

智行基金會有限公司財務報告

CHI HENG FOUNDATION LIMITED
(incorporated in Hong Kong with limited by guarantee)
DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 AUGUST, 2016
TO 31 DECEMBER, 2017

Kreston CAC CPA Limited

陳與陳會計師事務所有限公司



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智行基金會有限公司董事會報告書

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

REPORT OF THE DIRECTORS

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

The directors of Chi Heng Foundation Limited (“the Foundation”) submit herewith their report and the audited financial statements for the reporting period from 1 August, 2016 to 31 December, 2017.

Principal activities

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

Financial results

The results of the Foundation for the period from 1 August, 2016 to 31 December, 2017 and the state of affairs of the Foundation as at that date are set out in the financial statements on pages 9 to 25.

Directors

The directors who held office during the reporting period and the changes up to the date of this report were:-

To Chung Chi	(Chairman)
Cheung Leung Hong	
Lam Sheung Lap Leroy	
Lo Yuk Lam	
Yam Tak Cheung	(Appointed on 14/10/2016)

In accordance with article 30 of the Foundation’s articles of association, all of the directors shall retire and, being eligible, offer themselves for re-election.

Directors’ material interests in transactions, arrangements and contracts

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

智行基金會有限公司董事會報告書

CHI HENG FOUNDATION LIMITED

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REPORT OF THE DIRECTORS

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

Business review

The law of “The People’s Republic of China on the Administration of Activities of Overseas Non-governmental Organisations in the Mainland of China” came into force on 1 January 2017. The Foundation has successfully registered an overseas non-governmental organization representative office in Henan Province in 2017. This marked a significant milestone for the Foundation to operate a legal overseas non-governmental organisation in Mainland China.

Accordingly, the accounting reference date of the Foundation has been changed to end on 31 December in alignment with the calendar fiscal year in Mainland China. The 2016-2017 financial statements has been prepared covering a 17-month period from 1 August 2016 to 31 December 2017.

Some program highlights would include in this review.

(1) Education Sponsorship

Financial year 2016-2017 marked the fifteenth consecutive year the Foundation provided support to children impacted by HIV/AIDS in China. About 8,200 students received financial support as follows:-

<u>School Grade</u>	<u>Sponsored Students</u>	<u>Province</u>	<u>Sponsored Students</u>
Primary	3,241	Henan	4,130
Junior High	2,446	Yunnan	1,990
Senior High	908	Anhui	483
Vocational School	480	Guangdong & Guangxi	1,023
University	<u>1,101</u>	Others	<u>550</u>
Total	<u>8,176</u>	Total	<u>8,176</u>

(2) University Students Summer Work

About 90% of our 1,101 sponsored university students had participated in our community self-help initiatives and/or Chi Heng Academy training during their university studies. We are very proud of their aspirations to volunteer during their summer holidays visiting younger students in their home villages. The university students acted as role models to encourage the younger students to persist with their studies. Through conducting interest classes and organizing home visits, the university students demonstrated the power of our belief in “one helped three and three helped nine”. Our students also helped and cascaded our belief enabling rural communities to be bonded and harmonious.

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CHI HENG FOUNDATION LIMITED

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REPORT OF THE DIRECTORS

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

(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 16 summer camps to foster healing, build up self-esteem, expand horizons and develop aspiration of our students in the 2016-2017 school year. Students would have university campus tours, corporate visits, art counselling activities, and museum/attraction tours in the summer camps. The Foundation also organized other student activities including career development camps, festive visits, cultural tours, elite students recognition functions, junior high graduation activities, and senior high graduation gatherings.

During the 2016-2017 school year, we noted that students participated in the activities organized by the Foundation would have a higher percentage of school progression rate among with other factors.

<u>School Progression</u>	<u>Progression Rate for Students</u>	
	<u>Participated in Foundation's Activities</u>	<u>Not Participated in Foundation's Activities</u>
From Junior High to Senior High or Vocational School	68%	49%
From Senior High to University	91%	74%

(4) Shanghai Young Bakers

Our Shanghai Young Bakers ("SYB") welcomed its 9th batch of 32 disadvantaged students from 8 provinces in August 2016 to undergo a one-year intensive bakery training of French bakery and French pastry. During the 2016-2017 school year, they followed 400 hours of French bakery & pastry theory and practice training based on French "Certificate of Professional Aptitude" diploma content, 208 hours of Chinese Western bakery theory & practice, 104 hours of English classes, 130 hours of life skills classes with curriculum developed by the Psychology department of the East China Normal University, 100 days of internship in the bakery or pastry departments of 5-star hotels, and 25 days of professional or personal development activities. 30 students successfully graduated from the program in July 2017, 83% of them with a job already lined up, and the remaining 17% confirming employment within the following 2 months. In June 2017, SYB also sent 2 students to France for one year so that they would learn to be pastry and bakery trainers and return to teach at SYB from August 2018 onwards. In August 2017, SYB welcomed its 10th batch of 32 students.

