

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 YEAR ENDED 31 DECEMBER, 2018

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 YEAR ENDED 31 DECEMBER, 2018

The directors of Chi Heng Foundation Limited (“the Foundation”) submit herewith their report and the audited financial statements for the year ended 31 December, 2018.

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 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 year ended 31 December, 2018 and the state of affairs of the Foundation as at that date are set out in the financial statements on pages 11 to 28.

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)
Lam Man Ngar Norris	(appointed on 20/5/2019)
Mok Wai Bun Ben	(appointed on 30/5/2019)
Cheung Leung Hong	(resigned on 28/2/2019)
Lam Sheung Lap Leroy	(resigned on 28/2/2019)
Lo Yuk Lam	(resigned on 31/5/2019)
Yam Tak Cheung	(resigned on 31/5/2019)

In accordance with article 29 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.

CHI HENG FOUNDATION LIMITED – cont'd
(incorporated in Hong Kong with limited by guarantee)
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER, 2018

Business review

The Board of Directors (“the Board”) would like to provide some program highlights in this review.

(1) Education Sponsorship

The financial year 2018 marked the sixteenth consecutive year the Foundation provided support to children impacted by HIV/AIDS in China.

During the 2017-18 school year, 7,960 students received financial support as follows:-

School Grade	Sponsored Students	Province	Sponsored Students
Primary	2,976	Henan	3,781
Junior High	2,349	Yunnan	1,804
Senior High	951	Anhui	427
Vocational School	508	Guangxi	905
University	1,176	Guangdong	305
Total	7,960	Shandong	322
		Others	416
		Total	7,960

There was a reduction of 216 sponsored students in 2017-18 school year when compared to 8,176 students in 2016-17. The main reason for the reduction in total sponsored students was the decrease of 360 primary and junior high school students in Henan province. CHF observed that most victims of the tragic AIDS epidemic through blood selling in Henan were now at middle or old age with little new born children in recent years. Most of our sponsored students in Henan province have become senior high, university students or even graduates. As such, our education sponsorship gradually skewed to the higher costs senior high, vocational school and university students. We foresee that the education sponsorship costs may increase while the total number of sponsored students may even slightly reduce.

(2) University Students Summer Work

About 93% of our 1,176 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 their studies. Through conducting interest classes and organizing home visits, the university students demonstrated the power of our belief on “one helped three and three helped nine”. Our students also helped and cascaded our belief of enabling rural communities to become bonded and harmonious places to stay on.

CHI HENG FOUNDATION LIMITED – cont'd
(incorporated in Hong Kong with limited by guarantee)
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER, 2018

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 HIV/AIDS in China.

The Foundation organized 21 summer camps to foster healing, build up self-esteem, expand horizons and develop aspirations of our students in this 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.

We quantified that students participated in the activities organized by the Foundation would have a higher percentage of school progression rate among with other factors. In 2017-18 school year, our psychosocial activities inspired 70% of our junior high students to continue their studies to senior high or vocational schools. 92% of our senior high students after joining our psychosocial activities would strive to enter universities. The overall student school progression rates in 2017-18 school year had slight improvement compared to last year.

School Progression	Progression Rate for Students			
	Participated in Foundation's Activities		Not Participated in Foundation's Activities	
	2017-18	2016-17	2017-18	2016-17
From Junior High to Senior High or Vocational school	70%	68%	51%	49%
From Senior High to University	92%	91%	75%	74%

CHI HENG FOUNDATION LIMITED – cont’d
(incorporated in Hong Kong with limited by guarantee)
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER, 2018

Business review – cont’d

(4) VolunOnline

VolunOnline is a supplemental education program for primary and high school students in rural China enabled over the Internet. 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 that want to volunteer as teachers without the need to take extended time away from work for travelling to and staying in rural villages.

The VolunOnline program ran 45 classrooms covering 726 lesson-hours and benefiting 1462 student-counts in 2018. The student-counts had increased by 70% compared to 861 in 2017.

