



Hong Kong International School
Association Limited

Report of the Committee of Managers and
Financial Statements
for the year ended 31 July 2017



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Report of the Committee of Managers

The Committee of Managers (“the Committee”) have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 July 2017.

Principal place of business

Hong Kong International School Association Limited (“the Association”) is a company incorporated and domiciled in Hong Kong and has its registered office at 6 South Bay Close, Repulse Bay, Hong Kong, and principal place of business at 700 Tai Tam Reservoir Road, Tai Tam, Hong Kong.

Business Review

Nature of Business

The Association maintains and operates Hong Kong International School (“HKIS”), a co-educational private day school. HKIS is registered (Registration Number 21377) under the Hong Kong Education Ordinance (Chapter 279 of the Laws of Hong Kong), and is a registered charitable institution, with tax-exemption status under Section 88 of the Inland Revenue Ordinance. HKIS is accredited by the Western Association of Schools and Colleges (“WASC”), one of the regional accreditation agencies of the United States, and is a member of the East Asia Regional Conference of Overseas Schools (“EARCOS”).

HKIS serves students from Reception 1 through Grade 12 in the international community who seek an American-style college preparatory education in a Christian setting. HKIS strives to develop creative, collaborative, resilient, and caring people who are passionate about meeting the needs of the larger global community.

HKIS provides educational excellence with a difference. The school focuses on developing the whole child and is committed to nurturing each and every child to achieve his or her full potential. HKIS is dedicated to offering the best in academic excellence to ensure a solid foundation for a university education and a well-rounded life. The curriculum at HKIS is challenging and invigorating with both international and multicultural elements including a focus on Chinese language and culture. Students engage the world through integrated service learning and required service program from grades 1 through 12, volunteering over 5,000 hours of service each year. Opportunities abound to extend learning outside of the classroom through student involvement in clubs, athletics, and other after school activities. HKIS graduates can be found at many of the world’s finest universities, although over 80% choose to attend a US institute of higher education. The class of 2017 college matriculation list can be found on our website (www.hkis.edu.hk).

Report of the Committee of Managers (continued)

Business Review (continued)

Nature of Business (continued)

Serving over 2,600 students, HKIS has four school divisions on two campuses on the south-side of Hong Kong Island. For school year 2016-17 the Upper Primary School had been located in Repulse Bay while the Lower Primary, Middle and High Schools had been located in Tai Tam.

In August 2017, HKIS completed the construction of the new Lower Primary School building, and the Lower Primary School relocated back to Repulse Bay. Additionally, HKIS began redevelopment of the Upper Primary School building. For the school year 2017-18, the Upper Primary will be temporarily relocated to the Tai Tam campus.

Driven by its Mission, Vision and Student Learning Results, HKIS is an embracing place. The school is blessed with dedicated and caring international educators, outstanding facilities and resources, and tremendous parent and community support.

MISSION

Dedicating our minds to inquiry, our hearts to compassion, and our lives to service and global understanding

An American-style education grounded in the Christian faith and respecting the spiritual lives of all

VISION

HKIS will be a leading place of learning that inspires a socially engaged community of collaborative, creative, and resilient learners dedicated to realizing their full potential.

STUDENT LEARNING RESULTS



Academic Excellence

Students will achieve their highest intellectual potential by striving for and attaining the highest standards of academic excellence.



Spirituality

Students will understand and respect Christianity and other religions and will identify and develop their own spiritual identity.



Character Development

Students will demonstrate respectful and caring attitudes at school and in the community, as well as the courage to stand up for what is right.



Self-Motivated Learning

Students willingly apply a variety of learning and motivation strategies throughout their learning process.



Contributing to Society

Students will develop the skills they need to form genuine relationships in our diverse society and to make contributions to our community.



Chinese Culture

Students will gain an understanding of China and an appreciation of the Chinese culture.

Report of the Committee of Managers (continued)

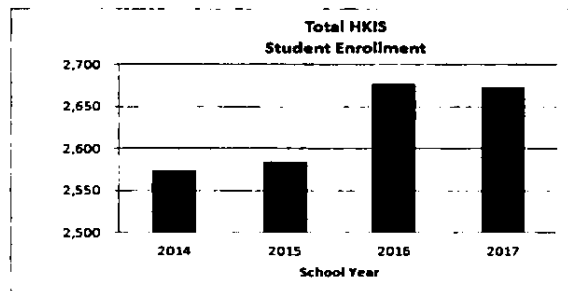
Business Review (continued)

Operating and Financial Performance

The Association is a non-profit organization with a strong commitment to long-term financial sustainability. The Association's operating and financial key performance indicators during the year include Student Enrollment, Tuition and Fees, Personnel Costs, Charitable Gifts Received, and Cash Reserves and Investments.

Student Enrollment

HKIS's income is largely dependent on student enrollments. Management is committed to ensuring that the school operates at or near capacity. HKIS consistently receives a healthy level of applicants and waiting lists are normally observed in the Primary School grade levels. Applicants are subject to entry evaluations to help ensure that the



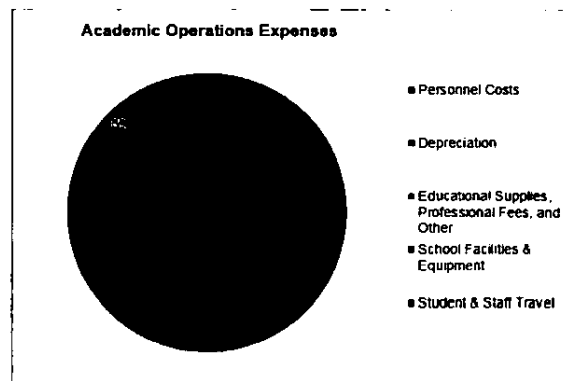
student will be able to thrive in the HKIS educational environment. As a large portion of the HKIS student base, over 90%, is from expatriate families, enrollment can be impacted from expatriate shifts to/from home countries. In fiscal years 2014 and 2015, enrollment was slightly less than in previous years primarily due to late summer withdrawals, which could not be easily replaced with new applicants in the fall. In fiscal year 2016 and 2017, enrollments were at around 2,670 students.

