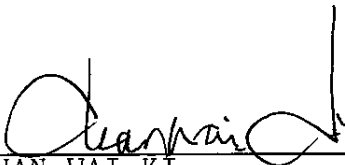


**CERTIFIED
TRUE COPY**



CHAN WAI KI
DIRECTOR OF
HARROW INTERNATIONAL SCHOOL
FOUNDATION LIMITED

**HARROW INTERNATIONAL SCHOOL,
FOUNDATION LIMITED**

Reports and Financial Statements
For the year ended 31 July 2016



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**HARROW INTERNATIONAL SCHOOL
FOUNDATION LIMITED**

**Reports and Financial Statements
For the year ended 31 July 2016**

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

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**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
DIRECTORS' REPORT**

The directors present their annual report together with the audited financial statements for the year ended 31 July 2016.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS AND APPROPRIATIONS

The results of the Foundation for the year ended 31 July 2016 are set out in the statement of income and expenditure on page 5.

3. FUNDS

The movements in funds during the year ended 31 July 2016 are set out in the statement of changes in funds on page 7.

4. 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 40 of the Foundation's Articles of Association but, being eligible, offer themselves for re-election.

**5. 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.

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
DIRECTORS' REPORT**

6. 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.

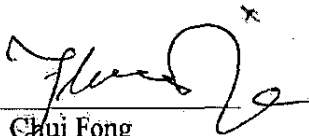
7. MANAGEMENT CONTRACTS

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.

8. 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 January 2017

RSM Hong Kong 中瑞岳華(香港)會計師事務所

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

We have audited the financial statements of Harrow International School Foundation Limited (the "Foundation") set out on pages 5 to 26, which comprise the statement of financial position as at 31 July 2016, and the statement of income and expenditure, the statement of changes in funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Foundation are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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


Auditor's responsibility (cont'd)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Foundation as at 31 July 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.


Certified Public Accountants
Hong Kong

26 January 2017

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 JULY 2016

	Note	<u>2016</u> HK\$	<u>2015</u> HK\$
Income			
Application fees		1,136,107	1,105,512
Entry fees		-	1,884,000
School fees and boarding fees	8	214,006,701	188,132,561
Other educational fees and income	9	15,746,628	17,698,497
Other income	10	8,393,102	2,477,986
		<u>239,282,538</u>	<u>211,298,556</u>
Expenditure			
General and administrative expenses		(10,501,734)	(9,509,337)
Other educational expenses		(8,201,155)	(10,391,235)
Allowance for other receivables	16	(766,424)	(553,066)
Catering expenses		(13,368,218)	(11,537,220)
Depreciation	14	(6,208,395)	(4,146,689)
Educational resources expenses		(7,528,438)	(7,994,743)
Maintenance, security and facility management fees		(18,780,849)	(17,203,204)
Royalty and license fees		(7,168,623)	(6,468,030)
Service fees		(27,554,842)	(29,729,932)
Staff costs	12	(126,045,635)	(116,689,436)
Utilities and telephone expenses		(5,477,308)	(5,598,303)
		<u>(231,601,621)</u>	<u>(219,821,195)</u>
Surplus/(deficit) and total comprehensive surplus/(deficit) for the year	12	<u>7,680,917</u>	<u>(8,522,639)</u>
Representing:			
General fund		1,680,917	(8,522,639)
Scholarship fund		6,000,000	-
		<u>7,680,917</u>	<u>(8,522,639)</u>

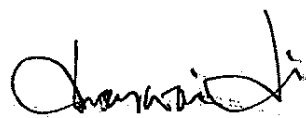
HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 JULY 2016

	Note	<u>2016</u> HK\$	<u>2015</u> HK\$
Non-current assets			
Property, plant and equipment	14	9,811,612	8,037,030
Deposits paid for acquisition of property, plant and equipment		<u>1,878,097</u>	<u>964,310</u>
		<u>11,689,709</u>	<u>9,001,340</u>
Current assets			
Inventories	15	681,333	869,018
Other receivables	16	7,373,734	5,753,900
Due from related companies	17	45,766	170,468
Bank and cash balances		<u>7,073,036</u>	<u>19,655,065</u>
		<u>15,173,869</u>	<u>26,448,451</u>
Current liabilities			
Fees receipt in advance		23,468,418	21,235,380
Other payables		11,789,129	15,667,055
Due to related companies	17	<u>27,289,154</u>	<u>41,911,396</u>
		<u>62,546,701</u>	<u>78,813,831</u>
NET CURRENT LIABILITIES		<u>(47,372,832)</u>	<u>(52,365,380)</u>
NET LIABILITIES		<u>(35,683,123)</u>	<u>(43,364,040)</u>
Representing:			
General fund	18	(41,683,123)	(43,364,040)
Scholarship fund	18	<u>6,000,000</u>	<u>-</u>
TOTAL FUNDS		<u>(35,683,123)</u>	<u>(43,364,040)</u>