Province	City	Classroom	Lesson-hour	Student-count
Henan	Shangcai	25	430	685
	Zhoukou	3	50	143
	Zhumadian/Pingyu	6	80	135
Guangxi	Guiguan	3	40	200
	Mashan/Dahua	2	50	108
Anhui	Fuyang/Lixin /Bozhou	3	46	98
Yunnan	Lincang	3	30	93
Total		45	726	1,462

The volunteer teachers continued to increase and served a total of 726 lesson-hours in 2018. The volunteer teachers came from the globe with diverse experience and multiple disciplines. Other than teachers coming from Shanghai, Beijing, Suzhou, Wuxi, Chengdu, Xian, Shenzhen, Zhengzhou, Ningbo, Hangzhou, Nanjing and Tianjin, we also got overseas teachers from Canada, USA and France, overcoming time zone differences to service our students. Moreover, teachers working in well-known enterprises, education institutions, universities, partner NGOs, or even studying in international school and overseas universities shared invaluable experiences with our students beyond academic pursuits. These classes were very well received by the students, parents and the schools and well publicized by companies, universities and media.

In 2018, the VolunOnline program started to cooperate with a well-known online teaching platform to provide weekday classes. The professional teachers at the online platform volunteered to contribute their own curriculum and teaching time to conduct classes during weekdays. This greatly improved the utilization of teaching facilities, enhanced the program quality with teaching materials from professional teachers, and more importantly, complemented schools in rural villages that lacked qualified teachers in Music, English or Arts etc.

The VolunOnline program also obtained free licenses to use an online interactive classroom software platform “ClassIn” to conduct classes in 2018. The software platform enriched the online classroom experience of our teachers and students. The students could, for instance, submit assignments, take class notes, share screens, edit documents collaboratively and feedback instant messages in one platform.

We believe that our established relationships with schools, institutions, companies and other stakeholders provide a strong foundation for sustaining a continuous expansion of the VolunOnline program.

CHI HENG FOUNDATION LIMITED – cont’d
(incorporated in Hong Kong with limited by guarantee)
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER, 2018

Business review – cont’d

(5) Shanghai Young Bakers

Our Shanghai Young Bakers (“SYB”) welcomed its 10th batch of 32 underprivileged students from 5 provinces in August 2017 to undergo a one-year intensive bakery training of French bakery and French pastry. During the 2017-18 school year, the students followed 400 hours training of French bakery & pastry theory and practice based on the French “Certificate of Professional Aptitude” diploma content, 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 2018, all of them were employed after graduation and worked in the bakery industry.

In 2018 summer, two French donors had sponsored about HK\$0.47M to fully renovate the SYB professional training center. Part of the old equipment in the training center has been replaced as well. All SYB students appreciated the new facility and equipment bringing a well-rounded learning environment.

During the 2017-18 school year, SYB has financially supported two of its graduates to receive the one-year CAP Pastry/Bakery curriculum training in France, before becoming the new teachers for future batches of SYB students from August 2018 onwards.

In August 2018, SYB welcomed a new batch of 32 students. We were particularly grateful to see a student from Ningxia Orphanage who would return as a baking trainer after receiving one-year training in SYB.

(6) Reading Rooms

The Foundation established 27 reading rooms over the last 11 years to improve the learning environments in primary schools, secondary schools and rural village communities in Anhui, Henan and Yunnan. The Foundation built reading rooms using designated donations only. With the aim of providing a comfortable study environment to students, our reading rooms equipped with extracurricular readings, multi-media equipment, good chairs and tables. We encouraged all students in the schools to use our reading rooms. These reading rooms served over 9,000 students in 2018.

The Foundation also organized extracurricular activities regularly such as reading sharing and speech contest in those schools with our reading rooms. We observed that these activities indeed encouraged rural students to read books during leisure time enriching their knowledge.

(7) New Sponsorship Program to Under privileged Children

The Foundation had built up a sound infrastructure to serve the children impacted by HIV/AIDS in China over the last 20 years. In order that the Foundation could benefit more than just HIV/AIDS families and students, the Board had decided to start a new “Seahorse” program in 2019. The program would sponsor under privileged students having good academic achievements but suffering from poverty, illness or discrimination.

