HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED

Reports and Financial Statements
For the year ended 31 July 2018

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 2018

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HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 July 2018.

PRINCIPAL ACTIVITIES

The Foundation act as a non-profit making organisation which is engaged in the operation of an international boarding school in Hong Kong. There were no significant changes to the Foundation's principal activity during the current year.

BUSINESS REVIEW

The Foundation falls within reporting exemption under section 359(3)(a) of the Hong Kong Companies Ordinance in the financial period and therefore, according to section 388(3)(a), it is exempted to prepare a business review as required by Schedule 5 of the Hong Kong Companies Ordinance (Cap. 622) for the financial period.

RESULTS

The results of the Foundation for the year ended 31 July 2018 and the Foundation's financial position at that date are set out in the financial statement on pages 6 to 7.

FUNDS AND RESERVES

The movements in funds and reserves of the Foundation during the year are set out in the statement of changes in funds and reserves on page 8.

DIRECTORS

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

CHAN Wai Ki
MA Chui Fong

In accordance with Article 40 of the Foundation's Articles of Association, all directors of the Foundation, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual meeting.

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PERMITTED INDEMNITY PROVISIONS

During the financial year and the time when the directors' report are approved, a permitted indemnity provision that meets the requirement specified in Section 469(2) of the Companies Ordinance is in force for the benefit of any of the directors is in force.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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 a director 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.

AUDITOR

During the year, Messrs. RSM Hong Kong resigned and Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Foundation. The financial statements have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being offer themselves for re-appointment.

On behalf of the Board

MA Chui Fong
DIRECTOR
28 February 2019

Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF
HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED
(incorporated in Hong Kong as a company limited by guarantee)

Opinion

We have audited the financial statements of Harrow International School Foundation Limited (the " Foundation") set out on pages 6 to 27, which comprise the statement of financial position as at 31 July 2018, and the statement of income and expenditure, statement of changes in funds and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Foundation as at 31 July 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Foundation for the year ended 31 July 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 26 February 2018.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report, but does not include 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.

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INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF
HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED - continued
(incorporated in Hong Kong as a company limited by guarantee)

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

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 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.

TO THE SOLE MEMBER OF
HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED - continued
(incorporated in Hong Kong as a company limited by guarantee)

Auditor's Responsibilities for the Audit of the Financial Statements - continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 February 2019

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HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 JULY 2018

	NOTES	2018 HK$	2017 HK$
Income			
Application fees		1,028,898	968,356
School fees and boarding fees, net	5	255,198,484	229,747,870
Other educational fees and income	6	17,492,382	17,659,037
Other income, gains and losses	7	8,999,583	9,769,547
		282,719,347	258,144,810
Expenditure			
Staff costs		(142,556,520)	(133,867,400)
Service fees		(38,665,095)	(33,334,107)
Catering expenses		(16,177,320)	(14,097,402)
Royalty and license fees		(11,153,751)	(7,618,784)
Maintenance, security and facility management fees		(9,129,323)	(7,655,200)
Educational resources expenses		(9,403,901)	(7,819,320)
Depreciation		(8,116,781)	(6,933,248)
Allowance for school fee receivables		(21,882)	(215,777)
General and administrative expenses		(14,399,808)	(11,972,856)
Utilities and telephone expenses		(6,640,337)	(5,606,903)
Other educational expenses		(8,347,735)	(10,097,584)
		(264,612,453)	(239,218,581)
Surplus and total comprehensive surplus for the year	9	18,106,894	18,926,229
Less: Scholarship and financial assistance fund for the year		(7,133,991)	(7,665,000)
Surplus and total comprehensive surplus for the year to general fund		10,972,903	11,261,229

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED

STATEMENT OF FINANCIAL POSITION
AT 31 JULY 2018

	NOTES	2018 HK$	2017 HK$
NON-CURRENT ASSETS			
Property, plant and equipment	10	**12,625,311**	11,631,857
Deposits paid for acquisition of property, plant and equipment		**500,428**	586,422
		13,125,739	12,218,279
CURRENT ASSETS			
School fees and other receivables	11	**6,470,572**	4,576,308
Amounts due from related companies	12	**6,223,365**	31,991
Bank and cash balances		**23,466,125**	18,921,298
		36,160,062	23,529,597
CURRENT LIABILITIES			
Receipt in advance		**24,975,314**	26,045,364
Accruals and other payables		**17,884,443**	15,045,558
Funds from parent teacher association	13	**562,900**	327,138
Amounts due to related companies	12	**4,513,144**	11,086,710
		47,935,801	52,504,770
NET CURRENT LIABILITIES		**(11,775,739)**	(28,975,173)
NET ASSETS (LIABILITIES)		**1,350,000**	(16,756,894)
REPRESENTING:			
General fund	14	**(21,448,991)**	(32,421,894)
Scholarship and financial assistance fund	14	**22,798,991**	15,665,000
TOTAL FUNDS		**1,350,000**	(16,756,894)

The financial statements on pages 6 to 27 were approved and authorised for issue by the Board of Directors on 28 February 2019.

CHAN Wai Ki
DIRECTOR

MA Chui Feng
DIRECTOR

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HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED

STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 JULY 2018

	General fund HK$	Scholarship and financial assistance fund HK$	Total HK$
At 1 August 2016	(41,683,123)	6,000,000	(35,683,123)
Surplus and total comprehensive surplus for the year	11,261,229	7,665,000	18,926,229
Transfer from general fund to scholarship and financial assistance fund	(2,000,000)	2,000,000	-
At 31 July 2017 and 1 August 2017	(32,421,894)	15,665,000	(16,756,894)
Surplus and total comprehensive surplus for the year	10,972,903	7,133,991	18,106,894
At 31 July 2018	(21,448,991)	22,798,991	1,350,000

HARROW INTERNATIONAL SCHOOL FOUNDATION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2018

	2018 HK$	2017 HK$
OPERATING ACTIVITIES		
Surplus for the year	**18,106,894**	18,926,229
Adjustments for:		
Allowance for doubtful debts recognised in respect of school fees receivables	**21,882**	215,777
Reversal of allowance in respect of school fees receivables	-	(33,270)
Depreciation	**8,116,781**	6,933,248
Interest income	**(8,028)**	(10,455)
Inventories written off	-	582,685
Operating surplus before working capital changes	**26,237,529**	26,614,214
Decrease in inventories	-	98,648
(Increase) /Decrease in school fees and other receivables	**(1,916,146)**	2,614,919
(Increase) /Decrease in amounts due from related companies	**(6,191,374)**	13,775
(Decrease) /Increase in fees receipt in advance	**(1,070,050)**	2,576,946
Increase in other payables	**2,838,885**	3,256,429
Increase in funds from parent teacher association	**235,762**	327,138
Decrease in amounts due to related companies	**(6,573,566)**	(16,202,444)
NET CASH FROM OPERATING ACTIVITIES	**13,561,040**	19,299,625
INVESTING ACTIVITIES		
Interest received	**8,028**	10,455
Deposits paid for acquisition of property, plant and equipment	**(500,428)**	(586,422)
Purchase of property, plant and equipment	**(8,523,813)**	(6,875,396)
Net cash used in investing activities	**(9,016,213)**	(7,451,363)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,544,827**	11,848,262
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**18,921,298**	7,073,036
CASH AND CASH EQUIVALENTS AT END OF YEAR,		
Bank and cash balances	**23,466,125**	18,921,298

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1. GENERAL

Harrow International School Foundation Limited (the "Foundation") is a company incorporated in Hong Kong limited by guarantee and not having share capital under the Hong Kong Companies Ordinance. The address of the registered office and principal place of business of the Foundation is 38 Tsing Ying Road, Tuen Mun, New Territories, Hong Kong.

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

The financial statement are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Foundation.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because the founder member has agreed to provide adequate funds to enable the Foundation to meet in full its financial obligations as they fall due for a period of up to twelve months from the date of the approval of the Foundation's financial statements for the year ended 31 July 2018 by directors.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to IFRSs/HKFRSs that are mandatorily effective for the current year

The Foundation has applied the following amendments to International Accounting Standards ("IAS") and IFRSs issued by the International Accounting Standards Board ("IASB") and HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in current year:

Amendments to IAS/HKAS 7	Disclosure Initiative
Amendments to IAS/HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS/HKFRS 12	As part of the Annual Improvements to IFRSs/ HKFRSs 2014 - 2016 Cycle

The application of the amendments to IFRSs/HKFRSs in current year has had no material impact on the Foundation's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

3. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")** - continued

New and revised IFRSs/HKFRSs and interpretations in issue but not yet effective

The Foundation has not early applied the following new and revised IFRSs/HKFRSs and interpretation that have been issued but are not yet effective:

IFRS/HKFRS 9	Financial Instruments[1]
IFRS/HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS/HKFRS 16	Leases[2]
IFRS/HKFRS 17	Insurance Contracts[3]
IFRIC 22/HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS/HKFRS 4	Applying IFRS/HKFRS 9 Financial Instruments with IFRS/HKFRS 4 Insurance Contracts[1]
Amendments to IFRS/HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IAS/HKAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS/HKAS 28	As part of the Annual Improvements to IFRSs/HKFRSs 2014 - 2016 Cycle[1]
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRSs/HKFRSs 2015 - 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to IFRSs/HKFRSs and interpretation mentioned below, the directors of the Foundation anticipate that the application of all other new and amendments to IFRSs/HKFRSs and interpretations will have no material impact on the amounts reported and disclosures made in the Foundation's financial statements in the foreseeable future.

IFRS/HKFRS 9 ***Financial Instruments***

IFRS/HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS/HKFRS 9 which is relevant to the Foundation is in relation to the impairment of financial assets, IFRS/HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS/HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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3. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")** - continued

IFRS/HKFRS 9 ***Financial Instruments*** - continued

Based on the Foundation's financial instruments and risk management policies as at 31 July 2018, the directors anticipated that the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Foundation's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS/HKFRS 9 until the Foundation performs a detailed review.

Based on the Foundation's financial instruments and risk management policies as at 31 July 2018, the directors of the Foundation anticipate the following potential impact on initial application of IFRS/HKFRS 9:

Classification and measurement:

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS/HKAS 39.

Impairment

In general, the directors of the Foundation anticipate that the application of the expected credit loss model of IFRS/HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Foundation's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS/HKFRS 9 by the Foundation.

Based on the assessment by the directors of the Foundation, if the expected credit loss model were to be applied by the Foundation, the accumulated amount of impairment loss to be recognised by Foundation as at 1 August 2018 would be slightly increased as compared to the accumulated amount recognised under IAS/HKAS 39 mainly attributable to expected credit losses provision on amounts due from related companies. Such further impairment recognised under expected credit loss model would reduce the opening general fund at 1 August 2018.

IFRS/HKFRS 15 ***Revenue from Contracts with Customers***

IFRS/HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS/HKFRS 15 will supersede the current revenue recognition guidance including IAS/HKAS 18 *Revenue*, IAS/HKAS 11 *Construction Contracts* and related interpretations when it becomes effective.

The core principle of IFRS/HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

IFRS/HKFRS 15 *Revenue from Contracts with Customers*

Under IFRS/HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS/HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS/HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Foundation anticipate that the application of IFRS/HKFRS 15 in the future may result in more disclosures, however, the directors of the Foundation do not anticipate that the application of IFRS/HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS/HKFRS 16 *Leases*

IFRS/HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS/HKFRS 16 will supersede IAS/HKAS 17 Leases and the related interpretations when it becomes effective.

IFRS/HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Foundation currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS/HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Foundation.

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3. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")/HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")** - continued

IFRS/HKFRS 16 ***Leases*** - continued

Under IAS/HKAS 17, the Foundation has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Foundation is a lessee. The application of IFRS/HKFRS 16 may result in potential changes in classification of these assets depending on whether the Foundation presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS/HKFRS 16 substantially carries forward the lessor accounting requirements in IAS/HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS/HKFRS 16.

As at 31 July 2018, the Foundation has non-cancellable operating lease commitments of HK$7,644,600 as disclosed in note 15.

In addition, the Foundation currently considers refundable rental deposits paid of HK$2,024,200 as rights and obligations under leases to which IAS/HKAS 17 applies. Based on the definition of lease payments under IFRS/HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above

Except as disclosed above, the directors of the Foundation anticipate that the application of the other new and revised IFRSs/HKFRSs and interpretations will have no material impact on the financial statements.

4. **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with IFRSs issued by the IASB and HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. **SIGNIFICANT ACCOUNTING POLICIES** - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Foundation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS/HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS/HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS/HKAS 2 Inventories or value in use in IAS/HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Foundation and when specific criteria have been met for each of the Foundation's activities, as described below.

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.

Application fees income is recognised upon receipt of application.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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4. **SIGNIFICANT ACCOUNTING POLICIES** - continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Foundation as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS/HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

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.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

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

4. **SIGNIFICANT ACCOUNTING POLICIES** - continued

Property, plant and equipment - continued

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when the Foundation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Foundation's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including school fees and other receivables, amounts due from related companies and bank and cash balances) are measured at amortised cost using the effective interest method, less any impairment.

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Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. **SIGNIFICANT ACCOUNTING POLICIES** - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by the Foundation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Foundation after deducting all of its liabilities. Equity instruments issued by the Foundation are recognised at the proceeds received, net of direct issue costs.

4. **SIGNIFICANT ACCOUNTING POLICIES** - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including accruals and other payables, funds from parent teacher association and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Foundation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Foundation derecognises financial liabilities when, and only when, the Foundation's obligation are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Foundation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Foundation estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. 0851

4. **SIGNIFICANT ACCOUNTING POLICIES** - continued

Impairment losses on tangible assets - continued

Recoverable amount is the higher of fair value less costs to sell 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 asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised immediately in profit or loss.

5. **SCHOOL FEES AND BOARDING FEES, NET**

	2018 HK$	2017 HK$
School fees	**228,785,275**	205,199,412
Boarding fees	**33,732,320**	31,546,464
	262,517,595	236,745,876
Less: provision for remissions, discounts, bursaries and scholarships (note 14)	**(7,319,111)**	(6,998,006)
	255,198,484	229,747,870

6. **OTHER EDUCATIONAL FEES AND INCOME**

Other educational fees and income represents fees for extra-curricular activities, school meals and other sundry educational income in both financial years.

7. **OTHER INCOME, GAINS AND LOSSES**

	2018 HK$	2017 HK$
Bank interest income	**8,028**	10,455
Net foreign exchange (losses) gains	**(423,070)**	255,702
Donations income	**7,686,630**	8,599,222
Reversal of allowance for school fees receivables	-	33,270
Sundry income	**1,727,995**	870,898
	8,999,583	9,769,547

Note: Included in the donation income is donations received from a related company amounting HK$6,730,000 (2017: HK$7,665,000) (Note 19).

8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since the Foundation is exempted from taxation pursuant to section 88 of the Hong Kong Inland Revenue Ordinance (Cap.112).

9. SURPLUS FOR THE YEAR

Surplus for the year has been arrived at after charging:

	2018 HK$	2017 HK$
Auditor's remuneration	**433,381**	226,389
Directors' remuneration (Note)	-	-
Staff costs		
Salaries, bonus and other benefits	**139,427,845**	130,981,582
Retirement benefits scheme contributions	**3,128,675**	2,885,818
	142,556,520	133,867,400
Depreciation	**8,116,781**	6,933,248
Write-off of obsoleted inventories	-	582,685

Note: None of the directors of Foundation received or will receive any fees or emoluments in respect to their services to the Foundation during the year.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Computer HK$	Motor vehicles HK$	Total HK$
COST					
At 1 August 2016	5,145,629	14,731,869	2,549,658	740,976	23,168,132
Additions	2,943,435	4,300,210	1,509,848	-	8,753,493
Write-off	-	(1,900)	(29,104)	-	(31,004)
At 31 July 2017 and 1 August 2017	8,089,064	19,030,179	4,030,402	740,976	31,890,621
Additions	888,449	5,586,953	2,634,833	-	9,110,235
Write-off	-	(6,480)	-	-	(6,480)
At 31 July 2018	8,977,513	24,610,652	6,665,235	740,976	40,994,376
ACCUMULATED DEPRECIATION					
At 1 August 2016	1,922,518	9,715,648	1,299,873	418,481	13,356,520
Charge for the year	2,085,977	3,904,865	794,209	148,197	6,933,248
Eliminated on write-off	-	(1,900)	(29,104)	-	(31,004)
At 31 July 2017 and 1 August 2017	4,008,495	13,618,613	2,064,978	566,678	20,258,764
Charge for the year	2,470,575	4,228,001	1,360,105	58,100	8,116,781
Eliminated on write-off	-	(6,480)	-	-	(6,480)
At 31 July 2018	6,479,070	17,840,134	3,425,083	624,778	28,369,065
CARRYING AMOUNT					
At 31 July 2018	2,498,443	6,770,518	3,240,152	116,198	12,625,311
At 31 July 2017	4,080,569	5,411,566	1,965,424	174,298	11,631,857

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11. SCHOOL FEES AND OTHER RECEIVABLES

	2018 HK$	2017 HK$
School fees and other receivables	**7,582,354**	5,666,208
Less: allowance for doubtful debts	**(1,111,782)**	(1,089,900)
	6,470,572	4,576,308

The Foundation maintains defined credit period of up to 30 days. Before accepting any new customer, the Foundation has assessed the credit quality of potential parent or guardian and defines credit limits by parent or guardian. In addition, the Foundation reviews the repayment history of receivables by each parent or guardian with reference to the payment terms stated in invoices. In determining the recoverability of a school fees receivable, the Foundation considers any change in the credit quality of the school fees receivable from the date credit was initially granted up to the reporting date. In the opinion of directors, the school fees receivables that are neither past due nor impaired were of good credit quality based on good repayment history at the end of the reporting period and no impairment is necessary for those balance.

As at 31 July 2018, included in the Foundation's school fees receivable balance are debtors with an aggregate carrying amount of HK$457,687 (2017: HK$684,283) which are past due at the end of the reporting date for which the Foundation has not provided for impairment loss as there has not been significant change in credit quality and the amounts are still considered recoverable. The Foundation does not hold any collateral over these balances. Aging of school fees receivables which are past due but not impaired:

	2018 HK$	2017 HK$
1 - 90 days	**410,337**	564,223
91 - 120 days	**-**	-
> 120 days	**47,350**	120,060
	457,687	684,283

Movement in the allowance for doubtful debts

	2018 HK$	2017 HK$
At 1 August	**1,089,900**	907,393
Allowance for doubtful debts recognised	**21,882**	215,777
Amounts recovered during the year	**-**	(33,270)
At 31 July	**1,111,782**	1,089,900

Included in the allowance for doubtful debts are individually impaired school fees receivables with an aggregate balance of HK$1,111,782 (2017: HK$1,089,900).

12. AMOUNTS DUE FROM /(TO) RELATED COMPANIES

Related companies are under common control of the sole member of the Foundation, and hence, they are related parties of the Foundation.

The amounts are unsecured, non-interest bearing and repayable on demand.

13. FUNDS FROM PARENT TEACHER ASSOCIATION

The balance represents funds from activities of parent teacher association which cannot be used at the sole discretion of the Foundation. The Foundation is obligated to refund the unutilised balance to the association when required. The balance of funds from parent teacher association is included in bank and cash balance of the Foundation.

Movement in the funds from parent teacher association

	2018 HK$	2017 HK$
At 1 August	**327,137**	-
Funds generated from the association's activities	**258,835**	330,365
Funds used in association's operation	**(23,072)**	(3,228)
At 31 July	**562,900**	327,137

14. FUNDS

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

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 school facilities and infrastructure. This fund includes income attributable to school and boarding fees.

Scholarship and financial assistance fund is reserved for scholarship and financial assistance payment to award students of the Foundation.

Pursuant to the service agreement between the Foundation and the Government, the Foundation shall set aside an amount of its total school fees income to provide scholarships and other financial assistance for award students. During the year, the Foundation utilised HK$7,319,111 (2017: HK$6,998,006) to provide remission, discounts, bursaries and scholarship and other financial assistance to students.

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15. OPERATING LEASE COMMITMENTS

The Foundation as lessee

	2018 HK$	2017 HK$
Minimum lease payments paid during the year under operating lease in respect of a rented premise	**12,245,002**	10,752,705

At the end of the reporting period, the Foundation had commitment for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2018 HK$	2017 HK$
Within one year	**7,403,600**	1,580,516
In the second to fifth year inclusive	**241,000**	-
	7,644,600	1,580,516

Operating lease payments represent rentals payable by the Foundation for staff quarters. Leases are negotiated on an average term of one to two years and rentals are fixed throughout the lease period.

16. CAPITAL COMMITMENTS

	2018 HK$	2017 HK$
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**454,022**	637,404

17. CAPITAL RISK MANAGEMENT

The Foundation manages its capital to ensure the Foundation will be able to continue as a going concern and to sustain future development of international boarding school. The Foundation's overall strategy remains unchanged from prior years.

The capital structure of the Foundation consists of cash and cash equivalents and funds and reserves.

The directors of the Foundation review that the capital structure from time to time. As part of this review, the directors of the Foundation consider the cost of capital and the risks associates with each class of capital. However, the Foundation has taken prudent approach to maintain the capital structure with a stable level of cash and cash equivalents, which is reflected in the bank balances and funds and reserves of the Foundation.

18. FINANCIAL INSTRUMENTS

18a. Categories of financial instruments

	2018 HK$	2017 HK$
Financial assets		
Loans and receivables (including cash and cash equivalents)	**32,353,677**	21,642,872
Financial liabilities		
Financial liabilities at amortised cost	**22,960,487**	26,459,406

18b. Financial risk management objectives and policies

The Foundation's major financial instruments include school fees and other receivables, amounts due from related companies, bank and cash balances, accruals and other payables, funds from parent teacher association and amounts due to related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Foundation has foreign currency purchases, which exposes the Foundation to foreign currency risk. The Foundation currently does not implement hedging activity to hedge against foreign currency exposure. However, the management closely monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Foundation's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 July 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. The Foundation's credit risk is primarily attributable to its school fees receivables.

Other than the amounts due from related companies, the Foundation has no concentration of credit risk as at 31 July 2018.

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18. FINANCIAL INSTRUMENTS - continued

18b. Financial risk management objectives and policies - continued

Credit risk - continued

At 31 July 2018, the Foundation has concentration of credit risk as 70% (2017: 1%) of the total receivables was amounts due from related parties.

The credit risk on amounts due from related companies are limited because the related companies are under common control of the sole member of the Foundation with adequate fund to settle the debt.

The credit risk on bank balances is limited because the counterparties are reputable banks in Hong Kong.

In order to minimise the credit risk, management of the Foundation has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Foundation reviews the recoverable amount of each past due balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Foundation consider that the Foundation's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Foundation monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Foundation's operations and mitigate the effects of fluctuations in cash flows.

The financial liabilities of the Foundation are non-interest bearing and repayable on demand or are required to be settled within one year. The total undiscounted cash flows of the financial liabilities based on the earliest date on which the Foundation can be required to pay approximate its carrying amount at the end of the reporting period. Accordingly, no liquidity risk analysis is presented.

18c. Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities, carried at amortised cost, are determined in accordance with generally accepted pricing models which is based on discounted cash flows analysis using the relevant prevailing market rates as input.

The directors of the Foundation consider that the carrying amounts of the financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

19. RELATED PARTY TRANSACTIONS

Apart from the details of the balances and arrangement with related parties disclosed in the statement of financial position on page 7 and in note 12, the Foundation also entered into the following transactions with related parties during the year:

Name of related company	Nature of transaction	**2018** HK$	2017 HK$
Related companies (Notes)	Service fees	**38,665,095**	33,334,107
	Donation received	**(6,730,000)**	(7,665,000)

Notes:

(a) The related companies are under common control with the sole member of the Foundation.

(b) Foundation pays a service fee to a related company who provides technical advice and assistance and services to support the Foundation from establishment to operation of the international boarding school. Such fees are agreed at a basis of certain income received less debt repayment for the Foundation.

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