

THE SALVATION ARMY
COMBINED FINANCIAL STATEMENTS

Report and Financial Statements
For the year ended 31st March, 2017

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2017

<u>CONTENTS</u>	<u>PAGE(S)</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE	4
STATEMENT OF FINANCIAL POSITION	5 & 6
STATEMENT OF CHANGES IN TOTAL FUNDS	7
STATEMENT OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9 - 39

INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

Opinion

We have audited the combined financial statements of The Salvation Army (the "Army") set out on pages 4 to 39, which comprise the statement of financial position as at 31st March, 2017, and the statement of comprehensive income and expenditure, statement of changes in total funds and statement of cash flows for the year then ended, and notes to the combined 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 Fund as at 31st March, 2017, and of its financial performance and 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").

Basis for Opinion

We conducted our audit in accordance with 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 Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Finance Council Members and Those Charged with Governance for the Financial Statements

The Finance Council members 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 for such internal control as the Finance Council members 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 Finance Council members are responsible for assessing the Fund'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 Finance Council members either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF
THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS - continued

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 our agreed terms of engagement, 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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

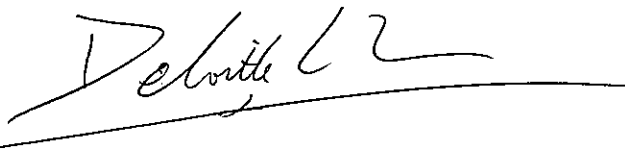
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Finance Council members.
- Conclude on the appropriateness of the Finance Council members' 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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund 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.

INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF
THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS - continued

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

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

A handwritten signature in black ink, appearing to read 'Deloitte' followed by a stylized flourish, positioned above a horizontal line.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24th October, 2017

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31ST MARCH, 2017

	<u>NOTES</u>	<u>2017</u> HK\$	<u>2016</u> HK\$
INCOME			
Recurrent government grants and subventions	6	436,119,820	416,317,049
Government projects and administered funds		20,637,697	22,510,323
Donations and project grants			
- The Hong Kong Jockey Club Charities Trust		7,757,225	2,974,994
- The Community Chest of Hong Kong	7	6,289,645	6,674,121
- Others		24,373,246	26,386,270
Dues and fees		41,225,243	40,263,094
Rental income		860,594	655,534
Interest income		3,051,898	3,010,794
Increase in fair value of investments			
held for trading		13,425,526	-
Recycling programme income		78,878,512	72,619,819
Projects, education and general programme			
fee income		30,342,178	28,292,847
Projects and other management fee income		10,375,067	13,905,268
Hostel income		6,955,311	5,545,055
Sales of goods and services		16,241,826	14,528,097
Other income		3,726,357	4,114,679
		<u>700,260,145</u>	<u>657,797,944</u>
EXPENDITURE			
Staff costs	8	457,627,048	424,823,721
Depreciation on property, plant and equipment			
and investment properties		31,396,904	42,731,843
Operating lease rentals - land and buildings		36,378,761	32,685,968
Auditors' remuneration		1,181,307	1,079,570
Interest expenses		1,001,724	1,018,680
Decrease in fair value of investments held for trading		-	7,370,474
Programs, administration and others		156,824,066	156,239,978
		<u>684,409,810</u>	<u>665,950,235</u>
Surplus (deficit) for the year	10	15,850,335	(8,152,291)
Other comprehensive expense			
Items that will not be reclassified to profit or loss:			
Remeasurement of obligation on defined			
benefit plan	22	(4,554,867)	(787,346)
Other comprehensive expense for the year		<u>(4,554,867)</u>	<u>(787,346)</u>
Total comprehensive income (expense) for the year		<u>11,295,468</u>	<u>(8,939,637)</u>
Transferred (from) to:			
- Lump Sum Grant Reserve Fund		3,153,849	8,830,034
- Provident Fund Reserve		4,594,960	2,075,580
- Contributed Fund		(7,573,464)	5,431,954
- Designated Funds		4,457,015	(16,751,014)
- Accumulated Fund		6,663,108	(8,526,191)
		<u>11,295,468</u>	<u>(8,939,637)</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH, 2017