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REPORT OF THE DIRECTORS

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

(5) VolunOnline

The Foundation launched VolunOnline, a supplemental education program for primary and high school students in rural China enabled over the Internet, in 2014. By connecting students and teachers over the Internet, the Foundation bridged the need for better and more diverse education in rural areas with the resource of many well qualified individuals in companies and NGOs who want to volunteer as teachers but unable to take extended time away from work to travel to and stay in rural villages. From Spring term of 2014 to Winter term of 2017, the program accumulated 834 lesson-hours and benefited 1,125 students in Henan, Anhui, Shanxi, Yunnan and Guangxi provinces. WeChat Official Account was also established in 2017 to further publicize the program and bond volunteers together. Volunteer teachers conducting classes came from Shanghai, Suzhou, Wuxi, Zhengzhou, Beijing and Tianjin who were working in more than 20 well-known companies, education institutions, universities and partner non-governmental organisations. These classes were very well received by the students, parents and the schools and well publicized by companies, universities and media.

The continued supports of our donors, supporters and volunteers, provided the Foundation a record revenue of HK\$60.3M over the 17-month financial period and generated a reserve increase of HK\$13.7M which well covered the deficit of HK\$10.5M in 2015-16.

We are optimistic that the Foundation can meet the financial needs of our commitments to the served children going forward. Our optimism in the sustainability of our commitments and needed services to the children is grounded on the dedication of our staff, our volunteers and the strength of our donor relations.

Our staff provided direct support and care to 8,200 students, visited and stayed in constant contact with every one of them, gave them encouragement, hosted activities for them, and reported our work activities to the local government authorities, volunteers and donors.

Hundreds of volunteers in Canada and China including Hong Kong promoted the Foundation's social cause in supporting AIDS orphans and AIDS impacted children among their friends and to members of the public.

Many contributed their talents to enrich our programs such as art counseling and music therapy, and gave significant time to enable fund-raising activities. Our thousands of donors worldwide, among them individuals, corporations and charitable foundations, repeatedly gave us invaluable financial and material support to enable us to deliver our services to the children. The Directors appreciate the contribution from the stakeholders including our staff, our volunteers and our supporters.

Other matters

At the date of this report the directors are not aware of any circumstances or affairs not otherwise dealt with in the report and financial statements which would render any amount stated misleading or harmful to the business.

智行基金會有限公司董事會報告書

CHI HENG FOUNDATION LIMITED

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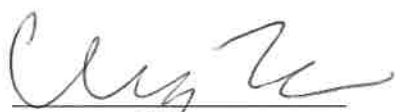
REPORT OF THE DIRECTORS

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

Auditors

At the forthcoming annual general meeting, Kreston CAC CPA Limited retire and, being eligible, offer themselves for re-appointment.

On behalf of the directors



To Chung Chi
Chairman

Hong Kong, **30 NOV 2018**

智行基金會有限公司獨立核數師報告**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 9 to 25, which comprise the statement of financial position as at 31 December, 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period from 1 August, 2016 to 31 December, 2017, 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, 2017 and of its financial performance and its cash flows for the period from 1 August, 2016 to 31 December, 2017 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with the 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 company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our 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.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all 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 the fact. We have nothing to report in this regard.

智行基金會有限公司獨立核數師報告 - 續

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHI HENG FOUNDATION LIMITED – cont'd
(incorporated in Hong Kong with limited by guarantee)

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.

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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.

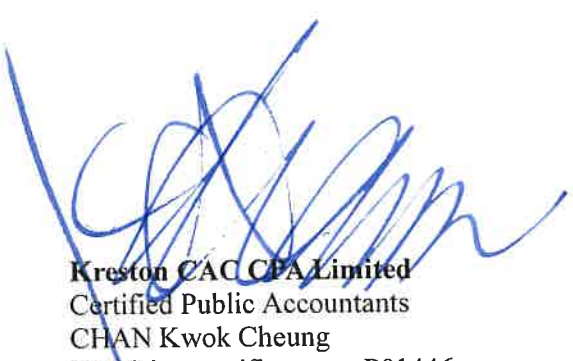
智行基金會有限公司獨立核數師報告 - 續

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHI HENG FOUNDATION LIMITED – cont'd
(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 statement 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's 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.



