

CHI HENG FOUNDATION LIMITED

Reports and Financial Statements
For the year ended 31 December 2019

CHI HENG FOUNDATION LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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CHI HENG FOUNDATION LIMITED DIRECTORS' REPORT

The directors of Chi Heng Foundation Limited (the "Foundation") present their annual report together with the audited financial statements for the year ended 31 December 2019.

1. PRINCIPAL ACTIVITIES

The Foundation is engaged in performing general charitable works with the objective of preventing HIV/AIDS in China, education and care for children impacted by HIV/AIDS in China and equal opportunity for vulnerable groups. The Foundation is an approved charitable institution under Section 88 of the Inland Revenue Ordinance.

2. RESULTS AND APPROPRIATIONS

The results of the Foundation for the year ended 31 December 2019 are set out in the statement of profit or loss and other comprehensive income on page 12.

3. BUSINESS REVIEW

The financial year 2019 was a difficult one for the Foundation, and for Hong Kong overall. Despite the challenges, we are committed to continue our mission, and delighted to report that the year marked the seventeenth consecutive year of our Orphans, Vulnerable Children and Youths Program ("OVCY Program") in China. The Foundation has cumulatively served over 29,000 underprivileged children impacted by poverty, social stigma and illness including HIV through financial sponsorship and psychosocial support.

Thanks to the continued support from our donors, supporters and volunteers, the Foundation had revenue of HK\$38.4M and incurred a HK\$1.3M loss in 2019, whereas the year 2018 had a surplus of HK\$2.5M. Our financials deteriorated particularly in the 4th quarter of 2019 when Hong Kong experienced social unrest.

The Board of Directors ("the Board") would like to provide some highlights of our OVCY Program in this review.

CHI HENG FOUNDATION LIMITED DIRECTORS' REPORT

3. BUSINESS REVIEW (CONT'D)

(1) Education Sponsorship

During the 2018-19 school year, 8,152 students received financial sponsorship. There was an increase of 192 sponsored students in 2018-19 school year when compared to 7,960 students in 2017-18.

| School Grade | Sponsored Students |
|-------------------|--------------------|
| Primary | 2,783 |
| Junior High | 2,322 |
| Senior High | 1,265 |
| Vocational School | 513 |
| University | 1,269 |
| Total | 8,152 |

| Province | Sponsored Students |
|--------------|--------------------|
| Henan | 3,742 |
| Yunnan | 1,897 |
| Anhui | 402 |
| Guangxi | 982 |
| Guangdong | 314 |
| Shandong | 329 |
| Others | 486 |
| Total | 8,152 |

Riding on the success of the OVCY Program, the Foundation had built up a sound infrastructure to serve the children impacted by HIV/AIDS in China over the last 2 decades. The Foundation believed that the OVCY Program could benefit more than just HIV/AIDS families and students. The Board had decided to start a new “Seahorse” Program in 2019. The OVCY Program would sponsor underprivileged students having good academic achievements but suffering from poverty, illness and/or discrimination.

In the 2018-19 school year, the Seahorse Program has benefited 357 students from underprivileged families. Out of these beneficiaries, 287 were from Henan province, 49 were from Anhui province, 14 were from Shandong and 7 were from Shaanxi. 85 out of 99 or 86% of the senior high school students, made their way to university. Without the Seahorse Program, these students might have missed the chance to further their education due to poverty.

(2) University Students Summer Work

In 2019, 312 university students, a 19% increase over the 262 students in 2018, participated in our community self-help initiatives and/or Chi Heng Academy training. In fact, about 89% of our 1,269 sponsored university students took part in our Summer Work Program during their university studies. We are very proud of their eagerness to volunteer during their summer holidays by visiting younger students in their home villages. The university students acted as role models and encouraged the younger students to persist in their studies. Through their work in conducting extracurricular classes and organizing home visits, the university students brought the Foundation’s philosophy of “one helps three, three help nine” to life. Our students also cascaded our belief in promoting harmony and bonding of rural communities.

CHI HENG FOUNDATION LIMITED DIRECTORS' REPORT

3. BUSINESS REVIEW (CONT'D)

(3) Psychosocial Activities

Many of our sponsored students participated in our psychosocial support programs. The Foundation realized early on the importance of psychosocial support to children impacted by AIDS in China.

The Foundation organized 20 summer camps to foster healing, promote self-esteem, expand horizons and develop aspirations of our students in this school year. Students experienced university campus tours, corporate visits, art counselling activities, and museum / attraction tours during the summer camps. The Foundation also organized student activities including career development camps, festive village visits, cultural tours, elite students recognition functions, junior high graduation activities, and senior high graduation gatherings.

Based on our analysis, students that participated in our psychosocial activities have a higher school progression rate. In 2018-19 school year, our psychosocial activities inspired 70% of our junior high students to continue their studies in senior high or vocational schools. 93% of our senior high students strived to enter universities after attending our psychosocial activities. The student school progression rates in 2018-19 school year were overall consistent with rates from the previous year.

| School Progression | Progression Rate for Students | | | |
|--|---|---------|---|---------|
| | Participated in the Foundation's Activities | | Not Participated in the Foundation's Activities | |
| | 2018-19 | 2017-18 | 2018-19 | 2017-18 |
| From Junior High to Senior High or Vocational school | 70% | 70% | 50% | 51% |
| From Senior High to University | 93% | 92% | 75% | 75% |

(4) VolunOnline

VolunOnline is a supplemental education program for primary and high school students in rural China conducted over the Internet. By virtually connecting the students and teachers, we bridged the need for better and more diverse education in rural areas. This was made possible by recruiting well qualified volunteer teachers from corporations and non-governmental organizations ("NGOs") and by eliminating their need to take extended time away from work to travel to and stay in rural villages.