Approved by the Board of Directors on 26 January 2017 and are signed on its behalf by:



MA Chui Fong



CHAN Wai Ki

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 31 JULY 2016

	General Fund <u>HK\$</u>	Scholarship fund <u>HK\$</u>	Total <u>HK\$</u>
At 1 August 2014	(34,841,401)	-	(34,841,401)
Total comprehensive deficit for the year	<u>(8,522,639)</u>	<u>-</u>	<u>(8,522,639)</u>
At 31 July 2015 and 1 August 2015	(43,364,040)	-	(43,364,040)
Total comprehensive surplus for the year	<u>1,680,917</u>	<u>6,000,000</u>	<u>7,680,917</u>
At 31 July 2016	<u>(41,683,123)</u>	<u>6,000,000</u>	<u>(35,683,123)</u>

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2016

	<u>2016</u> HK\$	<u>2015</u> HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit) for the year	7,680,917	(8,522,639)
Adjustments for:		
Allowance for other receivables	766,424	553,066
Reversal of allowance for trade receivables	(412,097)	-
Depreciation	6,208,395	4,146,689
Interest income	(6,936)	(5,192)
Loss on disposals of property, plant and equipment	4,973	-
	<hr/>	<hr/>
Operating surplus/(deficit) before working capital changes	14,241,676	(3,828,076)
Decrease in inventories	187,685	600,397
(Increase)/decrease in other receivables	(1,974,161)	1,463,779
Decrease/(increase) in due from related companies	124,702	(170,468)
Increase/(decrease) in fees receipt in advance	2,233,038	(23,814,673)
(Decrease)/increase in other payables	(3,877,926)	3,771,961
(Decrease)/increase in due to related companies	(14,622,242)	31,686,495
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(3,687,228)	9,709,415
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	6,936	5,192
Deposits paid for acquisition of property, plant and equipment	(913,787)	(533,391)
Purchase of property, plant and equipment	(7,987,950)	(6,452,289)
	<hr/>	<hr/>
Net cash used in investing activities	(8,894,801)	(6,980,488)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(12,582,029)	2,728,927
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	19,655,065	16,926,138
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	7,073,036	19,655,065
	<hr/>	<hr/>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	7,073,036	19,655,065
	<hr/>	<hr/>

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

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, New Territories, Hong Kong.

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

2. GOING CONCERN BASIS

As at 31 July 2016, the Foundation had net current liabilities and net liabilities of HK\$47,372,832 and HK\$35,683,123 respectively. These conditions indicate that the Foundation may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the founder member, at a level sufficient to finance the working capital requirements of the Foundation. The founder member has agreed to provide adequate funds for the Foundation to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Foundation be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Foundation's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets.

3. 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).

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

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

(a) Application of new and revised IFRSs/HKFRSs

In the current year, the Foundation has adopted all the new and revised IFRSs/HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 August 2015:

Amendment to IAS/HKAS 16 and IAS/HKAS 38 (Annual Improvements to IFRSs/HKFRSs 2010–2012 Cycle)

The amendment clarifies how the gross carrying amount and the accumulated depreciation / amortisation are treated where an entity uses the revaluation model. As the Foundation does not use the revaluation model, there was no effect on its financial statements.

Amendments to IAS/HKAS 19, Defined Benefit Plans: Employee Contributions

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognised as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service). As the Foundation has no post-employment benefit plans requiring employees or third parties to meet some of the cost of the plan, the amendments had no effect on the Foundation's financial statements.

Amendment to IFRS/HKFRS 13 (Annual Improvements to IFRSs/HKFRSs 2011–2013 Cycle)

The amendment clarifies that the portfolio exception in IFRS/HKFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non-financial) within the scope of IAS/HKAS 39 / IFRS/HKFRS 9. This had no effect on the Foundation's financial statements.

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

4. 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

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 August 2015. The directors anticipate that the new and revised IFRSs/HKFRSs will be adopted in the Foundation's financial statements when they become effective. The Foundation is in the process of assessing, where applicable, the potential effect of all new and revised IFRSs/HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs/HKFRSs would have a material impact on its results of operations and financial position.

