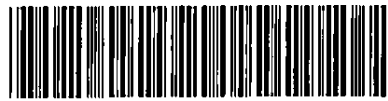


**CERTIFIED
TRUE COPY**

CHAN WAI KI
DIRECTOR OF
HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

**HARROW INTERNATIONAL SCHOOL
(HONG KONG) LIMITED**
Reports and Financial Statements
For the year ended 31 July 2017



**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

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HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements for the year ended 31 July 2017.

1. PRINCIPAL ACTIVITIES

The Foundation is a non-profit making organisation which is engaged in establishing and holding of an international boarding school in Hong Kong.

2. RESULTS AND APPROPRIATIONS

The results of the Foundation for the year ended 31 July 2017 are set out in the statement of income and expenditure on page 7.

3. FUNDS AND RESERVES

The movements in funds and reserves during the year ended 31 July 2017 are set out in the statement of changes in funds and reserves on page 9.

4. DONATIONS

Charitable and other donations made by the Foundation during the year amounted to HK\$7,665,000.

5. DIRECTORS

The directors of the Foundation during the year and up to the date of this report were:

CHAN Wai Ki
MA Chui Fong

All directors retire in accordance with Article 37 of the Foundation's Articles of Association but, being eligible, offer themselves for re-election.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
DIRECTORS' REPORT**

**6. DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS,
ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN
RELATION TO THE FOUNDATION'S BUSINESS**

No other transactions, arrangements and contracts of significance in relation to the Foundation's business to which the Foundation was a party and in which the directors of the Foundation had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**7. DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND
DEBENTURES OF THE FOUNDATION OR ANY SPECIFIED
UNDERTAKING OF THE FOUNDATION OR ANY OTHER ASSOCIATED
CORPORATION**

At no time during the year was the Foundation a party to any arrangement to enable the directors of the Foundation (including his spouse and children under 18 years of age) to hold any interests in the shares or underlying shares in, or debentures of, the Foundation or its specified undertakings or other associated corporation.


8. MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Foundation were entered into or existed during the year.

9. AUDITOR

The financial statements have been audited by RSM Hong Kong who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



MA Chui Fong

Hong Kong, 26 February 2018

RSM Hong Kong 中瑞岳華(香港)會計師事務所

29th Floor, Lee Garden Two, 28 Yun Ping Road,
Causeway Bay, Hong Kong

香港銅鑼灣恩平道二十八號
利園二期二十九字樓

T +852 2598 5123

電話 +852 2598 5123

F +852 2598 7230

傳真 +852 2598 7230

www.rsmhk.com

www.rsmhk.com

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF
HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
(Incorporated in Hong Kong as a company limited by guarantee)**

Opinion

We have audited the financial statements of Harrow International School (Hong Kong) Limited (the "Foundation") set out on pages 7 to 40, which comprise the statement of financial position as at 31 July 2017, and the statement of income and expenditure, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Foundation as at 31 July 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF
HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
(Incorporated in Hong Kong as a company limited by guarantee)**

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the IASB, HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Foundation or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF
HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
(Incorporated in Hong Kong as a company limited by guarantee)**

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF
HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
(Incorporated in Hong Kong as a company limited by guarantee)**

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

We communicate with the directors, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rsm Hong Kong
Certified Public Accountants
Hong Kong

26 February 2018

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 JULY 2017

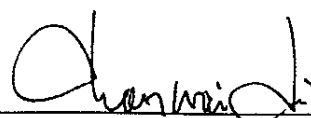
	Note	<u>2017</u> HK\$	<u>2016</u> HK\$
Income			
Capital levies		52,303,665	42,081,391
Bank interest income		766,996	450,009
Interest income from held-to-maturity investments		1,650,822	855,029
Dividend income from unlisted fund investments		1,412,010	1,269,700
Amortisation of deferred interest on government loan		1,104,366	1,104,366
Transfer fee income of capital certificates	8	5,665,000	2,900,000
Exchange gains		672,196	-
Sundry income		18,475	6,000
		<u>63,593,530</u>	<u>48,666,495</u>
Expenditure			
Depreciation		(21,593,438)	(27,066,489)
General and administrative expenses		(27,670,107)	(11,956,874)
Finance costs	9	<u>(5,697,063)</u>	<u>(6,336,360)</u>
		<u>(54,960,608)</u>	<u>(45,359,723)</u>
Surplus and total comprehensive surplus for the year	11	<u>8,632,922</u>	<u>3,306,772</u>