	<u>NOTES</u>	<u>2017</u> HK\$	<u>2016</u> HK\$
Non-current assets			
Property, plant and equipment	12	148,821,637	158,366,386
Investment properties	13	2,619,712	1,931,870
Held-to-maturity investments	14	-	22,412,368
Loans to Corps	15	3,194,099	3,361,040
		<u>154,635,448</u>	<u>186,071,664</u>
Current assets			
Held-to-maturity investments	14	27,173,954	-
Inventories	16	367,221	347,067
Accounts and other receivable, deposits and prepayments		22,607,052	18,140,960
Amount due from Social Welfare Department	18	16,113,300	25,496,446
Amounts due from Divisional Headquarters	19	861,798	4,301,941
Amount due from Education Fund	19	-	129,496
Amounts due from Corps	19	29,590	573,924
Amounts due from related parties	19	597,024	708,558
Investments held for trading	17	260,648,724	247,223,198
Bank balances and cash	21	353,679,410	333,495,933
		<u>682,078,073</u>	<u>630,417,523</u>
Current liabilities			
Accounts payable and accrued charges		15,585,440	16,638,979
Amount due to Social Welfare Department	18	6,839,487	10,568,427
Amounts due to Corps	19	18,192,986	16,647,707
Amount due to Education Fund	19	40,749,290	39,264,812
Amounts due to International Headquarters	19	532,533	106,248
Provision for unutilised annual leave	8	18,310,323	16,858,130
		<u>100,210,059</u>	<u>100,084,303</u>
Net current assets		<u>581,868,014</u>	<u>530,333,220</u>
Non-current liabilities			
Deferred income	20	104,241,297	102,586,538
Obligation on defined benefits plan	22	44,653,034	38,753,053
Provision for long service payments	8	6,558,417	5,310,047
		<u>155,452,748</u>	<u>146,649,638</u>
Net assets		<u><u>581,050,714</u></u>	<u><u>569,755,246</u></u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Represented by:		
Lump Sum Grant Reserve Fund	110,321,452	107,167,603
Provident Fund Reserve	50,615,830	46,020,870
Contributed Fund	90,028,500	97,601,964
Designated Funds	256,031,854	251,574,839
Accumulated Fund	74,053,078	67,389,970
Total funds	<u>581,050,714</u>	<u>569,755,246</u>

The financial statements on pages 4 to 39 were approved by and authorised for issue by the Finance Council on 24th October, 2017 and are signed on its behalf by:



Lt.-Colonel Ian Swan
Officer Commanding



Mr. Alex Wong
Business Administrator

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN TOTAL FUNDS
FOR THE YEAR ENDED 31ST MARCH, 2017

	<u>Lump Sum Grant Reserve Fund</u> HK\$	<u>Provident Fund Reserve</u> HK\$	<u>Contributed Fund</u> HK\$	<u>Designated Funds</u> HK\$	<u>Accumulated Fund</u> HK\$	<u>Total</u> HK\$
At 1st April, 2015	98,337,569	43,945,290	92,170,010	268,325,853	75,916,161	578,694,883
Transfer from (to) statement of comprehensive income and expenditure	<u>8,830,034</u>	<u>2,075,580</u>	<u>5,431,954</u>	<u>(16,751,014)</u>	<u>(8,526,191)</u>	<u>(8,939,637)</u>
At 31st March, 2016 and 1st April, 2016	107,167,603	46,020,870	97,601,964	251,574,839	67,389,970	569,755,246
Transfer from (to) statement of comprehensive income and expenditure	<u>3,153,849</u>	<u>4,594,960</u>	<u>(7,573,464)</u>	<u>4,457,015</u>	<u>6,663,108</u>	<u>11,295,468</u>
At 31st March, 2017	<u><u>110,321,452</u></u>	<u><u>50,615,830</u></u>	<u><u>90,028,500</u></u>	<u><u>256,031,854</u></u>	<u><u>74,053,078</u></u>	<u><u>581,050,714</u></u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH, 2017

