

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 JULY, 2016

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 JULY, 2016

The directors of Chi Heng Foundation Limited ("the Foundation") submits herewith their report and the audited financial statements for the reporting period ended 31 July, 2016.

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 year ended 31 July, 2016 and the state of affairs of the Foundation as at that date are set out in the financial statements on pages 7 to 23.

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

(incorporated in Hong Kong with limited by guarantee)

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 JULY, 2016

Business review

Financial year 2015-2016 marked the fourteenth consecutive year the Foundation provided support to children impacted by HIV/AIDS in China. Over 8,300 students received financial support as follows:-

| <u>School Grade</u> | <u>Sponsored Students</u> | <u>Province</u> | <u>Sponsored Students</u> |
|---------------------|---------------------------|---------------------|---------------------------|
| Primary | 3,498 | Henan | 4,443 |
| Junior High | 2,633 | Yunnan | 2,430 |
| Senior High | 872 | Anhui | 547 |
| Vocational School | 379 | Guangdong & Guangxi | 747 |
| University | <u>981</u> | Others | <u>196</u> |
| Total | <u>8,363</u> | Total | <u>8,363</u> |

Many of our sponsored students participated in our psychosocial support programs. Among them were 981 university students, with whom over 86% had participated in our community self-help initiatives and/or Chi Heng Academy training during their university studies. We are very proud of their aspiration to give back to the society by volunteering in rural villages during their summer holidays, and to continuously improve themselves beyond academic pursuit. The Foundation realized early on the importance of psychosocial support to children impacted by AIDS in China. Many programs have been developed through the years to enhance the willpower, capacity, know-how and skills of children to take advantage of educational opportunities availed by our education sponsorship and vocational training programs. The Foundation has also been actively involved in improving education environment of rural communities. Some program highlights are given in this review.

Since its launch in the summer of 2014, the Hero Book workshops had helped over 380 junior high and senior high students overcome their psychological struggle under the shadow of living in a family with one or more HIV/AIDS patients. The workshops helped the children build self-esteem by delving deep and identifying forgotten heroes in their lives, including themselves, through making their own individual hero books with their own hands and filling them with words and drawings. The workshops were enriched by 35 volunteers with different background giving two to four weeks of their time to prepare for the program and to work with the students. As the workshop program manager reflects, "When I asked who their heroes were at the start of the sessions, hardly anyone raised their hands. At the end of the workshop a week later, there was a sea of hands... and many smiling faces, too."

Our Shanghai Young Bakers welcomed its 8th batch of students – 31 students from 8 provinces recommended by 8 partner NGOs. The students underwent a one-year intensive bakery training of French bakery and French pastry following the French "Certificate of Professional Aptitude" curriculum, and Western-style pastry leading to two certificates delivered by Shanghai Municipal Human Resources and Social Security Bureau. This year we are particularly proud to have one of our teachers, who himself a graduate of this program, be part of the China team who won 1st prize in the Asia-wide bakery competition in Indonesia, then went on to win 4th place in the 2016 Bakery World Cup in France.

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 JULY, 2016

Business review – cont'd

The first reading room to improve the learning environment in a rural primary school opened its door in 2008. Twenty five more reading rooms were established in primary and secondary schools in Anhui, Henan and Yunnan since. Equipped with extracurricular readings, good chairs and tables for a comfortable study environment and multi-media equipment, the rooms were built by donation designated for reading rooms. Everyone in the schools is encouraged to use the reading rooms, and three new rooms were completed this year for use by 2,000 students.

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 45 students in the first school term in Spring of 2014, we welcomed 379 students in 20 classes held in 11 student classrooms in 3 provinces this year. Volunteer teachers from twelve companies, education institutions and universities in Shanghai, Suzhou, Wuxi, Beijing and Zhengzhou led the classes. The classes were very well received by the students, parents and the schools and VolunOnline was recognized in school newspapers and publicized by volunteers in their companies and universities.