Tuition and Fees

HKIS sets tuition fees as necessary to cover the actual costs of providing educational services to its students. Fees have increased as necessary to reflect cost increases, primarily in the areas of personnel compensation and benefits.

Personnel Costs

The largest cost category for HKIS is personnel costs. Management is committed to being financially responsible whilst also ensuring HKIS provides competitive remuneration packages to recruit and retain quality teaching professionals. HKIS maintains targeted salaries and benefits expenses to be approximately 76% of total expenses.



Report of the Committee of Managers (continued)

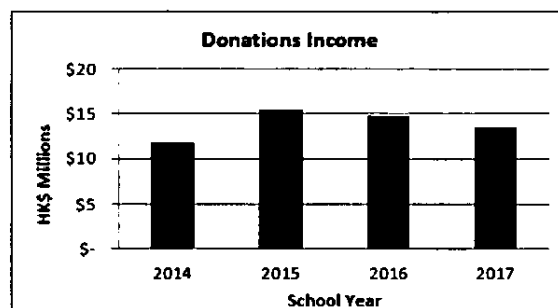
Business Review (continued)

Operating and Financial Performance (continued)

Charitable Gifts Received

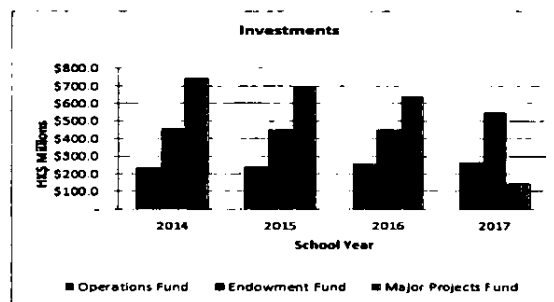
HKIS also receives generous philanthropic financial support from individuals and corporations. These funds provide additional resources to make HKIS a truly unique place. Gifts to the HKIS Annual Fund support additional programming, such as bringing in famous authors and speakers, additional support for specialty design labs or additional clubs and activities that lift the HKIS students'

educational experience. In fiscal year 2017 total gifts received grossed HK\$13.5 million. The school expects this strong level of community participation to continue.



Cash Reserves and Investments

The school's policy helps ensure sufficient financial resources for its current operations as well as preserving the purchasing power of assets for the use of future generations of HKIS students. Three investment funds have been set up for this purpose:



- The Operating Reserve Fund has been established in the Academic Operations Fund to help support the School's financial requirements in times of temporary economic distress. The Fund is managed such that the market value normally approximates six months of student fee income (HK\$266 million).
- The Endowment Fund has been established to benefit all generations of endowment beneficiaries by supporting current operations and maintaining the purchasing power of endowment capital over time (HK\$550 million).
- The Major Projects Fund has been established to support specific financing needs related to specified major capital projects (HK\$150 million) that support HKIS's ongoing operations and/or provide additional learning space for new student programs. A capital levy fee, assessed on each student annually, helps build the Major Projects Fund reserves.

Report of the Committee of Managers (continued)

Business Review (continued)

Environmental Performance

The Association is committed to environmental responsibility, and is not aware of any non-compliance with relevant Hong Kong ordinances appropriate to the scope of its operation, that would have a material impact on its operations or financial results.

HKIS has received ISO140001 environment management certification of its buildings and facility operations. Additionally, environmental responsibility as a theme is fully integrated in the classroom and community through efforts like maintaining an organic herb garden on campus, collection of wind energy, reducing HKIS's overall energy requirements, reducing paper and print usage, and a series of recycling programs and other environmental sustainability programs.

Risks and Uncertainties

The principal risks and uncertainties facing the Association are broadly grouped as:

- The financial performance of HKIS largely depends on the student enrollment. The school may face unforeseen risks and uncertainties that could affect the number of students and the related tuition fee income.
- The school relies on the recruitment and retention of qualified teaching professionals. Failure to hire and retain such professionals could impact the quality of the school's educational services.

Report of the Committee of Managers (continued)

Business Review (continued)

Risks and Uncertainties (continued)

External factors that may impact the Association include the following:

- Corporate reputation
- Operational cost variances
- Hong Kong expatriates trends
 - The economic climate may potentially impact the number of expatriate parents in Hong Kong from which the student pool is largely drawn
 - The risk of environmental and political uncertainty may impact the attractiveness of South-East Asia and Hong Kong as an expatriate destination
- Competition from other International Schools in Hong Kong and Independent Schools in the United States
- Developments within the standard American education curriculum

The Association's management and governance structure enables these key risks to be monitored and managed appropriately.

Key Relationships

Students

HKIS students come from over 40 nations. HKIS strives to develop creative, collaborative, resilient, and caring people who are passionate about meeting the needs of the larger global community.

HKIS uses a comprehensive standards-based curriculum. Standards are adopted based on common practice in the United States, including the Common Core, Next Generation Science and C3 standard. The Understanding by Design (UbD) model, which seeks to structure teaching for understanding, guides in the formulation of HKIS's written curriculum. Students understand when they acquire important new knowledge and skills, make meaning of big ideas related to the knowledge and skills, and transfer this learning to new and authentic situations. HKIS aligns curriculum, instruction and assessment to allow students to demonstrate understanding by developing enduring understandings and building on previous learning experiences and previously learned knowledge and skills. HKIS teachers regularly update and revise curricula to reflect current best practices and research.

Report of the Committee of Managers (continued)

Business Review (continued)

Key Relationships (continued)

Faculty

HKIS's faculty members are the key resource to achieve the objectives of the Association, organizing and providing high quality programs and training opportunities to the community. HKIS has a recruitment process to identify suitable candidates and compares annual benchmarks of compensation and professional development data against peer schools in Hong Kong and the region, ensuring that competitiveness is maintained. HKIS attracts and retains an outstanding faculty, over 70% of whom hold advanced degrees, by providing a vibrant work environment and investing in exceptional professional development opportunities. The average tenure is approximately 7 years, with over 60 faculty members having been at HKIS for 11 or more years. The average faculty-student ratio is 1:10.

HKIS Community

HKIS receives tremendous active parent community support through the Parent Faculty Organization (PFO) and the HKIS Booster Club, whose volunteer services are very much appreciated.

