

# Pre-Feasibility Study

## HIGH SCHOOL (FRANCHISE)



### Small and Medium Enterprises Development Authority

#### Ministry of Industries & Production Government of Pakistan

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## 1 DISCLAIMER

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. Although, the material included in this document is based on data/information gathered from various reliable sources; however, it is based upon certain assumptions, which may differ from case to case. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision, including taking professional advice from a qualified consultant/technical expert before taking any decision to act upon the information.

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### **Document Control**

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## 2 EXECUTIVE SUMMARY

Education plays a vital role in the progress of any nation and is responsible for its advancement towards success. This Pre-Feasibility Study is about setting up the venture of a High School (Franchise) in small cities of Pakistan. The motive to propose small city is due to market saturation in metropolitan cities of Pakistan and unavailability of quality education institutes in semi urban areas or small cities. The proposed school will offer its services from the classes of primary to matriculation. The school will be catering to children of middle to low-income economic stratum, recognizing the need for a high caliber yet low-cost institute.

The proposed capacity of High School (Franchise) is 480 Students in one year. Initial capacity utilization is estimated at 60% with a growth rate of 15% per annum. This production capacity is estimated to be economically viable and justifies the capital as well as operational cost of the project. However, entrepreneur's knowledge of education industry, experienced management, qualified faculty and location of franchise are key factors for the success of this project.

Total project cost is estimated as Rs. 5.801 million with capital investment of Rs. 5.121 million and working capital Rs. 0.680 million. Given the cost assumptions IRR, Payback and Net Present Value are 33%, 3.62 years and Rs. 4.526 million respectively. The project will provide employment opportunities to 27 people including owner CEO. The legal business status of this project is proposed as 'Sole Proprietorship'.

## 3 INTRODUCTION TO SMEDA

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services

include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

#### **4 PURPOSE OF THE DOCUMENT**

The objective of the pre-feasibility study is primarily to facilitate potential entrepreneurs in project identification for investment. The project pre-feasibility may form the basis of an important investment decision and in order to serve this objective, the document/study covers various aspects of project concept development, start-up, and production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **High School (Franchise)** by providing them with a general understanding of the business with the intention of supporting potential investors in crucial investment decisions.

The need to come up with pre-feasibility reports for undocumented or minimally documented sectors attains greater imminence as the research that precedes such reports reveal certain thumb rules; best practices developed by existing enterprises by trial and error, and certain industrial norms that become a guiding source regarding various aspects of business set-up and its successful management.

Apart from carefully studying the whole document one must consider critical aspects provided later on, which form basis of any investment decision.

#### **5 BRIEF DESCRIPTION OF PROJECT & PRODUCT**

School industry is experiencing a rapid change in Pakistan. A lot of school chains are offering franchise opportunities in market with standardized curriculum, rules & regulations and extra curriculum activities. All school chains have effective monitoring and evaluation systems, which conduct evaluation of franchises on regular basis. This ensures good quality education and standardized facilities for students in whole network. Therefore, parents are showing more trust in these school chains instead of small schools operating in isolation.

The franchise networks advertise their business on national print and electronic media for brand recognition. These advertisements provide a competitive edge to the franchise over the single branch schools. Keeping in view the industry situation, it is suggested to buy the rights of a franchise instead of open a school with new brand name.

This pre-feasibility study describes investment opportunity for setting up of a high school (franchise) in any small city of Pakistan to provide education to the children of middle and lower middle-income group. The school will start its operation by starting classes from Nursery to Matriculation (Secondary school). Providing education from primary level onwards ensures consistent quality of education from an early stage.

By offering quality education and modern facilities, the school is expected to earn early recognition and parent's trust and preference. The school can be opened in major cities across Pakistan. The area should be selected near the residents of middle-income group. The proposed project will provide employment generation to 27 peoples including owner himself as CEO of the business. The legal status is proposed to be 'Sole Proprietorship'.

### 5.1 Installed And Operational Capacities

The total installed capacity of the project is assumed at 480 students in a year. The initial operational capacity of the project will be 60% with an annual growth of 15%. Maximum capacity utilization of the project is assumed at 90%.

**Table 1: Installed and Operational Capacity**

| Description     | Total Capacity | Operational Capacity 60 % (Year 1) | Maximum Operational Capacity 90% (Year 3) |
|-----------------|----------------|------------------------------------|---|
| No. of Students | 480            | 288                                | 432                                       |

## 6 CRITICAL FACTORS

- ⇒ Good working relations with Parent company for on time official work.
- ⇒ Experienced and well-qualified school-teachers are the most important factor for success.
- ⇒ Proactive administration department is necessary in order to do all administrative work.
- ⇒ Effective marketing campaign of franchise through different media like local newspapers, cable networks and social media.
- ⇒ Campus location is key to success. If the location of campus is not easily reachable for target market; franchise won't be able to achieve sales targets.