CHI HENG FOUNDATION LIMITED – cont'd
(incorporated in Hong Kong with limited by guarantee)
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER, 2018

Business review – cont'd

(8) Chi Heng 20th Anniversary

Year 2018 was a year of celebration for the Foundation. We were founded 20 years ago in 1998, a few months after Hong Kong was returned to China. Despite our humble beginning with no paid staff, no office space, 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 20 years of hard work, the Foundation has become China's largest and longest continuously running non-government initiative to serve children and youth impacted by HIV/AIDS. Our prevention and education programs also prevented many youth and vulnerable populations from getting HIV, thereby stopping the spread of HIV. Through our many public events and campaigns, many corporations and individuals have received a better understanding of HIV, thereby minimizing social stigma associated with the virus.

(9) Board of Directors

The success of the Foundation is largely due to the hard work of our dedicated volunteers, including our Board members. Mr Cheung, Mr Lam, Mr Lo and Mr Yam, after serving the Board of the Foundation for nearly 8, 8, 8 and 3 years respectively, 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 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.

Thank you for the continued supports of our donors, supporters and volunteers, the Foundation had revenue of HK\$49.6M and generated a HK\$2.5M surplus in 2018. We are optimistic that the Foundation can meet the financial needs of our commitments to the children moving forward. Our optimism in the sustainability of our commitments and quality services to the children is grounded on the dedication of our staff, our volunteers and the strength of our donor relations. Our volunteers in Canada and China including Hong Kong expanded the awareness of our work among their friends and in the public, lent their talents to enrich our programs such as art counseling and music therapy, and gave significant time to raise donations with fund-raising activities. Our donors worldwide, among them individuals, corporations and charitable foundations, repeatedly gave us the precious financial and material support enabling us to deliver our services to the children. The Foundation appreciates the contributions from all stakeholders including our staff, our volunteers and our supporters.

The Board expects that the Foundation will experience few tough years in fund-raising from 2019 and beyond. We hope that all staff, donors, volunteers and supporters can continue to extend full supports to enable the Foundation to deliver services to the HIV/AIDS impacted and/or underprivileged children in China going forward.

智行基金會有限公司董事會報告書 - 續

CHI HENG FOUNDATION LIMITED – cont'd
(incorporated in Hong Kong with limited by guarantee)
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER, 2018

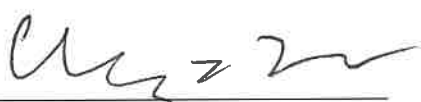
Other matters

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.

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, 8 January, 2020

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 11 to 28, which comprise the statement of financial position as at 31 December, 2018, the statement of profit or loss and other comprehensive income, statement of changes in Foundation's fund 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, 2018 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 ("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 ("HKSA") 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.

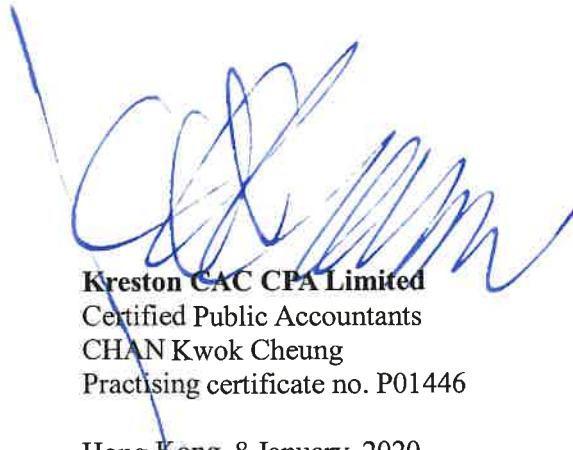
智行基金會有限公司獨立核數師報告 - 續

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, 8 January, 2020

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 YEAR ENDED 31 DECEMBER, 2018**

	Notes	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Income:			
- Donation		19,039,561.83	28,459,381.94
- Sponsorship		10,518,612.70	4,703,016.49
- Sponsorship received for social café		1,612,011.55	1,065,773.79
- Fund raising events	7	<u>16,530,315.61</u>	<u>25,124,464.74</u>
		47,700,501.69	59,352,636.96
Interest income		1,454,740.54	998,721.97
Net gain on charity sales		330,108.46	-
Other income		<u>107,941.76</u>	<u>-</u>
		49,593,292.45	60,351,358.93
Cost of projects and programs	8	(42,219,582.20)	(44,299,478.32)
Other operation expenses	9	<u>(4,851,993.65)</u>	<u>(2,343,503.69)</u>
		2,521,716.60	13,708,376.92
Finance costs		<u>-</u>	<u>-</u>
Surplus before income tax		2,521,716.60	13,708,376.92
Income tax	10	<u>-</u>	<u>-</u>
Surplus for the reporting period		<u>2,521,716.60</u>	<u>13,708,376.92</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, 2018