The PFO supports the school, fosters partnership between school and home, builds a sense of community, and raises funds for school-related purposes. The PFO is composed of parents, staff and faculty volunteers. In addition to providing 1-1 mentoring for new families, it sponsors major community building and fundraising events including the Pumpkin Festival, Chinese New Year festivities and the World's Fair. The PFO also organizes book fairs, programs for new parents, Back to School Nights and grade level coffee/meetings. The funds raised by the PFO help support many activities including the purchasing of resources for the school specifically requested by faculty, parents and students.

The HKIS Booster Club provides funding and volunteer support to promote school spirit and to strengthen the Secondary School extracurricular programs, including the clubs, service organizations, and athletic teams. With the help of many parent volunteers, the Booster Club operates the Dragon Shop, an on-campus store that offers school uniforms, stationery items, giftware and school spirit items. Income earned through Dragon Shop sales is given back to the school through donations and grants, primarily to the HKIS athletic and extra-curricular programs.

Report of the Committee of Managers (continued)

Business Review (continued)

Future Developments

In August 2017, HKIS completed the construction of the new Lower Primary School building, and the Lower Primary School relocated back from the Tai Tam campus to the Repulse Bay campus.

HKIS's next stage of facilities development is to our oldest school building, the Upper Primary School building. The facility will be upgraded to bring it up to our current standards for classroom size and design, and expand program support. To minimize the impact on our learners, we have temporarily relocated the Upper Primary School to the Tai Tam campus for a full year (August 2017 to August 2018)

The Board has approved the redevelopment of the Upper Primary School with a budget of approximately HK\$300 million. Segments of these projects have already been awarded through the tendering process. The Association closely monitors cash and cash equivalents to ensure it will continue to meet the Upper Primary School redevelopment related liabilities and commitments.

Subsequent events

The Association is not aware of any events subsequent to the financial year end, and up to the date of this report, that would have a material impact on its operations or financial results.

Report of the Committee of Managers (continued)

Members of the Committee of Managers

The members of the Committee of Managers during the financial year and up to the date of this report were:

Ho Young Kim	(Chairman)
David Kam Fai Kan	
Deborah Ann Kan	
Eunei Lee	
Jennifer Marie McMahon	
Ji-Il Kwon	
Joel Matthew Scheiwe	
Kosmas Kalliarekos	
Mark Stephen Wallis	
Mary Virginia Lamb	
Vincent Paul Li	
Timothy William Blakely	(appointed on 24 September 2016)
Abigail A Adams DeLessio	(resigned on 23 January 2017)
Alan Paul Runge	(resigned on 1 August 2017)

In accordance with Article 26 of the Articles of Association, Deborah Ann Kan, Ji-Il Kwon and Jennifer Marie McMahon retire by rotation and, being eligible, offer themselves for re-election.

At no time during the year was the Association a party to any arrangement to enable the members of the Committee of Managers of the Association to acquire benefits by means of the acquisition of shares in or debentures of any body corporate.

No transaction, arrangement or contract of significance to which the Association was a party and in which members of the Committee of Managers of the Association had a material interest, subsisted at the end of the year or at any time during the year.

Report of the Committee of Managers (continued)

Auditor

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Association is to be proposed at the forthcoming Annual General Meeting.

By order of the Committee of Managers



Ho Young Kim

Chairman

Hong Kong, 29 January 2018



Independent auditor's report to the members of Hong Kong International School Association Limited

(Incorporated in Hong Kong and limited by guarantee)

Opinion

We have audited the financial statements of Hong Kong International School Association Limited ("the Association") set out on pages 14 to 38, which comprise the statement of financial position as at 31 July 2017, the statement of income and expenditure and other comprehensive income, the statement of changes in reserves and cash flow statement 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 Association as at 31 July 2017 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 ("HKSA") 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 Association 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.

Information other than the financial statements and auditor's report thereon

The members of the Committee of Managers of the Association are responsible for the other information. The other information comprises all 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.

Independent auditor's report to the members of Hong Kong International School Association Limited (continued)

(Incorporated in Hong Kong and limited by guarantee)

Responsibilities of the members of the Committee of Managers for the financial statements

The members of the Committee of Managers are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the members of the Committee of Managers 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 members of the Committee of Managers are responsible for assessing the Association'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 members of the Committee of Managers either intend to liquidate the Association 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. This report is made 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, 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.



Independent auditor's report to the members of Hong Kong International School Association Limited (continued)

(Incorporated in Hong Kong and limited by guarantee)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members of the Committee of Managers.
- Conclude on the appropriateness of the members of the Committee of Managers' 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 Association'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 Association 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.

We communicate with the members of the Committee of Managers regarding, 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.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 January 2018

Statement of income and expenditure and other comprehensive income
for the year ended 31 July 2017
(Expressed in Hong Kong dollars)