- ⇒ Interior of school campus and friendly behaviour of admission office staff are critical as it gives the first impression to parents and students.
- ⇒ Continuous extra-curricular activities play a vital role in student growth & development and parent's optimism on school.
- ⇒ Regular parents-teacher meetings regarding students' performance will provide confidence to parents.

## **7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT**

All the urban areas of Pakistan are the potential areas for investment in high school business as education is a basic necessity for every kid. It is suggested to open the school in populated residential areas so that target market could easily access the school. The proposed school will cater the middle and low-income group of society, therefore, it is important to identify the area where these classes reside.

Entrepreneur also needs to investigate the market dynamics like market competition, current market growth rate and purchasing power of target market. Reasons to propose a small city is that all school chains have already entered in metropolitan cities and the school market of metropolitan cities have already become saturated. Beside this, as per the policy of franchisers they don't offer franchise within the radius of 4 kilometers in order to provide a fair chance of profit making for their franchise.

## **8 POTENTIAL TARGET CUSTOMERS / MARKETS**

The target market for this particular business is the middle and lower middle economic class of the cities of Pakistan. The age group of target market is young generation (i.e. 03 to 17 years) mostly as this segment use to get school education.

## **9 PROJECT COST SUMMARY**

### **9.1 Project Economics**

All the figures in this financial model have been calculated for estimated sales of Rs. 6.654 Million in the year one. The capacity utilization during year one is worked out at 60% with 15% increase in subsequent years up to the maximum capacity utilization of 90%.

The following table shows internal rate of return, payback period and net present value of the proposed venture.

**Table 2: Project Economics**

| Description                   | Details   |
|-------------------------------|-----------|
| Internal Rate of Return (IRR) | 33%       |
| Payback Period (Yrs.)         | 3.62      |
| Net Present Value (Rs.)       | 4,526,588 |

## 9.2 Project Financing

Following table provides details of the equity required and variables related to bank loan:

**Table 3: Project Financing**

| Description                           | Details       |
|---------------------------------------|---------------|
| Total Equity (50%)                    | Rs. 2,900,771 |
| Bank Loan (50%)                       | Rs. 2,900,771 |
| Markup to the Borrower (%age / annum) | 16%           |
| Tenure of the Loan (Years)            | 5             |

## 9.3 Project Cost

Following fixed and working capital requirements have been identified for operations of the proposed business.

**Table 4: Project Cost**

| Description               | Amount Rs.       |
|---------------------------|------------------|
| <b>Capital Cost</b>       |                  |
| Machinery & Equipment     | 185,500          |
| Furniture & Fixture       | 1,656,240        |
| Office Equipment          | 1,559,500        |
| Licensing and Legal Fee   | 1,047,000        |
| Building Security         | 180,000          |
| Pre-operating Cost        | 493,303          |
| <b>Total Capital Cost</b> | <b>5,121,543</b> |



| <b>Working Capital</b>       |                  |
|------------------------------|------------------|
| Cash                         | 500,000          |
| Up-front Building Rent       | 180,000          |
| <b>Total Working Capital</b> | <b>680,000</b>   |
| <b>Total Project Cost</b>    | <b>5,801,543</b> |

#### 9.4 Space Requirement

The space requirement for the proposed high school (franchise) is estimated considering various facilities including management office, staff room, class rooms, store room and open space, etc. It is compulsory to have a campus of minimum 2 kanals for a high school from most of the franchisers. Franchisers normally check the map of building before granting the permission to start business in order to make sure that the building is suitable for a school campus. The Details of space requirement related to land & building is given below:

**Table 5: Space Requirement**

| Description                    | No. | Area Required (Sq. Ft) |
|--------------------------------|-----|------------------------|
| Principal Office               | 1   | 250                    |
| Admin Office                   | 1   | 250                    |
| Staff Room                     | 1   | 400                    |
| Computer Lab                   | 1   | 500                    |
| Science Lab                    | 1   | 400                    |
| Class Rooms (300 sq. ft. each) | 12  | 3,600                  |
| Canteen                        | 1   | 200                    |
| Wash Rooms (36 sq. ft. each)   | 6   | 216                    |
| Store Room                     | 1   | 500                    |
| Open / Playing Area            | 1   | 2,684                  |
| <b>Total</b>                   |     | <b>9,000</b>           |

It is proposed to use a rental building in order to avoid high capital cost and risk. The proposed monthly rent for the building of school is taken at Rs. 60,000/- month.

