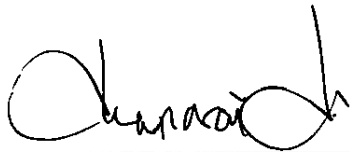


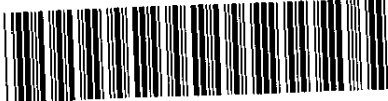
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TRUE COPY**



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 2016



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11/05/2017



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

Reports and Financial Statements  
For the year ended 31 July 2016

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2016**

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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 2016.

### **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 2016 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 2016 are set out in the statement of changes in funds and reserves on page 7.

### **4. DONATIONS**

Charitable and other donations made by the Foundation during the year amounted to HK\$6,000,000.

### **5. 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.

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

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

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

**7. 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.

**8. 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.

**9. AUDITOR**

The financial statements have been audited by RSM Hong Kong who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



MA Chui Fong

Hong Kong, 26 January 2017

RSM Hong Kong 中瑞岳華(香港)會計師事務所

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBER OF  
HARROW INTERNATIONAL SCHOOL (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 34, which comprise the statement of financial position as at 31 July 2016, and the statement of income and expenditure, the statement of changes in funds and 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 of the Foundation are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

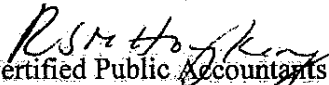
**Auditor's responsibility (Cont'd)**

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 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

  
Certified Public Accountants  
Hong Kong

26 January 2017

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF INCOME AND EXPENDITURE**  
**FOR THE YEAR ENDED 31 JULY 2016**


	Note	<u>2016</u> HK\$	<u>2015</u> HK\$
<b>Income</b>			
Capital levies		<b>42,081,391</b>	39,884,722
Bank interest income		450,009	293,328
Interest income from held-to-maturity investments		855,029	1,696,334
Dividend income from unlisted fund investments		1,269,700	339,497
Amortisation of deferred interest on government loan		1,104,366	582,541
Transfer fee income of capital certificates		<b>2,900,000</b>	-
Sundry income		6,000	6,000
		<u>48,666,495</u>	<u>42,802,422</u>
<b>Expenditure</b>			
Depreciation		(27,066,489)	(35,021,369)
General and administrative expenses		(11,956,874)	(4,547,560)
Finance costs	8	<u>(6,336,360)</u>	<u>(6,926,440)</u>
		<u>(45,359,723)</u>	<u>(46,495,369)</u>
<b>Surplus/(deficit) and total comprehensive surplus/(deficit) for the year</b>	10	<u><b>3,306,772</b></u>	<u>(3,692,947)</u>

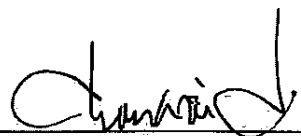


**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AT 31 JULY 2016**

	Note	<u>2016</u> HK\$	<u>2015</u> HK\$
<b>Non-current assets</b>			
Property, plant and equipment	12	740,512,856	726,054,578
Held-to-maturity investments	13	15,548,000	38,775,000
Prepayments, deposits and other receivables	16	448,000	2,359,080
		<u>756,508,856</u>	<u>767,188,658</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	16	2,426,445	2,832,682
Available-for-sale financial assets	14	31,100,000	34,202,000
Held-to-maturity investments	13	99,058,900	66,350,883
Due from a related company	22	23,329,364	38,204,813
Bank and cash balances	15	479,190,238	205,380,341
		<u>635,104,947</u>	<u>346,970,719</u>
<b>Current liabilities</b>			
Accruals and other payables	17	41,526,325	18,336,705
Capital certificates	18	312,000,000	153,000,000
Government loan	20	26,834,231	26,834,231
Deferred interest on government loan	21	1,104,366	1,104,366
Individual debentures	19	1,200,000	-
Due to founder member	22	23,916,949	23,916,949
		<u>406,581,871</u>	<u>223,192,251</u>
<b>Net current assets</b>		<u>228,523,076</u>	<u>123,778,468</u>
<b>Total assets less current liabilities</b>		<u>985,031,932</u>	<u>890,967,126</u>
<b>Non-current liabilities</b>			
Government loan	20	172,182,788	193,120,388
Deferred interest on government loan	21	40,363,908	41,468,274
Individual debentures	19	11,400,000	12,600,000
		<u>223,946,696</u>	<u>247,188,662</u>
<b>NET ASSETS</b>		<u>761,085,236</u>	<u>643,778,464</u>
<b>Representing:</b>			
Capital reserve	23	783,000,000	669,000,000
General fund	23	(21,914,764)	(25,221,536)
<b>TOTAL FUNDS AND RESERVES</b>		<u>761,085,236</u>	<u>643,778,464</u>