	Note	2017					2016				
		Academic Operations Fund	Endowment Fund	Major Projects Fund	Elimination	Total	Academic Operations Fund	Endowment Fund	Major Projects Fund	Elimination	Total
Income											
Student fees	3(a)	\$ 502,140,803	\$ -	\$ -	\$ -	\$ 502,140,803	\$ 485,710,705	\$ -	\$ -	\$ -	\$ 485,710,705
Capital levy		1,966,500	-	37,922,250	-	39,888,750	1,789,500	-	38,198,625	-	39,988,125
Extracurricular activities income	3(c)	36,430,719	-	-	-	36,430,719	35,964,465	-	-	-	35,964,465
Rental income		-	5,866,661	-	-	5,866,661	-	6,569,000	-	-	6,569,000
Notional rental		18,518,400	5,325,000	-	(23,843,400)	-	18,258,800	5,280,000	-	(23,536,800)	-
Donations		12,588,055	169,720	747,776	-	13,505,551	14,828,755	81,699	-	-	14,910,454
Net investment gain	3(b)	10,036,584	88,596,505	666,308	-	99,299,377	8,882,261	-	5,063,964	-	13,946,225
Other school income		3,299,376	-	-	-	3,299,376	3,058,283	-	-	-	3,058,283
		<u>\$ 584,980,217</u>	<u>\$ 99,957,886</u>	<u>\$ 39,336,334</u>	<u>\$ (23,843,400)</u>	<u>\$ 700,431,037</u>	<u>\$ 568,488,769</u>	<u>\$ 11,930,699</u>	<u>\$ 43,262,569</u>	<u>\$ (23,536,800)</u>	<u>\$ 600,145,257</u>
Less: Expenses											
Personnel costs	4(a)	\$ 443,869,070	\$ -	\$ -	\$ (23,843,400)	\$ 420,025,670	\$ 422,741,565	\$ -	\$ -	\$ (23,536,800)	\$ 399,204,765
Student travel		19,578,264	-	-	-	19,578,264	19,243,938	-	-	-	19,243,938
Travel/representation		8,122,790	-	-	-	8,122,790	6,494,929	-	-	-	6,494,929
Professional fees/recruitment	4(b)	9,007,970	-	-	-	9,007,970	7,564,943	-	418,807	-	7,983,750
Educational/library materials		10,722,644	-	-	-	10,722,644	10,773,576	-	-	-	10,773,576
Financial aid/scholarships		841,330	522,480	-	-	1,363,790	894,925	1,034,266	-	-	1,929,191
Utilities/school facilities/rates		12,019,848	1,426,590	-	-	13,446,438	13,435,717	1,302,348	49,000	-	14,787,065
Office supplies and maintenance		20,071,063	188,226	20,866	-	20,280,175	18,586,066	92,525	312,026	-	18,990,617
Depreciation		56,673,798	914,091	-	-	57,587,889	52,515,199	1,233,834	-	-	53,749,033
Other expenses		6,085,660	-	-	-	6,085,660	4,909,991	-	-	-	4,909,991
		<u>\$ 586,990,637</u>	<u>\$ 3,053,367</u>	<u>\$ 20,886</u>	<u>\$ (23,843,400)</u>	<u>\$ 566,221,490</u>	<u>\$ 557,160,847</u>	<u>\$ 3,662,973</u>	<u>\$ 779,833</u>	<u>\$ (23,536,800)</u>	<u>\$ 536,066,853</u>
Net operating (deficit)/surplus and total comprehensive income for the year (before internal transfers)	4	\$ (2,010,420)	\$ 96,904,519	\$ 39,315,448	\$ -	\$ 134,209,547	\$ 11,327,922	\$ 8,267,726	\$ 42,482,756	\$ -	\$ 62,078,404
Internal transfer (Note (a))		2,010,420	(2,010,420)	-	-	-	-	-	-	-	-
Net operating (deficit)/surplus and total comprehensive income for the year (after internal transfers)		\$ -	\$ 94,894,099	\$ 39,315,448	\$ -	\$ 134,209,547	\$ 11,327,922	\$ 8,267,726	\$ 42,482,756	\$ -	\$ 62,078,404

Note (a): Internal transfer

A portion of the surplus of the Endowment Fund at the end of the financial year is transferred to the Academic Operation Fund to support its operation.

The notes on pages 19 to 38 form part of these financial statements.

Statement of financial position at 31 July 2017
(Expressed in Hong Kong dollars)

	Note	2017				2016			
		Academic Operations Fund	Endowment Fund	Major Projects Fund	Total	Academic Operations Fund	Endowment Fund	Major Projects Fund	Total
Non-current assets									
Property, plant and equipment	7	\$ 486,268,634	\$ 11,243,006	\$ 806,881,765	\$ 1,304,393,405	\$ 513,886,955	\$ 12,157,097	\$ 310,835,264	\$ 836,879,316
Club debenture		1,340,000	-	-	1,340,000	1,340,000	-	-	1,340,000
		<u>\$ 487,608,634</u>	<u>\$ 11,243,006</u>	<u>\$ 806,881,765</u>	<u>\$ 1,305,733,405</u>	<u>\$ 515,226,955</u>	<u>\$ 12,157,097</u>	<u>\$ 310,835,264</u>	<u>\$ 838,219,316</u>
Current assets									
Financial assets held at fair value	8	\$ 266,023,076	\$ 538,914,571	\$ -	\$ 804,937,647	\$ 256,830,680	\$ 450,269,905	\$ 317,662,065	\$ 1,024,762,650
Receivables	9	2,269,202	-	14,115	2,283,317	2,955,483	17,330	206,590	3,179,383
Prepayments	9	7,214,720	45,327	-	7,260,047	7,275,085	46,099	-	7,321,184
Rental and other deposits	9	1,168,910	42,850	163,230	1,374,990	1,180,514	43,050	9,230	1,232,794
Interfund (payables)/receivables		(64,708,735)	11,952,770	52,753,965	-	(4,225,071)	4,655,303	(430,232)	-
Cash and cash equivalents	10	487,726,193	-	97,104,686	584,830,879	363,265,302	-	326,719,974	689,985,276
		<u>\$ 699,695,366</u>	<u>\$ 550,955,518</u>	<u>\$ 150,035,996</u>	<u>\$ 1,400,686,880</u>	<u>\$ 627,281,973</u>	<u>\$ 455,031,687</u>	<u>\$ 644,167,627</u>	<u>\$ 1,726,481,287</u>
Current liabilities									
Accounts payable and accruals	11	\$ 31,160,560	\$ 401,930	\$ 77,996,078	\$ 109,558,568	\$ 22,948,556	\$ 344,789	\$ 118,782,656	\$ 142,076,001
Fees received in advance	11	261,346,772	151,000	22,197,750	283,695,522	243,971,698	76,500	18,811,750	262,859,948
Rental deposits received	11	-	1,206,000	-	1,206,000	-	1,222,000	-	1,222,000
Organization and class treasuries	11	1,899,972	-	-	1,899,972	2,191,978	-	-	2,191,978
Debentures	12	2,060,000	-	-	2,060,000	2,060,000	-	-	2,060,000
		<u>\$ 296,467,304</u>	<u>\$ 1,758,930</u>	<u>\$ 100,193,828</u>	<u>\$ 398,420,062</u>	<u>\$ 271,172,232</u>	<u>\$ 1,643,289</u>	<u>\$ 137,594,406</u>	<u>\$ 410,409,927</u>
Net current assets		<u>\$ 403,228,062</u>	<u>\$ 549,196,588</u>	<u>\$ 49,842,168</u>	<u>\$ 1,002,266,818</u>	<u>\$ 356,109,741</u>	<u>\$ 453,388,398</u>	<u>\$ 506,573,221</u>	<u>\$ 1,316,071,360</u>
Total assets less current liabilities		<u>\$ 890,836,696</u>	<u>\$ 560,439,594</u>	<u>\$ 856,723,933</u>	<u>\$ 2,308,000,223</u>	<u>\$ 871,336,696</u>	<u>\$ 465,545,495</u>	<u>\$ 817,408,485</u>	<u>\$ 2,154,290,676</u>
Non-current liability									
Debentures	12	446,500,000	-	-	446,500,000	427,000,000	-	-	427,000,000
Net assets		<u>\$ 444,336,696</u>	<u>\$ 560,439,594</u>	<u>\$ 856,723,933</u>	<u>\$ 1,861,500,223</u>	<u>\$ 444,336,696</u>	<u>\$ 465,545,495</u>	<u>\$ 817,408,485</u>	<u>\$ 1,727,290,676</u>
Reserves									
Fund balances	13	\$ 444,336,696	\$ 560,439,594	\$ 856,723,933	\$ 1,861,500,223	\$ 444,336,696	\$ 465,545,495	\$ 817,408,485	\$ 1,727,290,676