## 9.5 Machinery & Equipment Requirement

Machinery and equipment for the proposed project are stated below:

**Table 6: Machinery & Equipment Requirement**

| Description            | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|------------------------|----------|-----------------|------------------|
| Water Cooler           | 01       | 35,500          | 35,500           |
| Security Equipment Set | 01       | 150,000         | 150,000          |
| <b>Total</b>           |          |                 | <b>185,500</b>   |

## 9.6 Furniture & Fixtures Requirement

Details of the furniture and fixture required for the project are given below:

**Table 7: Furniture & Fixture Requirement**

| Description             | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|-------------------------|----------|-----------------|------------------|
| <b>Furniture:</b>       |          |                 |                  |
| <b>Principal Office</b> |          |                 |                  |
| Table & Chair           | 01       | 25,000          | 25,000           |
| Visitor Chairs          | 04       | 3,000           | 12,000           |
| Sofa Set                | 01       | 20,000          | 20,000           |
| Cupboard                | 01       | 12,000          | 12,000           |
| <b>Admin Office</b>     |          |                 |                  |
| Tables & Chairs         | 03       | 10,000          | 30,000           |
| Visitors Chairs         | 06       | 3,000           | 18,000           |
| Cupboard                | 02       | 10,000          | 20,000           |
| <b>Staff Room</b>       |          |                 |                  |
| Long Table              | 01       | 25,000          | 25,000           |
| Chairs                  | 12       | 3,000           | 36,000           |
| Cupboard                | 01       | 10,000          | 10,000           |
| <b>Class Rooms</b>      |          |                 |                  |
| Table & Chairs          | 12       | 6,000           | 72,000           |
| Student Desk and Chairs | 480      | 1,500           | 720,000          |
| White Boards            | 14       | 1,200           | 16,800           |

|                                    |    |         |                  |
|------------------------------------|----|---------|------------------|
| <b>Fixtures:</b>                   |    |         |                  |
| Soft Board                         | 02 | 1,000   | 2,000            |
| Fans                               | 37 | 2,500   | 92,500           |
| Exhaust Fans                       | 27 | 2,200   | 59,400           |
| Energy Savers (23 Watts)           | 74 | 210     | 15,540           |
| Air Conditioner (1.5 ton Split)    | 06 | 45,000  | 270,000          |
| Renovation of Building             | 01 | 200,000 | 200,000          |
| <b>Total Furniture and Fixture</b> |    |         | <b>1,656,240</b> |

### 9.7 Office Equipment Requirement

Following office equipment will be required for High School (Franchise):

**Table 8: Office Equipment Requirement**

| Description                            | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|--|----------|-----------------|------------------|
| Desktop Computers with UPS             | 32       | 35,000          | 1,120,000        |
| Computer Printers                      | 03       | 20,000          | 60,000           |
| Telephone Sets                         | 03       | 1,500           | 4,500            |
| LED for computer Lab                   | 01       | 50,000          | 50,000           |
| Generator (Perkins 30 KVA, 4 Cylinder) | 01       | 325,000         | 325,000          |
| <b>Total</b>                           |          |                 | <b>1,559,500</b> |

### 9.8 Human Resource Requirement

In order to run operations of High School (Franchise) smoothly, details of human resources required along with number of employees and monthly salary are recommended as under:

**Table 9: Human Resource Requirement**

| Description              | No. of Employees | Monthly Salary per person (Rs.) |
|--------------------------|------------------|---------------------------------|
| CEO/Principal            | 01               | 35,000                          |
| Operations Admin Manager | 01               | 18,000                          |
| Accounts Officer         | 01               | 15,000                          |

|                       |           |        |
|-----------------------|-----------|--------|
| Admission Officer     | 01        | 15,000 |
| Teachers              | 15        | 16,000 |
| IT Lab In-Charge      | 01        | 14,000 |
| Science Lab In-Charge | 01        | 14,000 |
| Electrician           | 01        | 13,000 |
| Security Guards       | 02        | 13,000 |
| Office Boys           | 03        | 13,000 |
| <b>Total</b>          | <b>27</b> |        |

### 9.9 Utilities and Other Costs

An essential cost to be borne by the project is the cost of electricity. The electricity expenses and direct electricity for year one are estimated to be around Rs. 145,155 and Rs. 580,618, respectively. Furthermore, promotional expense being essential for marketing of High School (Franchise) is estimated as 03% of revenue.

### 9.10 Revenue Generation

Based on the capacity utilization of 60%, sales revenue during the first year of operations is estimated in below table. Student drop out ratio is estimated at 5%.

**Table 9: Revenue Generation (Year 1)**

| Revenue Generation from Admission Fee |                          |               |                     |
|---------------------------------------|--------------------------|---------------|---------------------|
| Description                           | No. of Students Admitted | Admission Fee | Total Revenue (Rs.) |
| No of Students get Admission          | 264                      | 2,500         | 660,000             |
| Revenue Generation from Tuition Fee   |                          |               |                     |
| Description                           | No. of Students*         | Tuition Fee   | Total Revenue (Rs.) |
| Nursery to Class 3                    | 115                      | 2,000         | 2,760,000           |
| Class 4 to Class 5                    | 46                       | 2,200         | 1,214,400           |
| Class 6 to Class 10                   | 92                       | 2,500         | 2,760,000           |
| <b>Total Revenue</b>                  |                          |               | <b>7,394,400</b>    |
| <b>Share of Franchiser (@ 10%)</b>    |                          |               | <b>739,440</b>      |
| <b>Net Revenue</b>                    |                          |               | <b>6,654,960</b>    |

\* 5% dropouts have been considered in tuition fee calculation

## 10 CONTACT DETAILS

In order to facilitate potential investors, contact details of private sector Service Providers relevant to the proposed project be given.