As we celebrated many successes, we were challenged by the financial demands of our programs. The Foundation saw its first ever deficit this year. The HK\$10.5M shortfall was caused by a number of factors, among them were 2 main factors – a delay in receiving 2 pledges total HK\$7.6M before book close, and a HK\$2.8M accounting loss due to depreciation of the Foundation's reserve in Chinese Yuan (RMB). As most of the Foundation's expenses were in Yuan (RMB), most of our financial reserve was kept as Yuan (RMB) to ensure availability of funds for the children's programs. Taking the timing and devaluation factors into account, the deficit was about HK\$0.16M, while education sponsorship expense alone increased by HK\$1.2M with a 4.8% increase in the number of students supported. With a renewed focus on fund-raising, we are optimistic that the Foundation can meet the financial needs of our commitments to the children going forward as we continue to serve in our established areas and expand our coverage in newer geographies including Shanxi, Shandong, Guangxi and Yunnan.

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 staff took care of over 8,300 students, visited or stayed in contact with every one of them, gave them encouragement, hosted activities for them, publicized our work and took good care of our volunteers and donors. Our hundreds of 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 over half of our donations with well established activities such as the Annual National TV Telethon in Canada, Walk For Chalk, Hong Kong Annual Charity Walk & Carnival, as well as new activities such as a Vegetarian Charity Dinner and a Gu Zheng Charity Concert in Hong Kong. Our thousands of donors worldwide, among them individuals, corporations and charitable foundations, repeatedly gave us the precious financial and material support to enable us to deliver our services to the children. The Directors want to take this opportunity to say thank you once again to each and every one of our staff, our volunteers and our supporters.

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 JULY, 2016

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

During the reporting period, Messrs. Morris & Co. resigned as auditors of the Foundation and Kreston CAC CPA Limited was appointed by the directors to fill the casual vacancy so arising. Kreston CAC CPA Limited retire and, being eligible, offer themselves for re-appointment.

On behalf of the directors



To Chung Chi
Chairman

Hong Kong, 17 March, 2017

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)

We have audited the financial statements of Chi Heng Foundation Limited ("the Foundation") set out on pages 7 to 23, which comprise the statement of financial position as at 31 July, 2016 and 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Foundation's financial position as at 31 July, 2016 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.



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

Hong Kong, 17 March, 2017

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 JULY, 2016**

| | Notes | 2016 HK\$ | 2015 HK\$ |
|--|-------|-------------------------|------------------------|
| Income | | | |
| - Donation | | 11,962,250.29 | 17,792,519.34 |
| - Sponsorship | | 4,091,965.08 | 4,692,017.09 |
| - Sponsorship received for social café | | 286,907.82 | 1,857,130.64 |
| - Fund raising events | | <u>8,379,372.55</u> | <u>12,952,869.59</u> |
| | | 24,720,495.74 | 37,294,536.66 |
| Interest income | | 1,265,546.44 | 1,133,150.67 |
| Sundry income | | <u>-</u> | <u>222,684.67</u> |
| | | 25,986,042.18 | 38,650,372.00 |
| Cost of projects and programs | 7 | (32,102,354.20) | (29,352,615.00) |
| Other operation expenses | 8 | <u>(4,409,050.33)</u> | <u>(1,740,932.65)</u> |
| | | (10,525,362.35) | 7,556,824.35 |
| Finance costs | | <u>-</u> | <u>-</u> |
| (Deficit)/surplus before income tax | | (10,525,362.35) | 7,556,824.35 |
| Income tax | 9 | <u>-</u> | <u>-</u> |
| (Deficit)/surplus for the reporting period | | <u>(10,525,362.35)</u> | <u>7,556,824.35</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 JULY, 2016

| | Notes | 2016 HK\$ | 2015 HK\$ |
|--|-------|----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Plant and equipment | | | |
| - Furniture, fixtures and equipment | 10 | 197,794.45 | 202,153.55 |
| - Leasehold improvement | 11 | <u>41,860.56</u> | <u>56,416.08</u> |
| | | <u>239,655.01</u> | <u>258,569.63</u> |
| Current assets | | | |
| Cash at bank and in hand | 12 | 42,188,922.36 | 53,290,144.07 |
| Deposits and other receivable | 13 | <u>1,262,948.49</u> | <u>613,508.38</u> |
| | | <u>43,451,870.85</u> | <u>53,903,652.45</u> |
| Total assets | | <u>43,691,525.86</u> | <u>54,162,222.08</u> |
| Foundation's fund and liabilities | | | |
| Foundation's fund | | | |
| Accumulated surplus of projects | 14 | <u>43,416,096.84</u> | <u>53,941,459.19</u> |
| Current liabilities | | | |
| Accounts payable and accruals | 15 | <u>275,429.02</u> | <u>220,762.89</u> |
| Total Foundation's equity and liabilities | | <u>43,691,525.86</u> | <u>54,162,222.08</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 17 March, 2017.