Approved and authorized for issue by the Committee of Managers on 29 January 2018

Ho Young Kim

Ronald Anthony Roukema

The notes on pages 19 to 38 form part of these financial statements.

Statement of changes in reserves for the year ended 31 July 2017 (Expressed in Hong Kong dollars)

	Note	Academic Operations Fund	Endowment Fund	Major Projects Fund	Total
At 1 August 2015		\$ 423,454,768	\$ 466,831,775	\$ 774,925,729	\$ 1,665,212,272
Changes in reserves for 2015/16:					
Total comprehensive surplus for the year		11,327,922	8,267,726	42,482,756	62,078,404
Inter-fund transfers		9,554,006	(9,554,006)	-	-
At 31 July 2016	13	<u>\$ 444,336,696</u>	<u>\$ 465,545,495</u>	<u>\$ 817,408,485</u>	<u>\$ 1,727,290,676</u>
At 1 August 2016		\$ 444,336,696	\$ 465,545,495	\$ 817,408,485	\$ 1,727,290,676
Changes in reserves for 2016/17:					
Total comprehensive (deficit)/ surplus for the year		(2,010,420)	96,904,519	39,315,448	134,209,547
Inter-fund transfers		2,010,420	(2,010,420)	-	-
At 31 July 2017	13	<u>\$ 444,336,696</u>	<u>\$ 560,439,594</u>	<u>\$ 856,723,933</u>	<u>\$ 1,861,500,223</u>

The notes on pages 19 to 38 form part of these financial statements.

Cash flow statement
for the year ended 31 July 2017 (continued)
(Expressed in Hong Kong dollars)

	<i>Note</i>	<i>2017</i>	<i>2016</i>
Financing activities			
Issue of debentures		\$ 28,000,000	\$ 6,000,000
Redemption of debentures		<u>(8,500,000)</u>	<u>(8,500,000)</u>
Net cash generated from/(used in) financing activities		<u>\$ 19,500,000</u>	<u>\$ (2,500,000)</u>
Net (decrease)/increase in cash and cash equivalents		\$ (105,154,397)	\$ 71,539,484
Cash and cash equivalents at 1 August		<u>689,985,276</u>	<u>618,445,792</u>
Cash and cash equivalents at 31 July	10	<u>\$ 584,830,879</u>	<u>\$ 689,985,276</u>

The notes on pages 19 to 38 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Association's status

The Association is a company incorporated in Hong Kong and is limited by guarantee and does not have share capital.

In accordance with the Association's Memorandum and Articles of Association, every member of the Association shall, in event of the Association being wound up, contribute an amount not exceeding \$100 to the assets of the Association. The Association had 13 members as at 31 July 2017 (2016: 13 members).

The principal activity of the Association is to carry on the business of managing and maintaining Hong Kong International School.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Association are disclosed below.

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 Association. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Association for the current and prior accounting periods reflected in these financial statements.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for financial instruments classified as financial assets held at fair value as explained in the accounting policies set out in note 2(d).

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 18.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Association. None of these developments have had a material effect on how the Association's results and financial position for the current or prior periods have been prepared or presented.

The Association has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 Significant accounting policies (continued)

(d) *Financial assets held at fair value*

Financial assets held at fair value are recognized/derecognized on the date the Association commits to purchase/sell the investments or they expire. Such investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Financial assets held at fair value are subsequently accounted for as set out below. Investments in financial assets held at fair value are classified as current assets. Any attributable transaction costs are recognized in the income and expenditure statement as incurred. At each end of reporting period the fair value is re-measured, with any resultant gain or loss being recognized in the income and expenditure statement. The net gain or loss recognized in the income and expenditure statement includes dividends or interest earned on these investments as these are recognized in accordance with the policies set out in notes 2(o)(iv) and (v).

(e) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- | | |
|--|--|
| ● School property on leased land and school owned property | Shorter of lease term and between 5 - 50 years |
| ● Furniture, fixtures and equipment | 3 - 10 years |
| ● Motor vehicles | 5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies (continued)

The carrying amounts of property, plant and equipment are reviewed for indications of impairment at each end of reporting period. An impairment loss is recognized in the income and expenditure statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The recoverable amount of an asset, or of the cash generating unit to which it belongs, is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favorable change in estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the income and expenditure statement on the date of retirement or disposal.

(f) *Construction in progress*

Construction in progress is stated at cost less impairment losses. Cost comprises direct cost of construction, including materials and direct labor. Construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) *Club debenture*

Club membership is held on a long term basis and is stated at cost less impairment loss. An impairment loss is recognized in the income and expenditure statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(h) *Operating lease charges*

Leases which do not transfer substantially all the risks and rewards of ownership to the Association are classified as operating leases.

Where the Association has the use of assets held under operating leases, payments made under the leases are charged to the income and expenditure statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the income and expenditure statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income and expenditure statement in the accounting period in which they are incurred.

2 Significant accounting policies (continued)

(i) *Receivables*

Receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Allowance for impairment for bad and doubtful debts are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material.