Kreston CAC CPA Limited
Certified Public Accountants
CHAN Kwok Cheung
Practising certificate no. P01446

Hong Kong, 30 NOV 2018

智行基金會有限公司損益及其他全面收益表

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017**

	Notes	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Income			
- Donation		28,459,381.94	11,962,250.29
- Sponsorship		4,703,016.49	4,091,965.08
- Sponsorship received for social café		1,065,773.79	286,907.82
- Fund raising events		<u>25,124,464.74</u>	<u>8,379,372.55</u>
		59,352,636.96	24,720,495.74
Interest income		<u>998,721.97</u>	<u>1,265,546.44</u>
		60,351,358.93	25,986,042.18
Cost of projects and programs	7	(44,299,478.32)	(32,102,354.20)
Other operation expenses	8	(<u>2,343,503.69</u>)	(<u>4,409,050.33</u>)
		13,708,376.92	(10,525,362.35)
Finance costs		<u>-</u>	<u>-</u>
Surplus/(deficit) before income tax		13,708,376.92	(10,525,362.35)
Income tax	9	<u>-</u>	<u>-</u>
Surplus/(deficit) for the reporting period		<u>13,708,376.92</u>	(<u>10,525,362.35</u>)

The accompanying accounting policies and explanatory notes form an integral part of, and should be read in conjunction with, these financial statements.

智行基金會有限公司財務狀況表

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER, 2017

	Notes	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Assets			
Non-current assets			
Plant and equipment			
- Furniture, fixtures and equipment	10	106,629.70	197,794.45
- Leasehold improvement	11	<u>12,749.47</u>	<u>41,860.56</u>
		<u>119,379.17</u>	<u>239,655.01</u>
Current assets			
Cash at bank and in hand	12	50,596,133.13	42,188,922.36
Deposits and other receivable	13	<u>6,892,820.10</u>	<u>1,262,948.49</u>
		<u>57,488,953.23</u>	<u>43,451,870.85</u>
Total assets		<u>57,608,332.40</u>	<u>43,691,525.86</u>
Foundation's fund and liabilities			
Foundation's fund			
Accumulated surplus of projects	14	<u>57,124,473.76</u>	<u>53,941,459.19</u>
Current liabilities			
Accounts payable and accruals	15	<u>483,858.64</u>	<u>275,429.02</u>
Total Foundation's equity and liabilities		<u>57,608,332.40</u>	<u>43,691,525.86</u>

The accompanying accounting policies and explanatory notes form an integral part of, and should be read in conjunction with, these financial statements. These financial statements were approved and authorised for issue by the directors on **30 NOV 2018**.


To Chung Chi
Chairman


Lam Sheung Lap Leroy
Director

智行基金會有限公司現金流量表

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Cash flows from/(used in) operating activities (note a)	7,494,778.73	(12,273,768.12)
Cash flows (used in)/from investing activities (note b)	(6,424,432.99)	7,292,321.14
Net increase/(decrease) in cash and cash equivalents	1,070,345.74	(4,981,446.98)
Opening cash and cash equivalents	16,708,673.33	21,690,120.31
Closing cash and cash equivalents	17,779,019.07	16,708,673.33
Closing cash and cash equivalents represents:-		
Cash at bank and in hand	50,596,133.13	42,188,922.36
Time deposits with maturity over 3 months	(32,817,114.06)	(25,480,249.03)
Closing cash and cash equivalents (note 12)	17,779,019.07	16,708,673.33

Note a

	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Cash flows from/ (used in) operating activities		
(Deficit)/surplus before income tax	13,708,376.92	(10,525,362.35)
Depreciation	206,565.77	111,914.65
Interest received	(998,721.97)	(1,265,546.44)
Operating surplus/(deficit) before working capital change	12,916,220.72	(11,678,944.14)
Decrease/(increase) in:		
- Other receivables	(5,495,468.64)	(628,263.78)
- Deposit	(134,402.97)	(21,176.33)
Increase/(decrease) in:		
- Accounts payable and accruals	208,429.62	54,666.13
Net cash generated/(used in) from operating activities	7,494,778.73	(12,273,768.12)