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 JULY 2017

	Note	<u>2017</u> HK\$	<u>2016</u> HK\$
Non-current assets			
Property, plant and equipment	13	880,090,999	740,512,856
Held-to-maturity investments	14	-	15,548,000
Prepayments, deposits and other receivables	17	2,889,163	448,000
		<u>882,980,162</u>	<u>756,508,856</u>
Current assets			
Prepayments, deposits and other receivables	17	2,114,262	2,426,445
Available-for-sale financial assets	15	23,337,000	31,100,000
Held-to-maturity investments	14	125,015,564	99,058,900
Due from a related company	23	7,055,048	23,329,364
Bank and cash balances	16	510,931,873	479,190,238
		<u>668,453,747</u>	<u>635,104,947</u>
Current liabilities			
Accruals and other payables	18	33,594,772	41,526,325
Capital certificates	19	319,000,000	312,000,000
Government loan	21	26,834,231	26,834,231
Deferred interest on government loan	22	1,104,366	1,104,366
Individual debentures	20	-	1,200,000
Due to founder member	23	23,916,949	23,916,949
		<u>404,450,318</u>	<u>406,581,871</u>
Net current assets		<u>264,003,429</u>	<u>228,523,076</u>
Total assets less current liabilities		<u>1,146,983,591</u>	<u>985,031,932</u>
Non-current liabilities			
Government loan	21	150,605,891	172,182,788
Deferred interest on government loan	22	39,259,542	40,363,908
Individual debentures	20	11,400,000	11,400,000
		<u>201,265,433</u>	<u>223,946,696</u>
NET ASSETS		<u>945,718,158</u>	<u>761,085,236</u>
Representing:			
Capital reserve	24	959,000,000	783,000,000
General fund	24	(13,281,842)	(21,914,764)
TOTAL FUNDS AND RESERVES		<u>945,718,158</u>	<u>761,085,236</u>

Approved by the Board of Directors on 26 February 2018 and are signed on its behalf by:


 MA Chui Fong


 CHAN Wai Ki

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
STATEMENT OF CHANGES IN FUNDS AND RESERVES
FOR THE YEAR ENDED 31 JULY 2017

	Capital reserve <u>HK\$</u>	General fund <u>HK\$</u>	Total <u>HK\$</u>
At 1 August 2015	669,000,000	(25,221,536)	643,778,464
Capital certificates transferred from current liabilities	114,000,000	-	114,000,000
Total comprehensive surplus for the year	-	3,306,772	3,306,772
Changes in funds and reserves for the year	<u>114,000,000</u>	<u>3,306,772</u>	<u>117,306,772</u>
At 31 July 2016 and 1 August 2016	783,000,000	(21,914,764)	761,085,236
Capital certificates transferred from current liabilities	176,000,000	-	176,000,000
Total comprehensive surplus for the year	-	8,632,922	8,632,922
Changes in funds and reserves for the year	<u>176,000,000</u>	<u>8,632,922</u>	<u>8,632,922</u>
At 31 July 2017	<u>959,000,000</u>	<u>(13,281,842)</u>	<u>945,718,158</u>

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2017

	<u>2017</u> HK\$	<u>2016</u> HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	8,632,922	3,306,772
Adjustments for:		
Finance costs	5,697,063	6,336,360
Depreciation	21,593,438	27,066,489
Amortisation of deferred interest on government loan	(1,104,366)	(1,104,366)
Dividend income from unlisted fund investments	(1,412,010)	(1,269,700)
Interest income from held-to-maturity investments	(1,650,822)	(855,029)
Interest income	(766,996)	(450,009)
Operating surplus before working capital changes	30,989,229	33,030,517
Decrease in prepayments, deposits and other receivables	312,183	2,317,317
Increase in accruals and other payables	4,068,447	23,189,620
Decrease in due from a related company	16,274,316	14,875,449
Net cash generated from operating activities	<u>51,644,175</u>	<u>73,412,903</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(161,171,581)	(41,524,767)
Deposits paid for acquisition of property, plant and equipment	(2,441,163)	-
Dividend income from unlisted fund investments	1,412,010	1,269,700
Interest income received from held-to-maturity investments	1,650,822	855,029
Additions of held-to-maturity investments	(189,804,054)	(75,831,900)
Proceeds from disposal/redemption of held-to-maturity investments	179,395,390	66,350,883
Proceeds from disposal of available-for-sale financial assets	7,763,000	3,102,000
Interest received	766,996	450,009
Net cash used in investing activities	<u>(162,428,580)</u>	<u>(45,329,046)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of capital certificates	191,000,000	279,000,000
Refunds of capital certificates	(20,000,000)	(6,000,000)
Refunds of individual debentures	(1,200,000)	-
Repayment of government loan	(27,273,960)	(27,273,960)
Net cash generated from financing activities	<u>142,526,040</u>	<u>245,726,040</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,741,635	273,809,897
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	479,190,238	205,380,341
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>510,931,873</u>	<u>479,190,238</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u>510,931,873</u>	<u>479,190,238</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