CHI HENG FOUNDATION LIMITED DIRECTORS' REPORT

3. BUSINESS REVIEW (CONT'D)

(4) VolunOnline (cont'd)

2019 marked the sixth year of this distance learning program. In 2019, our VolunOnline program ran 104 classrooms over 929 lesson-hours, benefiting 2,095 student-counts. The student-counts of 2,095 represent a 43.3% increase from 1,462 in 2018.

| Province | Classroom | Lesson-hour | Student-count |
|--------------|------------|-------------|---------------|
| Henan | 78 | 675 | 1,504 |
| Anhui | 2 | 20 | 37 |
| Guangxi | 13 | 120 | 306 |
| Hunan | 2 | 16 | 41 |
| Shandong | 1 | 10 | 46 |
| Yunnan | 8 | 88 | 161 |
| Total | 104 | 929 | 2,095 |

The volunteer teachers continued to increase, serving a total of 929 lesson-hours in 2019. The volunteer teachers came from different parts of the world and brought a diverse set of experiences with them. Other than teachers from Shanghai, Beijing, Suzhou, Wuxi, Chengdu, Xian, Shenzhen, Zhengzhou, Ningbo, Hangzhou, Nanjing and Tianjin, we also had overseas teachers from Canada, the United States and France overcoming time zone differences to serve our students. Some of our volunteer teachers work in well-known enterprises, education institutions, universities, and partner NGOs. These classes were very well received by the students, parents and the schools making direct impact on their studies and enhancing their interests in learning.

(5) Shanghai Young Bakers

Our Shanghai Young Bakers ("SYB") program welcomed its 11th batch of 32 underprivileged students from 8 provinces in August 2018 to undergo a one-year intensive training of French bakery and French pastry for the school year 2018-19. During this school year, the students followed 400 hours of French bakery & pastry theory and practice based on the French "Certificate of Professional Aptitude" diploma content. Moreover, they also received 208 hours training of Chinese Western theory & practice bakery, 104 hours learning of English language, 130 hours attending life skills classes with curriculum developed by the Psychology department of the East China Normal University, 100 days serving practical internship in the bakery or pastry departments of 5-star hotels, and 25 days participating in professional or personal development activities. All 32 students successfully graduated from the program in July 2019, all of them were employed after graduation and worked in the bakery industry. We were particularly thankful to train a student from Ningxia Orphanage who has returned as a baking trainer after receiving the one-year training in SYB.

CHI HENG FOUNDATION LIMITED DIRECTORS' REPORT

3. BUSINESS REVIEW (CONT'D)

(5) Shanghai Young Bakers (cont'd)

In August 2019, SYB welcomed a new batch of 30 students to start another year of intensive bakery training. We were particularly grateful to see these underprivileged youngsters, who were highly motivated with great passion to succeed, facing the very challenging year ahead.

SYB also partnered with a Social Café called Village 127, its affiliated social enterprise in Shanghai, to provide customized pastries to SYB supporters starting from October 2019. SYB was responsible for the product development, technical support and marketing whereas Social Café, with all the bakers being SYB graduates, looked after the production, sales and delivery of the customized pastries. The partnership benefited SYB program with new revenue stream and at the same time enhanced Social Café with new product knowledge and wider marketing coverage.

(6) Reading Rooms

The Foundation established 28 reading rooms over the last 12 years to improve the learning environments in primary schools, secondary schools and rural village communities in Anhui, Henan and Yunnan. Equipped with extracurricular readings, good chairs and tables for a comfortable study environment and multi-media equipment, the reading rooms were built by designated donations. All students in the schools are encouraged to use the reading rooms. These reading rooms served over 9,000 students in 2019.

The Foundation also regularly organized extracurricular activities such as reading sharing and speech contests alongside schools with our reading rooms. These activities greatly encouraged rural students to read books and enrich their knowledge during leisure time.

The Foundation was founded in 1998, a few months after Hong Kong was returned to China. Despite our humble beginning with no paid staff, no office space and no stable financial resources, our founding members were inspired to make the world a better place focusing on health, especially HIV related, anti-discrimination and education.

After 21 years of hard work, the Foundation has become China's largest and longest continuously running non-government initiative to serve children and youths impacted by HIV/AIDS. Our HIV/AIDS prevention and education programs also prevented many youths and vulnerable populations from getting HIV, thereby stopping the spread of HIV. Through our public events and campaigns, many corporations and individuals have received a better understanding of HIV, thereby minimizing social stigma associated with the virus.

CHI HENG FOUNDATION LIMITED DIRECTORS' REPORT

3. BUSINESS REVIEW (CONT'D)

The success of Chi Heng Foundation is largely due to the hard work of our dedicated volunteers, including our Board members. After serving the Board for nearly 8, 8, 8 and 3 years respectively, Mr. Cheung, Mr. Lam, Mr. Lo and Mr. Yam resigned in 2019. We would like to express our greatest gratitude to the long time service of the departing members and hope they will continue to contribute in different capacity.

The Foundation would like to extend warm welcome to Ms. Lam and Mr. Mok who joined as new Board members in May 2019. We are delighted to have Ms. Lam and Mr. Mok coming from different industries with ample of management experience in diverse disciplines. We are confident that they will inspire the Foundation with fresh ideas on fund-raising, define new standards on service quality and bring us to new levels of governance.

After experiencing a tough year in 2019, the Board expects that the current and future years to be even tougher with the COVID-19 pandemic. However, we envision that there is a continued demand of service from our beneficiaries, especially as their average age increases, the cost of education sponsorship per capita will increase. We plan to continue serving them, and hope our donors and supporters will continue supporting us in this meaningful cause.