Note b

	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Cash flows from investing activities		
Payments to acquire plant and equipment	(86,289.93)	(93,000.03)
(Increase)/decrease in time deposits with maturity over 3 months	(7,336,865.03)	6,119,774.73
Interest received	998,721.97	1,265,546.44
Net cash generated from investing activities	(6,424,432.99)	7,292,321.14

智行基金會有限公司會員權益變動表

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

STATEMENT OF CHANGES IN FOUNDATION'S FUND

FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Opening balance – total equity	43,416,096.84	53,941,459.19
Surplus/(deficit) for the reporting period	<u>13,708,376.92</u>	<u>(10,525,362.35)</u>
Closing balance – total equity	<u>57,124,473.76</u>	<u>43,416,096.84</u>

The accompanying accounting policies and explanatory notes form an integral part of, and should be read in conjunction with, these financial statements.

智行基金會有限公司會計政策及財務報表附註解釋

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017

(1) General

The Foundation is a company incorporated in Hong Kong as a company 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 the Inland Revenue Ordinance. It is engaged in performing general charitable works with the objectives of preventing AIDS in China, education and care for children impacted by AIDS in China and equal opportunity for vulnerable groups. In 2017, The Foundation registered an overseas non-governmental organisation representative office in Henan Province.

(2) Statement of compliance

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, including Hong Kong Financial Reporting Standards ("HKFRSs") and the requirements of the Hong Kong Companies Ordinance.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised HKFRSs which are generally effective for accounting year ended 31 December, 2017. The adoption of the new and revised HKFRSs has not had any significant impact on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

Up to the date of issue of these financial statements, the HKICPA has further issued a number of amendments and new HKFRSs which are not yet effective for the accounting year ended 31 December, 2017 and which have not been early adopted in these financial statements. Initial assessment has indicated that the adoption of these non-effective HKFRSs would not have a significant impact on the Foundation's financial statements in the reporting period of initial application.

(3) Basis of preparation

These financial statements include statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in Foundation's fund, statement of cash flows and related notes.

(a) Measurement basis

The measurement basis used in preparing these financial statements is historical cost. These financial statements are presented in Hong Kong dollars, which is the Foundation's functional currency.

(b) Change of accounting reference date

The Foundation changes its accounting reference date from 31 July to 31 December effective 31 December, 2017 in alignment with the calendar fiscal year in Mainland China.

CHI HENG FOUNDATION LIMITED

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**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017**

(3) Basis of preparation – cont'd

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The critical judgement in applying the Foundation's accounting policies and the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are set out as follows:-

(i) Impairment of assets

The company assesses annually whether assets have any indication of impairment, in accordance with the accounting policy stated in note 6. The recoverable amounts of assets have been determined based on value-in-use or present value of estimated future cash flows calculations. These calculations require the use of estimate. The recoverable amount of long term investment with no market value is estimated by reference to many factors most of which are directors' judgement.

(ii) Provisions and contingent liabilities

Provisions and contingent liabilities also require directors' estimation. The basis of recognition of provisions and contingent liabilities is stated in note 6(h).

(4) Capital management

The Foundation has no capital but has accumulated funds. These accumulated funds are regarded as capital of the Foundation and are the only source of fundings for the Foundation's charitable works.

The Foundation manages its capital to ensure that the Foundation will be able to continue as a going concern and ensure the operation of the Foundation will be maintained. The Foundation's capital management remains unchanged from last reporting period.

The Foundation does not have any minimum capital requirements imposed by laws.

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017**

(5) Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Foundation becomes a party to the contractual provisions of the instrument. They are accounted for in accordance with the respective accounting policies stated in note (6). The Foundation has classified the carrying value of its financial assets in the following categories:-

	At 31/12/2017 HK\$'000	At 31/7/2016 HK\$'000
Loans and receivables:		
- cash at bank and in hand (note 12)	50,596	42,189
- deposits and other receivables (note 13)	<u>6,893</u>	<u>1,263</u>
	57,489	43,452
Financial assets at fair value through profit or loss	-	-
Held to maturity investment	-	-
Available for sale financial assets	<u>-</u>	<u>-</u>
	<u>57,489</u>	<u>43,452</u>

The Foundation has classified the carrying value of its financial liabilities in the following categories:-

	At 31/12/2017 HK\$'000	At 31/7/2016 HK\$'000
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost:		
- account payable and accruals (note 15)	<u>484</u>	<u>275</u>
	<u>484</u>	<u>275</u>

The directors consider that the carrying values of the financial assets approximate to their fair values.