	Notes	At 31/12/2018 HK\$	At 31/12/2017 HK\$
Assets			
Non-current assets			
Plant and equipment:			
- Furniture, fixtures and equipment	11	82,848.54	106,629.70
- Leasehold improvement	12	<u>19,524.42</u>	<u>12,749.47</u>
		<u>102,372.96</u>	<u>119,379.17</u>
Current assets			
Cash at bank and in hand	13	55,043,187.21	50,596,133.13
Deposits and other receivables	14	<u>5,002,122.70</u>	<u>6,892,820.10</u>
		<u>60,045,309.91</u>	<u>57,488,953.23</u>
Total assets		<u>60,147,682.87</u>	<u>57,608,332.40</u>
Foundation's fund and liabilities			
Foundation's fund			
Accumulated surplus of projects	15	<u>59,646,190.36</u>	<u>57,124,473.76</u>
Current liabilities			
Accounts payable and accruals	16	<u>501,492.51</u>	<u>483,858.64</u>
Total Foundation's equity and liabilities		<u>60,147,682.87</u>	<u>57,608,332.40</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 8 January, 2020.


 To Chung Chi
 Chairman


 Lam Man Ngar Norris
 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 YEAR ENDED 31 DECEMBER, 2018

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Cash flows from operating activities (note a)	3,048,311.42	7,494,778.73
Cash flows from/(used in) investing activities (note b)	<u>12,070,099.31</u>	<u>(6,424,432.99)</u>
Net increase in cash and cash equivalents	15,118,410.73	1,070,345.74
Opening cash and cash equivalents	<u>17,779,019.07</u>	<u>16,708,673.33</u>
Closing cash and cash equivalents	<u>32,897,429.80</u>	<u>17,779,019.07</u>
Closing cash and cash equivalents represents:-		
Cash at bank and in hand	55,043,187.21	50,596,133.13
Time deposits with maturity over 3 months	<u>(22,145,757.41)</u>	<u>(32,817,114.06)</u>
Closing cash and cash equivalents (note 13)	<u>32,897,429.80</u>	<u>17,779,019.07</u>

Note a

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Cash flows from operating activities		
Surplus before income tax	2,521,716.60	13,708,376.92
Depreciation	73,004.09	206,565.77
Interest received	<u>(1,454,740.54)</u>	<u>(998,721.97)</u>
Operating surplus before working capital change	1,139,980.15	12,916,220.72
Decrease/(increase) in:		
- Other receivables	1,813,020.44	(5,495,468.64)
- Deposit	77,676.96	(134,402.97)
Increase/(decrease) in:		
- Accounts payable and accruals	<u>17,633.87</u>	<u>208,429.62</u>
Net cash generated from operating activities	<u>3,048,311.42</u>	<u>7,494,778.73</u>

Note b

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Cash flows from/(used in) investing activities		
Payments to acquire leasehold improvement	(24,405.52)	(-)
Payments to acquire plant and equipment	(31,592.36)	(86,289.93)
Decrease/(increase) in time deposits with maturity over 3 months	10,671,356.65	(7,336,865.03)
Interest received	<u>1,454,740.54</u>	<u>998,721.97</u>
Net cash generated from/(used in) investing activities	<u>12,070,099.31</u>	<u>(6,424,432.99)</u>

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 YEAR ENDED 31 DECEMBER, 2018**

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Opening balance – total equity	57,124,473.76	43,416,096.84
Surplus for the reporting period	<u>2,521,716.60</u>	<u>13,708,376.92</u>
Closing balance – total equity	<u>59,646,190.36</u>	<u>57,124,473.76</u>

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

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2018**

(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 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.

(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, 2018. The adoption of new or 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. However the relevant accounting policies of impairment of financial assets are rewritten to meet the revised HKFRS 9 and are shown in note 6(g). Also the financial assets were reclassified to meet the revised HKFRS 9.

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, 2018 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 company's financial statements in the year of initial application.