1. GENERAL INFORMATION

The Foundation was incorporated in Hong Kong as a company with limited liability by guarantee and not having share capital under the Hong Kong Companies Ordinance. The address of its registered office and its principal place of activities is 38 Tsing Ying Road, Tuen Mun, Hong Kong.

The Foundation was engaged in establishing and holding of an international boarding school in Hong Kong during the year.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These financial statements also comply with the requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Foundation. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Foundation for the current and prior accounting periods reflected in these financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL / HONG KONG FINANCIAL REPORTING STANDARDS

(a) Application of new and revised IFRSs/HKFRSs

The IASB/HKICPA has issued a number of new and revised IFRSs/HKFRSs that are first effective for annual periods beginning on or after 1 August 2017. None of these developments have had a material effect on how the Foundation’s results and financial position for the current or prior periods have been prepared or presented.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL / HONG KONG
FINANCIAL REPORTING STANDARDS (CONT'D)**

(a) Application of new and revised IFRSs/HKFRSs (cont'd)

**Amendments to IAS/HKAS 1 Presentation of Financial Statements:
Disclosure Initiative**

The amendments to IAS/HKAS 1 clarify, rather than significantly change, existing IAS/HKAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.

(b) New and revised IFRSs/HKFRSs in issue but not yet effective

The Foundation has not early applied new and revised IFRSs/HKFRSs that have been issued but are not yet effective for the financial year beginning 1 April 2016. These new and revised IFRSs/HKFRSs include following which may be relevant to the Foundation.

	Effective for accounting periods beginning on or after
Amendments to IAS/HKAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
IFRS/HKFRS 9 Financial Instruments	1 January 2018
IFRS/HKFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS/HKFRS 16 Lease	1 January 2019
Amendments to IFRSs/HKFRSs: Annual Improvement to IFRSs/HKFRSs 2014 - 2016 Cycle	1 January 2018

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL / HONG KONG
FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) New and revised IFRSs/HKFRSs in issue but not yet effective (cont'd)

The Foundation is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Foundation has identified some aspects of the new standards which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below. As the Foundation has not completed its assessment, further impacts may be identified in due course.

IFRS/HKFRS 9 Financial Instruments

The standard replaces IAS/HKAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS/HKAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL / HONG KONG
FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) New and revised IFRSs/HKFRSs in issue but not yet effective (cont'd)

IFRS/HKFRS 9 Financial Instruments (cont'd)

IFRS/HKFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in IAS/HKAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in IAS/HKAS 39 are carried forward largely unchanged.

IFRS/HKFRS 9 substantially overhauls the hedge accounting requirements in IAS/HKAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The Foundation's financial assets that are currently classified as held-to-maturity include certain debt investments. The Foundation has not yet completed its assessment of classification and measurement for these debt investments under IFRS/HKFRS 9 as the classification for debt instruments is determined based on the Foundation's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

3. ADOPTION OF NEW AND REVISED INTERNATIONAL / HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

(b) New and revised IFRSs/HKFRSs in issue but not yet effective (cont'd)

IFRS/HKFRS 9 Financial Instruments (cont'd)

With respect to the Foundation's financial assets currently classified as "available-for-sale" measured at fair value under HKAS 39, these are investments in the fund investments. The Foundation may classify as either fair value through profit or loss or irrevocably elect to designate as fair value through other comprehensive income (without recycling) on transition to HKFRS 9. The Foundation has not yet decided whether it will irrevocably designate these investments as fair value through other comprehensive income or classify them as fair value through profit or loss. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss. This change in policy will have no impact on the Foundation's net assets and total comprehensive income but will impact on reported performance amounts such as profit or loss for the year and earnings or loss per share.