4. DIRECTORS OF THE FOUNDATION

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

| | |
|----------------------|----------------------------|
| To Chung Chi | (Chairman) |
| Lam Man Ngar Norris | (Appointed on 20 May 2019) |
| Mok Wai Bun Ben | (Appointed on 30 May 2019) |
| Cheung Leung Hong | (Resigned on 28 Feb 2019) |
| Lam Sheung Lap Leroy | (Resigned on 28 Feb 2019) |
| Lo Yuk Lam | (Resigned on 31 May 2019) |
| Yam Tak Cheung | (Resigned on 31 May 2019) |

In accordance with articles 29 of the Foundation's article and association, all of the directors shall retire and, being eligible, offer themselves for re-election.

CHI HENG FOUNDATION LIMITED
DIRECTORS' REPORT

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

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

6. 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.

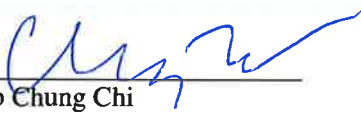
7. PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this Directors' Report, was there a permitted indemnity provision in force for the benefit of any of the directors of the Foundation (whether made by the Foundation or otherwise) or an associated company (if made by the Foundation).

8. AUDITOR

RSM Hong Kong was first appointed as auditor of the Foundation. The financial statements have been audited by RSM Hong Kong who retires, and, being eligible, offer themselves for re-appointment.

On behalf of the Board



To Chung Chi
CHAIRMAN
Hong Kong, 13 April 2021

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CHI HENG FOUNDATION LIMITED
(Incorporated in Hong Kong with limited by guarantee)**

Opinion

We have audited the financial statements of Chi Heng Foundation Limited (the "Foundation") set out on pages 12 to 51, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity 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 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CHI HENG FOUNDATION LIMITED
(Incorporated in Hong Kong with limited by guarantee)**

Other Information

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the Directors' report other than 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.

Responsibilities of Directors 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 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.

The directors are responsible for overseeing the Foundation's financial reporting process.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CHI HENG FOUNDATION LIMITED
(Incorporated in Hong Kong with limited by guarantee)**

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. We 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.

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CHI HENG FOUNDATION LIMITED
(Incorporated in Hong Kong with limited by guarantee)**

Auditor's Responsibilities for the Audit of the Financial Statements (cont'd)

- 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 the directors 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.

RSM Hong Kong

Certified Public Accountants
Hong Kong
13 April 2021

CHI HENG FOUNDATION LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

| | Note | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|--|------|---------------------------|-------------------------|
| Income | | | |
| Donation | | 16,711,495 | 19,039,562 |
| Sponsorship | | 10,380,141 | 10,518,612 |
| Sponsorship received for social cafe | | 236,100 | 1,612,012 |
| Fund-raising events | 7 | <u>9,971,689</u> | <u>16,530,316</u> |
| | | <u>37,299,425</u> | <u>47,700,502</u> |
| Other income | | | |
| Bank interest income | | 971,000 | 1,454,741 |
| Net gain on charity sales | | 116,372 | 330,108 |
| Other income | | <u>-</u> | <u>107,942</u> |
| | | <u>1,087,372</u> | <u>1,892,791</u> |
| | | <u>38,386,797</u> | <u>49,593,293</u> |
| Cost of projects and programs | 8 | (36,992,478) | (42,219,582) |
| Other operation expenses | 9 | (1,849,725) | (4,851,994) |
| Depreciation of right-of-use assets | | <u>(801,934)</u> | <u>-</u> |
| (Deficit)/surplus from operations | | (1,257,340) | 2,521,717 |
| Finance costs | 10 | <u>(74,571)</u> | <u>-</u> |
| (Deficit)/surplus before tax | | (1,331,911) | 2,521,717 |
| Income tax expense | 11 | <u>-</u> | <u>-</u> |
| (Deficit)/surplus for the year | | <u>(1,331,911)</u> | <u>2,521,717</u> |

CHI HENG FOUNDATION LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

| | Note | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|--|------|--------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 143,150 | 102,373 |
| Right-of-use assets | 14 | <u>1,608,096</u> | <u>-</u> |
| | | <u>1,751,246</u> | <u>102,373</u> |
| Current assets | | | |
| Deposits and other receivables | 15 | 3,534,577 | 5,002,123 |
| Bank and cash balances | 16 | <u>55,146,455</u> | <u>55,043,187</u> |
| | | <u>58,681,032</u> | <u>60,045,310</u> |
| TOTAL ASSETS | | <u>60,432,278</u> | <u>60,147,683</u> |
| FOUNDATION'S FUND AND LIABILITIES | | | |
| Foundation's fund | | | |
| Accumulated surplus of projects | 17 | <u>58,314,279</u> | <u>59,646,190</u> |
| Current liabilities | | | |
| Accruals and other payables | 18 | 583,519 | 501,493 |
| Lease liabilities | 19 | <u>860,580</u> | <u>-</u> |
| | | <u>1,444,099</u> | <u>501,493</u> |
| Non-current liabilities | | | |
| Lease liabilities | 19 | <u>673,900</u> | <u>-</u> |
| TOTAL LIABILITIES | | <u>2,117,999</u> | <u>501,493</u> |
| TOTAL FOUNDATION'S FUND AND LIABILITIES | | <u>60,432,278</u> | <u>60,147,683</u> |

Approved by the Board of Directors on 13 April 2021 and are signed on its behalf by:


 To Chung Chi
 CHAIRMAN


 Lam Man Ngar Norris
 DIRECTOR

CHI HENG FOUNDATION LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

| | Accumulated surplus of projects <u>HK\$</u> |
|--|--|
| At 1 January 2018 | 57,124,473 |
| Surplus for the year | <u>2,521,717</u> |
| At 31 December 2018 and 1 January 2019 | 59,646,190 |
| Deficit for the year | <u>(1,331,911)</u> |
| At 31 December 2019 | <u><u>58,314,279</u></u> |