CHI HENG FOUNDATION LIMITED

(incorporated in Hong Kong with limited by guarantee)

**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2018**

(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) 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 financial assets have any indication of impairment, in accordance with the accounting policy stated in note 6(g). The recoverable amounts of non-financial 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 management estimates the impairment loss for its trade and other receivables and contract assets by the credit history of its customers and the current and forward-looking market conditions. Certain future market conditions are the directors' subjective 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).

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(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.

(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 31/12/2018 HK\$'000	At 31/12/2017 HK\$'000
Financial assets measured at amortised cost:		
- Cash at bank and in hand	55,043	50,596
- Deposits and other receivables	<u>5,002</u>	<u>6,893</u>
	<u>60,045</u>	<u>57,489</u>
Financial assets measured at fair value through other comprehensive income	<u>-</u>	<u>-</u>
Financial assets measured at fair value through profit or loss	<u>-</u>	<u>-</u>

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

	At 31/12/2018 HK\$'000	At 31/12/2017 HK\$'000
Financial liabilities measured at amortised cost:		
- Accounts payable and accruals	<u>501</u>	<u>484</u>
Financial liabilities measured at fair value	<u>-</u>	<u>-</u>

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(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 reduce judgement error in projecting 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)		Year end rate		Fluctuation		+/– Surplus	
At 31/12/2018	At 31/12/2017	At 31/12/2018	At 31/12/2017	At 31/12/2018	At 31/12/2017	1/1/2018 to 31/12/2018	1/8/2016 to 31/12/2017
						HK\$'000	HK\$'000
CAD'000	CAD'000						
719	164	5.7389	6.2131	+10%	+10%	+413	+102
				- 10%	- 10%	- 413	- 102
RMB'000	RMB'000						
30,050	36,708	1.1384	1.2007	+10%	+10%	+3,421	+4,408
				- 10%	- 10%	- 3,421	- 4,408

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 manages 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 applies the simplified approach to provide impairment charge (life time expected credit loss) for the deposits and other receivables. To measure the expected credit losses, the deposits and other receivable are divided into 2 portions, amount not yet due and amount past due. The directors are of opinion that the credit risk of those debts not yet due is low but it is prudent to provide impairment charge on the debts which were past due at the reporting date. The Foundation has performed historical analysis and identified the key economic variables impacting, the expect credit loss of its charitable organisation as well as reasonable and supportive forward-looking information to estimate expected credit loss rates on the past due debts. As at 31 December, 2018, there were no material deposits and other receivables that were past due.

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. Therefore expected credit loss rate is assessed to be close to zero and no provision was made on 31 December, 2018.

The carrying amount of deposits and other receivables of HK\$5,002,122.70 (2017: HK\$6,892,820.10) (note 14) best represents the Foundation's maximum exposure to credit risk. As at 31 December, 2018 the deposits and other receivables of the Foundation after impairment charges are:-

	At 31/12/2018 HK\$'000	At 31/12/2017 HK\$'000
Balance at 31 December	5,002	6,893
Impairment charges	()	()
	<u>5,002</u>	<u>6,893</u>

(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.

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(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 receivables are initially measured at fair value and thereafter stated at amortised cost less impairment losses, if any. Receivables without any fixed repayment terms or the effect of discounting being immaterial are measured at cost less impairment loss, if any. The expected credit loss rate for account receivables and contract assets are assessed at each reporting date to ensure they reflect the current and update historical and forward-looking information.

(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.

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(6) Principal accounting policies – cont'd

(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

Financial assets

The Foundation recognises impairment loss for expected credit loss on the financial instruments that are measured at amortised cost. The Foundation considers the probability of default upon initial recognition of financial assets and assesses whether there has been a significant increase in credit risk on an ongoing basis.

The Foundation considers the credit risk on a financial instrument is low if the financial instrument has a low risk of default, the debtor has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the debtor to fulfill its contractual cash flow obligations.

The carrying amount of the receivables is reduced through the use of the impairment charges account. Changes in the carrying amount of the impairment charges account are recognised in profit or loss. The receivable is written off against the impairment charges account when the Foundation has no reasonable expectations of recovering the receivable.

If, in a subsequent period, the amount of expected credit losses decreases, the reversal would be adjusted to the impairment charges account at the end of the reporting period. The amount of any reversal is recognised in profit or loss.

