

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 2015



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**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2015**

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

The directors present their annual report together with the audited financial statements for the year ended 31 July 2015.

### **1. PRINCIPAL ACTIVITIES**

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

### **2. RESULTS AND APPROPRIATIONS**

The results of the Foundation for the year ended 31 July 2015 are set out in the statement of income and expenditure on page 5.

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

The movements in funds and reserves during the year ended 31 July 2015 are set out in the statement of changes in funds and reserves on page 7.

### **4. DIRECTORS**

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

CHAN Wai Ki  
MA Chui Fong

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

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

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

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

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

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

**7. MANAGEMENT CONTRACTS**

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

**8. AUDITOR**

At the Foundation's last Annual General Meeting, RSM Nelson Wheeler was re-appointed as auditor of the Foundation. On 26 October 2015 our auditor, RSM Nelson Wheeler changed the name under which it practices to RSM Hong Kong and accordingly has signed its report under its new name.

RSM Hong Kong retires, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Hong Kong will be put at the forthcoming Annual General Meeting.

On behalf of the Board



MA Chui Fong

Hong Kong, 8 March 2016

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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)**

We have audited the financial statements of Harrow International School (Hong Kong) Limited (the "Foundation") set out on pages 5 to 36, which comprise the statement of financial position as at 31 July 2015, and the statement of income and expenditure, the statement of changes in funds and reserves and the statement of cash flows for the year then ended, and 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 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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


**Auditor's responsibility (Cont'd)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Foundation as at 31 July 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

  
Certified Public Accountants  
Hong Kong

8 March 2016

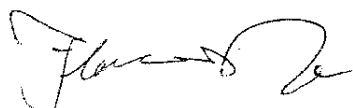
**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF INCOME AND EXPENDITURE**  
**FOR THE YEAR ENDED 31 JULY 2015**

	Note	<u>2015</u> HK\$	<u>2014</u> HK\$
<b>Income</b>			
Capital levies		39,884,722	33,900,000
Bank interest income		293,328	116,674
Interest income from held-to-maturity investments		1,696,334	1,050,584
Dividend income from unlisted fund investments		339,497	-
Gain on disposal of property, plant and equipment		-	70,095
Amortisation of deferred interest on government loan		582,541	388,362
Sundry income		6,000	130,832
		<u>42,802,422</u>	<u>35,656,547</u>
<b>Expenditure</b>			
Depreciation		(35,021,369)	(33,964,000)
General and administrative expenses		(4,547,560)	(9,265,161)
Finance costs	8	<u>(6,926,440)</u>	<u>(4,295,349)</u>
		<u>(46,495,369)</u>	<u>(47,524,510)</u>
<b>Deficit and total comprehensive deficit for the year</b>	10	<u><u>(3,692,947)</u></u>	<u><u>(11,867,963)</u></u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AT 31 JULY 2015**

	Note	<u>2015</u> HK\$	<u>2014</u> HK\$
<b>Non-current assets</b>			
Property, plant and equipment	11	726,054,578	736,067,848
Held-to-maturity investments	12	38,775,000	25,033,408
Prepayments, deposits and other receivables	15	2,359,080	2,403,540
		<u>767,188,658</u>	<u>763,504,796</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	15	2,832,682	1,971,545
Available-for-sale financial assets	13	34,202,000	7,763,000
Held-to-maturity investments	12	66,350,883	81,638,658
Due from a related company	21	38,204,813	6,948,925
Bank and cash balances	14	205,380,341	181,626,077
		<u>346,970,719</u>	<u>279,948,205</u>
<b>Current liabilities</b>			
Accruals and other payables	16	18,336,705	28,825,411
Capital certificates	17	153,000,000	156,000,000
Government loan	19	26,834,231	17,841,273
Deferred interest on government loan	20	1,104,366	582,542
Due to founder member	21	23,916,949	23,916,949
		<u>223,192,251</u>	<u>227,166,175</u>
<b>Net current assets</b>		<u>123,778,468</u>	<u>52,782,030</u>
<b>Total assets less current liabilities</b>		<u>890,967,126</u>	<u>816,286,826</u>
<b>Non-current liabilities</b>			
Government loan	19	193,120,388	215,642,776
Deferred interest on government loan	20	41,468,274	42,572,639
Individual debentures	18	12,600,000	12,600,000
		<u>247,188,662</u>	<u>270,815,415</u>
<b>NET ASSETS</b>		<u>643,778,464</u>	<u>545,471,411</u>
<b>Representing:</b>			
Capital reserve	22	669,000,000	567,000,000
General fund	22	(25,221,536)	(21,528,589)
<b>TOTAL FUNDS AND RESERVES</b>		<u>643,778,464</u>	<u>545,471,411</u>