The new expected credit loss impairment model in IFRS/HKFRS 9 may result in the earlier recognition of impairment losses on the Foundation's trade receivables and other financial assets. The Foundation is unable to quantify the impact until a more detailed assessment is completed.

IFRS/HKFRS 15 Revenue from Contracts with Customers

IFRS/HKFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL / HONG KONG
FINANCIAL REPORTING STANDARDS (CONT'D)**

(b) New and revised IFRSs/HKFRSs in issue but not yet effective (cont'd)

IFRS/HKFRS 15 Revenue from Contracts with Customers (cont'd)

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Foundation is currently assessing the impacts of adopting IFRS/HKFRS 15 on the financial statements. The Foundation is unable to estimate the impact of the new standard on the financial statements until a more detailed analysis is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of financial statements in conformity with IFRSs/HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgements in the process of applying the Foundation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Foundation operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Foundation's functional and presentation currency.

(ii) Transactions and balances in the financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rate prevailing on translation date. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of the reporting period. Gains and losses resulting from this translation policy are recognised in the statement of income and expenditure.

(b) Property, plant and equipment

Property, plant and equipment are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Foundation and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in the statement of income and expenditure during the period in which they are incurred.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Property, plant and equipment (cont'd)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	40 years
Leasehold improvements	3 years
Furniture, fixtures and equipment	2 - 3 years
Computer	3 years
Motor vehicles	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if necessary, at the end of each reporting period.

Construction in progress represents buildings under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the statement of income and expenditure.

(c) Operating leases

Leases that do not substantially transfer to the Foundation all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
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FOR THE YEAR ENDED 31 JULY 2017**

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Foundation becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Foundation transfers substantially all the risks and rewards of ownership of the assets; or the Foundation neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in the statement of income and expenditure.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the statement of income and expenditure.

(e) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

The Foundation classifies its financial assets in the following categories: loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial assets (cont'd)

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically other receivables, due from a related company and bank balances and cash are classified in this category.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Foundation has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of income and expenditure. Interest calculated using the effective interest method is recognised in the statement of income and expenditure.

(f) Receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

(h) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs/HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Foundation after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Foundation has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Payables

Payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iii) Equity instruments

Equity instruments issued by the Foundation are recorded at the proceeds received, net of direct issue costs.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Capital certificates

Individual capital certificates are initially recognised as current liabilities at their fair value and subsequently credited as capital reserve when the first child nominated by first individual capital certificate holder has commenced school at the international boarding school held by the Foundation.

Corporate capital certificates are credited as capital reserve.

Details of the capital certificates are set out in note 19 to the financial statements.

(j) Individual debentures

Individual debentures are initially recognised as current liabilities and are subsequently classified as non-current liabilities when the first child nominated by first individual debenture holder has commenced school at the international boarding school held by the Foundation.

Details of the individual debentures are set out in note 20 to the financial statements.

(k) Income recognition

Income is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Foundation and the amount of revenue can be measured reliably.

Capital levies income represents annual payment for all students without capital certificates or individual debentures and is recognised in the school year in which they are related.

Transfer fee income is recognised when the titles of the capital certificates are transferred.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Foundation contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Foundation and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the statement of income and expenditure represents contributions payable by the Foundation to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Foundation can no longer withdraw the offer of those benefits and when the Foundation recognises restructuring costs and involves the payment of termination benefits.

(m) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Borrowing costs (cont'd)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Foundation that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the statement of income and expenditure in the period in which they are incurred.

(n) Government loan

A government loan is recognised when there is reasonable assurance that the Foundation will comply with the conditions attaching to it and that the loan will be received.

Repayment of a loan related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in the statement of income and expenditure to date in the absence of the loan is recognised immediately in the statement of income and expenditure.

Where the Foundation receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the proceeds received and the initial carrying value of the loans, is treated as a deferred interest on government loan and released to the statement of income and expenditure over the expected useful life of the relevant asset by equal annual instalments.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of income and expenditure to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset / cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to income and expenditure to the extent that they reverse the impairment.