### 10.1 School Furniture Suppliers

| Name              | Address                                | Telephone                   |
|-------------------|--|-----------------------------|
| Decora Furniture  | 47-Ferozpur Road,<br>Lahore            | +92-42-37554862             |
| Interwood Mobel   | 117-E-1, Gulberg-<br>III, Lahore       | +92-42-35870222-<br>6549123 |
| Javaid & Co.      | 29130-Nishter Road,<br>Lahore          | +92-42-37653007             |
| Koncept Furniture | Dheerkay By Pass, G.T.<br>Road, Gujrat | +92-300-6233455             |

## 11 USEFUL WEB LINKS

|  |  |
|--|--|
| Small & Medium Enterprises Development Authority (SMEDA) | <a href="http://www.smeda.org.pk">www.smeda.org.pk</a>                         |
| Government of Pakistan                                   | <a href="http://www.pakistan.gov.pk">www.pakistan.gov.pk</a>                   |
| Ministry of Industries & Production                      | <a href="http://www.moip.gov.pk">www.moip.gov.pk</a>                           |
| Ministry of Federal Education and Professional Training  | <a href="http://moent.gov.pk">http://moent.gov.pk</a>                          |
| Government of Punjab                                     | <a href="http://www.punjab.gov.pk">www.punjab.gov.pk</a>                       |
| Government of Sindh                                      | <a href="http://www.sindh.gov.pk">www.sindh.gov.pk</a>                         |
| Government of Khyber Pakhtunkhwa                         | <a href="http://www.khyberpakhtunkhwa.gov.pk">www.khyberpakhtunkhwa.gov.pk</a> |
| Government of Baluchistan                                | <a href="http://www.balochistan.gov.pk">www.balochistan.gov.pk</a>             |
| Government of Gilgit Baltistan                           | <a href="http://www.gilgitbaltistan.gov.pk">www.gilgitbaltistan.gov.pk</a>     |
| Government of Azad Jamu Kashmir                          | <a href="http://www.ajk.gov.pk">www.ajk.gov.pk</a>                             |
| Security Commission of Pakistan (SECP)                   | <a href="http://www.secp.gov.pk">www.secp.gov.pk</a>                           |
| State Bank of Pakistan (SBP)                             | <a href="http://www.sbp.org.pk">www.sbp.org.pk</a>                             |
| School Education Department, Punjab                      | <a href="http://schools.punjab.gov.pk/">http://schools.punjab.gov.pk/</a>      |

|  |   |
|--|---|
| Sindh Education & Literacy Department                    | <a href="http://www.sindheducation.gov.pk/">http://www.sindheducation.gov.pk/</a> |
| Elementary and Secondary Education Department, KPK       | <a href="http://www.kpese.gov.pk/">http://www.kpese.gov.pk/</a>                   |
| Education Department, Govt of Baluchistan                | <a href="http://balochistan.edu.pk/">http://balochistan.edu.pk/</a>               |
| Allied Schools, Project of Punjab Group of Colleges      | <a href="http://www.alliedschools.edu.pk/">http://www.alliedschools.edu.pk/</a>   |
| The Educators, Project of Beacon House                   | <a href="http://www.educators.edu.pk/">http://www.educators.edu.pk/</a>           |
| The Knowledge School, Project of ILM                     | <a href="http://tks.edu.pk/">http://tks.edu.pk/</a>                               |
| The Spirit School, Project of Superior Group of Colleges | <a href="http://www.tss.edu.pk/">http://www.tss.edu.pk/</a>                       |