CHI HENG FOUNDATION LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Deficit)/surplus before tax | (1,331,911) | 2,521,717 |
| Adjustments for: | | |
| Interest income | (971,000) | (1,454,741) |
| Depreciation of property, plant and equipment | 69,022 | 73,005 |
| Depreciation of right-of-use assets | 801,934 | - |
| Interest on lease liabilities | 74,571 | - |
| Operating (loss)/profit before working capital changes | (1,357,384) | 1,139,981 |
| Decrease in deposits and other receivables | 1,423,164 | 1,890,696 |
| Increase in accruals and other payables | 82,026 | 17,633 |
| Cash generated from operating activities | 147,806 | 3,048,310 |
| Interest on lease liabilities | (74,571) | - |
| Net cash generated from operating activities | 73,235 | 3,048,310 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (109,799) | (55,998) |
| (Placement)/withdrawal of bank deposits with original maturity over three months | (3,863,877) | 10,671,357 |
| Interest received | 971,000 | 1,454,742 |
| Net cash (used in)/generated from investing activities | (3,002,676) | 12,070,101 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal element of lease payments | (832,516) | - |
| Net cash used in financing activities | (832,516) | - |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (3,761,957) | 15,118,411 |
| Effect of foreign exchange rate changes | 1,348 | - |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 32,897,430 | 17,779,019 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 29,136,821 | 32,897,430 |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | |
| Bank and cash balances | 55,146,455 | 55,043,187 |
| Time deposits with maturity over three months | (26,009,634) | (22,145,757) |
| | 29,136,821 | 32,897,430 |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

Chi Heng Foundation Limited (the “Foundation”) was incorporated in Hong Kong with limited by guarantee not having a share capital. The address of its registered office is Room 703A, 7/F., Lai Cheong Factory Building, 479-479A Castle Peak Road, Kowloon, Hong Kong.

The Foundation is a non-profit making organisation and is an approved charitable institution under Section 88 of Inland Revenue Ordinance. It is engaged in performing general charitable works with objectives of preventing AIDS in China, education and care for children impacted by HIV/AIDS in China and equal opportunity for vulnerable groups. In 2017, the Foundation registered an overseas non-governmental organisation representative office in Henan Province in China.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). 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). Significant accounting policies adopted by the Foundation are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Foundation. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Foundation for the current and prior accounting periods reflected in these financial statements.

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Foundation.

Except for HKFRS 16, none of the developments have had a material effect on how the Foundation’s results and financial position for the current or prior periods have been prepared or presented. The Foundation has not applied any new standard or interpretation that is not yet effective for the current accounting period.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTD)

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Foundation has initially applied HKFRS 16 as from 1 January 2019. The Foundation has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases (cont'd)

(a) New definition of a lease (cont'd)

The Foundation applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Foundation has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Foundation is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Foundation has applied the incremental borrowing rates at the date of initial application. The weighted average incremental borrowing rates applied range from 4.21% to 4.39%.

To ease the transition to HKFRS 16, the Foundation applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.
- (ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in a similar economic environment. Specifically, discount rate for certain leases of leasehold properties was determined on a portfolio basis;

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases (cont'd)

(b) Lessee accounting and transitional impact (cont'd)

- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Foundation's leases with extension options;
- (iv) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (v) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 21 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | HK\$ |
|---|------------------|
| Operating lease commitments disclosed as at 31 December 2018 (note 21) | 2,029,380 |
| Less: commitments relating to lease exempt from capitalisation: | |
| - short-term leases and other leases with remaining lease term ending on or before 31 December 2019 | <u>(83,277)</u> |
| | 1,946,103 |
| Less: total future interest expenses | <u>(140,852)</u> |
| Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019 and lease liabilities recognised as at 1 January 2019 | <u>1,805,251</u> |
| Of which are: | |
| Current lease liabilities | 623,935 |
| Non-current lease liabilities | <u>1,181,316</u> |
| | <u>1,805,251</u> |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases (cont'd)

(b) Lessee accounting and transitional impact (cont'd)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Foundation is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance leases payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summaries the impacts of the adoption of HKFRS 16 on the Foundation's statement of financial position:

| Line items in the statement of financial position impacted by the adoption of HKFRS 16 | Effects of adoption of HKFRS 16 | | | Carrying amount as at 1 January 2019 |
|--|--|-------------------|------------------------|--------------------------------------|
| | Carrying amount as at 31 December 2018 | Re-classification | Re-cognition of leases | |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Assets | | | | |
| Right-of-use assets | - | 44,382 | 1,805,251 | 1,849,633 |
| Deposits and other receivables | 5,002,123 | (44,382) | - | 4,957,741 |
| Liabilities | | | | |
| Lease liabilities | - | - | 1,805,251 | 1,805,251 |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases (cont'd)

(c) Impact of the financial results and cash flows of the Foundation

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Foundation as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Foundation's statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the statement of cash flows, the Foundation as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (note 20(a)). These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the statement of cash flows (note 20(b)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Foundation's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases (cont'd)

(c) Impact of the financial results and cash flows of the Foundation (cont'd)

| Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16: | 2019 | | | 2018 | |
|--|---|--|---|---|---|
| | Amounts reported under HKFRS 16 HK\$ | Add back: HKFRS 16 depreciation and interest expense HK\$ | Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1) HK\$ | Hypothetical amounts for 2019 as if under HKAS 17 HK\$ | Compared to amounts reported for 2018 under HKAS 17 HK\$ |
| | | | | | |
| | | | | | |
| (Deficit)/surplus from operations | (1,245,110) | 801,934 | (907,087) | (1,350,263) | 2,521,717 |
| Finance costs | (74,571) | 74,571 | - | - | - |
| (Deficit)/surplus before taxation | (1,319,681) | 876,505 | (907,087) | (1,350,263) | 2,521,717 |
| (Deficit)/surplus for the year | (1,331,911) | 876,505 | (907,087) | (1,362,493) | 2,521,717 |

| Line items in the cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16: | 2019 | | | 2018 | |
|---|---|---|---|---|--|
| | Amounts reported under HKFRS 16 HK\$ | Estimated amounts related to operating leases as if under HKAS 17 (notes 1&2) HK\$ | Hypothetical amounts for 2019 as if under HKAS 17 HK\$ | Compared to amounts reported for 2018 under HKAS 17 HK\$ | |
| | | | | | |
| | | | | | |
| Cash generated from operations | 160,036 | (907,087) | (747,051) | 3,048,310 | |
| Interest element of lease rentals paid | (74,571) | 74,571 | - | - | |
| Net cash generated from operating activities | 73,235 | (832,516) | (759,281) | 3,048,310 | |
| Capital element of lease rentals paid | (832,516) | 832,516 | - | - | |
| Net cash used in financing activities | (832,516) | 832,516 | - | - | |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