(p) Impairment of financial assets

At the end of each reporting period, the Foundation assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for other receivables that are assessed not to be impaired individually, the Foundation assesses them collectively for impairment, based on the Foundation's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Impairment of financial assets (cont'd)

Only for other receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in statement of income and expenditure.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

For available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss. In respect of available-for-sale equity securities, an increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in revaluation reserve; impairment losses are not reversed through profit or loss.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Foundation has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Provisions and contingent liabilities (cont'd)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(r) Events after the reporting period

Events after the reporting period that provide additional information about the Foundation's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements related to classifications of capital certificates and individual debentures that have the most significant effect on the amounts recognised in the financial statements. Capital certificates and individual debentures are classified as current or non-current liabilities or capital reserve in the financial statements. In making these classifications, the Foundation evaluates, among other factors, the terms and conditions of each capital certificate and individual debenture, any present obligations to the holders of such instruments and the Foundation's right and authority. Such classification requires significant judgement. The directors believe that the classification of capital certificates and individual debentures as set out in notes 19 and 20 to the financial statements is a fair presentation in accordance with the IFRSs/HKFRSs.

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6. FINANCIAL RISK MANAGEMENT

The Foundation's activities expose it to a variety of financial risks: foreign currency risk, credit risk, price risk, liquidity risk and interest rate risk. The Foundation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Foundation's financial performance.

(a) Foreign currency risk

The Foundation has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and United States dollars. The Foundation currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Foundation will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 July 2017, if United States dollar had strengthen/weakened 1 per cent against Hong Kong dollar with all other variable held constant, surplus for the year would have been HK\$1,636,917 higher/lower (2016: HK\$1,441,146 higher/lower), arising mainly as a result of the foreign exchange gains/losses on bank deposits and investments denominated in United States dollar.

(b) Credit risk

The Foundation's credit risk is primarily attributable to its bank and cash balances, other receivables, investments and due from related companies. In order to minimise credit risk, the directors of the Foundation review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors of the Foundation consider that the Foundation's credit risk is significantly reduced.

The Foundation has no significant concentrations of credit risk.

Amount due from a related company is closely monitored by the directors.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk (cont'd)

Investments are normally only in liquid debts investments and with counterparties that have a credit rating equal to or better than the Foundation. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

(c) Price risk

The Foundation's investments classified as available-for-sale financial assets is measured at fair value at the end of each reporting period. Therefore, the Foundation is exposed to debt investments price risk. The directors manage this exposure by maintaining a portfolio of investments with different risk profiles.

At 31 July 2017, if the prices of the fund investments increase/decrease by 5%, other comprehensive surplus for the year would have been HK\$ 1,166,850 higher/lower (2016: HK\$1,555,000 higher/lower), arising as a result of the fair value gain/loss of this investments.

(d) Liquidity risk

The Foundation's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Foundation's financial liabilities is as follows:

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	Over 5 years HK\$
At 31 July 2017				
Accruals and other payables	30,294,772	-	-	-
Capital certificates	319,000,000	-	-	-
Due to founder member	23,916,949	-	-	-
Individual debentures	-	2,400,000	9,000,000	-
Government loan	26,834,231	26,039,166	73,579,203	50,987,522
At 31 July 2016				
Accruals and other payables	40,056,325	-	-	-
Capital certificates	312,000,000	-	-	-
Due to founder member	23,916,949	-	-	-
Individual debentures	1,200,000	-	11,400,000	-
Government loan	26,834,231	26,039,166	73,579,203	72,564,419

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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6. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Interest rate risk

The Foundation's exposure to interest-rate risk primarily arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 July 2017, if interest rates at that date had been 10 basis points higher/lower with all other variables held constant, surplus for the year would have been HK\$489,688 higher/lower (2016: HK\$472,630 higher/lower), arising mainly as a result of higher/lower in the bank interest income and interest expenses on bank borrowing.

(f) Categories of financial instruments at 31 July

	<u>2017</u> HK\$	<u>2016</u> HK\$
Financial assets:		
Held-to-maturity investments	125,015,564	114,606,900
Available-for-sale financial assets	23,337,000	31,100,000
Loans and receivables (including cash and cash equivalents)	<u>519,723,621</u>	<u>505,394,046</u>
Financial liabilities:		
Financial liabilities at amortised cost	<u>562,051,843</u>	<u>587,590,293</u>

(g) Fair values

The carrying amount of the Foundation's financial assets and financial liabilities as reflected in the statement of financial position approximately their respective fair values.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Foundation's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 July 2017

The recurring fair value of the available-for-sale financial assets at 31 July 2017 are measured by using Level 2 of the fair value hierarchy.

(b) Disclosure of valuation process used by the Foundation and valuation techniques and inputs used in fair value measurements at 31 July 2017:

Discussions of valuation processes and results and review of the fair value measurement of assets and liabilities required for financial reporting purposes are held by Foundation's designated investment team periodically throughout the year.

