



The English Schools Foundation (“ESF”)
Annual accounts for the year ended 31 August 2014

Explanatory Notes

These explanatory notes provide information on ESF only. Please refer to separate explanatory notes for its subsidiary, ESF Educational Services Limited (“ESL”) and section “The relationship between ESF and ESL” for more information. These notes do not form part of the audited financial statements and are provided to put the numbers into context with some background information.

Income and Expenditure

	<u>2013/14</u>		<u>2012/13</u>		<u>2011/12</u>	
	\$M	% of total income	\$M <i>Restated</i>	% of total income	\$M	% of total income
Operating Income						
School Fees	1,130	72.5	1,077	70.6	1,031	72.8
Subvention	271	17.4	271	17.8	271	19.1
Other	127	8.2	127	8.3	114	8.1
	<u>1,528</u>		<u>1,475</u>		<u>1,416</u>	
Nomination Rights	<u>30</u>	1.9	<u>50</u>	3.3	<u>0</u>	0.0
Total Income	<u>1,558</u>	100.0	<u>1,525</u>	100.0	<u>1,416</u>	100.0
Expenditure						
Staff cost	1,171	75.2	1,123	73.6	1,057	74.6
Depreciation	102	6.5	82	5.4	113	8.0
Repair and Maintenance	72	4.6	60	3.9	54	3.8
Other Operating Expenses	115	7.4	111	7.3	107	7.6
	<u>1,460</u>	93.7	<u>1,376</u>	90.2	<u>1,331</u>	94.0
Surplus for the year	98	6.3	149	9.8	85	6.0
Add: remeasurement of net defined benefit assets	9	0.6	24	1.6	-	-
	<u>107</u>	6.9	<u>173</u>	11.3	<u>85</u>	6.0
Analysis of surplus:						
General	18		69*		40	
Capital Fund	30		50		-	
Individual schools	59		54		45	
	<u>107</u>		<u>173</u>		<u>85</u>	
Average Student Enrolment						
Primary	6,120		6,112		6,115	
Secondary	6,812		6,794		6,749	
Total average enrolment	<u>12,932</u>		<u>12,906</u>		<u>12,864</u>	

The restatements are related to the revised HKAS19, Employee benefit. Please refer to note 2(c) of the audited financial statements (page 16-17) for details.

* \$40m arising from change of estimated useful lives of buildings and building improvements.

Income:

1. The \$53M (4.9%) increase in school fees received in 2013/14 is due to average tuition fees increase of 4.5% and slightly increase (0.2%) in average student enrolment during the year.
2. The Government subvention remained frozen. Including the hardship allowance and a refund of rent and rates from the Government, total grants received by ESF during the year were \$288.0M (12/13: \$287.4M).
3. \$127M other income for 2013/14 includes \$54.7M (12/13: \$57.2M) income derived from residential property leasing, \$22.4M (12/13: \$20.6M) from licensing use of school premises outside school hours, \$4.3M (12/13: \$7.5M) from donation, \$4.8M (12/13: \$6.7M) of interest income, \$21.2M (12/13: \$20.2M) income from ESL in relation to the two Private Independent schools pursuant to the Development and Operating Agreement ("DOA"), \$7.9M (12/13: \$7.7M) management and administrative income from ESL, \$7.5M (12/13: \$0.8M) of application fee income and \$3.9M (12/13: \$5.9M) miscellaneous income. Miscellaneous income consists of income from therapy services, admission fee, forfeited deposits, other income from schools, etc.
4. During the year, ESF generated nomination rights income of \$30.7M (12/13: \$49.5M). This income is designated solely to finance redevelopment projects and hence is included in the capital fund.

Expenditure:

1. Staff costs increased by \$48M (4.3%) during 2013/14. This increase was mainly attributable to salary adjustments for existing employees which was in line with labour market and inflation; higher teaching staff salaries because of staff progression up the salary scales; and new educational enhancements introduced during the year. The latter included, but not limited to, the continuous enhancement of the Chinese curriculum, the provision of additional Learning Support Centres and review of IT systems.
2. Depreciation increased by \$20M in 2013/14 as new buildings and new facilities of Kowloon Junior School and King George V School started to be in use.
3. Repairs and maintenance increased by \$12M (20.0%). The expenses included summer works, costs of annual maintenance contracts, facility consultancy fee and periodic inspection services.
4. Other operating expenses consists of IT expenditure, recruitment expenses, office & general expenses, training & curriculum development expenses, utilities, teaching materials, and rental expenses, etc. The increase by 3.6% to \$115M (12/13: \$111M) was due primarily to higher spending on IT expenditure, teaching resources & materials and increase in utilities.

