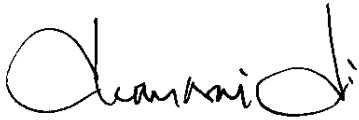


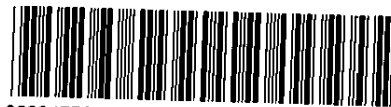
HARROW INTERNATIONAL SCHOOL  
(HONG KONG) LIMITED

**CERTIFIED  
TRUE COPY**

Reports and Financial Statements  
For the year ended 31 July 2018



\_\_\_\_\_  
CHAN WAI KI  
DIRECTOR OF  
HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED



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HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2018

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# HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

## DIRECTORS' REPORT

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

### **PRINCIPAL ACTIVITIES**

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

### **BUSINESS REVIEW**

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

### **RESULTS**

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

### **FUNDS AND RESERVES**

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

### **DONATIONS**

Charitable and other donations made by the Foundation during the year amounted to HK\$6,730,000.

HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

**DIRECTORS**

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

CHAN Wai Ki  
MA Chui Fong

In accordance with Article 37 of the Foundation's Articles of Association, all directors of the Foundation, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

**PERMITTED INDEMNITY PROVISIONS**

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

**DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE**

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

**AUDITOR**

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

On behalf of the Board



MA Chui Fong  
DIRECTOR  
28 February 2019

## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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

In our opinion, the financial statements give a true and fair view of the financial position of the Foundation as at 31 July 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Matter**

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

### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.

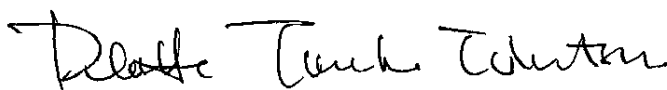
INDEPENDENT AUDITOR'S REPORT

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
28 February 2019

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

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

	<u>NOTES</u>	<u>2018</u> HK\$	<u>2017</u> HK\$
<b>Income</b>			
Capital levies		55,186,003	52,303,665
Bank interest income		745,716	766,996
Interest income from held-to-maturity investments		1,645,139	1,650,822
Dividend income from an available-for-sale financial asset investments		1,128,400	1,412,010
Amortisation of deferred interest on government loan	17	1,104,366	1,104,366
Transfer fee income of capital certificates	4	6,730,000	5,665,000
Net foreign exchange gains		719,486	672,196
Sundry income		15,000	18,475
		<u>67,274,110</u>	<u>63,593,530</u>
<b>Expenditure</b>			
Depreciation		(23,735,675)	(21,593,438)
General and administrative expenses		(27,536,926)	(27,670,107)
Finance costs	5	(5,038,246)	(5,697,063)
		<u>(56,310,847)</u>	<u>(54,960,608)</u>
<b>Surplus and total comprehensive surplus for the year</b>	7	<u>10,963,263</u>	<u>8,632,922</u>

