



**Explanatory Notes to English Schools Foundation ('ESF') Accounts
for the year ended 31 August 2008**

These explanatory notes do not form part of the audited accounts. They 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 and ESF Educational Services Limited.

Income and expenditure

	<u>2007/08</u>		<u>2006/07</u>		<u>2005/06</u>	
	\$M	% of total income	\$M	% of total income	\$M	% of total income
Income						
School Fees	883	71.8	856	72.7	797	72.2
Subvention	268	21.8	267	22.7	269	24.4
Other income	78	6.4	54	4.6	38	3.4
	<u>1,229</u>	100.0	<u>1,177</u>	100.0	<u>1,104</u>	100.0
Expenditure						
Staff cost	878	76.3	905	76.9	890	80.6
Depreciation	65	5.6	66	5.6	61	5.5
Repair and Maintenance	108	9.4	64	5.4	42	3.8
Other Expenses	100	8.7	85	7.2	85	7.7
	<u>1,151</u>	100.0	<u>1,120</u>	95.1	<u>1,078</u>	97.6
Surplus	<u>77</u>	6.3	<u>57</u>	4.9	<u>26</u>	2.4
Average student enrolment						
Primary	6,089		6,410		6,444	
Secondary	<u>6,503</u>		<u>6,373</u>		<u>6,260</u>	
Total average enrolment	<u>12,592</u>		<u>12,783</u>		<u>12,704</u>	

Income:

1. The \$27M (3.1%) increase in school fees received in 2007/08 is due to fees increase in 2007/08 by 5.44% in primary and 2.90% in secondary less the effect of the decrease in students enrolled in primary schools due to the closure of Bauhinia School.
2. Government subvention remained at a level consistent with last year.

3. \$78M other income for 2007/08 includes \$44.1M (06/07:\$32.1M) income derived from residential apartment leasing and renting of school premises outside school hours, \$6.4M (06/07:\$4.2M) in donations, \$7.1M (06/07:\$8.0M) interest income and \$20.0M (06/07:\$9.4M) miscellaneous income, as below

Miscellaneous Income

	2007/08	2006/07	Var
Administration & Management costs charged to ESL	2.5	2.2	0.3
Income received from ESL re Development and Operating Agreement for Renaissance College and Discovery College	8.6	3.9	4.7
Surety income	2.8	0.8	2.0
Other income	6.1	2.5	3.6
	<u>20.0</u>	<u>9.4</u>	<u>10.6</u>

Expenditure

- \$27M decrease in staff cost during 2007/08 is the net effect of the following:
 - Staff costs decreasing by \$21M due to Bauhinia school closing.
 - Savings by schools following devolved teaching staff budgets
- Repair and maintenance** expense is \$44M higher, mainly due to \$6.5M redecoration costs for Beacon Hill School, \$11.7M preliminary costs incurred for school redevelopment projects (King George V, Kowloon Junior School and Island School) and \$22.5M provision for slope maintenance work at several schools.
- Other expenses is \$15M higher, mainly due to an increase of \$7.8M in professional development and training expenses, \$2.4M in recruitment and advertisement expenses, \$1.2M relating to the 40th anniversary and new logo and a \$1.4M increase in insurance premiums.

Balance sheet

ESF's balance sheet shows:

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$M	\$M	\$M
Assets employed			
Fixed assets	775	745	704
Bank deposits and cash equivalents	224	101	39
Other Current assets	55	81	120
	<u>1,054</u>	<u>927</u>	<u>863</u>
Less current liabilities	(417)	(369)	(361)
Other obligations	-	-	(1)
Net assets employed	<u>636</u>	<u>558</u>	<u>501</u>
Funded by			
Reserves* (retained surpluses)	636	558	501
Net Bank Borrowings	-	-	-
	<u>636</u>	<u>558</u>	<u>501</u>

* This does not represent cash balances

The fixed assets of \$775M are mainly ESF's buildings (school premises and residential properties) and ESF's share of the construction costs for Renaissance College and 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; and (2) the excess of current liabilities over other assets. ESF's balance sheet has strengthened with the portion financed by reserves increasing.

	<u>2007/08</u>		<u>2006/07</u>		<u>2005/06</u>	
	\$M	% of total	\$M	% of total	\$M	% of total
Reserves*	636	82.0	558	74.9	501	71.2
Net current liabilities	140	18.0	187	25.1	203	28.8
	<u>776</u>	<u>100.0</u>	<u>745</u>	<u>100.0</u>	<u>704</u>	<u>100.0</u>

* This does not represent cash balances

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.

Cashflow and capital commitments

	<u>2007/08</u>	<u>2006/07</u>	<u>2005/06</u>
	\$M	\$M	\$M
Operating activities			
Surplus for the year	77	57	26
Depreciation	68	68	64
Gain on sales of fixed assets	-	-	-
Other operating activities	(6)	(7)	(5)
	<u>139</u>	<u>118</u>	<u>85</u>
Change in working capital	36	42	41
Cash generated from operations	<u>175</u>	<u>160</u>	<u>126</u>
Investing activities			
Capital expenditure	(58)	(104)	(65)
Sales of fixed assets	-	-	-
Other	7	9	4
	<u>(51)</u>	<u>(95)</u>	<u>(61)</u>
Financing	(2)	(2)	(2)
Increase in bank deposits and cash equivalents	<u>122</u>	<u>63</u>	<u>63</u>
Less increase in bank deposits more than 3 months	<u>(186)</u>	<u>-</u>	<u>-</u>
Decrease in cash equivalents	<u>(64)</u>	<u>63</u>	<u>63</u>

ESF's cash generated from operations exceeded capital expenditure by \$122M during the year. At the end of the period it had capital commitments of \$58M relating mainly to the redevelopment of Kowloon Junior School and King George V School. Additional commitments will be required once a decision is made to proceed with the full redevelopment of these schools.

ESF Educational Services Limited

ESF Educational Services Limited (ESL) 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.

Under a Deed of Arrangement ESF has financed part of the cost of Renaissance College and Discovery College and receives fees from ESL in return. ESL also pays for the services which ESF provides to it. Refer to [here](#) for details of the relationship between ESF and ESL.

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