	<u>2017</u>	<u>2016</u>
	HK\$	HK\$
Operating activities		
Surplus (deficit) for the year	15,850,335	(8,152,291)
Interest income	(3,051,898)	(3,010,794)
Interest expenses	1,001,724	1,018,680
Depreciation on property, plant and equipment	31,290,009	42,660,405
Depreciation on investment properties	106,895	71,438
Loss on disposal of property, plant and equipment	45,000	4,151
(Increase) decrease in fair value of investments held for trading	(13,425,526)	7,370,474
Increase in provision for long service payments	1,248,370	610,727
Increase in provision for unutilised annual leave	1,452,193	705,494
	<hr/>	<hr/>
Operating cashflows before movements in working capital	34,517,102	41,278,284
Increase in inventories	(20,154)	(31,134)
Increase in other receivable, deposits and prepayments	(4,083,676)	(2,594,449)
Decrease (increase) in amount due from Social Welfare Department	9,383,146	(12,321,337)
(Decrease) increase in amount due to Social Welfare Department	(3,728,940)	2,502,759
Decrease (increase) in amounts due from related parties	111,534	(520,586)
Increase in net amounts due to Corps	2,089,613	232,860
Decrease (increase) in amounts due from Divisional Headquarters	3,440,143	(2,112,805)
Increase (decrease) in net amount due to Educational Fund	1,613,974	(1,636,224)
Increase in amounts due to International Headquarters	426,285	6,430
(Decrease) increase in accounts payable and accrued charges	(1,053,539)	3,302,300
Increase in obligation on defined benefit plan	1,345,114	1,499,707
Increase in deferred income	1,654,759	5,788,480
	<hr/>	<hr/>
Cash generated from operating activities	45,695,361	35,394,285
Interest paid	(1,001,724)	(1,018,680)
	<hr/>	<hr/>
Net cash generated from operating activities	44,693,637	34,375,605
	<hr/>	<hr/>
Investing activities		
Purchase of property, plant and equipment	(22,584,997)	(43,421,452)
Acquisition of held-to-maturity investments	(5,014,055)	(22,412,368)
Repayment of loan from Corps	166,941	137,086
Interest received	2,921,951	2,092,640
Acquisition of investments held for trading	-	(23,000,000)
	<hr/>	<hr/>
Net cash used in investing activities	(24,510,160)	(86,604,094)
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	20,183,477	(52,228,489)
Cash and cash equivalents at beginning of the year	333,495,933	385,724,422
	<hr/>	<hr/>
Cash and cash equivalents at end of the year, representing bank balances and cash	353,679,410	333,495,933
	<hr/>	<hr/>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2017

1. GENERAL

The Salvation Army (the "Army") is an international religious and charitable movement organised and operated on a military pattern. The Army is responsible for all administrative matters of The Salvation Army in Hong Kong and Macau and, accordingly, the financial statements included only the financial results of the Hong Kong and Macau operations.

The daily administration of the Army is coordinated by the Command Headquarters (the "CHQ") staffed by Army officers and supporting personnel. The operations of the CHQ are reported under the General Fund. The Army operates a travellers' lodge which is located in the CHQ building. The Army operates family stores selling donated items to the public for revenue. The Army has certain surplus cash balances which are drawn from its operating funds and pooled for investment in fixed deposits and quoted investments through investment managers. These operations are administered and reported under the General Fund.

Further, the Army owns certain premises occupied by its social service centres, schools and The Salvation Army Corps ("Corps"). The transactions relating to such premises and projects are administered and reported under the General Fund.

The Army operates a number of community centres, homes for the physically and mentally handicapped, elderly homes and homes for orphaned and underprivileged children. These services, which are provided in Hong Kong and Macau, are mostly financed by government subventions, and are administered and reported under the Social Fund.

The General Fund and Social Fund are reported collectively in the Combined Financial Statements. It reflects over 62% of the Army's operations in Hong Kong and Macau.

The Army also operates pre-schools, primary schools, secondary school and special education for mentally handicapped children. These services represent 38% of the Army's operations in Hong Kong and Macau, and are reported in separate financial statements for which the financial year is September to August.

Moreover, the Army also operates Corps, which are established for religious purposes and their major activities include organising religious meetings and fellowship. The activities of the Corps are not included in the financial statements.

In Hong Kong and Macau, the work of the Army is assisted by an Advisory Board and supporting committees whose members are drawn from the private, commercial and government sectors. Both the Advisory Board and the supporting committees conduct regular meetings to discuss matters of administration and progress of social work and community programs. Members of the Advisory Board and the supporting committees are not remunerated for their services.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

1. GENERAL - continued

Daily operation of the Army is guided by a Finance Council whose members are the officers and staff of the Army. The Finance Council is in turn supported by a range of boards, including Cabinet, Audit Board, General Maintenance Board, Property Maintenance Board and Social Services Governance Council. Some board members receive accommodation and use of motor vehicles of the Army as part of their officership in accordance with the established Salvation Army guidelines. No additional remuneration is received by these officers and staff for acting in their capacity as board members.

The Combined Financial Statements of The Salvation Army Hong Kong and Macau Command is presented in Hong Kong dollars which is also the functional currency of the Command.