Approved by the Board of Directors on 8 March 2016



MA Chui Fong



CHAN Wai Ki



**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
**FOR THE YEAR ENDED 31 JULY 2015**

	Capital reserve	General fund	Total
	HK\$	HK\$	HK\$
At 1 August 2013	447,000,000	(9,660,626)	437,339,374
Capital certificates transferred from current liabilities	120,000,000	-	120,000,000
Total comprehensive deficit for the year	-	(11,867,963)	(11,867,963)
Changes in funds and reserves for the year	120,000,000	(11,867,963)	108,132,037
At 31 July 2014 and 1 August 2014	567,000,000	(21,528,589)	545,471,411
Capital certificates transferred from current liabilities	102,000,000	-	102,000,000
Total comprehensive deficit for the year	-	(3,692,947)	(3,692,947)
Changes in funds and reserves for the year	102,000,000	(3,692,947)	98,307,053
At 31 July 2015	<u>669,000,000</u>	<u>(25,221,536)</u>	<u>643,778,464</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 JULY 2015**

	<u>2015</u> HK\$	<u>2014</u> HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Deficit for the year	(3,692,947)	(11,867,963)
Adjustments for:		
Finance costs	6,926,440	4,295,349
Depreciation	35,021,369	33,964,000
Gain on disposal of property, plant and equipment	-	(70,095)
Amortisation of deferred interest on government loan	(582,541)	(388,362)
Dividend income from unlisted fund investments	(339,497)	-
Interest income from held-to-maturity investments	(1,696,334)	(1,050,584)
Interest income	(293,328)	(116,674)
Operating surplus before working capital changes	35,343,162	24,765,671
Increase in prepayments, deposits and other receivables	(861,137)	(795,865)
(Decrease)/increase in accruals and other payables	(10,488,706)	2,845,450
Increase in due from a related company	(31,255,888)	(6,948,925)
Decrease in due to a related company	-	(11,248,024)
Cash (used in)/generated from operating activities	(7,262,569)	8,618,307
Interest paid	-	(2,063,047)
Net cash (used in)/generated from operating activities	<u>(7,262,569)</u>	<u>6,555,260</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(24,363,549)	(75,732,131)
Deposits paid for acquisition of property, plant and equipment	(600,090)	(1,955,540)
Proceeds from disposal of property, plant and equipment	-	350,477
Additions of available-for-sale financial assets	(26,439,000)	(7,763,000)
Dividend income from unlisted fund investments	339,497	-
Interest income received from held-to-maturity investments	1,696,334	1,010,625
Additions of held-to-maturity investments	(149,959,475)	(122,163,252)
Proceeds from disposal/redemption of held-to-maturity investments	151,505,658	15,531,145
Decrease in restricted bank balances	-	65,899,940
Interest received	293,328	116,674
Net cash used in investing activities	<u>(47,527,297)</u>	<u>(124,705,062)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of capital certificates	105,000,000	135,000,000
Repayment of bank loan	-	(142,000,000)
Refunds of capital certificates	(6,000,000)	(3,000,000)
(Repayment)/receipt of government loan	(20,455,870)	272,740,000
Net cash generated from financing activities	<u>78,544,130</u>	<u>262,740,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>23,754,264</b>	<b>144,590,198</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>181,626,077</b>	<b>37,035,879</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>205,380,341</u></b>	<b><u>181,626,077</u></b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	<u>205,380,341</u>	<u>181,626,077</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2015**

**1. GENERAL INFORMATION**

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

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

**2. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”). IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations. These financial statements also comply with the requirements of the Hong Kong Companies Ordinance (Cap. 622).