 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 YEAR ENDED 31 JULY, 2016

| | 2016 HK\$ | 2015 HK (restated) |
|---|----------------------|--------------------------|
| Cash flows (used in)/from operating activities (note a) | (12,273,768.12) | 5,761,774.01 |
| Cash flows from investing activities (note b) | <u>7,292,321.14</u> | <u>3,680,600.90</u> |
| Net decrease in cash and cash equivalents | (4,981,446.98) | 9,442,374.91 |
| Opening cash and cash equivalents | <u>21,690,120.31</u> | <u>12,247,745.40</u> |
| Closing cash and cash equivalents | <u>16,708,673.33</u> | <u>21,690,120.31</u> |
| Closing cash and cash equivalents represents:- | | |
| Cash at bank and in hand | 42,188,922.36 | 53,290,144.07 |
| Time deposits with maturity over 3 months | (25,480,249.03) | (31,600,023.76) |
| Closing cash and cash equivalents (note 12) | <u>16,708,673.33</u> | <u>21,690,120.31</u> |

Note a

| | 2016 HK\$ | 2015 HK |
|---|-------------------------|---------------------|
| Cash flows (used in)/from operating activities | | |
| (Deficit)/surplus before income tax | (10,525,362.35) | 7,556,824.35 |
| Depreciation | 111,914.65 | 126,197.77 |
| Loss on disposal of assets | - | 699.61 |
| Interest received | (1,265,546.44) | (1,133,150.67) |
| Operating (deficit)/surplus before working capital change | (11,678,944.14) | 6,550,571.06 |
| Decrease/(increase) in: | | |
| - Other receivables | (628,263.78) | 511,750.24 |
| - Deposit | (21,176.33) | 22,559.10 |
| Increase/(decrease) in: | | |
| - Accounts payable and accruals | <u>54,666.13</u> | (1,323,106.39) |
| Net cash (used in)/generated from operating activities | <u>(12,273,768.12)</u> | <u>5,761,774.01</u> |

Note b

| | 2016 HK\$ | 2015 HK |
|---|---------------------|---------------------|
| Cash flows from investing activities | | |
| Payments to acquire plant and equipment | (93,000.03) | (129,731.61) |
| Decrease in time deposits with maturity over 3 months | 6,119,774.73 | 2,677,181.84 |
| Interest received | <u>1,265,546.44</u> | <u>1,133,150.67</u> |
| Net cash generated from investing activities | <u>7,292,321.14</u> | <u>3,680,600.90</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 JULY, 2016**

| | 2016 HK\$ | 2015 HK\$ |
|--|----------------------|----------------------|
| Opening balance – total equity | 53,941,459.19 | 46,384,634.84 |
| (Deficit)/surplus for the reporting period | (10,525,362.35) | <u>7,556,824.35</u> |
| Closing balance – total equity | <u>43,416,096.84</u> | <u>53,941,459.19</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 JULY, 2016**

(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.

(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 July, 2016. 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 July, 2016 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.

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 JULY, 2016**

(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).

(c) Reclassification adjustments

Cash flow statement

The time deposits with maturity over 3 months from the date of acquisition with bank were classified as cash and cash equivalents in the preparation of the statement of cash flows for the year ended 31 July, 2015. This wrong classification was rectified and the comparative figures of the statement of cash flows were restated to rectify this.

(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.

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 YEAR ENDED 31 JULY, 2016**

(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:-

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|------------------|------------------|
| Loans and receivables: | | |
| - cash at bank and in hand (note 12) | 42,189 | 53,290 |
| - deposits and other receivables (note 13) | <u>1,263</u> | <u>614</u> |
| | 43,452 | 53,904 |
| Financial assets at fair value through profit or loss | - | - |
| Held to maturity investment | - | - |
| Available for sale financial assets | <u>-</u> | <u>-</u> |
| | <u>43,452</u> | <u>53,904</u> |

