



ESF Educational Services Limited ('ESL') Accounts for the year ended 31 August 2009

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, balance sheet and cash flow statement.

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
Income						
Course fees	46.0	18.0	47.1	22.6	40.5	29.7
Tuition fees	195.5	76.2	149.1	71.5	88	64.6
Others	15.0	5.8	12.3	5.9	7.8	5.7
	<u>256.5</u>	100.0	<u>208.5</u>	100	<u>136.3</u>	100
Expenditure						
Staff cost	197.4	77.0	145.2	69.6	94.8	69.6
Depreciation	1.5	0.6	2.2	1.1	2.6	1.9
Management & administrative expenses	2.5	1.0	2.5	1.2	2.2	1.6
Rent, rates & building management fees	10.1	3.9	14.5	7.0	9.9	7.3
Development and operating agreement payment	13.5	5.2	8.6	4.1	3.9	2.9
Teaching materials & resources	10.1	3.9	12.0	5.7	8.6	6.3
Office, general and other expenses	23.7	9.3	20.4	9.8	15.9	11.6
	<u>258.8</u>	100.9	<u>205.4</u>	98.5	<u>137.9</u>	101.2
Surplus/(Deficit)	<u>-2.3</u>	-0.9	<u>3.1</u>	1.5	<u>-1.6</u>	-1.2
Average student enrolment						
Kindergartens	704		706		695	
Renaissance College	1,612		1,308		885	
Discovery College	680		440		n/a	
	<u>2,996</u>		<u>2,473</u>		<u>1,580</u>	



Income:

1. The decrease in course fees of \$1.1M is mainly due to a decrease in activity level in the Language section (-22%), which has been partially compensated by an increase in activity level in the Sports section (+13%).
2. The increase in tuition fees of \$46.4M is attributed to the additional student enrolment at Discovery College ('DC'), from 440 in 07/08 to 680 in 08/09, and that of Renaissance College ('RCHK'), from 1308 in 07/08 to 1612 in 08/09.
3. Other income comprises rental income, registration fees, forfeited deposits, income from resale of school uniforms, interest income, and school activity income. The \$2.7M increase in 2008/09 relates mainly to higher rental income in both RC and DC as the schools continue to build its facility rental base.

Expenditure:

1. The \$52.2M increase in staff cost during 2008/09 is mainly due to a) increased staff numbers at DC in its second year of operations (net increase of \$25.2M); and b) the increase in staff members at RCHK to meet its continued growth (net increase of \$23.9M).
2. The \$4.4M decrease in rent, rates and building management fees is mainly a result of a recovery of RC's first-time payments for rates and rent from the government.
3. Development and operating agreement (DOA) payment was \$4.9M higher than prior year due to increase in enrolment in RCHK and DC, contributing to the corresponding payment to ESF.
4. Increase in office, general and other expenses \$3.3M was mainly due to increase in repairs and maintenance costs and reclassification of outsourced cleaning staff costs at RCHK.



Business segment performance:

The operating deficit of -\$2.3 M in 2008/09 can be better explained by business segment information as follows:

(in \$ million)	Language	Sports	Kindergartens	RCHK	DC	Total
Surplus/(Deficit) after allocation of administration cost	0.6	3.6	2.1	2.9	(11.5)	(2.3)

DC's deficit is a result of the school being in its second year of operations and is yet to reach its full student capacity.

Balance sheet

	<u>2008/09</u>	<u>2007/08</u>	<u>2006/07</u>
	\$M	\$M	\$M
Assets employed			
Non-current assets	5.9	3.1	36.6
Current assets and others	106.8	81.9	20.2
	<u>112.7</u>	<u>85.0</u>	<u>56.8</u>
Less: current liabilities	(111.6)	(81.6)	(56.5)
Net assets employed	<u>1.1</u>	<u>3.4</u>	<u>0.3</u>
Reserves			
Accumulated fund	0.8	3.1	0.1
Schools' donation fund	0.3	0.3	0.2
	<u>1.1</u>	<u>3.4</u>	<u>0.3</u>

The \$24.9M increase in current assets can be attributed to a) the increase in cash on hand of \$20.0M as a direct result of increases in RCHK's and DC's scholarship fund balances and the payment of schools' advance fees of PIS schools and the kindergartens; b) increase in prepayment of student textbooks (\$0.8M); and c) increase in general debtors (\$4.0M).



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			
(Deficit)/Surplus for the year	(2.3)	3.1	(1.6)
Depreciation	1.5	2.2	2.6
Interest Income	(0.4)	(0.5)	(0.1)
Loss on sales of fixed assets	-	-	-
	<u>(1.2)</u>	<u>4.8</u>	<u>0.9</u>
Change in working capital	<u>25.1</u>	<u>18.2</u>	<u>12.9</u>
Cash generated from operations	<u>23.9</u>	<u>23.0</u>	<u>13.8</u>
Investing activities			
Capital expenditure	(4.3)	31.4	(0.4)
Other	<u>(0.2)</u>	<u>0.3</u>	<u>0.1</u>
	<u>(4.5)</u>	<u>31.7</u>	<u>(0.3)</u>
Increase / (Decrease) in cash	<u>19.4</u>	<u>54.7</u>	<u>13.5</u>

Change in working capital is largely a result of setting aside additional scholarship funds and hardship allowance in the amount of \$13.8M, additional fees received in advance of \$19.7M for PIS schools and the kindergartens, net increase in amount due to ESF of \$0.9M, and a net increase in provision for staff gratuities and MPF of \$3.5M; offset by the net decrease in creditors and accruals of \$7.2M, a net increase in debtors of \$4.8M, and a net increase in prepayment expenses related to student textbooks of \$0.7M.



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 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.

Governance

Effective 15th February 2007, the ESF Audit Committee (“Committee”) expanded its role, at the request of the ESF Chief Executive, to review ESL’s financial statements and work done on ESL by external and internal auditors. The Committee reports to the ESF Board of Governors which makes these comments available to the ESL Board of Directors.

* * * * *