The registered address of the Army is 11 Wing Sing Lane, Yaumatei, Kowloon.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Army has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Method of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Army's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

New and revised HKFRSs and interpretations that have been issued but not yet effective

The Army has not early applied the following new or revised HKFRSs and interpretations that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 - 2016 Cycle except for amendments to HKFRS 12 ¹

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

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

- ¹ Effective for annual periods beginning on or after 1st January 2018
- ² Effective for annual periods beginning on or after 1st January 2019
- ³ Effective for annual periods beginning on or after a date to be determined

* HK(IFRIC) stands for Hong Kong (International Financial Reporting Interpretations Committee)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st March, 2017, the Army has non-cancellable operating lease commitments of HK\$50,326,249 as disclosed in note 23. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Army will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Financial Council members complete a detailed review.

The Finance Council members do not anticipate that the application of the other new or revised HKFRSs will have material impact on the Fund's financial statements.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

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

The principal accounting policies adopted are as follows:

Revenue recognition

Donations from third parties which are earmarked for specific purposes, are initially recognised as deferred income and then they are recognised in the statement of comprehensive income and expenditure over the period necessary to match with the related costs which they are intended to compensate.

Donations for general purposes are dealt with in the statement of comprehensive income and expenditure when the right to receive payment is established.

Recycling programme income represents the revenue from the sale of goods at family stores (including donated materials), which is recognised when the risks and rewards of ownership are transferred, which generally coincides with the time when the goods are delivered to customers and title has passed.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Hostel income represents the income from travelers' lodge operation, which is recognised upon rendering of services.

Property and management fee income is recognised when the services is rendered.

Program income, dues and fees represent charges made by the social service units for their services provided to individuals and are recognised as income when the services are rendered.

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discount.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Army has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Army retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Army; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Army and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

Other income is recognised on an accrual basis.

Income from government grants and subventions are recognised in accordance with the accounting policies for government grants and subventions set out below.

Government grant and subventions

A government grant and subventions are not recognised until there is a reasonable assurance that the Army will comply with the conditions attaching to them and that the grant will be received.

Grants and subventions from government, other than Lump Sum Grant from Social Welfare Department, which are earmarked for specific purposes, are initially recognised as deferred income or in the fund accounts classified as liabilities and then they are recognised in the statement of comprehensive income and expenditure over the period necessary to match with the related costs which they are intended to compensate.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Lotteries Fund Grant

The Lotteries Fund Grant represent grants for purchases of recreational equipment, furniture and fittings, minor repair and maintenance work and other improvement projects in relation to the provision of subvented welfare services. The revenue recognition policy is set out in policy relating to Government grant.

Deferred income

Funds under deferred income are established from donations from third parties and are subject to a restriction imposed by the donor as to the objects upon which, or the areas in which, the Army may be spent. The unspent amounts for those completed projects are recognised in the statement of comprehensive income and expenditure as donation income to the Army for general and specific purpose upon the approval from identifiable donors or the Finance Council for those unidentifiable donors. The revenue recognition policy is set out above.

Lump Sum Grant Reserve Fund

Lump Sum Grant was implemented by the Social Welfare Department for the Fund to cover certain approved expenditures including staff costs and other operating expenditure. The Lump Sum Grant is recognised as income upon receipt. The net surplus of the grant for the year, including the interest income generated from the surplus of Lump Sum Grant, is transferred from the statement of comprehensive income and expenditure to the "Lump Sum Grant Reserve Fund".

The Lump Sum Grant Reserve Fund is represented by the unspent Lump Sum Grant, which according to Rule 2.33 of the "Social Welfare Services Lump Sum Grant Manual", must be kept in a separate interest bearing account.

Provident Fund Reserve

Provident Fund Grant was implemented by the Social Welfare Department for the Fund to cover approved provident fund contributions. The Provident Fund Grant is recognised as income upon receipt. The net surplus of the grant for the year is transferred from the statement of comprehensive income and expenditure to the "Provident Fund Reserve".

Contributed fund

Contributed fund is amounts earmarked for the construction and provision of premises for the Army at the discretion of the Army. It is the total amount of contribution applied to leasehold land and buildings and investment properties of the Army. The income and expenditure relating to fund is directly dealt with in the statement of comprehensive income and expenditure.

Designated funds

Designated funds are funds set aside by the Army for designated purposes. The income and expenditure relating to these funds are directly dealt with in the statement of comprehensive income and expenditure. Any net surpluses or deficits relating to these funds are transferred from the statement of comprehensive income and expenditure to these funds.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Property, plant and equipment

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

Donated property is recorded at its historical cost at the time of donation received.

The value of land granted by the Government of the Hong Kong Special Administrative Region (the "HKSAR Government") is not reflected in the cost of properties.

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

When a lease includes both land and building elements, the Fund assesses the classification of each element as finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Fund, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

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

Investment properties

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income and expenditure in the period in which the item is derecognised.