(a) Application of new and revised HKFRSs (cont'd)

HKFRS 16 Leases (cont'd)

(c) Impact of the financial results and cash flows of the Foundation (cont'd)

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

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

The Foundation has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2019. These new and revised HKFRSs include the following which may be relevant to the Foundation.

| | Effective for accounting periods beginning on or after |
|---|--|
| Amendments to HKAS 1 and HKAS 8 Definition of Material | 1 January 2020 |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform | 1 January 2020 |

The Foundation is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgment in the process of applying the Foundation's accounting policies. The areas where assumptions and estimates are significant to the financial statements is disclosed in note 5.

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 ("HK\$"), 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 rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Property, plant and equipment

Property, plant and equipment held for administrative purposes, 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 profit or loss 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 annual rates are as follows:

| | |
|-----------------------------------|-----|
| Furniture, fixtures and equipment | 20% |
| Leasehold improvement | 20% |

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

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 profit or loss.

(c) Leases

At inception of a contract, the Foundation assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Foundation as a lessee

Policy applicable from 1 January 2019

Where the contract contains lease component and non-lease component, the Foundation has elected not to separate non-lease component and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Leases (cont'd)

(i) The Foundation as a lessee (cont'd)

Policy applicable from 1 January 2019 (cont'd)

At the lease commencement date, the Foundation recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Foundation are primarily laptops and office furniture. When the Foundation enters into a lease in respect of a low-value asset, the Foundation decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Foundation is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Leases (cont'd)

(i) The Foundation as a lessee (cont'd)

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Foundation's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Foundation will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Foundation presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the statement of financial position.

Policy prior to 1 January 2019

In the comparative period, as a lessee the Foundation classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Foundation. Leases which did not transfer substantially all the risks and rewards of ownership to the Foundation were classified as operating leases, except for the property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified.

Where the Foundation had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Recognition and derecognition of financial instruments

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

Financial assets 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 (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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. If the Foundation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Foundation recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Foundation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Foundation continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Foundation derecognises financial liabilities when, and only when, the Foundation's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Financial assets

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. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Other receivables

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Foundation's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement. Cash and cash equivalents are assessed for expected credit losses ("ECL").

(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 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.

(i) Other payables

Other 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.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Revenue recognition and other income

Income from donations is recognised when cash is received up to the end of the reporting period.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the assets.

(k) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Foundation contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Foundation and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss 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.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(1) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Foundation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Foundation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Taxation (cont'd)

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Foundation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Foundation intends to settle its current tax assets and liabilities on a net basis.

(m) 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 profit or loss 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.

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 profit or loss to the extent that they reverse the impairment.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Impairment of financial assets

The Foundation recognises a loss allowance for ECL on other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For all financial instruments, the Foundation recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Foundation measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Foundation compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Foundation considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Foundation's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Foundation's core operations.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Impairment of financial assets (cont'd)

Significant increase in credit risk (cont'd)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Foundation assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (i) The financial instrument has a low risk of default,
- (ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Impairment of financial assets (cont'd)

Significant increase in credit risk (cont'd)

The Foundation considers a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Foundation regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Foundation considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Foundation, in full (without taking into account any collaterals held by the Foundation).

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Impairment of financial assets (cont'd)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Foundation writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Foundation's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Impairment of financial assets (cont'd)

Measurement and recognition of ECL (cont'd)

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Foundation in accordance with the contract and all the cash flows that the Foundation expects to receive, discounted at the original effective interest rate.

If the Foundation has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Foundation measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Foundation recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(o) 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.

(p) 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 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.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

5. KEY SOURCES OF ESTIMATION UNCERTAINTIES

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Foundation has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Foundation estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment and right-of-use assets as at 31 December 2019 were HK\$143,150 (2018: HK\$102,373) and HK\$1,608,096 (2018: nil) respectively.

6. FINANCIAL RISK MANAGEMENT

The Foundation's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Foundation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Foundation's financial performance.

(a) Foreign currency risk

The Foundation has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in HK\$, Canada Dollars ("CAD"), United States Dollars ("USD") and Renminbi ("RMB"). The Foundation currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Foreign currency risk (cont'd)

Considering that the exchange rate between HK\$ and USD is pegged, the Foundation believes its exposure to exchange rate risk is minimal.

As 31 December 2019, if RMB had weakened/strengthened by 10% against HK\$ with all other variables held constant, the deficit for the year would have been HK\$2,168,000 lower/higher (2018: the surplus for the year would have been HK\$3,421,000 lower/higher), mainly as a result of foreign exchange gains/losses on translation of RMB-denominated bank and cash balances and other receivables.

At 31 December 2019, if CAD had weakened/strengthened by 10% against HK\$ with all other variables held constant, the deficit for the year would have been HK\$62,000 higher/lower (2018: the surplus would have been HK\$413,000 higher/lower), mainly as a result of foreign exchange gain/losses on translation of CAD-denominated bank and cash balances and other receivables.