Balance Sheet:

	<u>2013/14</u>	<u>2012/13</u>	<u>2011/12</u>
	\$M	\$M	\$M
Assets employed		Restated	
Properties, plant and equipment	1,551	1,404	1,059
Bank deposits with original maturities over three months	310	230	321
Cash and cash equivalents	117	139	107
Other assets	80	103	62
	<u>2,058</u>	<u>1,876</u>	<u>1,549</u>
Less:			
Other liabilities	(533)	(529)	(426)
Refundable capital levy	(219)	(173)	(119)
Corporate nomination rights	(25)	-	-
Net assets	<u><u>1,281</u></u>	<u><u>1,174</u></u>	<u><u>1,004</u></u>
Financed by			
Reserves* (retained surpluses)	<u>1,281</u>	<u>1,174</u>	<u>1,004</u>

The restatements are related to the revised HKAS19, Employee benefit. Please refer to note 2(c) of the audited financial statements (page 16-17) for details.

* This does not represent cash balances

- Properties, plant and equipment include properties, leasehold improvements, furniture and equipment of ESF's schools, office and residential properties, certain buildings and furniture and equipment of Renaissance College ("RCHK") and Discovery College ("DC"). Total cost of properties, plant and equipment and the net book value (net of related government grants and depreciation) of RCHK and DC at 31 August 2014 included in the accounts of ESF was \$476.6M (12/13: \$472.8M) and \$181.7M (12/13: \$184.4M), respectively.
These properties, plant and equipment included in ESF balance sheet are financed by a combination of retained surpluses built up by ESF over the years, refundable capital levy, individual nomination rights, corporate nomination rights and the excess of current assets over liabilities, if any. Over the last 5 years, financing by bank borrowings was not necessary.
- Total cash and bank balances amounted to \$427M at 31 August 2014 (2013: \$369M), out of which \$139m (2013: \$159M) was schools reserves. These reserves have been designated to finance operating and capital activities at individual schools at the discretion of the respective School Councils. Remaining amount will fund the operations and capital commitments of ESF. Capital commitments outstanding at 31 August 2014 not provided for were \$311M (2013: \$417M)

Cash Flow and Capital Projects

	<u>2013/14</u> \$M	<u>2012/13</u> \$M (restated)	<u>2011/12</u> \$M
Cash generated from operations	159	262	153
Investing activities			
Capital expenditure	(271)	(484)	(240)
Bank deposits with original maturities over three months	(80)	91	5
Government grants received	62	50	-
Other	5	7	6
	<u>(284)</u>	<u>(336)</u>	<u>(229)</u>
Financing activities			
Refundable capital levy	45	54	61
Proceeds from issue of nomination rights	58	52	-
Other	-	-	(1)
	<u>103</u>	<u>106</u>	<u>60</u>
(Decrease)/Increase in cash equivalents	<u>(22)</u>	<u>32</u>	<u>(16)</u>

- In 2013/14, ESF paid \$271M in capital expenditure mainly to improve school facilities. \$114M was related to the redevelopment of Kowloon Junior School, King George V School and Island School. Other major areas are replacement of air-conditioners, furniture and equipment, renovation of toilets, special rooms, swimming pools, auditorium, school halls, school open area and school extension.
- Refundable Capital Levy and Nomination Rights contributed HK\$45M and HK\$58M, respectively, to the bank balance.

3. Financing major capital projects over the coming years continues to be a key challenge. The most imminent and largest capital project is the redevelopment of Island School. Subject to approval by the Finance Committee of LegCo, a capital grant will be made available to assist in funding the re-building of Island School. With the introduction of the non-refundable capital levy (NCL) for students entering ESF schools from August 2015, the Individual Nomination Rights Scheme and the Corporate Nomination Rights Scheme, ESF sets its medium term capital funding strategy. Bridging loans will be required from time to time for major capital projects. In view of the financial stability of ESF and the independent valuation of its residential property portfolio at approximately \$2.7Bn as at 31 August 2014, ESF is in a position to borrow at favourable interest rate and to meet funding requirements of major-capital projects.

The Relationship between ESF and ESL

ESL was set up in 1994 to provide kindergarten education, language classes and extra-curricular activities. It currently operates four kindergartens and two Private Independent Schools. ESL has common management with ESF and is a controlled subsidiary of ESF.

ESF charges ESL an annual fee for providing management and administration services to ESL at cost.

ESL is the qualified sponsoring body to run Renaissance College ("RCHK") in Ma On Shan and Discovery College ("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 reimbursed together with a return of 1% over the higher of the actual borrowing cost incurred by ESF or the Hong Kong Inter-bank Offer Rates (HIBOR) for 3 months. 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.

At the directors' meeting held on 21 May 2012, it was proposed and endorsed that RCHK and DC would pay for their own capital expenditure with effect from 1 July 2012. Any related depreciation charge would be recorded in the books of the Company accordingly. The proposal was agreed and ratified by the Board of ESF on 13 December 2012.