Impairment

At the end of the reporting period, the Army reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in statement of comprehensive income and expenditure immediately.

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through statement of comprehensive income and expenditure) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income and expenditure.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets

The Army's financial assets comprise financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instrument that the Army manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Financial assets at FVTPL - continued

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Army's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the statement of comprehensive income and expenditure in the period in which they arise. The net gain or loss recognised in statement of comprehensive income and expenditure excludes any dividend or interest earned on the financial assets.

Held-to-maturity investments and loans to Corps

Held-to-maturity investments and loan to Corps are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the fund has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts and other receivable, amount due from Social Welfare Department, amounts due from Divisional Headquarters, amounts due from Corps, amount due from Education Fund, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in statement of comprehensive income and expenditure. Subsequent recoveries of amounts previously written off are credited to statement of comprehensive income and expenditure.

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

Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities - continued

Financial liabilities

Financial liabilities including accounts payable, amount due to Social Welfare Department, amounts due to Corps, amounts due to Education Fund, amounts due to International Headquarters are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of comprehensive income and expenditure.

The Army derecognises financial liabilities when, and only when, the Army's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in statement of comprehensive income and expenditure.

Employee benefits

Employee leave entitlements

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

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

Long service payments

Certain employees have completed the required number of years of service to the Fund in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Army is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Army to the end of the reporting period.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits - continued

Pension obligations

The Army operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Army has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defined an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Army pays fixed contributions into a separate entity. Under a defined contribution plan, the Army has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Army presents the first two components of defined benefit costs in profit or loss in the line item 'Staff cost'. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Army's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Army can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

For defined contribution plans, the Army pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Army has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Operating leases

Operating lease payment are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. CRITICAL ACCOUNTING JUDGEMENT

In the application of the Fund's accounting policies, which are described in note 3, the Finance Council members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Finance Council members concluded that no specific judgements, estimates and assumptions had significant effect on the amounts recognised in both current and future periods.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2017</u> HK\$	<u>2016</u> HK\$
Financial assets		
Loans to Corps	3,194,099	3,361,040
Held-to-maturity investments	27,173,954	22,412,368
Investments held for trading	260,648,724	247,223,198
Loans and receivables (including cash and cash equivalents)	386,320,182	377,870,607
	<u>677,336,959</u>	<u>650,867,213</u>
Financial liabilities		
Amortised cost	<u>70,861,625</u>	<u>73,569,143</u>

Financial risk management objectives and policies

The Army's major financial instruments include loans to Corps, accounts and other receivable, amount due from Social Welfare Department, amounts due from Divisional Headquarters, amounts due from Corps, amount due from Education Fund, amounts due from related parties, investments held for trading, held-to-maturity investments, bank balances and cash, accounts payable; amount due to Social Welfare Department, amounts due to Corps, amounts due to Education Fund and amount due to International Headquarters. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Army's overall strategy remains unchanged from prior year.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk

(i) Currency risk

The carrying amounts of the Army's foreign currency denominated monetary assets and monetary liabilities, which include inter-company loans and receivables, at the reporting date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2017</u> HK\$	<u>2016</u> HK\$	<u>2017</u> HK\$	<u>2016</u> HK\$
United States dollar ("US\$")	260,648,724	247,223,198	4,226	-
Renminbi ("RMB")	133,162	491,358	2,540	-

The Army currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the Finance Council members monitor the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

The Army is mainly exposed to currency of US\$ and RMB.

Under the linked exchange rate system, the financial impact on exchange difference between Hong Kong dollars and US\$ will be immaterial and therefore no sensitivity analysis has been prepared.

The following table details the Army's sensitivity to a 5% increase and decrease in RMB, JPY and Euro against the functional currency of the Army. 5% is the sensitivity rate used when reporting foreign currency risk internally and represents Finance Council members' assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in surplus for the year where RMB strengthen 5% against the functional currency of the Army. For a 5% weakening of RMB against the functional currency of the Army, there would be an equal and opposite impact on the surplus for the year, and the balances below would be negative.

	<u>RMB Impact</u>	
	<u>2017</u> HK\$	<u>2016</u> HK\$
Increase in surplus	6,531	24,568

In the opinion of Finance Council members, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk

The Army was exposed to cash flows interest rate risk through the impact of the rate changes amounts due to Corps which bears floating interest rate.