CHI HENG FOUNDATION LIMITED

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**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 AUGUST, 2016 TO 31 DECEMBER, 2017**

(5) Financial instruments – cont'd

The Foundation exposed to various kinds of risks in its operation and financial instruments. The risks include market risks (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Foundation's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Foundation by closely monitoring the individual exposure as follows:-

(a) Foreign currency risk management

The Foundation's income and expenses in various foreign currencies, mainly Canadian dollars and Renminbi those expose them to foreign currency risk. As the Foundation's charitable activities are performed in China, the management tries to convert the excess foreign currencies to Renminbi for future uses in order to minimise judgement to project the future currency fluctuation of Renminbi and to ensure the availability of Renminbi in China for the use of projects and programs.

The net assets in foreign currencies at the end of the reporting period and the effect of possible exchange rate change in Hong Kong dollars are as follows: -

Net assets/(liabilities)		Period end rate		Fluctuation		+/- Loss/profit	
At 31/12/2017	At 31/7/2016	At 31/12/2017	At 31/7/2016	At 31/12/2017	At 31/7/2016	1/8/2016 to 31/12/2017	1/8/2015 to 31/7/2016
CAD'000	CAD'000					HK\$'000	HK\$'000
164	477	6.2131	5.9527	+10%	+10%	+102 profit	- 283 loss
				- 10%	- 10%	-102 profit	+283 loss
RMB'000	RMB'000						
36,708	31,191	1.2007	1.1684	+10%	+10%	+4,408 profit	- 3,644 loss
				- 10%	- 10%	- 4,408profit	+3,644 loss

The above sensitivity analysis was prepared on the basis of change in exchange rate only with all other variables held constant, same basis as the last reporting period.

(b) Interest rate risk management

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 manage the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impact on interest income.

(c) Other price risk management

The Foundation did not have other price risk on the financial instruments during the reporting period, even at the end of the reporting period.

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(5) Financial instruments – cont'd

(d) Credit risk management

The Foundation's principal financial assets are money kept at banks. The credit risk is limited because the counterparty is bank with high credit standing.

(e) Liquidity risk management

Ultimate responsibility for liquidity risk management rest with the directors which has built an appropriate liquidity risk management framework for the management of the Foundation's short, medium and long-term funding and liquidity management requirements. The Foundation manages liquidity risk by maintaining adequate cash for its coming charitable works and if necessary to organise fund-raising activities for additional fund. Normally there are no liquidity risk faced by the Foundation.

(6) Principal accounting policies

(a) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment loss.

Depreciation is calculated to write off the cost of plant and equipment over their estimated useful lives on a straight line basis at the following rates per annum:-

Furniture, fixtures and equipment	20%
Leasehold improvement	20%

The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The gain or loss on disposal recognised in profit or loss is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(b) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalent 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 a significant risk of changes in value. Bank overdrafts that are mature shortly or 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.

(c) Accounts receivable

Accounts receivable are initially measured at fair value and thereafter stated at amortised cost less bad and doubtful debts, if any. Receivables without any fixed repayment terms or the effect of discounting being immaterial are measured at cost less bad and doubtful debts, if any.

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(6) Principal accounting policies – cont'd

(d) Accounts payable

Accounts payable is initially measured at fair value and subsequently stated at amortised cost. Unless the effect of discounting would be material, they are stated at cost.

(e) Translation of foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Foundation's functional currency and presentation currency. Foreign currency transactions are initially recorded using functional currency rates at the date of transactions. Monetary assets and liabilities denominated in a foreign currency are translated into functional currency at approximately the rate of exchange at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates at the dates of the fair value was determined.

(f) Revenue recognition

Revenue is recognition when it is probable that the economic benefits will flow to the Foundation and when the revenue can be measured reliably, on the following bases:-

- (i) Income from fund raising and donations are entered in the financial statements on cash basis; and
- (ii) Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

(g) Impairment of assets

At the end of each reporting period, the Foundation assesses whether there is any indication that a non-financial asset may be impaired. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit. Reversal of impairment losses recognised in prior reporting periods is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

At the end of each reporting period, the Foundation assesses whether there is any objective evidence that a financial asset is impaired. Impairment losses on financial assets are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The impairment loss is reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

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(6) Principal accounting policies – cont'd

(h) Provision and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Foundation has a legal or constructive obligation arising as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

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 of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Short-term employee benefits

Employee benefits such as wage, salaries, double pay, bonus etc. are recognised as expenses when they accrue to employees as a result of services rendered by the employees.