(j) *Payables and accruals*

Payables and accruals are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(l) *Employee benefits*

- (i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans, home leave allowance, professional growth fund and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Association operates a Defined Contribution Retirement Scheme ("Defined Contribution Scheme") and a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Occupational Retirement Schemes Ordinance and the Hong Kong Mandatory Provident Fund Schemes Ordinance, respectively. Contributions to the Defined Contribution Scheme and the MPF Scheme are recognized in the income and expenditure statement as incurred.

2 Significant accounting policies (continued)

(m) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Association has a 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 expenditure expected to settle the obligation.

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 of economic benefits 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 of economic benefits is remote.

(n) Debentures

Debentures entitle the holder to nominate a child, in connection with the debenture holder, to be provided a priority place in the student applicant waiting pool. Regardless of waiting pool priority, formal admission of the student is subject to the child satisfying the pre-entry academic qualifications as determined by the Committee of Managers from time to time.

Only at the option of the Association are the debentures redeemable at face value, once the student leaves the school operated by the Association. In the past, the Association has sometimes agreed to redeem debentures on request at face value. According to the debenture agreement, outstanding debentures are redeemable by the holders upon liquidation of the Association; therefore, full provision has been made in the financial statements for possible future redemption of debentures.

The act of providing redemptions in the past neither sets a precedent nor obligates the Association to redeem further debentures in the future. The Association will review redemption requests on an individual basis, and such redemptions shall be solely at the discretion of the Association.

2 Significant accounting policies (continued)

(o) *Income recognition*

Income is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Association and the revenue and costs, if applicable, can be measured reliably, income is recognized in the income and expenditure statement as follows:

(i) Student fees, capital levies and extracurricular activities income

Student fees include tuition fees, entry fees and application fees. Tuition fees, entry fees, application fees, capital levies and extracurricular activities income are recognized in the school term to which they relate. Application fees income is recognized when it is probable that the fees will be received.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in the income and expenditure statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in the income and expenditure statement as an integral part of the aggregate net lease payments receivable.

(iii) Donations

Donations are recognized as income when it is probable that they will be received.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

(v) Dividends

Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(vi) Sale of financial assets held at fair value

Income from sale of financial assets held at fair value is recognized when the buyer takes legal title to the financial assets held at fair value.

(p) *Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognized in the income and expenditure account.

2 Significant accounting policies (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(g) *Related parties*

- (a) A person, or a close member of that person's family, is related to the Association if that person:
- (i) has control or joint control over the Association;
 - (ii) has significant influence over the Association; or
 - (iii) is a member of the key management personnel of the Association or the Association's parent.
- (b) An entity is related to the Association if any of the following conditions applies:
- (i) The entity and the Association are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Association or an entity related to the Association.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Association.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Income

	2017	2016
(a) Student fees		
Tuition fees	\$ 492,157,402	\$ 473,673,236
Entry fees	7,170,000	9,337,500
Application fees	2,813,201	2,699,969
	<u>\$ 502,140,603</u>	<u>\$ 485,710,705</u>
(b) Net investment gain		
Interest income from fixed time deposits	\$ 1,770,893	\$ 2,518,605
Interest income on investments	79	1,621
Gain on disposal of investments	9,077,433	404,206
Exchange gain on investments	30,024	275,251
Unrealized gain on investments	89,809,714	12,064,208
Financial asset portfolio management fee	(1,388,766)	(1,317,666)
	<u>\$ 99,299,377</u>	<u>\$ 13,946,225</u>

(c) Extracurricular activities income

The extracurricular activities provided to our students include, but are not limited to, a range of After School Sports and Music Programs, Summer Programs, Upper Primary Camp, Middle School and High School Service and Leadership Programs. The fees collected cover costs associated with providing the programs to students.

4 Surplus for the year

Surplus for the year is arrived at after charging/(crediting):

	2017	2016
(a) Personnel costs		
Contributions to defined contribution retirement plan	\$ 26,172,001	\$ 25,297,743
Salaries, wages and other benefits	393,853,669	373,907,022
	<u>\$ 420,025,670</u>	<u>\$ 399,204,765</u>
(b) Professional fees/recruitment		
Auditor's remuneration		
– Provision for the current year	\$ 300,000	\$ 358,870
– Over provision in prior years	(29,070)	(58,870)
Other professional fees	8,737,040	7,683,750
	<u>\$ 9,007,970</u>	<u>\$ 7,983,750</u>
(c) Other items		
Depreciation	<u>\$ 57,587,889</u>	<u>\$ 53,749,033</u>

(d) Government grants

The Association receives reimbursement of government rent and rates for the school buildings paid during the year from the Hong Kong Government which amounted to \$5,479,200 (2016: \$5,355,000).

5 Taxation

The Association is exempt from Hong Kong Profits Tax under section 88 of the Hong Kong Inland Revenue Ordinance.

6 Committee of Managers' remuneration

Pursuant to the disclosure requirement under section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, the Committee of Managers received no remuneration for the current and prior years as a member of the Committee of Managers.

7 Property, plant and equipment

	School property on leased land	School owned property	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
Cost:						
At 1 August 2015	\$ 774,927,683	\$ 75,572,576	\$ 190,847,739	\$ 754,300	\$ 131,633,813	\$ 1,173,736,111
Additions	4,908,367	202,750	13,121,846	-	213,007,411	231,240,374
Disposals	-	-	-	-	-	-
Transfer	16,497,990	-	1,044,175	-	(17,542,165)	-
At 31 July 2016	\$ 796,334,040	\$ 75,775,326	\$ 205,013,760	\$ 754,300	\$ 327,099,059	\$ 1,404,976,485
At 1 August 2016	\$ 796,334,040	\$ 75,775,326	\$ 205,013,760	\$ 754,300	\$ 327,099,059	\$ 1,404,976,485
Additions	10,803,872	579,832	10,495,275	262,200	502,960,799	525,101,978
Disposals	(37,814,018)	-	-	-	-	(37,814,018)
Transfer	14,299,728	58,408	1,905,659	-	(16,263,795)	-
At 31 July 2017	\$ 783,623,622	\$ 76,413,566	\$ 217,414,694	\$ 1,016,500	\$ 813,796,063	\$ 1,892,264,445
Accumulated depreciation:						
At 1 August 2015	\$ 307,611,490	\$ 55,730,077	\$ 150,377,170	\$ 629,399	\$ -	\$ 514,348,136
Charge for the year	34,214,833	3,259,523	16,238,121	36,556	-	53,749,033
Written back on disposal	-	-	-	-	-	-
At 31 July 2016	\$ 341,826,323	\$ 58,989,600	\$ 166,615,291	\$ 665,955	\$ -	\$ 568,097,169
At 1 August 2016	\$ 341,826,323	\$ 58,989,600	\$ 166,615,291	\$ 665,955	\$ -	\$ 568,097,169
Charge for the year	37,235,939	2,465,493	17,836,791	49,666	-	57,587,889
Written back on disposal	(37,814,018)	-	-	-	-	(37,814,018)
At 31 July 2017	\$ 341,248,244	\$ 61,455,093	\$ 184,452,082	\$ 715,621	\$ -	\$ 587,871,040
Net book value:						
At 31 July 2017	\$ 442,375,378	\$ 14,958,473	\$ 32,962,612	\$ 300,879	\$ 813,796,063	\$ 1,304,393,405
At 31 July 2016	\$ 454,507,717	\$ 16,785,726	\$ 38,398,469	\$ 88,345	\$ 327,099,059	\$ 836,879,316