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

  
 MA Chui Fong

  
 CHAN Wai Ki

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF CHANGES IN FUNDS AND RESERVES**  
**FOR THE YEAR ENDED 31 JULY 2016**

	Capital reserve	General fund	Total
	HK\$	HK\$	HK\$
At 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 and 1 August 2015	669,000,000	(25,221,536)	643,778,464
Capital certificates transferred from current liabilities	114,000,000	-	114,000,000
Total comprehensive surplus for the year	-	3,306,772	3,306,772
Changes in funds and reserves for the year	114,000,000	3,306,772	117,306,772
At 31 July 2016	<u>783,000,000</u>	<u>(21,914,764)</u>	<u>761,085,236</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 JULY 2016**

	<u>2016</u> HK\$	<u>2015</u> HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus/(deficit) for the year	3,306,772	(3,692,947)
Adjustments for:		
Finance costs	6,336,360	6,926,440
Depreciation	27,066,489	35,021,369
Amortisation of deferred interest on government loan	(1,104,366)	(582,541)
Dividend income from unlisted fund investments	(1,269,700)	(339,497)
Interest income from held-to-maturity investments	(855,029)	(1,696,334)
Interest income	(450,009)	(293,328)
Operating surplus before working capital changes	33,030,517	35,343,162
Decrease/(increase) in prepayments, deposits and other receivables	2,317,317	(861,137)
Increase/(decrease) in accruals and other payables	23,189,620	(10,488,706)
Decrease/(increase) in due from a related company	14,875,449	(31,255,888)
Net cash generated from/(used in) operating activities	<u>73,412,903</u>	<u>(7,262,569)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(41,524,767)	(24,363,549)
Deposits paid for acquisition of property, plant and equipment	-	(600,090)
Additions of available-for-sale financial assets	-	(26,439,000)
Dividend income from unlisted fund investments	1,269,700	339,497
Interest income received from held-to-maturity investments	855,029	1,696,334
Additions of held-to-maturity investments	(75,831,900)	(149,959,475)
Proceeds from disposal/redemption of held-to-maturity investments	66,350,883	151,505,658
Proceeds from disposal of available-for-sale financial assets	3,102,000	-
Interest received	450,009	293,328
Net cash used in investing activities	<u>(45,329,046)</u>	<u>(47,527,297)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of capital certificates	279,000,000	105,000,000
Refunds of capital certificates	(6,000,000)	(6,000,000)
Repayment of government loan	(27,273,960)	(20,455,870)
Net cash generated from financing activities	<u>245,726,040</u>	<u>78,544,130</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>273,809,897</b>	<b>23,754,264</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>205,380,341</b>	<b>181,626,077</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>479,190,238</u></b>	<b><u>205,380,341</u></b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank and cash balances	<u>479,190,238</u>	<u>205,380,341</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2016**

**1. GENERAL INFORMATION**

The Foundation was incorporated in Hong Kong as a company with limited liability by guarantee and not having share capital under the Hong Kong Companies Ordinance. The address of its registered office and its principal place of activities is 38 Tsing Ying Road, Tuen Mun, 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”) issued by the International Accounting Standards Board (“IASB”) and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These financial statements also comply with the requirements of the Hong Kong Companies Ordinance (Cap. 622).