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument, leading to a financial loss. The Foundation is exposed to credit risk from its operating activities (primarily deposits and other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Foundation's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Foundation considers to have low credit risk.

Based on the Foundation's internal credit rating, no material impairment loss allowance is recognised for deposits and other receivables.

(c) Liquidity risk

The Foundation's policy is 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.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

The maturity analysis based on contractual undiscounted cash flows of the Foundation's non-derivative financial liabilities is as follows:

| | Less than 1 year HK\$ | Between 1 to 2 years HK\$ | Total HK\$ | Carrying amount HK\$ |
|-----------------------------|-----------------------------|---------------------------------|------------------|----------------------------|
| At 31 December 2019 | | | | |
| Accruals and other payables | 583,519 | - | 583,519 | 583,519 |
| Lease liabilities | 905,620 | 693,205 | 1,598,825 | 1,534,480 |
| At 31 December 2018 | | | | |
| Accruals and other payables | 501,493 | - | 501,493 | 501,493 |

(d) Interest rate risk

The Foundation's exposure to interest rate fluctuations is mainly limited to interest receivable on its time deposits at the end of the reporting period. Directors consider the Foundation have limited exposure to interest rate risk relating to the savings accounts as the changes in the interest rate of the savings accounts over the period until the end of the next annual reporting period are expected to be minimal. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income only as the Foundation did not have any variable interest-bearing loans. The Foundation manages the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impact on interest income.

(e) Categories of financial instruments at 31 December

| | 2019 HK\$ | 2018 HK\$ |
|--|----------------------------|----------------------------|
| Financial assets: | | |
| Financial asset measured at amortised cost | 58,681,032 | 60,045,310 |
| Financial liabilities: | | |
| Financial liabilities at amortised cost | 2,117,999 | 501,493 |

(f) Fair values

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

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

7. FUND-RAISING EVENTS

| <u>Event name</u> | <u>Public Subscription Permit number</u> | <u>2019 HK\$</u> | <u>2018 HK\$</u> |
|--|--|----------------------|----------------------|
| Chi Heng HK Walk & Carnival for AIDS Orphans 2018 | 2018/127/1 | - | 24,430 |
| Chi Heng Foundation 20 th Anniversary Princess Chang Ping Cantonese Opera | 2018/260/1 | - | 1,410 |
| Chi Heng HK Walk & Carnival for AIDS Orphans 2019 | 2019/039/1 | 47,783 | - |
| 智行基金會 - 「菩薩行」攝影展覽 | 2019/138/1 | 33,938 | - |
| Gross income raised from approved fund-raising activities | | 81,721 | 25,840 |
| Income raised from other events | | 9,889,968 | 16,504,476 |
| | | <u>9,971,689</u> | <u>16,530,316</u> |

There is no direct expenditure incurred for the above approved fund-raising activities and the net proceeds for the year is HK\$81,721 (2018: HK\$25,840).

The net proceeds raised are used for the education support programs for children affected by HIV/AIDS in China.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

8. COST OF PROJECTS AND PROGRAMS

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|--|---------------------|---------------------|
| Education sponsorship and living expenses | 14,049,558 | 18,723,817 |
| Psychosocial education and support expenses | 8,222,782 | 7,868,258 |
| Orphans, vulnerable children and youth services: | | |
| - Salaries and allowances (China offices) | 7,162,514 | 6,339,040 |
| - Rental | 283,927 | 601,958 |
| - Others | 1,590,563 | 1,624,268 |
| AIDS prevention and equal opportunity programs and services: | | |
| - Salaries and allowances (China offices) | 157,883 | 153,698 |
| - Others | 635,560 | 636,202 |
| Publicity and resource development expenses: | | |
| - Salaries and allowances | 993,222 | 826,066 |
| - MPF scheme | 46,543 | 38,428 |
| - Others | 1,997,499 | 1,826,815 |
| Fund-raising costs | 1,629,767 | 2,923,907 |
| Sponsorship expenses to Café (note 22) | 222,660 | 657,125 |
| | <u>36,992,478</u> | <u>42,219,582</u> |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

9. OTHER OPERATING EXPENSES

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|---|---------------------|---------------------|
| Auditor's remuneration | 12,000 | 10,000 |
| Bank charges | 58,170 | 123,632 |
| Computer cost | 34,594 | 79,808 |
| Contribution to MPF scheme | 57,792 | 85,917 |
| Depreciation | 69,022 | 73,005 |
| Exchange loss | 305,883 | 1,982,803 |
| Insurance | 19,265 | 26,591 |
| Office supplies | 9,082 | 6,878 |
| Postage and couriers | 9,596 | 13,429 |
| Printing and stationery | 14,017 | 20,098 |
| Recruitment | 4,938 | 10,240 |
| Rent and rates | 783 | 294,000 |
| Repairs and maintenance | 2,980 | 2,069 |
| Salaries and allowance - administration | 1,148,682 | 2,053,890 |
| Sundry expenses | 53,769 | 16,306 |
| Telecommunication | 15,899 | 21,065 |
| Travelling | 7,621 | 6,840 |
| Utilities | 25,632 | 25,423 |
| | <u>1,849,725</u> | <u>4,851,994</u> |

Most of the above operation expenses are incurred by the Foundation's Hong Kong office.

10. FINANCE COSTS

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|--|---------------------|---------------------|
| Interest expenses on lease liabilities (note 14) | <u>74,571</u> | <u>-</u> |

11. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax is required since the Foundation is exempted from profits tax pursuant to Section 88 of the Hong Kong Inland Revenue Ordinance during the reporting period (2018: Nil).

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

12. DIRECTORS' REMUNERATION

The directors did not receive any fees and emoluments in respect of their services rendered to the Foundation during the year (2018: HK\$Nil).