List of new and revised IFRSs/HKFRSs in issue but not yet effective

IFRS/HKFRS 9	Financial Instruments ¹
IFRS/HKFRS 14	Regulatory Deferral Accounts ²
IFRS/HKFRS 15	Revenue from contracts with customers ¹
IFRS/HKFRS 16	Lease ⁴
Amendments to IAS/HKAS 1	Disclosure Initiative ³
Amendments to IAS/HKAS 16 and IAS/HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRSs/HKFRSs 2012-2014 Cycle ³

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for first annual IFRS/HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS/HKFRS 15 "Revenue from Contracts with Customers" at or before the date of initial application of IFRS/HKFRS 16.

5. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention.

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 6.

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

5. 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.

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:

Leasehold improvements	3 years
Furniture, fixtures and equipment	3 years
Computer	3 years
Motor vehicles	5 years

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined using the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(e) 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.

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) 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 as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 related companies, bank balances and cash are classified in this category.

(g) School fees, extra-curricular fees and other receivables

School fees and extra-curricular fees receivables are amounts due from parents for services performed in the ordinary course of business. If collection of school fees, extra-curricular fees and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

School fees, extra-curricular fees and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(h) 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.

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability under IFRSs/HKFRSs. The accounting policies adopted for specific financial liabilities are set out below.

Payables are stated 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.

(j) 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.

Application fees income is recognised upon receipt of such fees.

Entry fees income is recognised when the right to receive payment is established.

School fees, boarding fees and other educational fees and income are recognised when the respective services are rendered in the school term in which they are related.

Income from the sales of school uniform is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

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

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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 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.

(l) 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.

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Impairment of non-financial assets (cont'd)

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.

(m) 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 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.

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 other receivables) through statement of income and expenditure. 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.

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) 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.

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.

(o) 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.

6. 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 going concern basis that have the most significant effect on the amounts recognised in the financial statements. These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the founder member at a level sufficient to finance the working capital requirements of the Foundation. Details are explained in note 2 to the financial statements.

**HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016**

6. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONT'D)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are related to allowance for other receivables. The Foundation makes allowance for other receivable based on assessments of the recoverability of the other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgments and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the other receivables and allowance for other receivables in the year in which such estimate has been changed.

As at 31 July 2016, allowance for other receivables amounted to HK\$907,393 (2015: HK\$553,066).

7. FINANCIAL RISK MANAGEMENT

The Foundation's activities expose it to a variety of financial risks: foreign currency risk, credit 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 minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong 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.

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

7. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Credit risk

The Foundation's credit risk is primarily attributable to its bank and cash balances, other receivables 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.

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

Amounts due from related companies are closely monitored by the directors.

(c) 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.

As at 31 July 2016 and 2015, the Foundation's financial liabilities are matured less than one year.

(d) Interest rate risk

As the Foundation has no significant interest-bearing assets and liabilities, the Foundation's operating cash flows are substantially independent of changes in market interest rates.

(e) Categories of financial instruments at 31 July

	<u>2016</u> HK\$	<u>2015</u> HK\$
Financial assets:		
Loans and receivables (including cash and cash equivalents)	<u>10,853,506</u>	<u>22,449,630</u>
Financial liabilities:		
Financial liabilities at amortised cost	<u>37,212,613</u>	<u>56,068,602</u>

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

7. FINANCIAL RISK MANAGEMENT (CONT'D)

(f) **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.

8. SCHOOL FEES AND BOARDING FEES

	<u>2016</u> HK\$	<u>2015</u> HK\$
School fees	190,189,667	167,054,057
Boarding fees	<u>30,858,039</u>	<u>26,957,976</u>
	221,047,706	194,012,033
Net of remissions, discounts, bursaries and scholarships	<u>(7,041,005)</u>	<u>(5,879,472)</u>
	<u>214,006,701</u>	<u>188,132,561</u>

9. OTHER EDUCATIONAL FEES AND INCOME

Other educational fees and income represents fees for extra-curricular activities, school meals and other educational equipments, as well as income received from sales of school uniform and other sundry educational income.

10. OTHER INCOME

	<u>2016</u> HK\$	<u>2015</u> HK\$
Interest income	6,936	5,192
Exchange gains	257,574	300,837
Income from events held for parents and teachers	348,780	1,137,712
Donations received	6,617,124	616,547
Reversal of allowance for other receivables	412,097	-
Sundry income	<u>750,591</u>	<u>417,698</u>
	<u>8,393,102</u>	<u>2,477,986</u>

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

11. 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).