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

**(a) Application of new and revised IFRSs**

In the current year, the Foundation has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 August 2014:

**Amendment to IAS 16 and IAS38 (Annual Improvements to IFRSs 2010-2012 Cycle)**

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

**Amendment to IAS 24 (Annual Improvements to IFRSs 2010-2012 Cycle)**

The amendment clarifies how payments to entities providing key management personnel services are to be disclosed. This amendment had no effect on the Foundation’s financial statements.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2015**

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

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

**Amendment to IAS 32, Offsetting financial assets and financial liabilities**

This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Foundation's financial statements.

**Amendment to IAS 36, Recoverable amount disclosures for non-financial assets**

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments do not have an impact on these financial statements as the recoverable amounts of assets or cash-generating units have been determined on the basis of their value in use.

**Amendments to IFRS 13 (Annual Improvements to IFRSs 2010-2012 Cycle)**

This amendment to the standard's basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

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

The Foundation has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 August 2015. The directors anticipate that the new and revised IFRSs will be adopted in the Foundation's financial statements when they become effective. The Foundation is in the process of assessing, where applicable, the potential effect of all new and revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised 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 2015**

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

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

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

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

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

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

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

**(c) New Hong Kong Companies Ordinance (Cap. 622)**

The requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the financial statements.

**4. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2015**

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

**(a) Foreign currency translation**

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances in the financial statements**

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

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

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2015**

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

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

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

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

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

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

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

**(c) Operating leases**

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2015**

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

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

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

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

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

**(e) Investments**

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

**(i) Held-to-maturity investments**

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



**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2015**

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

**(e) Investments (cont'd)**

**(i) Held-to-maturity investments (cont'd)**

An impairment loss is recognised in the statement of income and expenditure when there is objective evidence that the held-to-maturity investments are impaired, and is measured as the difference between the investments' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods and recognised in the statement of income and expenditure when an increase in the investments' 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 investments at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity investments are classified as available-for-sale financial assets.

**(ii) Available-for-sale financial assets**

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

Impairment losses recognised in the statement of income and expenditure for equity investments classified as available-for-sale financial assets are not subsequently reversed through the statement of income and expenditure. Impairment losses recognised in the statement of income and expenditure for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the statement of income and expenditure if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2015**

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

**(f) Receivables**

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

If collection other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

**(g) Cash and cash equivalents**

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

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

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

**(i) Borrowings**

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2015**

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

**(j) 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.

**(k) Equity instruments**

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

**(l) 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 17 to the financial statements.

**(m) 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 18 to the financial statements.

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

**(n) Income recognition**

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

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

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

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

**(o) Employee benefits**

**(i) Employee leave entitlements**

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

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

**(ii) Pension obligations**

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

**(iii) Termination benefits**

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

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

**(p) 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.

**(q) Government loan**

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

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

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

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

**(r) Related parties**

A related party is a person or entity that is related to the Foundation.

(A) A person or a close member of that person's family is related to the Foundation if that person:

- (i) has control or joint control over the Foundation;
- (ii) has significant influence over the Foundation; or
- (iii) is a member of the key management personnel of the Foundation or of a parent of the Foundation.