School property on leased land are premises erected on land leased by the Hong Kong Government to the Lutheran Church - Missouri Synod for the Repulse Bay Campus and to the Association in the case of the Tai Tam Campus. The Government has the right to repossess the land under circumstances specified in the relevant land leases. **School owned property located outside of the Repulse Bay and Tai Tam Campuses, including staff quarters, are held under long-term leases.**

Property, plant and equipment costing below \$20,000 are expensed. The amount of property, plant and equipment expensed during the year in this manner amounted to \$1,637,157 (2016: \$2,181,136).

8 Financial assets held at fair value

	2017	2016
Quoted but unlisted Funds outside Hong Kong	<u>\$ 804,937,647</u>	<u>\$ 1,024,762,650</u>

9 Receivables, prepayments, rental and other deposits

Receivables, prepayments, rental and other deposits are expected to be recovered or recognized as expense within one year.

10 Cash and cash equivalents

	2017	2016
Deposits with banks	\$ 196,186,378	\$ 416,240,818
Cash at bank and in hand	<u>388,644,501</u>	<u>273,744,458</u>
Cash and cash equivalents in the statement of financial position and cash flow statement	<u>\$ 584,830,879</u>	<u>\$ 689,985,276</u>

11 Accounts payable and accruals, fees received in advance, rental deposits received and organization and class treasuries

Accounts payable and accruals, fees received in advance, rental deposit received and organization and class treasuries are expected to be settled within one year.

The organization and class treasuries payable represent contributions from students, committed to be used for various student activities.

12 Debentures

	2017				2016			
	Corporate debentures	Family debentures	Individual debentures	Total	Corporate debentures	Family debentures	Individual debentures	Total
1986 Series (note (i))	\$ 1,680,000	\$ -	\$ 70,000	\$ 1,750,000	\$ 1,680,000	\$ -	\$ 70,000	\$ 1,750,000
1991 Series (note (i))	310,000	-	-	310,000	310,000	-	-	310,000
2006 Series (note (ii))	310,500,000	28,000,000	-	338,500,000	316,500,000	28,500,000	-	345,000,000
2012 Series (note (ii))	80,000,000	28,000,000	-	108,000,000	54,000,000	28,000,000	-	82,000,000
	<u>\$ 392,490,000</u>	<u>\$ 56,000,000</u>	<u>\$ 70,000</u>	<u>\$ 448,560,000</u>	<u>\$ 372,490,000</u>	<u>\$ 56,500,000</u>	<u>\$ 70,000</u>	<u>\$ 429,060,000</u>
Less: Amount due within one year shown under current liabilities	(1,990,000)	-	(70,000)	(2,060,000)	(1,990,000)	-	(70,000)	(2,060,000)
	<u>\$ 390,500,000</u>	<u>\$ 56,000,000</u>	<u>\$ -</u>	<u>\$ 446,500,000</u>	<u>\$ 370,500,000</u>	<u>\$ 56,500,000</u>	<u>\$ -</u>	<u>\$ 427,000,000</u>

Notes:

- (i) The Association has exercised its right to redeem all 1986 and 1991 series debentures.
- (ii) Refer to note 2(n) for the key terms of the 2006 and 2012 series debentures.

13 Reserves

Capital management

The Association defines "capital" to represent its fund balances. The fund balances of the Association are managed according to the financial management guidelines and procedures of the Association in meeting the objectives of the Association with the view of safeguarding the Association's ability to continue as a going concern and to enable the Association to meet its liabilities as they fall due for the foreseeable future.

The Association's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Association. The Association is not subject to externally imposed capital requirements.

The Association's fund balances are segregated for reporting purposes into three funds, including 1) Academic Operations Fund, which reflects fund balances available to meet objectives specifically related to student learning; 2) Endowment Fund, which reflects fund balances that have been restricted by the Members to be invested for the purpose of producing present and future income, while the principal is maintained inviolate and in perpetuity; and 3) Major Projects Fund, which reflects fund balances available for investment in future capital projects.

14 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, foreign currency and equity price risks arises in the normal course of the Association's operations. The Association's exposure to these risks and the financial risk management policies and practices used by the Association to manage these risks are described below.

(a) *Credit risk*

The Association's credit risk is primarily attributable to financial assets held at fair value and cash and cash equivalents. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

In respect of financial assets held at fair value, investments are normally only in liquid securities quoted on a recognized stock exchange and their credit ratings are regularly reviewed by management. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The Association places cash and cash equivalents with major financial institutions with sound credit ratings. Management also regularly review credit standing of these financial institutions and do not expect any of those institutions to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

14 Financial risk management and fair values (continued)

(b) Liquidity risk

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

(c) Interest rate risk

The Association has exposure to interest rate risk through the impact of the rate changes on investments in debt securities.

The Association has not used any interest rate swaps to hedge its exposure to interest rate risk.

Sensitivity analysis

As at 31 July 2017, it is estimated that a general increase/decrease of 0.5% (2016: 0.5%) in interest rate of investments in debt securities, with all other variables held constant, would not have a material impact on the Association's surplus for the year (2016: \$Nil). Other components of reserves would not be affected (2016: \$Nil) by the changes in interest rate.