Employee entitlements to annual leave are recognised when they accrue to employee. Under HKAS 19 “Employee benefits”, a provision is made for the estimated material liability for unused annual leave as a result of services rendered by employees up to the end of the reporting period.

(j) Operating leases

Expenses under operating leases are charged to profit or loss on a straight line basis over the terms of leases.

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(7) Cost of projects and programs

	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Education sponsorship and living expenses	16,985,557.40	14,517,861.68
Psychosocial education and support expenses	9,597,363.49	6,188,365.77
Orphans, vulnerable children and youths services:		
- salaries and allowance (China offices)	7,177,462.35	3,686,119.77
- rental	807,344.78	521,394.00
- others	1,907,193.55	2,065,994.51
AIDS prevention and equal opportunity programs and services:		
- salaries and allowance (China offices)	204,867.06	135,463.70
- others	958,641.80	595,563.32
Publicity and resource development expenses:		
- salaries and allowance	1,157,474.93	584,531.60
- MPF scheme	55,599.55	29,226.60
- others	2,613,568.31	1,904,083.40
Fund-raising cost	1,882,034.15	682,182.14
Sponsorship expenses to Café (note 18)	952,370.95	1,191,567.71
	<u>44,299,478.32</u>	<u>32,102,354.20</u>

(8) Other operation expenses

	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Auditors' remuneration	10,000.00	10,000.00
Bank charges	71,280.20	34,409.08
Computer cost	18,321.20	20,349.39
Contribution to MPF scheme	83,411.00	48,548.00
Depreciation	206,565.77	111,914.65
Exchange (gain)/loss	(753,272.71)	2,781,572.99
Insurance	17,997.00	21,835.00
Office supplies	6,261.80	6,317.00
Postage and courier	7,508.80	6,470.90
Printing and stationery	20,682.71	18,985.12
Rent and rates	409,000.00	276,000.00
Repair and maintenance	1,018.00	1,350.00
Recruitment	266,980.00	-
Salaries and allowance - administration	1,764,223.00	952,627.70
Sundry expenses	140,466.42	74,240.32
Telecommunication	16,205.00	12,817.47
Travelling	21,968.50	7,802.71
Utilities	34,887.00	23,810.00
	<u>2,343,503.69</u>	<u>4,409,050.33</u>

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

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(9) Income tax

No provision for Hong Kong profits tax has been made as the Foundation is exempt from profits tax pursuant to section 88 of the Hong Kong Inland Revenue Ordinance during the reporting period.

(10) Furniture, fixtures and equipment

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Cost		
At the beginning of the reporting period	911,486.09	818,486.06
Additions	<u>86,289.93</u>	<u>93,000.03</u>
At the end of the reporting period	<u>997,776.02</u>	<u>911,486.09</u>
Accumulated depreciation		
At the beginning of the reporting period	713,691.64	616,332.51
Charges for the reporting period	<u>177,454.68</u>	<u>97,359.13</u>
At the end of the reporting period	<u>891,146.32</u>	<u>713,691.64</u>
Net book value at the end of the reporting period	<u>106,629.70</u>	<u>197,794.45</u>

(11) Leasehold improvement

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Cost		
At the beginning and the end of the reporting period	<u>111,880.77</u>	<u>111,880.77</u>
Accumulated depreciation		
At the beginning of the reporting period	70,020.21	55,464.69
Charges for the reporting period	<u>29,111.09</u>	<u>14,555.52</u>
At the end of the reporting period	<u>99,131.30</u>	<u>70,020.21</u>
Net book value at the end of the reporting period	<u>12,749.47</u>	<u>41,860.56</u>

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(12) Cash at bank and in hand

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Banks accounts held in name of the Foundation	49,602,460.88	37,505,246.93
Banks accounts opened under the names of volunteers held in trust on behalf of the Foundation	867,173.83	4,202,388.75
Cash kept by Hong Kong and China offices	<u>126,498.42</u>	<u>481,286.68</u>
	<u>50,596,133.13</u>	<u>42,188,922.36</u>
Cash on hand and demand deposits	13,425,828.20	7,794,040.32
Time deposits with maturity within 3 months	<u>4,353,190.87</u>	<u>8,914,633.01</u>
Cash and cash equivalent	17,779,019.07	16,708,673.33
Time deposits with maturity over 3 months	<u>32,817,114.06</u>	<u>25,480,249.03</u>
	<u>50,596,133.13</u>	<u>42,188,922.36</u>