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

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

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

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

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

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2016**

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

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

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

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

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

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2016**

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

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

**(a) Foreign currency translation**

**(i) Functional and presentation currency**

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

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

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

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

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

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

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

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2016**

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

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

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.

**(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.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2016**

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

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

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) Financial assets**

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

The Foundation classifies its financial assets in the following categories: loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**(i) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically other receivables, due from a related company and bank balances and cash are classified in this category.

**(ii) 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 2016**

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

**(e) Financial assets (cont'd)**

**(iii) 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.

**(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.

**(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/HKFRSs. 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 2016**

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

**(h) Financial liabilities and equity instruments (cont'd)**

**(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.

**(ii) Payables**

Payables are recognised 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.

**(iii) Equity instruments**

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

**(i) 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 18 to the financial statements.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
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**4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(j) 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 19 to the financial statements.

**(k) 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.

Transfer fee income is recognised when the titles of the capital certificates are transferred.

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.

**(l) 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.

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

**(l) Employee benefits (cont'd)**

**(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.

**(m) 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.

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

**(n) 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.

**(o) Impairment of non-financial assets**

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of income and expenditure to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset / cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset / cash-generating unit whose impairment is being measured.

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

**(o) Impairment of non-financial assets (cont'd)**

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to income and expenditure to the extent that they reverse the impairment.

**(p) 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.

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**FOR THE YEAR ENDED 31 JULY 2016**

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

**(p) Impairment of financial assets (cont'd)**

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.

**(q) 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.

**(r) 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.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 18 and 19 to the financial statements is a fair presentation in accordance with the IFRSs/HKFRSs.

**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 2016, if United States dollar had strengthen/weakened 1 per cent against Hong Kong dollar with all other variable held constant, surplus for the year would have been HK\$1,441,146 higher/lower (2015: deficit of HK\$1,302,444 lower/higher), arising mainly as a result of the foreign exchange gains/losses on bank deposits and investments denominated in United States dollar.



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

**(b) Credit risk**

The Foundation's credit risk is primarily attributable to its bank and cash balances, other receivables, investments and due from related companies. In order to minimise credit risk, the directors of the Foundation review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors of the Foundation consider that the Foundation's credit risk is significantly reduced.

The Foundation has no significant concentrations of credit risk.

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

The credit risk on bank 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.

**(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 2016, if the prices of the fund investments increase/decrease by 5%, other comprehensive surplus for the year would have been HK\$1,555,000 higher/lower (2015: deficit of HK\$1,710,100 lower/higher), arising as a result of the fair value gain/loss of this investments.

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**  
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6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

(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 2016</b>				
Accruals and other payables	40,056,325	-	-	-
Capital certificates	312,000,000	-	-	-
Due to founder member	23,916,949	-	-	-
Individual debentures	1,200,000	-	11,400,000	-
Government loan	26,834,231	26,039,166	73,579,203	72,564,419
<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	26,039,168	73,579,203	93,502,017

(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 2016, if interest rates at that date had been 10 basis points higher/lower with all other variables held constant, surplus for the year would have been HK\$472,630 higher/lower (2015: deficit of HK\$201,881 lower/higher), arising mainly as a result of higher/lower in the bank interest income and interest expenses on bank borrowing.

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

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
<b>Financial assets:</b>		
Held-to-maturity investments	114,606,900	105,125,883
Available-for-sale financial assets	31,100,000	34,202,000
Loans and receivables (including cash and cash equivalents)	<u>505,394,046</u>	<u>246,850,340</u>
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost	<u>587,590,293</u>	<u>427,808,273</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.

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.