The Army's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank deposits, amount due to Education Fund and amounts due to Corps, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was in deposit accounts or outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the potential effect on surplus for the year is as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Increase in surplus for the year	<u>1,477,793</u>	<u>1,385,236</u>

(iii) Other price risk

The Army is exposed to equity price risk through its investments in listed equity securities and commodities. The Finance Council members manage this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% (2016: 5%) higher/lower, surplus for the year ended 31st March, 2017 would be increased/decreased by HK\$13,032,436 (2016: surplus for the year increased/decreased by HK\$12,361,160) as a result of the changes in fair value of investments held for trading.

In the opinion of Finance Council members, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure during the year.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk

The Army's principal financial assets are bank balances and cash, which represent the Army's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The Finance Council members consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	<u>At 31st March, 2017</u>		
	<u>Level 1</u> HK\$	<u>Level 2</u> HK\$	<u>Total</u> HK\$
Investments held for trading			
Money market funds	260,648,724	-	260,648,724
	<u>260,648,724</u>	<u>-</u>	<u>260,648,724</u>
	<u>At 31st March, 2016</u>		
	<u>Level 1</u> HK\$	<u>Level 2</u> HK\$	<u>Total</u> HK\$
Investments held for trading			
Money market funds	247,223,198	-	247,223,198
	<u>247,223,198</u>	<u>-</u>	<u>247,223,198</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk

Liquidity risk management

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

The following table shows the details of the Army's contractual maturity for its financial liabilities as at 31st March, 2017 and 2016.

	Weighted average effective <u>interest rate</u> %	Repayable on <u>demand</u> HK\$	1 - 3 <u>months</u> HK\$	Total undiscounted <u>cash flows</u> HK\$	Carrying <u>amounts</u> HK\$
<u>2017</u>					
Non-interest bearing					
Accounts and other payables	N/A	3,228,881	1,318,448	4,547,329	4,547,329
Amount due to Social Welfare Department	N/A	6,839,487	-	6,839,487	6,839,487
Amounts due to Corps	N/A	72,254	-	72,254	72,254
Amount due to Education Fund	N/A	749,290	-	749,290	749,290
Amounts due to International Headquarters	N/A	532,533	-	532,533	532,533
		<u>11,422,445</u>	<u>1,318,448</u>	<u>12,740,893</u>	<u>12,740,893</u>
Interest bearing					
Amounts due to Corps	3.48	18,120,732	-	18,120,732	18,120,732
Amount due to Education Fund	1.48	40,000,000	-	40,000,000	40,000,000
		<u>58,120,732</u>	<u>-</u>	<u>58,120,732</u>	<u>58,120,732</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity risk management - continued

	Weighted average effective <u>interest rate</u> %	Repayable on <u>demand</u> HK\$	1 - 3 <u>months</u> HK\$	Total undiscounted <u>cash flows</u> HK\$	Carrying <u>amounts</u> HK\$
<u>2016</u>					
Non-interest bearing					
Accounts and other payables	N/A	3,894,947	1,212,753	5,107,700	5,107,700
Amount due to Social Welfare Department	N/A	10,568,427	-	10,568,427	10,568,427
Amounts due to Corps	N/A	199,008	-	199,008	199,008
Amount due to Education Fund	N/A	1,139,061	-	1,139,061	1,139,061
Amount due to International Headquarters	N/A	106,248	-	106,248	106,248
		<u>15,907,691</u>	<u>1,212,753</u>	<u>17,120,444</u>	<u>17,120,444</u>
Interest bearing					
Amounts due to Corps	3.20	16,448,699	-	16,448,699	16,448,699
Amount due to Education Fund	1.20	40,000,000	-	40,000,000	40,000,000
		<u>56,448,699</u>	<u>-</u>	<u>56,448,699</u>	<u>56,448,699</u>

Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Army consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. RECURRENT GOVERNMENT GRANTS AND SUBVENTIONS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Social Welfare Department subventions:		
- Lump Sum Grant	370,179,187	350,759,281
- Central items, rent and rates	36,736,523	34,267,396
- Lotteries Fund Block Grant	4,954,933	4,061,105
- Lotteries Fund	15,630,618	19,969,120
- Social Welfare Development Fund	3,350,656	2,148,985
Leisure and Culture Service Department Subventions	1,459,006	1,849,452
Macau Social Work Bureau	3,808,897	3,261,710
	<u>436,119,820</u>	<u>416,317,049</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

7. DONATIONS FROM THE COMMUNITY CHEST OF HONG KONG

	<u>2017</u> HK\$	<u>2016</u> HK\$
Donations for Baseline Allocation		
Total received during the year	3,485,300	3,552,885
Allocation of donations to other funds during the year		
North Point Creche and Pak Tin Creche	(143,015)	(143,015)
	<u>3,342,285</u>	<u>3,409,870</u>
Donations for Time-limited Project	2,947,360	3,264,251
Donations received	<u>6,289,645</u>	<u>6,674,121</u>