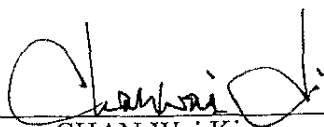


**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED**

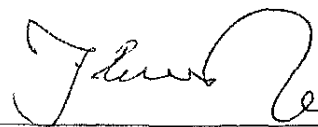
**STATEMENT OF FINANCIAL POSITION  
AT 31 JULY 2018**

	<u>NOTES</u>	<u>2018</u> <u>HK\$</u>	<u>2017</u> <u>HK\$</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	1,014,115,927	880,090,999
Prepayments, deposits and other receivables	9	2,511,484	2,889,163
		<u>1,016,627,411</u>	<u>882,980,162</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	9	2,761,908	2,114,262
Available-for-sale financial assets	10	23,337,000	23,337,000
Held-to-maturity investments	11	94,818,535	125,015,564
Amount due from a related company	12	-	7,055,048
Bank and cash balances	13	405,725,438	510,931,873
		<u>526,642,881</u>	<u>668,453,747</u>
<b>CURRENT LIABILITIES</b>			
Accruals and other payables		34,776,156	33,594,772
Capital certificates	14	81,000,000	319,000,000
Individual debentures	15	11,400,000	-
Government loan	16	26,834,231	26,834,231
Deferred interest on government loan	17	1,104,366	1,104,366
Amounts due to related companies	12	29,948,765	23,916,949
		<u>185,063,518</u>	<u>404,450,318</u>
<b>NET CURRENT ASSETS</b>		<u>341,579,363</u>	<u>264,003,429</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,358,206,774</u>	<u>1,146,983,591</u>
<b>NON-CURRENT LIABILITIES</b>			
Individual debentures	15	-	11,400,000
Government loan	16	128,370,177	150,605,891
Deferred interest on government loan	17	38,155,176	39,259,542
		<u>166,525,353</u>	<u>201,265,433</u>
<b>NET ASSETS</b>		<u>1,191,681,421</u>	<u>945,718,158</u>
<b>CAPITAL AND RESERVES</b>			
Capital reserve	14 & 18	1,194,000,000	959,000,000
General fund	18	(2,318,579)	(13,281,842)
<b>TOTAL FUNDS AND RESERVES</b>		<u>1,191,681,421</u>	<u>945,718,158</u>

The financial statements on pages 6 to 31 were approved and authorised for issue by the Board of Directors on 28 February 2019.



CHAN Wai Ki  
DIRECTOR



MA Chui Fong  
DIRECTOR

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

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

	Capital reserve HK\$	General fund HK\$	Total HK\$
At 1 August 2016	783,000,000	(21,914,764)	761,085,236
Capital certificates transferred from current liabilities	176,000,000	-	176,000,000
Surplus and total comprehensive surplus for the year	-	8,632,922	8,632,922
Changes in funds and reserves for the year	176,000,000	8,632,922	184,632,922
At 31 July 2017	959,000,000	(13,281,842)	945,718,158
Capital certificates transferred from current liabilities	235,000,000	-	235,000,000
Surplus and total comprehensive surplus for the year	-	10,963,263	10,963,263
Changes in funds and reserves for the year	235,000,000	10,963,263	245,963,263
At 31 July 2018	1,194,000,000	(2,318,579)	1,191,681,421

**HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 JULY 2018**

	<u>2018</u> HK\$	<u>2017</u> HK\$
<b>OPERATING ACTIVITIES</b>		
Surplus for the year	10,963,263	8,632,922
Adjustments for:		
Finance costs	5,038,246	5,697,063
Depreciation of property, plant and equipment	23,735,675	21,593,438
Amortisation of deferred interest on government loan	(1,104,366)	(1,104,366)
Dividend income from an available-for-sale financial asset	(1,128,400)	(1,412,010)
Interest income from held-to-maturity investments	(1,645,139)	(1,650,822)
Interest income	(745,716)	(766,996)
Operating surplus before working capital changes	35,113,563	30,989,229
(Increase) /Decrease in prepayments, deposits and other receivables	(647,646)	312,183
Decrease in amount due from a related company	7,055,048	16,274,316
Increase in accruals and other payables	1,181,384	4,068,447
Increase in amount due to a related company	6,031,816	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>48,734,165</u>	<u>51,644,175</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(155,319,440)	(161,171,581)
Deposits paid for acquisition of property, plant and equipment	(2,063,484)	(2,441,163)
Dividend received from an available-for-sale financial asset	1,128,400	1,412,010
Interest received from held-to-maturity investments	1,645,139	1,650,822
Purchases of held-to-maturity investments	(209,902,936)	(189,804,054)
Proceeds on disposal/redemption of held-to-maturity investments	240,099,965	179,395,390
Proceeds from disposal of available-for-sale financial assets	-	7,763,000
Interest received	745,716	766,996
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(123,666,640)</u>	<u>(162,428,580)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of capital certificates	-	191,000,000
Repayments of capital certificates	(3,000,000)	(20,000,000)
Repayments of individual debentures	-	(1,200,000)
Repayment of government loan	(27,273,960)	(27,273,960)
<b>NET CASH / (CASH USED IN) GENERATED FROM FINANCING ACTIVITIES</b>	<u>(30,273,960)</u>	<u>142,526,040</u>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(105,206,435)</u>	<u>31,741,635</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>510,931,873</u>	<u>479,190,238</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR, Bank and cash balances</b>	<u>405,725,438</u>	<u>510,931,873</u>

