
Other operating activities	(5)	(6)	(7)
	<u>182</u>	<u>139</u>	<u>118</u>
Change in working capital	22	36	42
Cash generated from operations	<u>204</u>	<u>175</u>	<u>160</u>
Investing activities			
Capital expenditure	(85)	(58)	(104)
Bank deposits (>=3 months)	(48)	(186)	-
Sales of fixed assets	-	-	-
Other	5	7	9
	<u>(128)</u>	<u>(237)</u>	<u>(95)</u>
Financing	(1)	(2)	(2)
(Decrease) / Increase in cash	<u>75</u>	<u>(64)</u>	<u>63</u>

ESF's cash generated from operations exceed capital expenditure by \$119M (\$204 less \$85M) during the year. \$48M was placed to long-term bank deposits (>= 3months) to maximize the interest return and the final increase in cash equivalents was \$75M in the current year.

#### 5. The Relationship between ESF and ESL

ESL was set up in 1994 to provide kindergarten education, language classes and extra curricula activities. It also operates two Private Independent Schools and has common management with ESF although it is not a legal subsidiary of ESF.

ESL is the qualified sponsoring body to run RCHK in Ma On Shan and DC in Discovery Bay under separate service agreements with the Education Bureau.

ESF and ESL have entered into a Development and Operating Agreement ("DOA") such that the funds made available by ESF to build the RCHK and DC school premises and other related provisions will be compensated by fees based on student enrolment. Such fee income has been collected by ESF from RCHK since 2006/07 and from DC since 2007/08 and will serve to provide a steady stream of revenue to ESF in the future. The total amount collected in relation to the DOA since inception is \$26M, being \$22.3M and \$3.7M for RCHK and DC, respectively.