## 12 ANNEXURES

### 12.1 Income Statement

| Calculations  |                    |                  |                  |                  |                  |                  |                   |                   |                   | SMEDA             |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Income Statement  |                    |                  |                  |                  |                  |                  |                   |                   |                   |                   |
|   | Year 1             | Year 2           | Year 3           | Year 4           | Year 5           | Year 6           | Year 7            | Year 8            | Year 9            | Year 10           |
| Revenue   | 6,654,960          | 9,170,496        | 12,123,859       | 13,147,192       | 14,461,911       | 15,908,102       | 17,498,913        | 19,248,804        | 21,173,684        | 23,291,053        |
| <i>Cost of sales</i>  |                    |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Operation costs 1 (direct labor)                                      | 3,636,000          | 3,999,600        | 4,399,560        | 4,839,516        | 5,323,468        | 5,855,814        | 6,441,396         | 7,085,535         | 7,794,089         | 8,573,498         |
| Operating costs 3 (direct electricity)                                | 580,618            | 638,680          | 702,548          | 772,803          | 850,083          | 935,092          | 1,028,601         | 1,131,461         | 1,244,607         | 1,369,068         |
| <b>Total cost of sales</b>  | <b>4,216,618</b>   | <b>4,638,280</b> | <b>5,102,108</b> | <b>5,612,319</b> | <b>6,173,551</b> | <b>6,790,906</b> | <b>7,469,997</b>  | <b>8,216,996</b>  | <b>9,038,696</b>  | <b>9,942,566</b>  |
| <b>Gross Profit</b>   | <b>2,438,342</b>   | <b>4,532,216</b> | <b>7,021,750</b> | <b>7,534,873</b> | <b>8,288,360</b> | <b>9,117,196</b> | <b>10,028,916</b> | <b>11,031,808</b> | <b>12,134,988</b> | <b>13,348,487</b> |
| <i>General administration &amp; selling expenses</i>                  |                    |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Administration expense  | 1,512,000          | 1,663,200        | 1,829,520        | 2,012,472        | 2,213,719        | 2,435,091        | 2,678,600         | 2,946,460         | 3,241,106         | 3,565,217         |
| Administration benefits expense                                       | 45,360             | 49,896           | 54,886           | 60,374           | 66,412           | 73,053           | 80,358            | 88,394            | 97,233            | 106,957           |
| Building rental expense   | 720,000            | 792,000          | 871,200          | 958,320          | 1,054,152        | 1,159,567        | 1,275,524         | 1,403,076         | 1,543,384         | 1,697,722         |
| Electricity expense   | 145,155            | 159,670          | 175,637          | 193,201          | 212,521          | 233,773          | 257,150           | 282,865           | 311,152           | 342,267           |
| Water expense   |                    |                  |                  |                  |                  |                  |                   |                   |                   |                   |
| Education Department Fee  | 9,000              | 9,900            | 10,890           | 11,979           | 13,177           | 14,495           | 15,944            | 17,538            | 19,292            | 21,222            |
| Travelling expense  | 15,120             | 16,632           | 18,295           | 20,125           | 22,137           | 24,351           | 26,786            | 29,465            | 32,411            | 35,652            |
| Communications expense (phone, fax, mail, internet, etc.)             | 15,120             | 16,632           | 18,295           | 20,125           | 22,137           | 24,351           | 26,786            | 29,465            | 32,411            | 35,652            |
| Office expenses (stationary, entertainment, janitorial services, etc) | 15,120             | 16,632           | 18,295           | 20,125           | 22,137           | 24,351           | 26,786            | 29,465            | 32,411            | 35,652            |