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## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2018

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#### 1. GENERAL

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

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

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

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

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

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

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

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

##### *Amendments to IAS/HKAS 7 Disclosure Initiative*

The Foundation has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

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

#### *Amendments to IAS/HKAS 7 Disclosure Initiative - continued*

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 19. Consistent with the transition provisions of the amendments, the Foundation has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 19, the application of these amendments has had no impact on the Foundation's financial statements

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021.

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

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

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

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

Key requirements of IFRS/HKFRS 9:

- all recognised financial assets that are within the scope of IFRS/HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.;
- in relation to the impairment of financial assets, IFRS/HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS/HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.;

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

*Classification and measurement:*

- Debt instruments classified as held-to-maturity investments carried at amortised cost as disclosed in note 11: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS/HKFRS 9.
- Equity securities classified as available-for-sale investments carried at fair value as disclosed in note 10: these securities qualified for designation as measured at FVTOCI under IFRS/HKFRS 9 and the Foundation will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve.
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS/HKAS 39.

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

*IFRS/HKFRS 9 Financial Instruments* - continued

*Impairment*

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

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

*IFRS/HKFRS 15 Revenue from Contracts with Customers*

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

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

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

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

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

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

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

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

3. **SIGNIFICANT ACCOUNTING POLICIES**

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

The financial statements have been prepared on the historical cost basis except for available-for-sale financial asset investments at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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

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



## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

The principal accounting policies are set out below.

#### Revenue recognition

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

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

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

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

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

Dividend income from investments is recognised when the rights to receive payment have been established.

#### Foreign currencies

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

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

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**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Property, plant and equipment**

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

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

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

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

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

**Financial instruments**

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

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

**Financial assets**

The Foundation's financial assets are classified as the following specified categories: held-to-maturity investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments - continued**

**Financial assets - continued**

*Effective interest method*

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

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

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that are quoted in an active market and that the Foundation has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

*AFS financial assets*

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Foundation that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognised in income or expenditure. Dividends on AFS equity instruments are recognised in income and expenditure when the Foundation's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive surplus.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments** - continued

**Financial assets** - continued

*Loans and receivables*

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

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

*Impairment of financial assets*

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

**3. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments - continued**

**Financial assets - continued**

*Impairment of financial assets - continued*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in 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.

**Financial liabilities and equity instruments**

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

*Equity instruments*

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

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 3. **SIGNIFICANT ACCOUNTING POLICIES** - continued

#### Financial instruments - continued

#### **Financial liabilities and equity instruments** - continued

##### *Financial liabilities at amortised cost*

Financial liabilities including accruals and other payables, government loan and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

#### **Derecognition**

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

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

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

#### Impairment losses on tangible assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 3. SIGNIFICANT ACCOUNTING POLICIES - continued

#### 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.

#### Individual debentures

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

#### 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.

### 4. TRANSFER FEE INCOME OF CAPITAL CERTIFICATES

The amount represents transfer fee income of capital certificates received by the Foundation. During the year, the Foundation donates the transfer fee income received to a related company, Harrow International School Foundation Limited, as scholarship for students of the international school.