For the financial instruments that are measured at the fair value. The Foundation recognises the impairment loss by means of the change of fair value. The fair value decreased is recognised in profit or loss if it is the financial assets measured at fair value through profit or loss, or recognised in other comprehensive income if it is the financial assets measured at fair value through other comprehensive income.

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(6) Principal accounting policies – cont’d

(g) Impairment of assets – cont’d

Non-financial 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.

(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) Fund raising events

<u>Event name</u>	<u>Public Subscription Permit number</u>	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Chi Heng HK Walk & Carnival for AIDS Orphans 2017	2017/129/1	-	3,140.00
Chi Heng HK Walk & Carnival for AIDS Orphans 2018	2018/127/1	24,430.00	-
Chi Heng Foundation 20th Anniversary Princess Chang Ping Cantonese Opera	2018/260/1	<u>1,410.00</u>	<u>-</u>
Gross income raised from approved fund-raising activities		25,840.00	3,140.00
Other event income		<u>16,504,475.61</u>	<u>25,121,324.74</u>
		<u>16,530,315.61</u>	<u>25,124,464.74</u>

There are no direct expenditure incurred for the above approved fund-raising activities and the net proceeds for the reporting period is HK\$25,840.00 (1/8/2016 to 31/12/2017: HK\$3,140.00).

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

(8) Cost of projects and programs

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Education sponsorship and living expenses	18,723,817.36	16,985,557.40
Psychosocial education and support expenses	7,868,258.34	9,597,363.49
Orphans, vulnerable children and youths services:		
- salaries and allowance (China offices)	6,339,039.70	7,177,462.35
- rental	601,957.55	807,344.78
- others	1,624,267.93	1,907,193.55
AIDS prevention and equal opportunity programs and services:		
- salaries and allowance (China offices)	153,697.83	204,867.06
- others	636,202.30	958,641.80
Publicity and resource development expenses:		
- salaries and allowance	826,066.26	1,157,474.93
- MPF scheme	38,427.84	55,599.55
- others	1,826,815.55	2,613,568.31
Fund-raising cost	2,923,906.99	1,882,034.15
Sponsorship expenses to Café (note 19)	<u>657,124.55</u>	<u>952,370.95</u>
	<u>42,219,582.20</u>	<u>44,299,478.32</u>

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(9) Other operation expenses

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Auditor's remuneration	10,000.00	10,000.00
Bank charges	123,632.08	71,280.20
Computer cost	79,807.70	18,321.20
Contribution to MPF scheme	85,917.40	83,411.00
Insurance	26,590.53	17,997.00
Office supplies	6,877.70	6,261.80
Postage and courier	13,428.70	7,508.80
Printing and stationery	20,098.26	20,682.71
Rent and rates	294,000.00	409,000.00
Repair and maintenance	2,069.00	1,018.00
Recruitment	10,240.00	266,980.00
Salaries and allowance - administration	2,053,889.55	1,764,223.00
Sundry expenses	16,306.10	140,466.42
Telecommunication	21,065.00	16,205.00
Travelling	6,840.20	21,968.50
Utilities	<u>25,424.00</u>	<u>34,887.00</u>
	2,796,186.22	2,890,210.63
Depreciation	73,004.09	206,565.77
Exchange loss/(gain)	<u>1,982,803.34</u>	<u>(753,272.71)</u>
	<u>4,851,993.65</u>	<u>2,343,503.69</u>

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

(10) 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.

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(11) Furniture, fixtures and equipment

	At 31/12/2018 HK\$	At 31/12/2017 HK\$
Cost		
At the beginning of the reporting period	997,766.02	911,486.09
Additions	<u>31,592.36</u>	<u>86,289.93</u>
At the end of the reporting period	<u>1,029,368.38</u>	<u>997,776.02</u>
Accumulated depreciation		
At the beginning of the reporting period	891,146.32	713,691.64
Charges for the reporting period	<u>55,373.52</u>	<u>177,454.68</u>
At the end of the reporting period	<u>946,519.84</u>	<u>891,146.32</u>
Net book value at the end of the reporting period	<u>82,848.54</u>	<u>106,629.70</u>