8. STAFF COSTS (INCLUDING FINANCE COUNCIL MEMBERS' EMOLUMENTS)

	<u>2017</u> HK\$	<u>2016</u> HK\$
Wages and salaries	419,817,454	389,247,589
Provision for long service payments (Note 1)	1,248,370	610,727
Provision for unutilized annual leave (Note 2)	1,452,193	705,494
Pension costs - defined contribution plans	31,208,763	29,331,735
Pension costs - defined benefit plans	3,900,268	4,928,176
	<u>457,627,048</u>	<u>424,823,721</u>

Notes:

- (1) Provision for long service payments as at 31st March, 2017 is HK\$6,558,417 (2016: HK\$5,310,047). Additional provision of HK\$1,248,370 (2016: HK\$610,727) was made during the year.
- (2) Provision for unutilised annual leave as at 31st March, 2016 is HK\$18,310,323 (2016: HK\$16,858,130). Additional provision of HK\$1,452,193 (2016: HK\$705,494) was made during the year.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

9. FINANCE COUNCIL MEMBERS' EMOLUMENTS

	<u>2017</u> HK\$	<u>2016</u> HK\$
Wages and salaries	4,974,584	6,498,625
Pension cost - defined contribution plans	364,766	602,204
	<u>5,339,350</u>	<u>7,100,829</u>

Note: Employee members of Finance Council receive remuneration relating to employment. No additional remuneration is paid to any member as compensation for Finance Council responsibility.

10. SURPLUS (DEFICIT) FOR THE YEAR

	<u>2017</u> HK\$	<u>2016</u> HK\$
Surplus (deficit) for the year has been arrived at after charging:		
Finance Council Members' emoluments (Note 9)	5,339,350	7,100,829
Other staff costs	452,287,698	417,722,892
Total staff costs	<u>457,627,048</u>	<u>424,823,721</u>
Depreciation on property, plant and equipment	31,290,009	42,660,405
Depreciation on investment properties	106,895	71,438
Auditor's remuneration	1,181,307	1,079,570
Government rent and rates	5,151,079	4,791,744
Loss on disposal of property, plant and equipment	45,000	4,151
Net foreign exchange loss	-	308,207
and after crediting:		
Net foreign exchange gain	<u>37,394</u>	<u>-</u>

11. TAXATION

The Army is exempted under Section 88 of the Hong Kong Inland Revenue Ordinance from any tax by reason of the Army being a charitable institution of a public character.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$	Leasehold improvement HK\$	Furniture, fixtures and equipment HK\$	Computer equipment HK\$	Motor vehicle HK\$	Total HK\$
COST						
At 1st April, 2015	205,283,876	142,235,047	41,884,075	12,405,695	4,284,439	406,093,132
Additions	12,740,000	23,830,270	3,173,306	2,595,692	1,082,184	43,421,452
Transfer from investment properties	813,800	-	-	-	-	813,800
Transfer to investment properties	(898,159)	-	-	-	-	(898,159)
Disposals	-	(18,816)	(701,931)	(118,755)	-	(839,502)
At 31st March, 2016	217,939,517	166,046,501	44,355,450	14,882,632	5,366,623	448,590,723
Additions	-	11,392,102	8,082,186	3,110,709	-	22,584,997
Transfer to investment properties	(1,184,770)	-	-	-	-	(1,184,770)
Disposals	-	(292,027)	(1,005,689)	(294,430)	(156,000)	(1,748,146)
At 31st March, 2017	216,754,747	117,146,576	51,431,947	17,698,911	5,210,623	468,242,804
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1st April, 2015	115,118,463	92,967,190	28,611,050	8,214,503	3,573,723	248,484,929
Charge for the year	7,236,609	26,359,430	5,611,993	2,715,239	737,135	42,660,406
Transfer from investment properties	195,510	-	-	-	-	195,510
Eliminated on disposals	-	(18,451)	(698,145)	(118,755)	-	(835,351)
At 31st March, 2016	122,269,425	119,308,169	33,524,898	10,810,987	4,310,858	290,224,337
Charge for the year	7,466,569	14,998,362	5,863,740	2,533,418	427,920	31,290,009
Transfer to investment properties	(390,033)	-	-	-	-	(390,033)
Transfer to investment properties	(281,157)	-	-	-	-	(281,157)
Eliminated on disposals	-	(292,027)	(960,689)	(294,430)	(156,000)	(1,703,146)
At 31st March, 2017	129,345,961	134,014,504	38,427,949	13,049,975	4,582,778	319,421,167
CARRYING VALUES						
At 31st March, 2017	87,408,786	43,132,072	13,003,998	4,648,936	627,845	148,821,637
At 31st March, 2016	95,670,092	46,738,332	10,830,552	4,071,645	1,055,765	158,366,386