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

| | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------------------|------------------|
| Financial liabilities at fair value through profit or loss | - | - |
| Financial liabilities at amortised cost: | | |
| - account payable and accruals (note 15) | <u>275</u> | <u>221</u> |
| | <u>275</u> | <u>221</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 YEAR ENDED 31 JULY, 2016**

(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: -

| <u>Net assets/(liabilities)</u> | | <u>Year end rate</u> | | <u>Fluctuation</u> | | <u>+/- Profit/Loss</u> | |
|---------------------------------|---------|----------------------|--------|--------------------|-------|------------------------|----------------|
| 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| CAD'000 | CAD'000 | | | | | HK\$'000 | HK\$'000 |
| 477 | 400 | 5.9527 | 5.9418 | +10% | +10% | - 283 loss | +238 profit |
| | | | | - 10% | - 10% | +283 loss | - 238 profit |
| RMB'000 | RMB'000 | | | | | | |
| 31,191 | 28,515 | 1.1684 | 1.2486 | +10% | +10% | - 3,644 loss | +3,560 profit |
| | | | | - 10% | - 10% | +3,644 loss | - 3,560 profit |

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.

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 JULY, 2016**

(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.

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 JULY, 2016**

(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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**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
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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.

(7) Cost of projects and programs

| | 2016 HK\$ | 2015 HK\$ |
|---|----------------------|----------------------|
| Education sponsorship and living expenses | 14,517,861.68 | 13,386,470.56 |
| Psychosocial education and support expenses | 6,188,365.77 | 5,837,304.38 |
| Orphans, vulnerable children and youths program | 6,273,508.28 | 5,186,880.59 |
| AIDS prevention and equal opportunity expenses | 731,027.02 | 642,902.03 |
| Publicity and resource development | 2,517,841.60 | 1,823,919.42 |
| Fund-raising cost | 682,182.14 | 849,050.82 |
| Sponsorship expenses to Café (note 18) | <u>1,191,567.71</u> | <u>1,626,087.20</u> |
| | <u>32,102,354.20</u> | <u>29,352,615.00</u> |

Publicity and resources development included salaries and allowances of HK\$584,531.60 (2015: HK\$434,699.80) and contribution to MPF scheme of HK\$29,226.60 of certain staff of Hong Kong office responsible for resources development (2015: HK\$17,905.30).

智行基金會有限公司會計政策及財務報表附註解釋

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(8) Other operation expenses

| | 2016 HK\$ | 2015 HK\$ |
|---|---------------------|---------------------|
| Auditors' remuneration | 10,000.00 | 9,000.00 |
| Bank charges | 34,409.08 | 37,834.03 |
| Computer cost | 20,349.39 | 31,442.40 |
| Contribution to MPF scheme | 48,548.00 | 39,023.26 |
| Depreciation | 111,914.65 | 126,197.77 |
| Exchange loss | 2,781,572.99 | 306,295.25 |
| Insurance | 21,835.00 | 446.96 |
| Office supplies | 6,317.00 | 7,434.31 |
| Postage and courier | 6,470.90 | 10,628.10 |
| Printing and stationery | 18,985.12 | 12,324.00 |
| Rent and rates | 276,000.00 | 295,278.18 |
| Repair and maintenance | 1,350.00 | 300.00 |
| Salaries and allowance - administration | 952,627.70 | 790,575.00 |
| Sundry expenses | 74,240.32 | 33,036.40 |
| Telecommunication | 12,817.47 | 8,556.00 |
| Travelling | 7,802.71 | 6,279.20 |
| Utilities | 23,810.00 | 26,281.79 |
| | <u>4,409,050.33</u> | <u>1,740,932.65</u> |

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

(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.

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(10) Furniture, fixtures and equipment

| | 2016 HK\$ | 2015 HK\$ |
|---|-------------------|-------------------|
| Cost | | |
| At the beginning of the reporting period | 818,486.06 | 755,999.71 |
| Additions | 93,000.03 | 65,984.61 |
| Disposals | () | (3,498.26) |
| At the end of the reporting period | <u>911,486.09</u> | <u>818,486.06</u> |
| Accumulated depreciation | | |
| At the beginning of the reporting period | 616,332.51 | 509,899.88 |
| Charges for the reporting period | 97,359.13 | 109,231.09 |
| Written back on disposals | () | (2,798.46) |
| At the end of the reporting period | <u>713,691.64</u> | <u>616,332.51</u> |
| Net book value at the end of the reporting period | <u>197,794.45</u> | <u>202,153.55</u> |