| Promotional expense   | 199,649            | 275,115          | 363,716          | 394,416          | 433,857          | 477,243          | 524,967           | 577,464           | 635,211           | 698,732           |
| Professional fees (legal, audit, consultants, etc.)                   | 33,275             | 45,852           | 60,619           | 65,736           | 72,310           | 79,541           | 87,495            | 96,244            | 105,868           | 116,455           |
| Depreciation expense  | 340,124            | 340,124          | 340,124          | 340,124          | 340,124          | 340,124          | 340,124           | 340,124           | 340,124           | 340,124           |
| Amortization of pre-operating costs                                   | 98,661             | 98,661           | 98,661           | 98,661           | 98,661           | -                | -                 | -                 | -                 | -                 |
| Amortization of legal, licensing, and training costs                  | 104,700            | 104,700          | 104,700          | 104,700          | 104,700          | 104,700          | 104,700           | 104,700           | 104,700           | 104,700           |
| <b>Subtotal</b>   | <b>3,253,283</b>   | <b>3,589,014</b> | <b>3,964,838</b> | <b>4,300,356</b> | <b>4,676,044</b> | <b>4,990,639</b> | <b>5,445,220</b>  | <b>5,945,260</b>  | <b>6,495,304</b>  | <b>7,100,352</b>  |
| <b>Operating Income</b>   | <b>(814,941)</b>   | <b>943,202</b>   | <b>3,056,912</b> | <b>3,234,517</b> | <b>3,612,317</b> | <b>4,126,557</b> | <b>4,583,696</b>  | <b>5,086,548</b>  | <b>5,639,685</b>  | <b>6,248,136</b>  |
| <b>Earnings Before Interest &amp; Taxes</b>                           | <b>(814,941)</b>   | <b>943,202</b>   | <b>3,056,912</b> | <b>3,234,517</b> | <b>3,612,317</b> | <b>4,126,557</b> | <b>4,583,696</b>  | <b>5,086,548</b>  | <b>5,639,685</b>  | <b>6,248,136</b>  |
| Interest on short term debt   | 51,762             | 51,762           | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Interest expense on long term debt (Project Loan)                     | 388,529            | 326,501          | 253,936          | 169,046          | 69,737           | -                | -                 | -                 | -                 | -                 |
| Interest expense on long term debt (Working Capital Loan)             | 51,586             | 43,350           | 33,716           | 22,445           | 9,259            | -                | -                 | -                 | -                 | -                 |
| <b>Subtotal</b>   | <b>491,877</b>     | <b>421,613</b>   | <b>287,652</b>   | <b>191,491</b>   | <b>78,997</b>    | <b>-</b>         | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Earnings Before Tax</b>  | <b>(1,306,818)</b> | <b>521,588</b>   | <b>2,769,260</b> | <b>3,043,025</b> | <b>3,533,320</b> | <b>4,126,557</b> | <b>4,583,696</b>  | <b>5,086,548</b>  | <b>5,639,685</b>  | <b>6,248,136</b>  |
| Tax   | -                  | 12,159           | 414,815          | 483,256          | 605,830          | 760,467          | 897,608           | 1,048,464         | 1,214,405         | 1,409,347         |
| <b>NET PROFIT/(LOSS) AFTER TAX</b>                                    | <b>(1,306,818)</b> | <b>509,430</b>   | <b>2,354,446</b> | <b>2,559,769</b> | <b>2,927,490</b> | <b>3,366,091</b> | <b>3,686,087</b>  | <b>4,038,084</b>  | <b>4,425,280</b>  | <b>4,838,789</b>  |
| Balance brought forward   |                    | (1,306,818)      | (797,389)        | 1,557,057        | 4,116,826        | 7,044,317        | 10,410,407        | 14,096,494        | 18,134,578        | 22,559,858        |
| Total profit available for appropriation                              | (1,306,818)        | (797,389)        | 1,557,057        | 4,116,826        | 7,044,317        | 10,410,407       | 14,096,494        | 18,134,578        | 22,559,858        | 27,398,646        |
| Dividend  | -                  | -                | -                | -                | -                | -                | -                 | -                 | -                 | -                 |
| Balance carried forward   | (1,306,818)        | (797,389)        | 1,557,057        | 4,116,826        | 7,044,317        | 10,410,407       | 14,096,494        | 18,134,578        | 22,559,858        | 27,398,646        |