The sensitivity analysis above indicates the annualized impact on the Association's interest income that would arise assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis is performed on the same basis for 2016.

(d) Foreign currency risk

The Association's functional currency is Hong Kong dollars ("HKD"). The Association is exposed to currency risk primarily arising from financial assets held at fair value that are denominated in United States dollars ("USD"). As the HKD is pegged to the USD, the Association considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

(e) Equity price risk

The Association is exposed to equity price changes arising from equity investments classified as financial assets held at fair value (see note 8). The equity price risk of the investments is managed by the custodian in order to diversify the equity price risk and the investment portfolio. The Association also monitors the risk exposure by reviewing periodic reports from the custodian.

14 Financial risk management and fair values (continued)

(f) Fair values

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* categorizes fair value measurements into a three-level hierarchy. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

At 31 July 2017 and 2016, the balances of the Association's financial assets held at fair value were \$804,937,647 (2016: \$1,024,762,650) (see note 8). These instruments fall into Level 1 of the fair value hierarchy described above.

During the years ended 31 July 2017 and 2016, there were no transfers between levels of fair value hierarchy. The Association's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair values of financial instruments carried at other than fair value

The Association's financial instruments, except debentures carried at cost or amortized cost are not materially different from their fair values as at 31 July 2017 and 2016.

In light of the restriction of transfer and resale of these unique debentures, comparable market transactions do not exist and alternative reliable estimates of fair value are not available. Hence no reliable fair value of the debentures could be obtained.

(g) Estimation of fair values

The fair value of financial assets held at fair value is based on quoted market prices at the end of reporting period without any deduction for transaction costs.

15 Commitments

(a) **Capital commitments outstanding at 31 July 2017 not provided for in the financial statements were as follows:**

	2017	2016
Contracted for	\$ 376,114,625	\$ 596,123,468
Authorized but not contracted for	118,634,300	384,205,870
	<u>\$ 494,748,925</u>	<u>\$ 980,329,338</u>

(b) **At 31 July 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

	2017	2016
Within 1 year	\$ 696,774	\$ 1,431,158

The Association is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 2 to 3 years, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals.

16 Material related party transactions

(a) **Transactions with key management personnel**

All members of key management personnel are the members of the Committee of Managers of the Association, and their remuneration as the key management personnel is disclosed in note 6.

(b) **Transaction with other related parties**

Apart from the transactions and balances disclosed elsewhere in these financial statements, the Association did not enter into any material related party transactions during the year.

17 Involvement with unconsolidated structured entities

The table below describes the types of structured entities that the Association does not consolidate but in which it holds an interest.

<i>Type of structured entity</i>	<i>Interest held by the Association</i>	<i>Nature and purpose</i>
Investment funds	Investments in units issued by the funds	To manage assets on behalf of third party investors and generate fees for the investment manager. These vehicles are financed through the issue of units to investors.

The table below sets out interests held by the Association in unconsolidated structured entities as of 31 July 2017. The maximum exposure to loss is the carrying amount of the financial assets held.

	<i>Carrying amount included in financial assets held at fair value</i>	<i>Total net assets of unconsolidated structured entities (including third party investors)</i>
2017		
Investment in unlisted open-ended investment funds		
HKIS Endowment Fund	\$ <u>804,870,835</u>	\$ 32,401,200,000

As at 31 July 2017, the Association had invested in 5 investee funds which are included in the HKIS Endowment Fund.

	<i>Carrying amount included in financial assets held at fair value</i>	<i>Total net assets of unconsolidated structured entities (including third party investors)</i>
2016		
Investment in unlisted open-ended investment funds		
HKIS Endowment Fund	\$ 707,033,815	\$ 14,531,400,000
HKIS Major Project Funds	<u>317,662,065</u>	<u>834,600,000</u>
Total	\$ <u>1,024,695,880</u>	

As at 31 July 2016, the Association had 6 investee funds included in the HKIS Endowment Fund and 2 investee funds included in the HKIS Major Projects Funds respectively.

18 Key sources of estimation uncertainty

Note 14 contains information about the assumptions and their risk factors relating to financial instruments. Another key source of estimation uncertainty is as follows:

Estimated useful lives of properties, plant and equipment

The Association estimates the useful lives of its properties, plant and equipment based on the periods over which the assets are expected to be available for use. The Association reviews annually their estimated useful lives, based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of properties, plant and equipment would increase depreciation charges and decrease non-current assets, and vice versa.

19 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 July 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 July 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Association.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Association 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 Association has identified some aspects of the new standards which may have an impact on the financial statements. Further details of the expected impacts are discussed below. As the Association has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards. The Association does not intend to early adopt any of these amendments or new standards.

19 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 July 2017 (continued)

HKFRS 9, Financial instruments

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Based on a preliminary assessment, the Association does not expect a material impact on this classification and measurement on its accounting for financial assets and liabilities and impairment analysis of financial assets.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services. Under HKFRS 15, revenue is recognized when the customer obtains control of the promised good or service in the contract. At contract inception, an entity evaluates whether it transfers the control to the customer over time and therefore revenue should be recognized over time – if not, then it transfers control at a point in time and revenue will be recognized at that single point in time.

Based on a preliminary assessment, the Association expects that revenue from rendering of services will continue to be recognized at a point in time. However, as a result of the change from the risk-and-reward approach to the transfer-of-control approach, the point in time at which revenue will be recognized may change upon the adoption of HKFRS 15. Further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

HKFRS 16, Leases

As disclosed in note 2(h), the Association currently classifies leases as operating leases as the lessee.

Once HKFRS 16 is adopted, subject to practical expedients, the Association will be required to account for all leases of more than 12 months in a similar way to current finance lease accounting.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of income and expenditure and other comprehensive income over the period of the lease. As disclosed in note 15(b), at 31 July 2017 the Association's future minimum lease payments under non-cancellable operating leases amounted to \$696,774 for properties and the whole amount is payable between 1 and 5 years after the reporting date, that the amount may therefore need to be recognized as lease liabilities, with corresponding right-of-use assets, once HKFRS16 is adopted. The Association will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.