(11) Leasehold improvement

| | 2016 HK\$ | 2015 HK\$ |
|---|-------------------|-------------------|
| Cost | | |
| At the beginning of the reporting period | 111,880.77 | 48,133.77 |
| Additions | <u>-</u> | <u>63,747.00</u> |
| At 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 | 55,464.69 | 38,498.01 |
| Charges for the reporting period | <u>14,555.52</u> | <u>16,966.68</u> |
| At the end of the reporting period | <u>70,020.21</u> | <u>55,464.69</u> |
| Net book value at the end of the reporting period | <u>41,860.56</u> | <u>56,416.08</u> |

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**ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
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(12) Cash at bank and in hand

| | 2016 HK\$ | 2015 HK\$ |
|--|----------------------|----------------------|
| Banks accounts held in name of the Foundation | 37,505,246.93 | 49,346,166.80 |
| Banks accounts opened under the names of volunteers held in trust on behalf of the Foundation | 4,202,388.75 | 3,156,297.97 |
| Cash kept by Hong Kong and China offices | <u>481,286.68</u> | <u>787,679.30</u> |
| | <u>42,188,922.36</u> | <u>53,290,144.07</u> |
| Cash on hand and demand deposits | 7,794,040.32 | 19,442,640.31 |
| Time deposits with maturity within 3 months | <u>8,914,633.01</u> | <u>2,247,480.00</u> |
| Cash and cash equivalent | 16,708,673.33 | 21,690,120.31 |
| Time deposits with maturity over 3 months | <u>25,480,249.03</u> | <u>31,600,023.76</u> |
| | <u>42,188,922.36</u> | <u>53,290,144.07</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\$3,505,806.57 (2015:HK\$3,121,500.00).

(13) Deposits and other receivables

| | 2016 HK\$ | 2015 HK\$ |
|--------------------------|---------------------|-------------------|
| Prepayments and deposits | 133,543.37 | 112,367.04 |
| Other receivables | <u>1,129,405.12</u> | <u>501,141.34</u> |
| | <u>1,262,948.49</u> | <u>613,508.38</u> |

The other receivables are mostly designated donations received by charitable partners in China or USA pending transfer to 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 | 53,708,536.44 | 22,016,922.82 | (31,064,791.08) | - | 44,660,668.18 |
| AIDS prevention and equal opportunity | (458,534.02) | 513,216.40 | (731,027.02) | - | (676,344.64) |
| Publicity, resources development and fundraising | 335,108.22 | 2,190,356.52 | (3,200,023.74) | - | (674,559.00) |
| General | <u>356,348.55</u> | <u>1,265,546.44</u> | <u>-</u> | <u>(1,515,562.69)</u> | <u>106,332.30</u> |
| Total | <u>53,941,459.19</u> | <u>25,986,042.18</u> | <u>(34,995,841.84)</u> | <u>(1,515,562.69)</u> | <u>43,416,096.84</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

| | 2016 HK\$ | 2015 HK\$ |
|-------------------------------|-------------------|-------------------|
| Accounts payable and accruals | <u>275,429.02</u> | <u>220,762.89</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 (2015: 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 year. At the end of the reporting period, the Foundation's total minimum lease payments under non-cancellable operating lease are payable as follows:-

| | 2016 HK\$ | 2015 HK\$ |
|---------------------------------------|-------------------|-------------------|
| In the first year | 115,000.00 | 276,000.00 |
| In the second to fifth year inclusive | - | 115,000.00 |
| | <u>115,000.00</u> | <u>391,000.00</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:

| | 2016 HK\$ | 2015 HK\$ |
|------------------------------|---------------------|---------------------|
| Sponsorship expenses to Café | <u>1,191,567.71</u> | <u>1,626,087.20</u> |

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. The sponsorship income for the Café amounts to HK\$286,907.82 in 2016 (2015: HK\$1,857,130.64) 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\$1,000,000.00 for the Café. Investors wish to 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 common directors of the Foundation, who serve COSE on a pro bono basis and receive no financial compensation from COSE.

(19) Comparative figures

Certain comparative figures have been adjusted/re-classified to conform with the current reporting period's presentation.