## 12.2 Balance Sheet

| Calculations                                  |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   | SMEDA             |
|---|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Balance Sheet                                 |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
|   | Year 0           | Year 1           | Year 2           | Year 3           | Year 4           | Year 5            | Year 6            | Year 7            | Year 8            | Year 9            | Year 10           |
| <b>Assets</b>                                 |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| <i>Current assets</i>                         |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| Cash & Bank                                   | 500,000          | -                | 50,059           | 2,326,299        | 4,579,885        | 7,153,643         | 10,822,106        | 14,796,321        | 19,106,862        | 23,787,363        | 29,329,287        |
| Accounts receivable                           |                  | 546,983          | 650,361          | 875,110          | 1,038,536        | 1,134,621         | 1,248,083         | 1,372,891         | 1,510,180         | 1,661,198         | 1,827,318         |
| Pre-paid building rent                        | 180,000          | 198,000          | 217,800          | 239,580          | 263,538          | 289,892           | 318,881           | 350,769           | 385,846           | 424,431           | -                 |
| <b>Total Current Assets</b>                   | <b>680,000</b>   | <b>744,983</b>   | <b>918,220</b>   | <b>3,440,989</b> | <b>5,881,959</b> | <b>8,578,155</b>  | <b>12,389,070</b> | <b>16,519,981</b> | <b>21,002,888</b> | <b>25,872,992</b> | <b>31,156,605</b> |
| <i>Fixed assets</i>                           |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| Building Security                             | 180,000          | 180,000          | 180,000          | 180,000          | 180,000          | 180,000           | 180,000           | 180,000           | 180,000           | 180,000           | 180,000           |
| Machinery & equipment                         | 185,500          | 166,950          | 148,400          | 129,850          | 111,300          | 92,750            | 74,200            | 55,650            | 37,100            | 18,550            | -                 |
| Furniture & fixtures                          | 1,656,240        | 1,490,616        | 1,324,992        | 1,159,368        | 993,744          | 828,120           | 662,496           | 496,872           | 331,248           | 165,624           | -                 |
| Office equipment                              | 1,559,500        | 1,403,550        | 1,247,600        | 1,091,650        | 935,700          | 779,750           | 623,800           | 467,850           | 311,900           | 155,950           | -                 |
| <b>Total Fixed Assets</b>                     | <b>3,581,240</b> | <b>3,241,116</b> | <b>2,900,992</b> | <b>2,560,868</b> | <b>2,220,744</b> | <b>1,880,620</b>  | <b>1,540,496</b>  | <b>1,200,372</b>  | <b>860,248</b>    | <b>520,124</b>    | <b>180,000</b>    |
| <i>Intangible assets</i>                      |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| Pre-operation costs                           | 493,303          | 394,642          | 295,982          | 197,321          | 98,661           | -                 | -                 | -                 | -                 | -                 | -                 |
| Legal, licensing, & training costs            | 1,047,000        | 942,300          | 837,600          | 732,900          | 628,200          | 523,500           | 418,800           | 314,100           | 209,400           | 104,700           | -                 |
| <b>Total Intangible Assets</b>                | <b>1,540,303</b> | <b>1,336,942</b> | <b>1,133,582</b> | <b>930,221</b>   | <b>726,861</b>   | <b>523,500</b>    | <b>418,800</b>    | <b>314,100</b>    | <b>209,400</b>    | <b>104,700</b>    | <b>-</b>          |
| <b>TOTAL ASSETS</b>                           | <b>5,801,543</b> | <b>5,323,041</b> | <b>4,952,794</b> | <b>6,932,078</b> | <b>8,829,563</b> | <b>10,982,275</b> | <b>14,348,366</b> | <b>18,034,453</b> | <b>22,072,536</b> | <b>26,497,816</b> | <b>31,336,605</b> |
| <b>Liabilities &amp; Shareholders' Equity</b> |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| <i>Current liabilities</i>                    |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| Accounts payable                              |                  | -                | -                | -                | -                | -                 | -                 | -                 | -                 | -                 | -                 |
| Short term debt                               | -                | 609,477          | -                | -                | -                | -                 | -                 | -                 | -                 | -                 | -                 |
| <b>Total Current Liabilities</b>              | <b>-</b>         | <b>609,477</b>   | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <i>Other liabilities</i>                      |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| Security (Refundable)                         |                  | 632,500          | 846,225          | 1,037,187        | 1,037,187        | 1,037,187         | 1,037,187         | 1,037,187         | 1,037,187         | 1,037,187         | 1,037,187         |
| Long term debt (Project Loan)                 | 2,560,771        | 2,195,596        | 1,768,392        | 1,268,625        | 683,967          | -                 | -                 | -                 | -                 | -                 | -                 |
| Long term debt (Working Capital Loan)         | 340,000          | 291,515          | 234,794          | 168,438          | 90,812           | -                 | -                 | -                 | -                 | -                 | -                 |
| <b>Total Long Term Liabilities</b>            | <b>2,900,771</b> | <b>3,119,611</b> | <b>2,849,411</b> | <b>2,474,250</b> | <b>1,811,966</b> | <b>1,037,187</b>  | <b>1,037,187</b>  | <b>1,037,187</b>  | <b>1,037,187</b>  | <b>1,037,187</b>  | <b>1,037,187</b>  |
| <i>Shareholders' equity</i>                   |                  |                  |                  |                  |                  |                   |                   |                   |                   |                   |                   |
| Paid-up capital                               | 2,900,771        | 2,900,771        | 2,900,771        | 2,900,771        | 2,900,771        | 2,900,771         | 2,900,771         | 2,900,771         | 2,900,771         | 2,900,771         | 2,900,771         |
| Retained earnings                             |                  | (1,306,818)      | (797,389)        | 1,557,057        | 4,116,826        | 7,044,317         | 10,410,407        | 14,096,494        | 18,134,578        | 22,559,858        | 27,398,646        |
| <b>Total Equity</b>                           | <b>2,900,771</b> | <b>1,593,953</b> | <b>2,103,383</b> | <b>4,457,828</b> | <b>7,017,598</b> | <b>9,945,088</b>  | <b>13,311,179</b> | <b>16,997,266</b> | <b>21,035,349</b> | <b>25,460,629</b> | <b>30,299,418</b> |
| <b>TOTAL CAPITAL AND LIABILITIES</b>          | <b>5,801,543</b> | <b>5,323,041</b> | <b>4,952,794</b> | <b>6,932,078</b> | <b>8,829,563</b> | <b>10,982,275</b> | <b>14,348,366</b> | <b>18,034,453</b> | <b>22,072,536</b> | <b>26,497,816</b> | <b>31,336,605</b> |



