

29 May 2013

Dear Parents

The Discovery College School Council offers this letter in association with the letter from ESL announcing changes to the proposed school fees for the 2013-14 academic year. The agreement by the ESF Board to extend the repayment terms of the DOA by an extra five years has resulted in a lowering of the fee increase for next year and beyond. This has also allowed the projected break-even point to be extended by an additional two years i.e. from 2016-17 to 2018-19.

The fees for 2013-14 will now be increased by 7.6%. This new fee compares with the original fee proposal of 9.5%. The new fees, and projected fees¹ through to 2018-19 are summarised in the table below:

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
% increase	7.6%	7.6%	6.8%	6.8%	6.6%	6.6%	6%
Primary Y1-6	\$83,200	\$89,500	\$95,600	\$102,100	\$108,800	\$116,000	\$123,000
Secondary Y7-11	\$111,300	\$119,800	\$127,900	\$136,600	\$145,600	\$155,200	\$164,500
Secondary Y12-13	\$112,500	\$121,100	\$129,300	\$138,100	\$147,200	\$156,900	\$166,300

¹ Please note that these future fee increases are subject to many variables (interest rates, student enrollment, etc.). The DC School Council is committed to reviewing the situation on a regular basis and working with the school community and Directors of ESL to confirm the best financial structure for each year.

Discovery College has been sustaining a significant budget deficit since opening in 2008. To date, that deficit is around HK\$68million, which has been written-off by ESL i.e. this loss is not being added to DC's debt burden. Obviously, these losses cannot be sustained by ESL and the College must become financially independent.

The School Council, in partnership with the ESL Directors, has looked into the following options to solve the problem of increasing school fees based on the financial losses the school has incurred and will incur over the next few years:

Extension of DOA (loan from ESF to ESL to build the college)

The School Council has requested several times over the past three years that the terms of the DOA be extended. Following the introduction of the NBL, the recently announced fee increases and parent meetings, the ESF Board has finally agreed to a five-year extension to the DOA. This extension of the loan has made a significant impact on the proposed fees (see table above).

Projections extending the DOA beyond five years had little effect on the annual fee increases and in fact lengthened the break-even date, resulting in additional costs to parents. Any further extension would also give the school limited time to start to save money to replace the building at the end of its useful life.

Scholarship Fund

Discovery College, as with all PIS and DSS schools, is required by the HK Government to put aside 10% of all school fees aside. For Discovery College, 8% is allocated to Scholarship with the remaining 2% to our Financial Assistance Scheme.

The Scholarship fund is used to cover a range of individual scholarship students. The rest is predominantly used to cover the cost of our Learning Development teachers and EAs, as well as some staff and activities

associated with scholarship students.

The School Council is pleased that our annual income through scholarship is now balanced against expenditure, however, in 2008-10 the college accumulated a surplus of around \$12million, which has been difficult to spend against the conditions of the scholarship scheme. The School Council and ESL Directors have now agreed to use this surplus to offset the loss of Nomination Rights and NBL income for 2012-13, as well as cover some of the deficit over the next three years.

The Growth of the Primary Roll

This proposal was presented and discussed with DC families in early 2011. It was initiated this year with extra classes in Years 1 and 2. This increased by 60 children, the number of students paying tuition. In August 2013 another Year 3 class will commence, and by August 2016 we will have four classes at every year level in primary. This increases roll will have a positive advantage on our annual and long term budgets.

NR (Nomination Rights)

The Individual Nomination Rights scheme, as with the extra classes in Primary, was proposed and discussed with DC families in early 2011 and introduced for the start of the 2011-12 academic year. The immediate response was very positive with 26 Nomination Rights students generating \$10.6million in income. This current year, however, is a very different story, with only five Nomination Rights students enrolled since August 2012. This has greatly impacted not only our annual budget but also the existing financial model.

The small number of Nomination Rights may, in part be explained by the difficult economic climate, however, the feedback we have received from both professional relocation companies and a number of corporates is that our scheme is very attractive. Accordingly, we are changing the budget to only account for a few of these NB funds being received per year to be conservative.

CNR (Corporate Nomination Rights)

This was offered in 2013 and to date, the School Council has approached over 30 corporations without success. Feedback we have received from a number of companies points to three factors influencing this:

1. The significant number of Corporate Debentures offered across HK in the past two years (Kellett, HK Academy and Harrow to name a few);
2. The current financial climate in HK; and
3. A perception that Discovery Bay is not a destination for top executives and any CNRs sold would be done on a one-off basis.

The School Council will continue to try to evaluate how to change or market this product to achieve better results. At the same time, no income is currently budgeted against CNRs.

Re-financing the DOA

The School Council has contacted five banks to investigate the re-financing of the DOA across 20-40 years. Banks that were contacted have either said they do not offer this type of loan and even if they did, ESL (and DC) had no collateral to back any application. Furthermore, the banks contacted have said that the length of this loan would only be 20 years maximum, which would not impact the current figure and would have a higher interest rate.

NBL (Non-refundable Building Levy)

There is a requirement for the College to put money aside each year for annual and long-term building maintenance and the purchase of Capital Assets. A NBL scheme was presented to the DC community in early 2011 and a decision to introduce communicated later that year. The \$5,900 fee for each student was introduced for this purpose and will be reviewed each year by the ESL Directors and DC School Council to confirm if there are sufficient funds being generated for capital projects.

The NBL was originally supposed to commence in August 2012 although the EDB did not approve the levy until March 2013. With this in mind, the School Council decided not to introduce it until April 2013. This

resulted in a loss of seven months NBL income over the current academic year. As stated above, this loss of income will be covered by reserved scholarship funds in order to help balance this year's budget.

Much of the NBL income will be set aside to cover items included in our 50-year Maintenance Plan. This plan sets out a schedule of things such as the replacement of the air conditioning systems, repainting, repairs and replacement of the canopy, etc. As such, it is inflation-linked and the NBL will be adjusted accordingly over time.

Future

The DC School Council is currently looking at other options to continue to keep school fee increases as low as possible in the following years. We recognise the power of consulting with our College community. A summary of DC School Council meetings can now be found on the school web site to keep families abreast of current developments in this matter.

We are thankful that the ESL Directors have revised the conditions under the Financial Assistance Scheme for current applications. The School Council encourages families who may be in need of assistance to complete the application form found on the College web site. This process is relatively straightforward and the information required is not unreasonable.

The DC School Council would like to thank the many parents who have taken an active interest in the future financial viability of our College.

Yours sincerely
Discovery College School Council

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