(B) An entity is related to the Foundation if any of the following conditions applies:

- (i) The entity and the Foundation are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Foundation or an entity related to the Foundation. If the Foundation is itself such a plan, the sponsoring employers are also related to the Foundation.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

**(s) Impairment of financial assets**

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

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

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

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

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

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

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

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

**(t) Provisions and contingent liabilities**

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

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

**5. CRITICAL JUDGEMENTS AND KEY ESTIMATES**

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made the following judgements related to classifications of capital certificates and individual debentures that have the most significant effect on the amounts recognised in the financial statements. Capital certificates and individual debentures are classified as current or non-current liabilities or capital reserve in the financial statements. In making these classifications, the Foundation evaluates, among other factors, the terms and conditions of each capital certificate and individual debenture, any present obligations to the holders of such instruments and the Foundation's right and authority. Such classification requires significant judgement. The directors believe that the classification of capital certificates and individual debentures as set out in notes 17 and 18 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 a variety of financial risks: foreign currency risk, credit risk, price risk, liquidity risk and interest rate risk. The Foundation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Foundation's financial performance.

**(a) Foreign currency risk**

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

At 31 July 2015, if United States dollar had strengthen/weakened 1 per cent against Hong Kong dollar with all other variable held constant, deficit for the year would have been HK\$1,302,444 (2014: HK\$1,206,340) lower/higher, arising mainly as a result of the foreign exchange gains / losses on bank deposits and investments denominated in United States dollar.

**(b) Credit risk**

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

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

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

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

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

**(c) Price risk**

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

At 31 July 2015, if the prices of the fund investments increase/decrease by 5%, other comprehensive deficit for the year would have been HK\$1,710,100 lower/higher (2014: HK\$388,150), arising as a result of the fair value gain/loss of this investments.

**(d) Liquidity risk**

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

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

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	Over 5 years HK\$
<b>At 31 July 2015</b>				
Accruals and other payables	18,336,705	-	-	-
Capital certificates	153,000,000	-	-	-
Due to founder member	23,916,949	-	-	-
Individual debentures	-	1,200,000	11,400,000	-
Government loan	26,834,231	26,039,118	73,579,203	93,502,017
<b>At 31 July 2014</b>				
Accruals and other payables	28,825,411	-	-	-
Capital certificates	156,000,000	-	-	-
Due to founder member	23,916,949	-	-	-
Individual debentures	-	-	12,600,000	-
Government loan	17,841,273	26,104,512	73,763,852	115,774,412

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

**(e) Interest rate risk**

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

At 31 July 2015, 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\$201,881 (2014: higher/lower HK\$148,184) lower/higher, arising mainly as a result of higher/lower in the bank interest income and interest expenses on bank borrowing.

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

	<u>2015</u> HK\$	<u>2014</u> HK\$
<b>Financial assets:</b>		
Held-to-maturity investments	105,125,883	106,672,066
Available-for-sale financial assets	34,202,000	7,763,000
Loans and receivables (including cash and cash equivalents)	<u>246,850,340</u>	<u>190,269,182</u>
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost	<u>427,808,273</u>	<u>454,826,409</u>

**(g) Fair values**

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

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**7. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

**(a) Disclosures of level in fair value hierarchy at 31 July 2015**

The recurring fair value of the available-for-sale financial assets at 31 July 2015 are measured by using Level 2 of the fair value hierarchy.

**(b) Disclosure of valuation process used by the Foundation and valuation techniques and inputs used in fair value measurements at 31 July 2015:**

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

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

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

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**8. FINANCE COSTS**

	<u>2015</u> HK\$	<u>2014</u> HK\$
Interest on bank loan	-	2,063,047
Imputed interest on government loan (note 19)	<u>6,926,440</u>	<u>4,287,592</u>
	6,926,440	6,350,639
Less: amount capitalised (note 11)	<u>-</u>	<u>(2,055,290)</u>
	<u><u>6,926,440</u></u>	<u><u>4,295,349</u></u>

**9. 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).

**10. DEFICIT FOR THE YEAR**

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

	<u>2015</u> HK\$	<u>2014</u> HK\$
Auditor's remuneration	58,954	60,690
Depreciation	35,021,369	33,964,000
Directors' emoluments	-	-
Government rent and rates	<u>3,536,839</u>	<u>8,180,581</u>

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**11. PROPERTY, PLANT AND EQUIPMENT**