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**7. FAIR VALUE MEASUREMENTS (CONT'D)**

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 2016**

The recurring fair value of the available-for-sale financial assets at 31 July 2016 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 2016:**

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

**8. FINANCE COSTS**

	<u>2016</u>	<u>2015</u>
	HK\$	HK\$
Imputed interest on government loan (note 20)	<u>6,336,360</u>	<u>6,926,440</u>

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**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. SURPLUS/(DEFICIT) FOR THE YEAR**

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
Auditor's remuneration	47,335	58,954
Depreciation	27,066,489	35,021,369
Government rent and rates	<u>4,219,863</u>	<u>3,536,839</u>

**11. BENEFITS AND INTERESTS OF DIRECTORS**

(a) Director's emoluments

No director of the Foundation received any fees or emoluments in respect of his services rendered to the Foundation during the year (2015: Nil).

(b) Director's material interests in transactions, arrangements or contracts

No significance transactions, arrangements and contracts in relation to the Foundation's business to which the Foundation was a party and in which the director of the Foundation and the director's connected party had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

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**12. PROPERTY, PLANT AND EQUIPMENT**

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Computer	Construction in progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost</b>						
At 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)	-
<b>At 31 July 2015 and 1 August 2015</b>	<b>762,142,049</b>	<b>3,986,010</b>	<b>39,165,780</b>	<b>10,124,790</b>	<b>6,597,905</b>	<b>822,016,534</b>
Additions	-	61,640	-	2,807,546	38,655,581	41,524,767
Disposal	-	-	(9,690)	-	-	(9,690)
Transfer	3,806,379	-	-	-	(3,806,379)	-
<b>At 31 July 2016</b>	<b>765,948,428</b>	<b>4,047,650</b>	<b>39,156,090</b>	<b>12,932,336</b>	<b>41,447,107</b>	<b>863,531,611</b>
<b>Accumulated depreciation</b>						
At 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
<b>At 31 July 2015 and 1 August 2015</b>	<b>50,916,669</b>	<b>2,882,399</b>	<b>33,262,852</b>	<b>8,900,036</b>	<b>-</b>	<b>95,961,956</b>
Charge for the year	19,288,627	693,849	5,084,187	1,999,826	-	27,066,489
Disposal	-	-	(9,690)	-	-	(9,690)
<b>At 31 July 2016</b>	<b>70,205,296</b>	<b>3,576,248</b>	<b>38,337,349</b>	<b>10,899,862</b>	<b>-</b>	<b>123,018,755</b>
<b>Carrying amount</b>						
At 31 July 2016	695,743,132	471,402	818,741	2,032,474	41,447,107	740,512,856
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 2016, construction in progress represented the international boarding school situated in Tuen Mun, Hong Kong which is under development.

At 31 July 2016, 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 20 to the financial statements.

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**13. HELD-TO-MATURITY INVESTMENTS**

	<u>2016</u> HK\$	<u>2015</u> HK\$
Debt investments		
Current assets	99,058,900	66,350,883
Non-current assets	<u>15,548,000</u>	<u>38,775,000</u>
	<u>114,606,900</u>	<u>105,125,883</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 1.0% to 4.8% (2015: 0.6% to 10.5%) per annum, and will mature from 3 August 2016 to 12 October 2017 (2015: 11 August 2015 to 8 March 2017). None of these assets has been past due or impaired at the end of the reporting period.

As at 31 July 2016, the carrying amount of the Foundation's held-to-maturity investments are denominated in the following currencies:

	<u>2016</u> HK\$	<u>2015</u> HK\$
Hong Kong dollars	12,005,160	19,000,000
United States dollars	<u>102,601,740</u>	<u>86,125,883</u>
	<u>114,606,900</u>	<u>105,125,883</u>

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
Fund investments, at fair value		
Unlisted outside Hong Kong	<u>31,100,000</u>	<u>34,202,000</u>
Market value of unlisted fund investments	<u>31,100,000</u>	<u>34,202,000</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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**15. BANK AND CASH BALANCES**

As at 31 July 2016, the carrying amount of the Foundation's bank and cash balances are denominated in the following currencies:

	<u>2016</u> HK\$	<u>2015</u> HK\$
Hong Kong dollars	463,957,718	194,295,853
United States dollars	14,235,424	9,916,567
Canadian dollars	8,797	8,875
British pounds	959,909	1,131,064
Euro dollars	28,390	27,982
	<u>479,190,238</u>	<u>205,380,341</u>

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
<b>Non-current assets</b>		
Deposits paid for acquisition of property, plant and equipment	-	1,911,080
Prepayments, deposits and other receivables	<u>448,000</u>	<u>448,000</u>
	<u>448,000</u>	<u>2,359,080</u>
<b>Current assets</b>		
Prepayments, deposits and other receivables	<u>2,426,445</u>	<u>2,832,682</u>
	<u>2,874,445</u>	<u>5,191,762</u>



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**17. ACCRUALS AND OTHER PAYABLES**

	<u>2016</u> HK\$	<u>2015</u> HK\$
Accruals	2,481,666	223,521
Retention payables	23,713,700	17,224,500
Other payables	15,330,959	888,684
	<u>41,526,325</u>	<u>18,336,705</u>

**18. 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 2015	717,000,000	105,000,000	822,000,000
Issued during the year	279,000,000	-	279,000,000
Refunded during the year	(6,000,000)	-	(6,000,000)
At 31 July 2016	<u>990,000,000</u>	<u>105,000,000</u>	<u>1,095,000,000</u>
		<u>2016</u> HK\$	<u>2015</u> HK\$
Analysed as:			
Current liabilities		312,000,000	153,000,000
Capital reserve		783,000,000	669,000,000
		<u>1,095,000,000</u>	<u>822,000,000</u>

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED  
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**18. 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.

**19. INDIVIDUAL DEBENTURES**

	<u>2016</u> HK\$	<u>2015</u> HK\$
Individual debentures		
Current liabilities	1,200,000	-
Non-current liabilities	<u>11,400,000</u>	<u>12,600,000</u>
	<u>12,600,000</u>	<u>12,600,000</u>

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.

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**19. INDIVIDUAL DEBENTURES (CONT'D)**

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.

**20. 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 21 to the financial statements.

The movement of the government loan is as follows:

	<u>2016</u> HK\$	<u>2015</u> HK\$
At beginning of the year	219,954,619	233,484,049
Imputed interest charge for the year (note 8)	6,336,360	6,926,440
Repayment	<u>(27,273,960)</u>	<u>(20,455,870)</u>
At end of year	<u>199,017,019</u>	<u>219,954,619</u>

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

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**20. GOVERNMENT LOAN (CONT'D)**

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
Within one year	<u>26,834,231</u>	<u>26,834,231</u>
In the second year	26,039,166	26,039,168
In the third to fifth years	73,579,203	73,579,203
After five years	<u>72,564,419</u>	<u>93,502,017</u>
	<u>172,182,788</u>	<u>193,120,388</u>
	<u>199,017,019</u>	<u>219,954,619</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 12 to the financial statements.

**21. 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 20 to the financial statements.

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
At beginning of year	42,572,640	43,155,181
Amortisation of deferred interest on government loan	<u>(1,104,366)</u>	<u>(582,541)</u>
At end of year	<u>41,468,274</u>	<u>42,572,640</u>
	<u>2016</u> HK\$	<u>2015</u> HK\$
Analysed as:		
Current liabilities	1,104,366	1,104,366
Non-current liabilities	<u>40,363,908</u>	<u>41,468,274</u>
	<u>41,468,274</u>	<u>42,572,640</u>

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

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

**23. 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.

**24. CAPITAL COMMITMENTS**

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

	<u>2016</u> HK\$	<u>2015</u> HK\$
Property, plant and equipment Contracted but not provided for	<u>486,766,041</u>	<u>91,617,241</u>

**25. RELATED PARTY TRANSACTIONS**

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Foundation had the following transactions with its related parties during the year.

	<u>2016</u> HK\$	<u>2015</u> HK\$
Donations paid to a related company	<u>6,000,000</u>	<u>-</u>

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