13. PROPERTY, PLANT AND EQUIPMENT

| | Furniture, fixture and equipment | Leasehold improvement | Total |
|---|---|----------------------------------|--------------|
| | HK\$ | HK\$ | HK\$ |
| Cost | | | |
| At 1 January 2018 | 997,776 | 111,881 | 1,109,657 |
| Additions | 31,592 | 24,406 | 55,998 |
| Scraps | - | (48,134) | (48,134) |
| At 31 December 2018 and 1 January 2019 | 1,029,368 | 88,153 | 1,117,521 |
| Additions | 104,572 | 5,227 | 109,799 |
| At 31 December 2019 | 1,133,940 | 93,380 | 1,227,320 |
| Accumulated depreciation | | | |
| At 1 January 2018 | 891,146 | 99,131 | 990,277 |
| Charge for the year | 55,374 | 17,631 | 73,005 |
| Written back on scraps | - | (48,134) | (48,134) |
| At 31 December 2018 and 1 January 2019 | 946,520 | 68,628 | 1,015,148 |
| Charge for the year | 63,096 | 5,926 | 69,022 |
| At 31 December 2019 | 1,009,616 | 74,554 | 1,084,170 |
| Carrying amount | | | |
| At 31 December 2019 | 124,324 | 18,826 | 143,150 |
| At 31 December 2018 | 82,848 | 19,525 | 102,373 |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

14. RIGHT-OF-USE ASSETS

| | HK\$ |
|----------------------------|------------------|
| At 1 January 2019 (note 3) | 1,849,633 |
| Additions | 576,114 |
| Depreciation | (801,934) |
| Exchange differences | <u>(15,717)</u> |
| At 31 December 2019 | <u>1,608,096</u> |

Lease liabilities of HK\$1,534,480 are recognised with related right-of-use assets of HK\$1,608,096 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

| | <u>2019</u> HK\$ |
|--|---------------------|
| Depreciation expenses on right-of-use assets | 801,934 |
| Interest expense on lease liabilities (included in finance cost) | 74,571 |
| Expenses relating to short-term lease (included in cost of projects and programs and other operation expenses) | <u>284,710</u> |

Details of total cash outflow for leases is set out in note 20.

For both years, the Foundation leases various offices for its operations. Lease contracts are entered into for fixed term of one to four years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Foundation applies the definition of a contract and determines the period for which the contract is enforceable.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

15. DEPOSITS AND OTHER RECEIVABLES

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|-------------------|---------------------|---------------------|
| Deposits | 166,477 | 190,270 |
| Other receivables | 3,368,100 | 4,811,853 |
| | <u>3,534,577</u> | <u>5,002,123</u> |

The other receivables are mostly designated donations received by charitable partners in China, Canada or USA less expenses of charitable activities incurred by them pending transfer to the Foundation.

Other receivables included an amount of HK\$1,844,935 (2018: HK\$3,425,436) are donations received by China Charities Aid Foundation for Children ("CCAFC"), one of the major foundations with national public fund-raising qualification in China, on behalf of the Foundation.

Donations received by CCAFC less administration fee are all used for supporting education sponsorship and psychosocial education programs of the Foundation.

16. BANK AND CASH BALANCES

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|---|---------------------|---------------------|
| Bank accounts held in name of the Foundation | 54,131,342 | 53,750,664 |
| Bank accounts opened under the names of volunteers held in trust on behalf of the Foundation (note a) | 984,255 | 1,208,506 |
| Cash kept by Hong Kong and China offices | 30,858 | 84,017 |
| | <u>55,146,455</u> | <u>55,043,187</u> |
| Cash and cash equivalent | | |
| - Cash on hand and demand deposits | 20,580,154 | 21,765,950 |
| - Time deposits with maturity within three months | 8,556,667 | 11,131,480 |
| | <u>29,136,821</u> | <u>32,897,430</u> |
| Time deposits with maturity over three months | 26,009,634 | 22,145,757 |
| | <u>55,146,455</u> | <u>55,043,187</u> |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

16. BANK AND CASH BALANCES (CONT'D)

Note a:

Bank accounts are opened under the names of volunteers, held in trust on behalf of the Foundation are mainly time deposits with banks. At the end of reporting period, the time deposits held in trust on behalf of the Foundation by the volunteers amounted to HK\$559,300 (2018: HK\$455,360).

An analysis of the bank and cash balances denominated in currencies other than the presentation currency of the Foundation is as follows:

| | <u>2019</u> <u>HK\$</u> | <u>2018</u> <u>HK\$</u> |
|--------|----------------------------|----------------------------|
| HK\$ | 16,236,023 | 13,047,705 |
| USD | 18,933,947 | 6,731,837 |
| RMB | 18,591,974 | 29,559,040 |
| CAD | 617,212 | 4,124,982 |
| Others | 767,299 | 1,579,623 |
| | <u>55,146,455</u> | <u>55,043,187</u> |

17. ACCUMULATED SURPLUS OF PROJECTS

| | 1 January 2019 HK\$ | Income HK\$ | Expenses HK\$ | Overhead HK\$ | 31 December 2019 HK\$ |
|---|---------------------------|-------------------|---------------------|--------------------|-----------------------------|
| Education and care for Children Impacted by HIV/AIDS | 60,038,025 | 31,501,354 | (32,557,260) | - | 58,982,119 |
| AIDS prevention and equal opportunity | (1,050,762) | 889,330 | (793,443) | - | (954,875) |
| Publicity, resources development | 406,935 | 4,341,416 | (4,667,032) | - | 81,319 |
| General | 251,992 | 1,654,697 | - | (1,700,973) | 205,716 |
| Total | <u>59,646,190</u> | <u>38,386,797</u> | <u>(38,017,735)</u> | <u>(1,700,973)</u> | <u>58,314,279</u> |
| | 1 January 2018 HK\$ | Income HK\$ | Expenses HK\$ | Overhead HK\$ | 31 December 2018 HK\$ |
| Education and care for Children Impacted by HIV/AIDS | 57,976,173 | 39,932,125 | (37,870,273) | - | 60,038,025 |
| AIDS prevention and equal opportunity | (946,914) | 686,052 | (789,900) | - | (1,050,762) |
| Publicity, resources development | 247,784 | 5,774,368 | (5,615,217) | - | 406,935 |
| General | (152,570) | 3,200,748 | - | (2,796,186) | 251,992 |
| Total | <u>57,124,473</u> | <u>49,593,293</u> | <u>(44,275,390)</u> | <u>(2,796,186)</u> | <u>59,646,190</u> |

Each individual project is supported, funded and operated separately. Surplus for each particular project is not allowed to transfer to other projects. Donation income without special instruction is allocated to the project "Education and care for children impacted by HIV-AIDS".