The valuation techniques used and the key inputs to the level 2 fair value measurements is set out below:

Description	Valuation technique and key inputs
Unlisted fund investments	Quoted price provided by counterparty financial institutions

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8. TRANSFER FEE INCOME OF CAPITAL CERTIFICATES

The amount represents transfer fee income of capital certificates received by the Foundation. During the year, the Foundation donates the transfer fee income received to a related company, Harrow International School Foundation Limited, for scholarship for students of the international school.

9. FINANCE COSTS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Imputed interest on government loan (note 21)	<u>5,697,063</u>	<u>6,336,360</u>

10. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since the Foundation, being a charitable organisation, is exempt from tax under Section 88 of the Inland Revenue Ordinance (Cap.112).

11. SURPLUS FOR THE YEAR

The Foundation's surplus for the year is stated after charging the following:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Auditor's remuneration	62,710	47,335
Depreciation	21,593,438	27,066,489
Government rent and rates	4,356,000	4,219,863
Loss on disposal of available-for-sale financial assets	<u>770,483</u>	<u>-</u>

12. BENEFITS AND INTERESTS OF DIRECTORS

(a) Director's emoluments

No director of the Foundation received any fees or emoluments in respect of his services rendered to the Foundation during the year (2016: Nil).

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

12. BENEFITS AND INTERESTS OF DIRECTORS (CONT'D)

(b) Director's material interests in transactions, arrangements or contracts

No significance transactions, arrangements and contracts in relation to the Foundation's business to which the Foundation was a party and in which the director of the Foundation and the director's connected party had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Computer HK\$	Construction in progress HK\$	Total HK\$
Cost						
At 1 August 2015	762,142,049	3,986,010	39,165,780	10,124,790	6,597,905	822,016,534
Additions	-	61,640	-	2,807,546	38,655,581	41,524,767
Disposal	-	-	(9,690)	-	-	(9,690)
Transfer	3,806,379	-	-	-	(3,806,379)	-
At 31 July 2016 and 1 August 2016	765,948,428	4,047,650	39,156,090	12,932,336	41,447,107	863,531,611
Additions	-	-	26,500	20,202	161,124,879	161,171,581
Disposal	-	-	(1,159,546)	-	-	(1,159,546)
Transfer	10,016,103	-	-	-	(10,016,103)	-
At 31 July 2017	775,964,531	4,047,650	38,023,044	12,952,538	192,555,883	1,023,543,646
Accumulated depreciation						
At 1 August 2015	50,916,669	2,882,399	33,262,852	8,900,036	-	95,961,956
Charge for the year	19,288,627	693,849	5,084,187	1,999,826	-	27,066,489
Disposal	-	-	(9,690)	-	-	(9,690)
At 31 July 2016 and 1 August 2016	70,205,296	3,576,248	38,337,349	10,899,862	-	123,018,755
Charge for the year	19,509,062	258,017	736,557	1,089,802	-	21,593,438
Disposal	-	-	(1,159,546)	-	-	(1,159,546)
At 31 July 2017	89,714,358	3,834,265	37,914,360	11,989,664	-	143,452,647
Carrying amount						
At 31 July 2017	686,250,173	213,385	108,684	962,874	192,555,883	880,090,999
At 31 July 2016	695,743,132	471,402	818,741	2,032,474	41,447,107	740,512,856

At 31 July 2017, construction in progress represented the international boarding school situated in Tuen Mun, Hong Kong which is under development.

At 31 July 2017, the Foundation's buildings and construction in progress are pledged as a security by way of first legal charge in respect of the government loan as set out in note 21 to the financial statements.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

14. HELD-TO-MATURITY INVESTMENTS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Debt investments		
Current assets	125,015,564	99,058,900
Non-current assets	-	15,548,000
	<u>125,015,564</u>	<u>114,606,900</u>

Held-to-maturity investments respect debt investments that are either issued by financial institutions or companies which shares are listed on The Stock Exchange of Hong Kong Limited, carrying fixed interest rates at 1.1% to 4.75% (2016: 1.0% to 4.8%) per annum, and will mature from 11 August 2017 to 23 July 2018 (2016: 3 August 2016 to 12 October 2016). None of these assets has been past due or impaired at the end of the reporting period.