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 5. FINANCE COSTS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Imputed interest on government loan (note 16)	5,038,246	5,697,063

### 6. INCOME TAX EXPENSE

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

### 7. SURPLUS FOR THE YEAR

Surplus for the year has been arrived at after charging /(crediting):

	<u>2018</u> HK\$	<u>2017</u> HK\$
Auditor's remuneration	118,452	62,710
Directors' remuneration (Note)	-	-
Government rent and rates	4,447,600	4,356,000
Loss on disposal of available-for-sale financial assets	-	770,483
Gain on disposal of property, plant and equipment	-	(1,975)

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

### 8. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u> HK\$	<u>Leasehold improvements</u> HK\$	<u>Furniture, fixtures and equipment</u> HK\$	<u>Computer</u> HK\$	<u>Construction in progress</u> HK\$	<u>Total</u> HK\$
<b>COST</b>						
At 1 August 2016	765,948,428	4,047,650	39,156,090	12,932,336	41,447,107	863,531,611
Additions	-	-	26,500	20,202	161,124,879	161,171,581
Disposals/write-off	-	-	(1,159,546)	-	-	(1,159,546)
Transfer	10,016,103	-	-	-	(10,016,103)	-
At 31 July 2017 and 1 August 2017	775,964,531	4,047,650	38,023,044	12,952,538	192,555,883	1,023,543,646
Additions	-	1,933,000	2,651,394	-	153,176,209	157,760,603
Disposals/write-off	-	-	(868,294)	-	-	(868,294)
<b>Transfer</b>	<b>168,000,000</b>	-	-	-	<b>(168,000,000)</b>	-
At 31 July 2018	943,964,531	5,980,650	39,806,144	12,952,538	177,732,092	1,180,435,955
<b>ACCUMULATED DEPRECIATION</b>						
At 1 August 2016	70,205,296	3,576,248	38,337,349	10,899,862	-	123,018,755
Charge for the year	19,509,062	258,017	736,557	1,089,802	-	21,593,438
Eliminated on disposals/write-off	-	-	(1,159,546)	-	-	(1,159,546)
At 31 July 2017 and 1 August 2017	89,714,358	3,834,265	37,914,360	11,989,664	-	143,452,647
Charge for the year	21,313,748	752,163	715,307	954,457	-	23,735,675
Eliminated on disposals/write-off	-	-	(868,294)	-	-	(868,294)
At 31 July 2018	111,028,106	4,586,428	37,761,373	12,944,121	-	166,320,028
<b>CARRYING AMOUNT</b>						
At 31 July 2018	832,936,425	1,394,222	2,044,771	8,417	177,732,092	1,014,115,927
At 31 July 2017	686,250,173	213,385	108,684	962,874	192,555,883	880,090,999



## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 8. PROPERTY, PLANT AND EQUIPMENT - continued

At 31 July 2018, construction in progress represented the extended phase development of the international boarding school situated in Tuen Mun, Hong Kong.

At 31 July 2018, 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 16.

### 9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<u>2018</u> HK\$	<u>2017</u> HK\$
<b>Non-current assets</b>		
Deposits paid for acquisition of property, plant and equipment	2,063,484	2,441,163
Prepayments, deposits and other receivables	448,000	448,000
	<u>2,511,484</u>	<u>2,889,163</u>
<b>Current assets</b>		
Prepayments, deposits and other receivables	2,761,908	2,114,262
	<u>5,273,392</u>	<u>5,003,425</u>

### 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise unlisted investment fund. Investment in investment funds represent pool investments, comprising equity and debts securities in various market.

### 11. HELD-TO-MATURITY INVESTMENTS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Analysed for reporting purposes as:		
Current assets	94,818,535	125,015,564
Non-current assets	-	-
	<u>94,818,535</u>	<u>125,015,564</u>

Held-to-maturity investments include debt investments that are issued by financial institutions which securities are listed on The Stock Exchange of Hong Kong Limited, carrying fixed interest rates at 1.10% to 2.66% (2017: 1.10% to 4.75%) per annum, and maturity date from 30 August 2018 to 29 May 2019 (2017: 11 August 2017 to 23 July 2018).

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 12. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

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

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

### 13. BANK AND CASH BALANCES

Bank balances carry interest at prevailing market rates for both years.