## 12.3 Cash Flow Statement

| Calculations                                       |                |                    |               |                  |                  |                  |                  |                  |                  |                  | SMEDA            |
|--|----------------|--------------------|---------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Cash Flow Statement                                |                |                    |               |                  |                  |                  |                  |                  |                  |                  |                  |
|  | Year 0         | Year 1             | Year 2        | Year 3           | Year 4           | Year 5           | Year 6           | Year 7           | Year 8           | Year 9           | Year 10          |
| <i>Operating activities</i>                        |                |                    |               |                  |                  |                  |                  |                  |                  |                  |                  |
| Net profit   |                | (1,306,818)        | 509,430       | 2,354,446        | 2,559,769        | 2,927,490        | 3,366,091        | 3,686,087        | 4,038,084        | 4,425,280        | 4,838,789        |
| Add: depreciation expense                          |                | 340,124            | 340,124       | 340,124          | 340,124          | 340,124          | 340,124          | 340,124          | 340,124          | 340,124          | 340,124          |
| amortization of pre-operating costs                |                | 98,661             | 98,661        | 98,661           | 98,661           | 98,661           | -                | -                | -                | -                | -                |
| amortization of training costs                     |                | 104,700            | 104,700       | 104,700          | 104,700          | 104,700          | 104,700          | 104,700          | 104,700          | 104,700          | 104,700          |
| Accounts receivable                                |                | (546,983)          | (103,378)     | (224,749)        | (163,426)        | (96,084)         | (113,462)        | (124,808)        | (137,289)        | (151,018)        | (166,120)        |
| Pre-paid building rent                             | (180,000)      | (18,000)           | (19,800)      | (21,780)         | (23,958)         | (26,354)         | (28,989)         | (31,888)         | (35,077)         | (38,585)         | 424,431          |
| Cash provided by operations                        | (180,000)      | (1,328,317)        | 929,736       | 2,651,401        | 2,915,870        | 3,348,537        | 3,668,463        | 3,974,215        | 4,310,542        | 4,680,501        | 5,541,924        |
| <i>Financing activities</i>                        |                |                    |               |                  |                  |                  |                  |                  |                  |                  |                  |
| Project Loan - principal repayment                 |                | (365,175)          | (427,204)     | (499,768)        | (584,658)        | (683,967)        | -                | -                | -                | -                | -                |
| Working Capital Loan - principal repayment         |                | (48,485)           | (56,721)      | (66,355)         | (77,626)         | (90,812)         | -                | -                | -                | -                | -                |
| Short term debt principal repayment                |                | -                  | (609,477)     | -                | -                | -                | -                | -                | -                | -                | -                |
| Security Refundable                                |                | 632,500            | 213,725       | 190,962          | -                | -                | -                | -                | -                | -                | -                |
| Additions to Project Loan                          | 2,560,771      | -                  | -             | -                | -                | -                | -                | -                | -                | -                | -                |
| Additions to Working Capital Loan                  | 340,000        | -                  | -             | -                | -                | -                | -                | -                | -                | -                | -                |
| Issuance of shares                                 | 2,900,771      | -                  | -             | -                | -                | -                | -                | -                | -                | -                | -                |
| Cash provided by / (used for) financing activities | 5,801,543      | 218,839            | (879,677)     | (375,161)        | (662,284)        | (774,779)        | -                | -                | -                | -                | -                |
| <i>Investing activities</i>                        |                |                    |               |                  |                  |                  |                  |                  |                  |                  |                  |
| Capital expenditure                                | (5,121,543)    | -                  | -             | -                | -                | -                | -                | -                | -                | -                | -                |
| Cash (used for) / provided by investing activities | (5,121,543)    | -                  | -             | -                | -                | -                | -                | -                | -                | -                | -                |
| <b>NET CASH</b>                                    | <b>500,000</b> | <b>(1,109,477)</b> | <b>50,059</b> | <b>2,276,240</b> | <b>2,253,586</b> | <b>2,573,758</b> | <b>3,668,463</b> | <b>3,974,215</b> | <b>4,310,542</b> | <b>4,680,501</b> | <b>5,541,924</b> |
| Cash balance brought forward                       |                | 500,000            | -             | 50,059           | 2,326,299        | 4,579,885        | 7,153,643        | 10,822,106       | 14,796,321       | 19,106,862       | 23,787,363       |
| Cash available for appropriation                   | 500,000        | (609,477)          | 50,059        | 2,326,299        | 4,579,885        | 7,153,643        | 10,822,106       | 14,796,321       | 19,106,862       | 23,787,363       | 29,329,287       |
| Dividend   |                | -                  | -             | -                | -                | -                | -                | -                | -                | -                | -                |
| Cash balance                                       | 500,000        | (609,477)          | 50,059        | 2,326,299        | 4,579,885        | 7,153,643        | 10,822,106       | 14,796,321       | 19,106,862       | 23,787,363       | 29,329,287       |
| Cash carried forward                               | 500,000        | -                  | 50,059        | 2,326,299        | 4,579,885        | 7,153,643        | 10,822,106       | 14,796,321       | 19,106,862       | 23,787,363       | 29,329,287       |

## 13 KEY ASSUMPTIONS

### 13.1 Operating Cost Assumptions

| Description                                     | Details   |
|---|---|
| Administration Benefit Expenses                 | 3% of Administration Cost   |
| Office Expenses (Stationery, Entertainment etc) | 1% of Administration expenses   |
| Communication Expenses                          | 1% of Administration Cost   |
| Promotional Expenses                            | 3% of Revenue   |
| Professional Fee                                | 0.5% of Revenues  |
| Depreciation Method                             | Accelerated depreciation  |
| Depreciation Rate                               | 10% on Machinery<br>10% on Office Equipment<br>10% on Furniture & Fixture |
| Inflation Growth Rate                           | 10%   |
| Electricity Price Growth Rate                   | 10%   |
| Salaries Growth Rate                            | 10%   |

### 13.2 Revenue Assumptions

| Description   | Details      |
|---|--------------|
| Growth in Sales Price                                 | 10%          |
| Days Operational / Year                               | 330          |
| Maximum Operational Capacity                          | 480 Students |
| Production Capacity in First Year                     | 60%          |
| Percentage Increase in Production Capacity every Year | 15%          |
| Maximum Production Capacity                           | 90%          |
| Student Drop Out ratio                                | 05%          |

### 13.3 Financial Assumptions

| Description           | Details |
|-----------------------|---------|
| Debt                  | 50%     |
| Equity                | 50%     |
| Interest Rate on Debt | 16%     |
| Debt Tenure           | 5 Years |
| Debt Payment / Year   | 4       |