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computer	Motor vehicles	Construction in progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost</b>							
At 1 August 2013	663,610,383	3,273,600	36,929,098	9,644,432	350,477	5,763,501	719,571,491
Additions	-	-	251,387	403,794	-	77,132,240	77,787,421
Disposal	-	-	-	-	(350,477)	-	(350,477)
At 31 July 2014 and 1 August 2014	663,610,383	3,273,600	37,180,485	10,048,226	-	82,895,741	797,008,435
Additions	-	712,410	1,883,295	76,564	-	22,335,830	25,008,099
Transfer	98,531,666	-	102,000	-	-	(98,633,666)	-
At 31 July 2015	762,142,049	3,986,010	39,165,780	10,124,790	-	6,597,905	822,016,534
<b>Accumulated depreciation</b>							
At 1 August 2013	15,207,738	636,533	8,742,149	2,390,167	70,095	-	27,046,682
Charge for the year	16,590,260	1,091,200	13,061,901	3,220,639	-	-	33,964,000
Disposal	-	-	-	-	(70,095)	-	(70,095)
At 31 July 2014 and 1 August 2014	31,797,998	1,727,733	21,804,050	5,610,806	-	-	60,940,587
Charge for the year	19,118,671	1,154,666	11,458,802	3,289,230	-	-	35,021,369
At 31 July 2015	50,916,669	2,882,399	33,262,852	8,900,036	-	-	95,961,956
<b>Carrying amount</b>							
At 31 July 2015	711,225,380	1,103,611	5,902,928	1,224,754	-	6,597,905	726,054,578
At 31 July 2014	631,812,385	1,545,867	15,376,435	4,437,420	-	82,895,741	736,067,848

At 31 July 2015, construction in progress represented the international boarding school situated in Tuen Mun, Hong Kong which is under development.

At 31 July 2015, the Foundation's buildings and construction in progress are pledged as a security by way of first legal charge in respect of the government loan as set out in note 19 to the financial statements.

During the year ended 31 July 2015, the borrowing costs capitalised as construction in progress amounted to HK\$Nil (2014: HK\$2,055,290).

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**12. HELD-TO-MATURITY INVESTMENTS**

	<u>2015</u> HK\$	<u>2014</u> HK\$
Debt investments		
Current assets	66,350,883	81,638,658
Non-current assets	<u>38,775,000</u>	<u>25,033,408</u>
	<u>105,125,883</u>	<u>106,672,066</u>

Held-to-maturity investments respect debt investments that are either issued by financial institutions or companies which shares are listed on The Stock Exchange of Hong Kong Limited, carrying fixed interest rates at 0.6% to 10.5% (2014: 1.1% to 13.0%) per annum, and will mature from 11 August 2015 to 8 March 2017 (2014: 25 August 2015 to 24 December 2015). None of these assets has been past due or impaired at the end of the reporting period.

As at 31 July 2015, the carrying amount of the Foundation's held-to-maturity investments are denominated in the following currencies:

	<u>2015</u> HK\$	<u>2014</u> HK\$
Hong Kong dollars	19,000,000	26,069,374
United States dollars	<u>86,125,883</u>	<u>80,602,692</u>
	<u>105,125,883</u>	<u>106,672,066</u>

**13. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<u>2015</u> HK\$	<u>2014</u> HK\$
Fund investments, at fair value		
Unlisted outside Hong Kong	<u>34,202,000</u>	<u>7,763,000</u>
Market value of unlisted fund investments	<u>34,202,000</u>	<u>7,763,000</u>

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

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**14. BANK AND CASH BALANCES**

As at 31 July 2015, the carrying amount of the Foundation's bank and cash balances are denominated in the following currencies:

	<u>2015</u> HK\$	<u>2014</u> HK\$
Hong Kong dollars	194,295,853	148,084,712
United States dollars	9,916,567	32,268,268
Canadian dollars	8,875	10,600
British pounds	1,131,064	1,228,244
Euro dollars	<u>27,982</u>	<u>34,253</u>
	<u><u>205,380,341</u></u>	<u><u>181,626,077</u></u>