12. SURPLUS/(DEFICIT) FOR THE YEAR

The Foundation's surplus/(deficit) for the year is stated after charging/(crediting) the following:

	<u>2016</u> HK\$	<u>2015</u> HK\$
Auditor's remuneration	183,825	212,530
Cost of school uniform sold	187,685	583,621
Depreciation	6,208,395	4,146,689
Exchange gains	(257,574)	(300,837)
Loss on disposals of property, plant and equipment	4,973	-
Operating lease charges	8,481,065	7,010,976
Staff costs		
Salaries, bonus and other benefits	123,528,208	114,442,750
Retirement benefits scheme contributions	2,517,427	2,246,686
	126,045,635	116,689,436
Allowance for other receivables	766,424	553,066
Reversal of allowance for other receivables	<u>(412,097)</u>	<u>-</u>

Staff costs includes operating lease charges of HK\$8,481,065 (2015: HK\$7,010,976) which are included in the amounts disclosed separately above.

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

13. 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 (2015: Nil).

(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.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold	Furniture,	Computer	Motor	Total
	improvements	fixtures and		vehicles	
	HK\$	equipment	HK\$	HK\$	HK\$
Cost					
At 1 August 2014	943,034	6,386,601	960,828	450,476	8,740,939
Additions	768,568	5,109,504	574,217	-	6,452,289
At 31 July 2015	1,711,602	11,496,105	1,535,045	450,476	15,193,228
Additions	3,434,027	3,248,810	1,014,613	290,500	7,987,950
Disposals	-	(13,046)	-	-	(13,046)
At 31 July 2016	5,145,629	14,731,869	2,549,658	740,976	23,168,132
Accumulated depreciation					
At 1 August 2014	312,779	2,171,906	344,634	180,190	3,009,509
Charge for the year	360,169	3,307,792	388,633	90,095	4,146,689
At 31 July 2015	672,948	5,479,698	733,267	270,285	7,156,198
Charge for the year	1,249,570	4,244,023	566,606	148,196	6,208,395
Disposals	-	(8,073)	-	-	(8,073)
At 31 July 2016	1,922,518	9,715,648	1,299,873	418,481	13,356,520
Carrying amount					
At 31 July 2016	3,223,111	5,016,221	1,249,785	322,495	9,811,612
At 31 July 2015	1,038,654	6,016,407	801,778	180,191	8,037,030

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

15. INVENTORIES

	<u>2016</u> HK\$	<u>2015</u> HK\$
School uniform	<u>681,333</u>	<u>869,018</u>

16. OTHER RECEIVABLES

	<u>2016</u> HK\$	<u>2015</u> HK\$
School fees and extra-curricular fees receivables	2,431,386	1,246,210
Prepayments, deposits and other receivables	<u>5,849,741</u>	<u>5,060,756</u>
	8,281,127	6,306,966
Less: allowance for other receivables	<u>(907,393)</u>	<u>(553,066)</u>
	<u>7,373,734</u>	<u>5,753,900</u>

As at 31 July 2016, an allowance was made for estimated irrecoverable receivables for the school fees and extra-curricular fees of approximately HK\$907,393 (2015: HK\$553,066).

Reconciliation of allowance for other receivables:

	<u>2016</u> HK\$	<u>2015</u> HK\$
At 1 August	553,066	-
Allowance for the year	766,424	553,066
Reversals	<u>(412,097)</u>	<u>-</u>
At 31 July	<u>907,393</u>	<u>553,066</u>

17. DUE FROM / (TO) RELATED COMPANIES

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

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2016

18. FUNDS

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

The General Fund comprises income and expenditure applicable to the delivery of the educational programmes offered by the Foundation and the capital needs of the Foundation for facilities, infrastructure and major property, plant and equipment. This fund includes income attributable to school and boarding fees.

The Scholarship Fund represents donations on which the Foundation would, according to the wished of the donors, keep the principal intact and only use income generated from the fund to support activities of designated purposes.

Scholarship Fund is reserved for scholarship payment to award students of the Foundation.

19. LEASE COMMITMENTS

At 31 July 2016 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<u>2016</u> HK\$	<u>2015</u> HK\$
Within one year	1,077,806	5,961,734
In the second to fifth years inclusive	-	3,259,852
	<u>1,077,806</u>	<u>9,221,586</u>

Operating lease payments represent rentals payable by the Foundation for its staff quarters. The lease is negotiated for a term of two years (2015: two years) and rentals is fixed over the lease term and do not include contingent rentals.

20. CAPITAL COMMITMENTS

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
Property, plant and equipment Contracted but not provided for	<u>1,325,775</u>	<u>837,940</u>

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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21. 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>2016</u>	<u>2015</u>
		HK\$	HK\$
Service fees charged by a related company	(i)	27,554,842	29,729,932
Donations received from a related company		<u>6,000,000</u>	<u>-</u>

- (i) Service fees are charged by a related company for the services provided in connection with the establishment and operation of the international boarding school. Such fees are agreed at a basis of certain income received less debt repayment for the Foundation.

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING