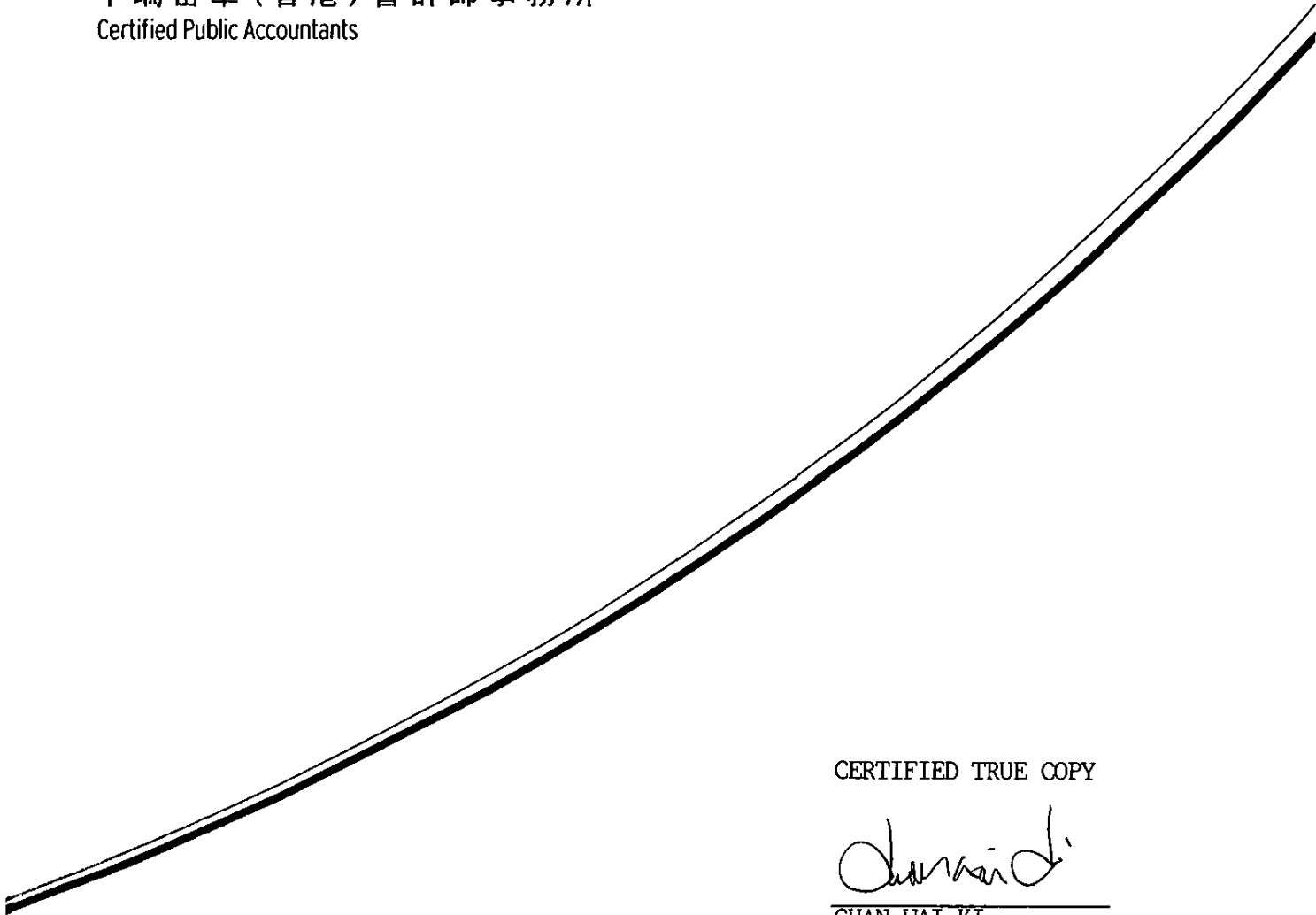


**RSM Nelson Wheeler**

中瑞岳華(香港)會計師事務所

Certified Public Accountants



CERTIFIED TRUE COPY

CHAN WAI KI  
Director of  
HARROW INTERNATIONAL SCHOOL  
(HONG KONG) LIMITED

**HARROW INTERNATIONAL SCHOOL  
(HONG KONG) LIMITED**

Reports and Financial Statements  
For the year ended 31 July 2011



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**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**C O N T E N T S**

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Statement of Financial Position	6
Statement of Changes in Funds and Reserves	7
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## **HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED DIRECTORS' REPORT**

The directors have pleasure in presenting their report and the audited financial statements of the Foundation for the year ended 31 July 2011.

### **1. PRINCIPAL ACTIVITIES**

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

### **2. RESULTS AND FINANCIAL POSITION**

The results for the year are set out in the statement of income and expenditure on page 5.

The state of affairs of Foundation at 31 July 2011 is set out in the statement of financial position on page 6.

### **3. FUNDS AND RESERVES**

The movements in funds and reserves are set out in the statement of changes in funds and reserves on page 7.

### **4. CAPITAL CERTIFICATES AND INDIVIDUAL DEBENTURES**

Particulars of the capital certificates and individual debentures are set out in note 11 and 12 to the financial statements respectively.

### **5. PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in the property, plant and equipment are set out in note 9 to the financial statements.

### **6. DIRECTORS**

The directors who held office during the year and up to the date of this report were:

CHEUNG Chun Yuen Barry  
CHAN Wai Ki

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

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

**7. DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance to which the Foundation was a party subsisted at the end of the year or at any time during the year in which any director of the Foundation had a material interest.

**8. DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES**

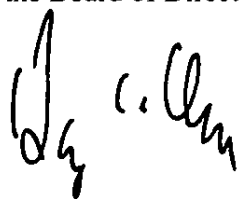
At no time during the year was the Foundation, a party to any arrangements to enable the directors of the Foundation to acquire benefits by means of acquisition of shares in, or debentures of the Foundation or any other body corporate.

**9. AUDITOR**

A resolution to re-appoint the retiring auditor, RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

On behalf of the Board of Directors

†



Director

28 November 2011

RSM Nelson Wheeler  
29th Floor, Caroline Centre, Lee Gardens Two,  
28 Yun Ping Road, Hong Kong  
T +852 2598 5123 F +852 2598 7230  
E solutions@rsmnelsonwheeler.com  
W www.rsmnelsonwheeler.com

中瑞岳華(香港)會計師事務所  
香港恩平道二十八號利園二期  
嘉蘭中心二十九字樓  
電話 +852 2598 5123 傳真 +852 2598 7230  
電郵 solutions@rsmnelsonwheeler.com  
網址 www.rsmnelsonwheeler.com

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

We have audited the financial statements of Harrow International School (Hong Kong) Limited (the "Foundation") set out on pages 5 to 26, which comprise the statement of financial position as at 31 July 2011, 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 a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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 141 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.

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.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Foundation's affairs as at 31 July 2011 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

*RSM Nelson Wheeler*

Certified Public Accountants  
Hong Kong

28 November 2011

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF INCOME AND EXPENDITURE**  
**FOR THE YEAR ENDED 31 JULY 2011**

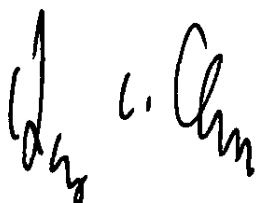
	Note	1.8.2010 to <u>31.7.2011</u> HK\$	2.3.2009 to <u>31.7.2010</u> HK\$
<b>Income</b>			
Donations		100,000	-
Bank interest income		1,287	-
Exchange gains		13,760	-
		<u>115,047</u>	<u>-</u>
<b>Expenditure</b>			
Staff costs	8	(48,344)	-
Marketing expenses		(1,182,784)	(241,498)
General and administrative expenses		(749,147)	(6,400)
Depreciation		(5,369)	-
		<u>(1,985,644)</u>	<u>(247,898)</u>
<b>Deficit and total comprehensive deficit for the year/period</b>	8	<u>(1,870,597)</u>	<u>(247,898)</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AT 31 JULY 2011**

	Note	<u>2011</u> HK\$	<u>2010</u> HK\$
<b>Non-current assets</b>			
Property, plant and equipment	9	124,159,607	7,859,414
Prepayments, deposits and other receivables		<u>960,000</u>	<u>-</u>
		<u>125,119,607</u>	<u>7,859,414</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables		181,165	35,000
Bank and cash balances		<u>302,564,455</u>	<u>4,600</u>
		<u>302,745,620</u>	<u>39,600</u>
<b>Current liabilities</b>			
Accruals and other payables	10	18,822,523	441,353
Capital certificates	11	273,000,000	-
Individual debentures	12	13,800,000	-
Due to founder member	13	<u>23,653,032</u>	<u>7,705,559</u>
		<u>329,275,555</u>	<u>8,146,912</u>
<b>Net current liabilities</b>		<u>(26,529,935)</u>	<u>(8,107,312)</u>
<b>Total assets less current liabilities</b>		<u>98,589,672</u>	<u>(247,898)</u>
<b>Non-current liabilities</b>			
Accruals and other payables	10	983,167	-
Finance lease payables	14	<u>75,725,000</u>	<u>-</u>
		<u>76,708,167</u>	<u>-</u>
<b>NET ASSETS / (LIABILITIES)</b>		<u>21,881,505</u>	<u>(247,898)</u>
<b>Representing:</b>			
Capital reserve	15	24,000,000	-
General fund	15	<u>(2,118,495)</u>	<u>(247,898)</u>
<b>TOTAL FUNDS AND RESERVES</b>		<u>21,881,505</u>	<u>(247,898)</u>

Approved by the Board of Directors on 28 November 2011

+



Director



Director

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**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
**FOR THE YEAR ENDED 31 JULY 2011**

	<u>Capital reserve</u> HK\$	<u>General fund</u> HK\$	<u>Total</u> HK\$
Total comprehensive deficit for the period, at 31 July 2010 and 1 August 2010	<u>-</u>	<u>(247,898)</u>	<u>(247,898)</u>
Issuance of corporate capital certificates	24,000,000	-	24,000,000
Total comprehensive deficit for the year	<u>-</u>	<u>(1,870,597)</u>	<u>(1,870,597)</u>
Changes in funds and reserves for the year	<u>24,000,000</u>	<u>(1,870,597)</u>	<u>22,129,403</u>
At 31 July 2011	<u>24,000,000</u>	<u>(2,118,495)</u>	<u>21,881,505</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 JULY 2011**

	<b>1.8.2010 to 31.7.2011 HK\$</b>	<b>2.3.2009 to 31.7.2010 HK\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Deficit for the year / period	(1,870,597)	(247,898)
Adjustments for:		
Depreciation	5,369	-
Interest income	(1,287)	-
Operating deficit before working capital changes	(1,866,515)	(247,898)
Increase in prepayments, deposits and other receivables	(1,106,165)	(35,000)
Increase in accruals and other payables	19,364,337	441,353
Increase in due to founder member	15,947,473	7,705,559
Net cash generated from operating activities	<u>32,339,130</u>	<u>7,864,014</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment (note 16)	(40,580,562)	(7,859,414)
Interest received	1,287	-
Net cash used in investing activities	<u>(40,579,275)</u>	<u>(7,859,414)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of capital certificates	300,000,000	-
Proceeds from issue of individual debentures	16,200,000	-
Refund of capital certificate	(3,000,000)	-
Refunds of individual debentures	(2,400,000)	-
Net cash generated from financing activities	<u>310,800,000</u>	<u>-</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>302,559,855</b>	<b>4,600</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>	<u><b>4,600</b></u>	<u><b>-</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	<u><u><b>302,564,455</b></u></u>	<u><u><b>4,600</b></u></u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	<u><u><b>302,564,455</b></u></u>	<u><u><b>4,600</b></u></u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**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 Suite 2306, 23rd Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

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

**2. GOING CONCERN BASIS**

As at 31 July 2011 the Foundation had net current liabilities of HK\$26,529,935. This condition indicates that the Foundation may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of founder member of the Foundation, 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.

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In the current year, the Foundation has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) that are relevant to its operations and effective for accounting year beginning on 1 August 2010. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Foundation’s accounting policies, presentation of the Foundation’s financial statements and amounts reported for the current year and prior period.

The Foundation has not applied the new IFRSs that have been issued but are not yet effective. The Foundation has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Hong Kong Companies Ordinance.

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

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to the financial statements.

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.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(b) Property, plant and equipment**

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

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:

Furniture and fixtures	3 years
Computers	3 years

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

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

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

**(c) Leases**

**(i) Operating leases**

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(c) Leases (cont'd)**

**(ii) Finance leases**

Leases that substantially transfer to the Foundation all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

**(d) Recognition and derecognition of financial instruments**

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

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(e) Receivables**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Foundation will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the statement of income and expenditure.

Impairment losses are reversed in subsequent periods and recognised in the statement of income and expenditure when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**(f) 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.

**(g) Financial liabilities and equity instruments**

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(h) Borrowings**

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

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

**(i) Payables**

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) Equity instruments**

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

**(k) Capital Certificates**

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

Corporate capital certificates are credited as capital reserve.

Details of the capital certificates are set out in note 11 to the financial statements.

**(l) Individual debentures**

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

Details of the individual debentures are set out in note 12 to the financial statements.



**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(m) Revenue recognition**

Revenue 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.

Donation is recognised as income on cash basis.

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

**(n) Employee benefits**

**(i) Employee leave entitlements**

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

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

**(ii) Pension obligations**

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

**(iii) Termination benefits**

Termination benefits are recognised when, and only when, the Foundation demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(o) Borrowing costs**

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

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

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

**(p) Related parties**

A party is related to the Foundation if:

- (i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Foundation; has an interest in the Foundation that gives it significant influence over the Foundation; or has joint control over the Foundation;
- (ii) the party is an associate;
- (iii) the party is a joint venture;
- (iv) the party is a member of the key management personnel of the Foundation or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Foundation, or of any entity that is a related party of the Foundation.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(q) Impairment of assets**

At the end of each reporting period, the Foundation reviews the carrying amounts of its tangible assets other than receivables 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 any impairment loss. Where 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.

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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of income and expenditure, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the statement of income and expenditure, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(r) Provisions and contingent liabilities**

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(r) Provisions and contingent liabilities (cont'd)**

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

**(s) Events after the reporting period**

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

**5. CRITICAL JUDGEMENTS AND KEY ESTIMATES**

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

**(a) Going concern basis**

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.

**(b) Classifications of capital certificates and individual debentures**

Capital certificates and individual debentures are classified as current or non-current liabilities or capital reserve in the financial statements. In making these classifications, the Foundation evaluates, among other factors, the terms and conditions of each capital certificate and individual debenture, any present obligations to the holders of such instruments and the Foundation's right and authority. Such classification requires significant judgement. The directors believe that the classification of capital certificates and individual debentures as set out in notes 11 and 12 to the financial statements is a fair presentation in accordance with the IFRSs.

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**6. FINANCIAL RISK MANAGEMENT**

The Foundation's activities expose it to 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.

**(b) Credit risk**

The carrying amount of the bank and cash balances and other receivables included in the statement of financial position represents the Foundation's maximum exposure to credit risk in relation to the Foundation's financial assets.

The credit risk on bank and cash balances is limited because the counterparty is bank with sound credit-ratings.

**(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 2011 and 2010, the Foundation's financial liabilities is repayable on demand or within one year.

**(d) Interest rate risk**

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

At 31 July 2011, if interest rates at that date had been 10 basis points higher/lower with all other variables held constant, deficit for the year would have been HK\$301,761 (For the period from 2.3.2009 to 31.7.2010: HK\$5) lower/higher, arising mainly as a result of higher/lower bank interest income.

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**6. FINANCIAL RISK MANAGEMENT (CONT'D)**

(e) **Categories of financial instruments at 31 July**

	<u>2011</u> HK\$	<u>2010</u> HK\$
<b>Financial assets:</b>		
Loans and receivables (including cash and cash equivalents)	<u>303,148,620</u>	<u>39,600</u>
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost	<u>328,953,722</u>	<u>8,146,912</u>

(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.

**7. 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).

**8. DEFICIT FOR THE YEAR/PERIOD**

The Foundation's deficit for the year/period is stated after charging the following:

	<u>1.8.2010</u> to <u>31.7.2011</u> HK\$	<u>2.3.2009</u> to <u>31.7.2010</u> HK\$
Auditor's remuneration	30,000	6,000
Depreciation	5,369	-
Directors' emoluments	-	-
Operating lease charges	25,000	-
Staff costs		
Salaries, bonus and allowances	375,885	-
Staff welfare	15,878	-
Retirement benefits scheme contributions	1,546	-
Less: amount included in cost of construction in progress	<u>(344,965)</u>	-
	<u>48,344</u>	<u>-</u>

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**9. PROPERTY, PLANT AND EQUIPMENT**

	Furniture and fixtures HK\$	Computers HK\$	Construction in progress HK\$	Total HK\$
<b>Cost</b>				
Additions, at 31 July 2010 and 1 August 2010	-	-	7,859,414	7,859,414
Additions	26,998	36,870	116,241,694	116,305,562
At 31 July 2011	26,998	36,870	124,101,108	124,164,976
<b>Accumulated depreciation</b>				
At 31 July 2010 and 1 August 2010	-	-	-	-
Charge for the year	-	5,369	-	5,369
At 31 July 2011	-	5,369	-	5,369
<b>Carrying amount</b>				
At 31 July 2011	26,998	31,501	124,101,108	124,159,607
At 31 July 2010	-	-	7,859,414	7,859,414

As at 31 July 2011, construction in progress represented the international boarding school situated in Tuen Mun, Hong Kong which is under development.