Banks accounts opened under the names of volunteers, held in trust on behalf of the Foundation are mainly time deposits with banks. At the end of the reporting period, the time deposits held in trust on behalf of the Foundation by the volunteers amounted to HK\$480,280.00 (2016:HK\$3,505,806.57).

(13) Deposits and other receivables

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Prepayments and deposits	267,946.34	133,543.37
Other receivables	<u>6,624,873.76</u>	<u>1,129,405.12</u>
	<u>6,892,820.10</u>	<u>1,262,948.49</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\$5,486,935.64 (2016: Nil) are donations received by China Charities Aid Foundation of Children ("CCAFC"), one of the major foundations with national public fundraising qualification in China, on behalf of Foundation.

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

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(14) Accumulated surplus of projects

	<u>Fund b/f</u> HK\$	<u>Income</u> HK\$	<u>Expenses</u> HK\$	<u>Overhead</u> HK\$	<u>Fund c/f</u> HK\$
Education and care for children Impacted by AIDS	44,660,668.18	50,196,090.49	(36,880,585.58)	-	57,976,173.09
AIDS prevention and equal opportunity	(676,344.64)	892,939.11	(1,163,508.86)	-	(946,914.39)
Publicity, resources development and fundraising	(674,559.00)	6,631,019.32	(5,708,676.94)	-	247,783.38
General	<u>106,332.30</u>	<u>2,631,310.01</u>	<u>-</u>	<u>(2,890,210.63)</u>	<u>(152,568.32)</u>
Total	<u>43,416,096.84</u>	<u>60,351,358.93</u>	<u>(43,752,771.38)</u>	<u>(2,890,210.63)</u>	<u>57,124,473.76</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 AIDS"

(15) Accounts payable and accruals

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
Accounts payable and accruals	<u>483,858.64</u>	<u>275,429.02</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.

(16) Directors' emoluments

No emoluments were paid or accrued to any director in respect their services to the Foundation (1/8/2015 to 31/7/2016: Nil).

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(17) Lease commitments/arrangements

The Foundation leases an office in Hong Kong under operating lease arrangement. The lease is negotiated for a term of 2 years. At the end of the reporting period, the Foundation's total minimum lease payments under non-cancellable operating lease are payable as follows:-

	At 31/12/2017 HK\$	At 31/7/2016 HK\$
In the first year	294,000.00	115,000.00
In the second to fifth year inclusive	-	-
	<u>294,000.00</u>	<u>115,000.00</u>

The Foundation has entered operating lease arrangements in China by its representatives. The leases are negotiated for a term from 1 to 3 years and are not material to be reflected as lease commitments of the Foundation.

(18) Related party transactions

The Foundation has the following material related party transactions during the reporting period:-

	1/8/2016 to 31/12/2017 HK\$	1/8/2015 to 31/7/2016 HK\$
Sponsorship expenses to Café	(952,370.95)	(1,191,567.71)
Sponsorship income to Café	<u>1,065,773.79</u>	<u>286,907.82</u>
Surplus/(deficit)	<u>113,402.84</u>	<u>(904,659.89)</u>

The sponsorship income for the Café has been booked as the Foundation's income and reflected in statement of profit or loss. Subsequent to the end of the reporting period, the Foundation received designated donation of HK\$1,612,011.55 for the Café. The accumulated sponsorship income adequately covers all sponsorship expenses to the Café since the inception of its operations.

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 Foundation 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.

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(18) Related party transactions – cont'd

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. The Foundation and COSE also agreed the financial management of the Café is to be supported by the Foundation during the first two years of operation of the Café.

COSE is a private limited company registered in Hong Kong aimed to promote social enterprise and impact investment. COSE is founded, funded and owned by two directors of the Foundation, who serve COSE on a pro bono basis and receive no financial compensation from COSE.

(19) Comparative figures

These financial statements cover from 1 August, 2016 to 31 December, 2017 and comparative figures are extracted from financial statements for the year ended 31 July, 2016 therefore the comparative figure of income statement and related notes are not comparable.