(12) Leasehold improvement

	At 31/12/2018 HK\$	At 31/12/2017 HK\$
Cost		
At the beginning and the end of the reporting period	111,880.77	111,880.77
Additions	24,405.50	-
Scraps	<u>(48,133.77)</u>	<u>(-)</u>
At the end of the reporting period	<u>88,152.52</u>	<u>111,880.77</u>
Accumulated depreciation		
At the beginning of the reporting period	99,131.30	70,020.21
Charges for the reporting period	17,630.57	29,111.09
Written back on scraps	<u>(48,133.77)</u>	<u>(-)</u>
At the end of the reporting period	<u>68,628.10</u>	<u>99,131.30</u>
Net book value at the end of the reporting period	<u>19,524.42</u>	<u>12,749.47</u>

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(13) Cash at bank and in hand

	At 31/12/2018 HK\$	At 31/12/2017 HK\$
Banks accounts held in name of the Foundation	53,750,664.03	49,602,460.88
Banks accounts opened under the names of volunteers held in trust on behalf of the Foundation	1,208,505.77	867,173.83
Cash kept by Hong Kong and China offices	<u>84,017.41</u>	<u>126,498.42</u>
	<u>55,043,187.21</u>	<u>50,596,133.13</u>
Cash on hand and demand deposits	21,765,949.51	13,425,828.20
Time deposits with maturity within 3 months	<u>11,131,480.29</u>	<u>4,353,190.87</u>
Cash and cash equivalent	32,897,429.80	17,779,019.07
Time deposits with maturity over 3 months	<u>22,145,757.41</u>	<u>32,817,114.06</u>
	<u>55,043,187.21</u>	<u>50,596,133.13</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\$455,360.00 (2017: HK\$480,280.00).

(14) Deposits and other receivables

	At 31/12/2018 HK\$	At 31/12/2017 HK\$
Prepayments and deposits	190,269.38	267,946.34
Other receivables	<u>4,811,853.32</u>	<u>6,624,873.76</u>
	<u>5,002,122.70</u>	<u>6,892,820.10</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\$3,425,436.41 (2017: HK\$5,486,935.64) 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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(15) 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 HIV/AIDS	57,976,173.09	39,932,124.80	(37,870,272.86)	-	60,038,025.03
AIDS prevention and equal opportunity	(946,914.39)	686,052.24	(789,900.13)	-	(1,050,762.28)
Publicity, resources development	247,783.38	5,774,368.37	(5,615,216.64)	-	406,935.11
General	(152,568.32)	3,200,747.04	-	(2,796,186.22)	251,992.50
Total	<u>57,124,473.76</u>	<u>49,593,292.45</u>	<u>(44,275,389.63)</u>	<u>(2,796,186.22)</u>	<u>59,646,190.36</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".

(16) Accounts payable and accruals

	At 31/12/2018 HK\$	At 31/12/2017 HK\$
Accounts payable and accruals	<u>501,492.51</u>	<u>483,858.64</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.

(17) Directors' emoluments

No emoluments were paid or accrued to any director in respect their services to the Foundation (1/8/2016 to 31/12/2017: Nil).

(18) Lease commitments/arrangements

The Foundation leases an office in Hong Kong and 9 offices in China under operating lease arrangement. The lease is negotiated for a term of 1 to 4 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 31/12/2018 HK\$	At 31/12/2017 HK\$
In the first year	773,851.26	294,000.00
In the second to fifth year inclusive	<u>1,255,528.38</u>	<u>-</u>
	<u>2,029,379.64</u>	<u>294,000.00</u>

The Foundation has entered into 4 operating lease arrangements in China by its representatives. The leases are negotiated for a term from 2 to 3 years and are not material to be reflected as lease commitments of the Foundation.

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(19) Related party transactions

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

	1/1/2018 to 31/12/2018 HK\$	1/8/2016 to 31/12/2017 HK\$
Sponsorship expenses to Café	(657,124.55)	(952,370.95)
Sponsorship income to Café	<u>1,612,011.55</u>	<u>1,065,773.79</u>
Surplus	<u>954,887.00</u>	<u>113,402.84</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.

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. 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.

(20) Comparative figures

These financial statements cover from 1 January, 2018 to 31 December, 2018 and comparative figures are extracted from financial statements for the period from 1 August, 2016 to 31 December, 2017 therefore the comparative figures of income statement and the related notes are not comparable.