**10. ACCRUALS AND OTHER PAYABLES**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Accruals	152,595	364,500
Construction cost payables	12,873,800	-
Retention payables	4,211,050	29,360
Other payables	2,568,245	47,493
	<u>19,805,690</u>	<u>441,353</u>

An amount of HK\$983,167 (2010: Nil) included in other payables are unsecured, interest free and not payable within the next twelve months.

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**11. CAPITAL CERTIFICATES**

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

	<u>Individual capital certificates</u> HK\$	<u>Corporate capital certificates</u> HK\$	<u>Total</u> HK\$
At 31 July 2010 and 1 August 2010	-	-	-
Issued during the year	276,000,000	24,000,000	300,000,000
Refunded during the year	<u>(3,000,000)</u>	<u>-</u>	<u>(3,000,000)</u>
At 31 July 2011	<u>273,000,000</u>	<u>24,000,000</u>	<u>297,000,000</u>
		<u>2011</u> HK\$	<u>2010</u> HK\$
Analysed as:			
Current liabilities		273,000,000	-
Capital reserve		<u>24,000,000</u>	<u>-</u>
		<u>297,000,000</u>	<u>-</u>

(a) Individual capital certificates

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

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

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

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



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**11. CAPITAL CERTIFICATES (CONT'D)**

(b) Corporate capital certificates

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

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

**12. INDIVIDUAL DEBENTURES**

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

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

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

The movement of the individual debentures is as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
At beginning of year/period	-	-
Issued during the year/period	16,200,000	-
Refunded during the year/period	<u>(2,400,000)</u>	<u>-</u>
At end of year/period	<u>13,800,000</u>	<u>-</u>

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**13. DUE TO FOUNDER MEMBER**

The amount due is unsecured, interest free and has no fixed repayment terms.

**14. FINANCE LEASE PAYABLES**

	Minimum lease payments		Present value of minimum lease payments	
	<u>2011</u> HK\$	<u>2010</u> HK\$	<u>2011</u> HK\$	<u>2010</u> HK\$
In the second to fifth years, inclusive	61,418,929	-	38,805,072	-
After five years	41,540,571	-	36,919,928	-
	102,959,500	-	75,725,000	-
Less: Future finance charges	(27,234,500)	-	N/A	N/A
Present value of lease obligations due for settlement after 12 months	75,725,000	-	75,725,000	-

The construction of the international boarding school is financed by finance leases. The average lease term is 7 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

At 31 July 2011, the average effective borrowing rate was 3.48% (2010: N/A). Interest rates are fixed at the contract dates and thus expose the Foundation to fair value interest rate risk. For the year ended 31 July 2011, finance lease charges amounted to HK\$983,167 was capitalised (For the period from 2.3.2009 to 31.7.2010: Nil).

The finance lease payables are secured by the corporate guarantees executed by a related company to the extent of HK\$92,700,000 and equity interests held by the holding company of the related company. A director of the Foundation, Mr. Chan Wai Ki, is also a director of the related company.

All finance lease payables are denominated in Hong Kong dollars.

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**15. FUNDS AND RESERVES**

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

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

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

**16. NOTES TO THE STATEMENT OF CASH FLOWS**

Major non-cash transaction

Additions to property, plant and equipment during the year of HK\$75,725,000 (For the period from 2.3.2009 to 31.7.2010: Nil) were financed by finance leases.

**17. CAPITAL COMMITMENTS**

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Property, plant and equipment		
Contracted but not provided for	25,587,168	16,565,013
Authorised but not contracted for	<u>565,780,000</u>	<u>-</u>
	<u><b>591,367,168</b></u>	<u>16,565,013</u>

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**18. LEASE COMMITMENTS**

At 31 July 2011 the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Within one year	300,000	-
In the second to fifth years inclusive	<u>275,000</u>	<u>-</u>
	<u>575,000</u>	<u>-</u>

Operating lease payments represent rentals payable by the Foundation for its staff quarter. Leases are negotiated for an average terms of two years and rentals are fixed over the lease terms and do not include contingent rentals.

**19. RELATED PARTY TRANSACTIONS**

Apart from those related party transactions and balances disclosed elsewhere in the financial statements, the Foundation had no significant transactions with its related parties during the year.

**20. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 28 November 2011