### 14. 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 2016	990,000,000	105,000,000	1,095,000,000
Issued during the year	203,000,000	-	203,000,000
Refunded during the year	(20,000,000)	-	(20,000,000)
Transferred during the year	12,000,000	(12,000,000)	-
At 31 July 2017 and 1 August 2017	1,185,000,000	93,000,000	1,278,000,000
Refunded during the year	(3,000,000)	-	(3,000,000)
At 31 July 2018	<u>1,182,000,000</u>	<u>93,000,000</u>	<u>1,275,000,000</u>
		<u>2018</u> HK\$	<u>2017</u> HK\$
Analysed as:			
Current liabilities		81,000,000	319,000,000
Capital reserve		<u>1,194,000,000</u>	<u>959,000,000</u>
		<u>1,275,000,000</u>	<u>1,278,000,000</u>

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 14. CAPITAL CERTIFICATES - continued

#### (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.

### 15. INDIVIDUAL DEBENTURES

	<u>2018</u> HK\$	<u>2017</u> HK\$
Individual debentures		
Current liabilities	11,400,000	-
Non-current liabilities	-	11,400,000
	<u>11,400,000</u>	<u>11,400,000</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, non-depreciable 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.

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 16. 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 17 to the financial statements.

The movement of the government loan is as follows:

	<u>2018</u> HK\$	<u>2017</u> HK\$
At beginning of the year	177,440,122	199,017,019
Imputed interest charge for the year (note 5)	5,038,246	5,697,063
Repayment	<u>(27,273,960)</u>	<u>(27,273,960)</u>
At end of year	<u>155,204,408</u>	<u>177,440,122</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>2018</u> HK\$	<u>2017</u> HK\$
Within one year	<u>26,834,231</u>	<u>26,834,231</u>
In the second year	26,039,166	26,039,166
In the third to fifth years	73,579,203	73,579,203
After five years	<u>28,751,808</u>	<u>50,987,522</u>
	<u>128,370,177</u>	<u>150,605,891</u>
	<u>155,204,408</u>	<u>177,440,122</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 8 to the financial statements.

In the opinion of the directors, the Foundation has complied with the terms and conditions set out in the Loan Deed signed between the Foundation and Government except for the obligation to provide the audited financial statements of the Foundation to the Government within 90 days after the end of the financial year 31 July 2018.

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 17. 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 16 to the financial statements.

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
At beginning of year	40,363,908	41,468,274
Amortisation of deferred interest on government loan	<u>(1,104,366)</u>	<u>(1,104,366)</u>
At end of year	<u>39,259,542</u>	<u>40,363,908</u>
	<u>2018</u> HK\$	<u>2017</u> HK\$
Analysed as:		
Current liabilities	1,104,366	1,104,366
Non-current liabilities	<u>38,155,176</u>	<u>39,259,542</u>
	<u>39,259,542</u>	<u>40,363,908</u>

### 18. 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.

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 19. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Foundation's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Foundation's statement of cash flows as cash flows from financing activities.

	Capital certificate HK\$	Government loan HK\$	Total HK\$
At 1 August 2017	319,000,000	177,440,122	496,440,122
Financing cash flows	(3,000,000)	(27,273,960)	(30,273,960)
Interest expenses accrued	-	5,038,246	5,038,246
Transfer to capital reserve	(235,000,000)	-	(235,000,000)
At 31 July 2018	<u>81,000,000</u>	<u>155,204,408</u>	<u>236,204,408</u>

### 20. CAPITAL COMMITMENTS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- acquisition of property, plant and equipment	3,840,205	4,654,472
- construction of the extended phase development of the international boarding school	193,688,998	331,690,828
	<u>197,529,203</u>	<u>336,345,300</u>

### 21. CAPITAL RISK MANAGEMENT

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

The capital structure of the Foundation consists of amount due to related companies, government loan, capital certificates, individual debentures, net of cash and cash equivalents and funds and reserves.