**15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<u>2015</u> HK\$	<u>2014</u> HK\$
<b>Non-current assets</b>		
Deposits paid for acquisition of property, plant and equipment	1,911,080	1,955,540
Prepayments, deposits and other receivables	<u>448,000</u>	<u>448,000</u>
	<u><u>2,359,080</u></u>	<u><u>2,403,540</u></u>
<b>Current assets</b>		
Prepayments, deposits and other receivables	<u>2,832,682</u>	<u>1,971,545</u>
	<u><u>5,191,762</u></u>	<u><u>4,375,085</u></u>



**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
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**16. ACCRUALS AND OTHER PAYABLES**

	<u>2015</u> HK\$	<u>2014</u> HK\$
Accruals	223,521	8,240,580
Retention payables	17,224,500	20,071,500
Other payables	<u>888,684</u>	<u>513,331</u>
	<u>18,336,705</u>	<u>28,825,411</u>

**17. CAPITAL CERTIFICATES**

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

	<u>Individual capital certificates</u> HK\$	<u>Corporate capital certificates</u> HK\$	<u>Total</u> HK\$
At 1 August 2014	618,000,000	105,000,000	723,000,000
Issued during the year	105,000,000	-	105,000,000
Refunded during the year	<u>(6,000,000)</u>	<u>-</u>	<u>(6,000,000)</u>
At 31 July 2015	<u>717,000,000</u>	<u>105,000,000</u>	<u>822,000,000</u>
		<u>2015</u> HK\$	<u>2014</u> HK\$
Analysed as:			
Current liabilities		153,000,000	156,000,000
Capital reserve		<u>669,000,000</u>	<u>567,000,000</u>
		<u>822,000,000</u>	<u>723,000,000</u>

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

**(a) Individual capital certificates**

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

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

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

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

**(b) Corporate capital certificates**

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

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

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**18. 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.

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**19. GOVERNMENT LOAN**

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

The movement of the government loan is as follows:

	<u>2015</u> HK\$	<u>2014</u> HK\$
At beginning of the year	233,484,049	-
Addition	-	229,196,457
Imputed interest charge for the year (note 8)	6,926,440	4,287,592
Repayment	<u>(20,455,870)</u>	<u>-</u>
At end of year	<u>219,954,619</u>	<u>233,484,049</u>

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

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

	<u>2015</u> HK\$	<u>2014</u> HK\$
Within one year	<u>26,834,231</u>	<u>17,841,273</u>
In the second year	26,039,168	26,104,512
In the third to fifth years	73,579,203	73,763,852
After five years	<u>93,502,017</u>	<u>115,774,412</u>
	<u>193,120,388</u>	<u>215,642,776</u>
	<u>219,954,619</u>	<u>233,484,049</u>

The government loan is denominated in Hong Kong dollars and secured by way of the first legal charge over the Foundation's building and construction in progress as set out in note 11 to the financial statements.

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**20. DEFERRED INTEREST ON GOVERNMENT LOAN**

Deferred interest on government loan represents the difference between the proceeds received and the initial carrying value of the government loan as set out in note 19 to the financial statements.

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

	<u>2015</u> HK\$	<u>2014</u> HK\$
At beginning of year	43,155,181	-
Addition	-	43,543,543
Amortisation of deferred interest on government loan	<u>(582,541)</u>	<u>(388,362)</u>
At end of year	<u>42,572,640</u>	<u>43,155,181</u>
	<u>2015</u> HK\$	<u>2014</u> HK\$
Analysed as:		
Current liabilities	1,104,366	582,542
Non-current liabilities	<u>41,468,274</u>	<u>42,572,639</u>
	<u>42,572,640</u>	<u>43,155,181</u>

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

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

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**22. 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.

**23. CAPITAL COMMITMENTS**

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

	<u>2015</u> HK\$	<u>2014</u> HK\$
Property, plant and equipment		
Contracted but not provided for	<u>91,617,241</u>	<u>94,467,739</u>