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18. ACCRUALS AND OTHER PAYABLES

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|-----------------------------|---------------------|---------------------|
| Accruals and other payables | <u>583,519</u> | <u>501,493</u> |

The accounts payable and accruals are mostly balance of a special situation fund (“SSF”) provided and administered by a group of volunteered supporters. The SSF aims to support special and urgent needs of children not covered by the Foundation’s projects and programs.

19. LEASE LIABILITIES

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|---------------------------|---------------------|--|---------------------|
| | <u>2019</u> HK\$ | <u>2018</u> HK\$ | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
| Within one year | 905,620 | - | 860,580 | - |
| In the second to fifth years, inclusive | <u>693,205</u> | - | <u>673,900</u> | - |
| | 1,598,825 | - | 1,534,480 | - |
| Less: Future finance charges | <u>(64,345)</u> | - | N/A | N/A |
| Present value of lease obligations | <u>1,534,480</u> | - | 1,534,480 | - |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | <u>(860,580)</u> | - |
| Amount due for settlement after 12 months | | | <u>673,900</u> | - |

The Foundation has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

20. NOTES TO THE STATEMENT OF CASH FLOWS

(a) 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.

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|---|---------------------|---------------------|
| <u>Lease liabilities</u> (note 19) | | |
| 1 January | - | - |
| Impact on initial application of HKFRS 16 (note 3) | <u>1,805,251</u> | - |
| Restated balance at 1 January | 1,805,251 | - |
| Cash flows | (907,087) | - |
| Interest expenses | 74,571 | - |
| Exchange differences | (14,369) | - |
| Acquisition of leases | <u>576,114</u> | - |
| 31 December | <u>1,534,480</u> | - |

(b) Total cash outflow for leases

Amounts included in the statement of cash flow for leases comprise the following:

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|-----------------------------|---------------------|---------------------|
| Within operating cash flows | 359,281 | 895,958 |
| Within financing cash flows | <u>832,516</u> | - |
| Total | <u>1,191,797</u> | <u>895,958</u> |

These amounts relate to the following:

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|-------------------|---------------------|---------------------|
| Lease rental paid | <u>1,191,797</u> | <u>895,958</u> |

CHI HENG FOUNDATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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21. LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases of the Foundation were payable as follows:

| | <u>2018</u> HK\$ |
|---------------------------------------|---------------------|
| Within one year | 773,851 |
| In the second to fifth year inclusive | <u>1,255,529</u> |
| | <u>2,029,380</u> |

The operating lease payments represent rentals payable by the Foundation for office premises. Leases are negotiated for terms from one to four years and rentals are fixed over the lease terms and do not include contingent rentals.

The Foundation entered into four operating lease arrangement in China by its representatives. The leases are negotiated for a term from two to four years and are not material to be reflected as lease commitments of the Foundation.

22. RELATED PARTY TRANSACTIONS

The Foundation has the following material related party transactions during the year:

| | <u>2019</u> HK\$ | <u>2018</u> HK\$ |
|-----------------------------|---------------------|---------------------|
| Sponsorship income to Café | 236,100 | 1,612,012 |
| Sponsorship expense to Café | <u>(222,660)</u> | <u>(657,125)</u> |
| Surplus | <u>13,440</u> | <u>954,887</u> |

The sponsorship income for the Café has been booked as the Foundation's income and reflected in statement of profit or loss. The accumulated sponsorship income adequately covers all sponsorship expenses to the Café since the inception of its operations.

CHI HENG FOUNDATION LIMITED
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22. RELATED PARTY TRANSACTIONS (CONT'D)

A group of social investors (“Investors”) has provided funding to establish a social café/bakery (“Café”) in Shanghai under the form of a Wholly Foreign Owned Enterprise (“WFOE”). The Investors’ intention is that the Café will operate as a social enterprise, and realize many aspects of social mission, including providing employment and training to underprivileged youths as bakers and baristas, facilitating public involvement and discourse in philanthropy, and generating sustainable income for charitable work by offering high quality products. The Investors chose the Foundation to receive and manage the funding as the Foundation has operated a bakery training program in Shanghai successfully for years and trained many students to become bakers, thus the Foundation is well prepared to create, partner with and benefit from a Café social enterprise.

The Café is solely funded by designated funding from the Investors. Investors apply all financial returns generated from the Investors’ portion of the Café to benefit various programs under the Foundation and Chi Oi Social Enterprise Company Limited (“COSE”). Specifically the Investors will not receive any dividend from the Café. The Foundation will also benefit from the Café in other ways, including employment and training opportunity for students sponsored by the Foundation, and a public showcase of the Foundation’s programs and mission.

Due to the nature of social enterprise and regulations of running a food and beverage operation in China, COSE is appointed by the Foundation and has accepted the appointment to assume legal ownership and management of the Café.

COSE is a private limited company registered in Hong Kong aimed to promote social enterprise and impact investment. The sole director of COSE, who serves COSE on a pro bono basis and receives no financial compensation from COSE, is a common director of the Foundation.