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

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 22. FINANCIAL INSTRUMENTS

#### 22a. Categories of financial instruments

	<u>2018</u> HK\$	<u>2017</u> HK\$
<b>Financial assets</b>		
Held-to-maturity investments	94,818,535	125,015,564
Available-for-sale financial assets	23,337,000	23,337,000
Loans and receivables (including cash and cash equivalents)	<u>407,611,005</u>	<u>519,275,621</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	<u>307,097,819</u>	<u>562,051,843</u>

#### 22b. Financial risk management objectives and policies

The Foundation's major financial instruments include held-to-maturity investments, available-for-sale financial assets, other receivables, amount due from a related company, bank and cash balances, accruals and other payables, amounts due to related companies, government loan, capital certificates and individual debentures. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

##### **Market risk**

###### *Currency risk*

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

##### **Credit risk**

The Foundation's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 July 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. The Foundation has no concentration of credit risk as at 31 July 2018.

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

## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 22. FINANCIAL INSTRUMENTS - continued

#### 22b. Financial risk management objectives and policies - continued

##### Credit risk - continued

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

##### Liquidity risk

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

The following table details the Foundation's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Foundation can be required to pay.

##### *Liquidity tables*

	Weighted average effective interest rate %	On demand or less than 1 year HK\$	1 to 2 years HK\$	2 to 5 years HK\$	Over 5 years HK\$	Total undiscounted cash flows HK\$	Carrying amount at 31 July 2018 HK\$
<b>2018</b>							
<b>Financial liabilities at amortised cost</b>							
Accruals and other payables	-	29,544,646	-	-	-	29,544,646	29,544,646
Capital certificates	-	81,000,000	-	-	-	81,000,000	81,000,000
Individual debenture	-	11,400,000	-	-	-	11,400,000	11,400,000
Government loan	3.01	27,273,960	27,273,960	81,821,880	34,092,450	170,462,250	155,204,408
Amounts due to related companies	-	29,948,765	-	-	-	29,948,765	29,948,765
		<u>179,167,371</u>	<u>27,273,960</u>	<u>81,821,880</u>	<u>34,092,450</u>	<u>322,355,661</u>	<u>307,097,819</u>
<b>2017</b>							
<b>Financial liabilities at amortised cost</b>							
Accruals and other payables	-	30,294,772	-	-	-	30,294,772	30,294,772
Capital certificates	-	319,000,000	-	-	-	319,000,000	319,000,000
Individual debenture	-	-	11,400,000	-	-	11,400,000	11,400,000
Government loan	3.01	27,273,960	27,273,960	81,821,880	61,366,410	197,736,210	177,440,122
Amount due to a related company	-	23,916,949	-	-	-	23,916,949	23,916,949
		<u>400,485,681</u>	<u>38,673,960</u>	<u>81,821,880</u>	<u>61,366,410</u>	<u>582,347,931</u>	<u>562,051,843</u>



## HARROW INTERNATIONAL SCHOOL (HONG KONG) LIMITED

### 22. FINANCIAL INSTRUMENTS - continued

#### 22c. Fair value measurements of financial instruments

This note provides information about how the Foundation determines fair values of various financial assets.

- (i) Fair value of the Foundation's financial assets that are measured at fair value on a recurring basis

The Foundation's financial asset is measured at fair value at the end of each reporting period. The following table gives information about how the fair values of this financial asset is determined (in particular, the valuation technique used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

<u>Financial asset</u>	<u>Fair value at</u> <u>31 July 2018</u> <u>HK\$</u>	<u>31 July 2017</u> <u>HK\$</u>	<u>Fair value</u> <u>hierarchy</u>	<u>Valuation technique</u>
Equity investment classified as available-for-sale investments	23,337,000	23,337,000	Level 2	Fair value quoted by the relevant financial institution with reference to the underlying assets of the equity

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

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

### 23. RELATED PARTY DISCLOSURE

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

<u>Name of related company</u>	<u>Nature of transaction</u>	<u>2018</u> <u>HK\$</u>	<u>2017</u> <u>HK\$</u>
<i>A related company (Note)</i> Harrow International School Foundation Limited	Donation paid	<u>6,730,000</u>	<u>7,665,000</u>

Note: The related company is under common control with the sole member of Foundation.

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