As at 31 July 2017, the carrying amount of the Foundation's held-to-maturity investments are denominated in the following currencies:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Hong Kong dollars	5,996,700	12,005,160
United States dollars	119,018,864	102,601,740
	<u>125,015,564</u>	<u>114,606,900</u>

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Fund investments, at fair value		
Unlisted outside Hong Kong	23,337,000	31,100,000
Market value of unlisted fund investments	<u>23,337,000</u>	<u>31,100,000</u>

The fair values of unlisted fund investments are based on price quoted by the financial institutions. The directors believe that the estimated fair value quoted by the financial institutions is reasonable and that is the most appropriate value at the end of the reporting period. The available-for-sale financial assets are denominated in United States dollars.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
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16. BANK AND CASH BALANCES

As at 31 July 2017, the carrying amount of the Foundation's bank and cash balances are denominated in the following currencies:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Hong Kong dollars	470,230,303	463,957,718
United States dollars	39,701,988	14,235,424
Canadian dollars	9,349	8,797
British pounds	959,992	959,909
Euro dollars	30,241	28,390
	<u>510,931,873</u>	<u>479,190,238</u>

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<u>2017</u> HK\$	<u>2016</u> HK\$
Non-current assets		
Deposits paid for acquisition of property, plant and equipment	2,441,163	-
Prepayments, deposits and other receivables	448,000	448,000
	<u>2,889,163</u>	<u>448,000</u>
Current assets		
Prepayments, deposits and other receivables	2,114,262	2,426,445
	<u>5,003,425</u>	<u>2,874,445</u>

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

18. ACCRUALS AND OTHER PAYABLES

	<u>2017</u> HK\$	<u>2016</u> HK\$
Accruals	3,559,311	2,481,666
Retention payables	27,924,500	23,713,700
Other payables	<u>2,110,961</u>	<u>15,330,959</u>
	<u>33,594,772</u>	<u>41,526,325</u>

19. CAPITAL CERTIFICATES

Capital certificate entitles each individual holder or an employee of each corporate holder to nominate a child to attend the international boarding school held by the Foundation and confers priority on the nominated child in the admission process. The capital certificates are unsecured and non-interest-bearing. The movement in the capital certificates is as follows:

	<u>Individual capital certificates</u> HK\$	<u>Corporate capital certificates</u> HK\$	<u>Total</u> HK\$
At 1 August 2016	990,000,000	105,000,000	1,095,000,000
Issued during the year	203,000,000	-	203,000,000
Refunded during the year	(20,000,000)	-	(20,000,000)
Transferred during the year	<u>12,000,000</u>	<u>(12,000,000)</u>	<u>-</u>
At 31 July 2017	<u>1,185,000,000</u>	<u>93,000,000</u>	<u>1,278,000,000</u>
		<u>2017</u> HK\$	<u>2016</u> HK\$
Analysed as:			
Current liabilities		319,000,000	312,000,000
Capital reserve		<u>959,000,000</u>	<u>783,000,000</u>
		<u>1,278,000,000</u>	<u>1,095,000,000</u>

Pursuant to the written resolution by the Directors on 31 July 2017, the Foundation suspended issuing capital certificates until further notice.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

19. CAPITAL CERTIFICATES (CONT'D)

(a) Individual capital certificates

Individual capital certificate is refundable at its face value in the following events:

- The first nominated child by the first individual capital certificate holder has never been offered a place to attend the international boarding school held by the Foundation or does not propose to commence school; or
- Upon the winding up, liquidation or dissolution of the Foundation.

The individual capital certificate is transferrable, subject to the approval of the Foundation.

Individual capital certificate is initially recognised as current liabilities and is subsequently credited to the capital reserve when the first nominated child by the first individual capital certificate holder has commenced school.

(b) Corporate capital certificates

Corporate capital certificate is transferrable, subject to the approval of the Foundation.

Corporate capital certificate is refundable only upon the winding up, liquidation or dissolution of the Foundation. Corporate capital certificate is credited directly to capital reserve.

20. INDIVIDUAL DEBENTURES

	<u>2017</u> HK\$	<u>2016</u> HK\$
Individual debentures		
Current liabilities	-	1,200,000
Non-current liabilities	<u>11,400,000</u>	<u>11,400,000</u>
	<u>11,400,000</u>	<u>12,600,000</u>

Individual debenture entitles the holder to nominate a child to attend the international boarding school held by the Foundation and confers priority on the nominated child in the admission process. The individual debenture is unsecured, non-depreciable and non-interest-bearing.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017

20. INDIVIDUAL DEBENTURES (CONT'D)

Individual debenture is not transferrable but refundable at face value in the following events:

- (a) the nominated child has never been offered a place to attend the international boarding school held by the Foundation or commenced school;
- (b) for students entering the international boarding school held by the Foundation before Year 9, six years after the commencement date of the academic year during which the nominated child first became a student of the international boarding school held by the Foundation or three months after the date the student ceases to be a student of the school, whichever is later; or
- (c) for students entering the international boarding school held by the Foundation in Year 9 or above, three months after the date the student actually completes Year 13 at the international boarding school held by the Foundation.

21. GOVERNMENT LOAN

On 20 December 2014, the Foundation received an interest-free government loan of HK\$272,740,000 for the construction of international boarding school, the initial carrying amount of the government loan is determined using the effective interest rate method. The benefit of the interest-free government loan, which is calculated as the difference between the proceeds received and the initial carrying value of the loan, is amounted to HK\$43,543,543 and treated as deferred interest on government loan as set out in note 22 to the financial statements.

The movement of the government loan is as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
At beginning of the year	199,017,019	219,954,619
Imputed interest charge for the year (note 9)	5,697,063	6,336,360
Repayment	<u>(27,273,960)</u>	<u>(27,273,960)</u>
At end of year	<u>177,440,122</u>	<u>199,017,019</u>

The imputed interest charge for the year is calculated by applying an effective interest rate of 3.01% per annum to the loan.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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21. GOVERNMENT LOAN (CONT'D)

The government loan, based on the scheduled repayment dates, is repayable as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Within one year	<u>26,834,231</u>	<u>26,834,231</u>
In the second year	26,039,166	26,039,166
In the third to fifth years	73,579,203	73,579,203
After five years	<u>50,987,522</u>	<u>72,564,419</u>
	<u>150,605,891</u>	<u>172,182,788</u>
	<u>177,440,122</u>	<u>199,017,019</u>

The government loan is denominated in Hong Kong dollars and secured by way of the first legal charge over the Foundation's building and construction in progress as set out in note 13 to the financial statements.

In the opinion of the directors, the Foundation has complied with the terms and conditions set out in the Loan Deed signed between the Foundation and Government except for the obligation to provide the audited financial statements of the Foundation to the Government within 90 days after the end of the financial year 31 July 2017.

22. DEFERRED INTEREST ON GOVERNMENT LOAN

Deferred interest on government loan represents the difference between the proceeds received and the initial carrying value of the government loan as set out in note 21 to the financial statements.

The movement of the deferred interest on government loan is as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
At beginning of year	41,468,274	42,572,640
Amortisation of deferred interest on government loan	<u>(1,104,366)</u>	<u>(1,104,366)</u>
At end of year	<u>40,363,908</u>	<u>41,468,274</u>
	<u>2017</u> HK\$	<u>2016</u> HK\$
Analysed as:		
Current liabilities	1,104,366	1,104,366
Non-current liabilities	<u>39,259,542</u>	<u>40,363,908</u>
	<u>40,363,908</u>	<u>41,468,274</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2017**

23. DUE FROM/(TO) A RELATED COMPANY / FOUNDER MEMBER

The amounts due are unsecured, interest free and have no fixed repayment terms.

24. FUNDS AND RESERVES

(a) The amounts of the Foundation's funds and reserves and movements therein are presented in the statement of income and expenditure and statement of changes in funds and reserves.

(b) Nature and purpose of reserves

Capital reserve comprises contribution from the holders of capital certificates for the construction of the Foundation's international boarding school and the additions, enhancement and replacements of the school facilities.

No distributions of funds and reserves shall be made by way of dividends to the member of the Foundation. Upon winding up or dissolution of the Foundation, any remains after the satisfaction of its debts and liabilities and payment of capital certificates shall be given to other institutions having objects similar to those of the Foundation.

25. CAPITAL COMMITMENTS

The Foundation's capital commitments at the end of the reporting period are as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Property, plant and equipment		
Contracted but not provided for	<u>336,019,791</u>	<u>486,766,041</u>

26. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Foundation had the following transactions with its related parties during the year.

	<u>2017</u> HK\$	<u>2016</u> HK\$
Donations paid to a related company	<u>7,665,000</u>	<u>6,000,000</u>

Donations was paid to Harrow International School Foundation Limited.

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