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	20 years or over the lease term, whichever is shorter
Leasehold improvement	5 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	25%
Computer equipment	33 $\frac{1}{3}$ %
Motor vehicle	25%

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

13. INVESTMENT PROPERTIES

	HK\$
COST	
At 1st April, 2015	2,633,327
Transfer to property, plant and equipment	84,359
	<hr/>
At 31st March, 2016	2,717,686
Transfer from property, plant and equipment	1,184,770
	<hr/>
At 31st March, 2017	3,902,456
	<hr/>
DEPRECIATION	
At 1st April, 2015	628,731
Provided for the year	71,438
Transfer to property, plant and equipment	85,647
	<hr/>
At 31st March, 2016	785,816
Provided for the year	106,895
Transfer from property, plant and equipment	390,033
	<hr/>
At 31st March, 2017	1,282,744
	<hr/>
CARRYING AMOUNTS	
At 31st March, 2017	2,619,712
	<hr/>
At 31st March, 2016	1,931,870
	<hr/>

The fair value of the Army's investment properties at 31st March, 2017 was HK\$27,140,000 (2016: HK\$22,830,000). The fair value as at 31st March, 2017 and 31st March, 2016 has been arrived at on the basis of a valuation carried out on the respective dates by Messrs. S. H. NG & Co., Ltd., independent qualified professional valuers not connected to the Army.

Messrs. S. H. NG & Co., Ltd. is a member of the Institute of Valuers of Hong Kong, and it has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The investment properties are categorised into Level 2 of the fair value hierarchy.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The investment properties are held under medium term leases and are situated in Hong Kong.

14. HELD-TO-MATURITY INVESTMENT

The Army's held-to-maturity investment represents certificates of deposit that is issued by a financial institution, and carries fixed interest at 2.01% per annum, payable quarterly, and will mature on Mar 2018 and carries fixed interest at 1.60% per annum, payable annually, and will mature on January 2018. The asset has not been past due or impaired at the end of reporting period.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

15. LOAN TO CORPS

The loan is unsecured, interest bearing at 3% per annum and is repayable by monthly instalment until July 2032.

16. INVENTORIES

	<u>2017</u> HK\$	<u>2016</u> HK\$
Merchandises	<u>367,221</u>	<u>347,067</u>

17. INVESTMENTS HELD FOR TRADING

The Fund's held-to-maturity investment represents a certificate of deposit that is issued by a bank, carries a fixed interest at 1.6% per annum, payable annually, and will mature in February 2018. The asset's carrying amount approximates its present value of estimated future cash flows discounted at the asset's original effective interest rate.

18. AMOUNT DUE FROM/TO SOCIAL WELFARE DEPARTMENT

	<u>2017</u> HK\$	<u>2016</u> HK\$
<u>Amount due from Social Welfare Department</u>		
Subventions on rent and rates	4,489,525	5,367,102
Lotteries Fund	11,623,775	20,129,344
	<u>16,113,300</u>	<u>25,496,446</u>
<u>Amount due to Social Welfare Department</u>		
Subventions on central items, rent and rates	4,604,223	7,585,395
Lotteries Fund	721,699	839,635
Other Project Funds	1,513,565	2,143,397
	<u>6,839,487</u>	<u>10,568,427</u>

The amounts are interest free, unsecured and repayable on demand.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

19. AMOUNTS DUE FROM (TO) EDUCATION FUND/DIVISIONAL HEADQUARTERS/
INTERNATIONAL HEADQUARTERS/RELATED PARTIES/CORPS

The amounts are unsecured and with no fixed terms of repayment. Except for the following payable amounts which are interest bearing, the remaining balances are interest free.

	<u>Interest rates</u>	<u>2017</u> HK\$
Amounts due to Corps	3.48%	18,120,732
Amount due to Education Fund	1.48%	<u>40,000,000</u>

	<u>Interest rates</u>	<u>2016</u> HK\$
Amounts due to Corps	3.20%	16,448,699
Amount due to Education Fund	1.20%	<u>40,000,000</u>

20. DEFERRED INCOME

	<u>2017</u> HK\$	<u>2016</u> HK\$
As at 1st April	102,586,538	96,798,058
Amounts received during the year	45,027,822	55,036,522
Amounts utilized during the year	<u>(43,373,063)</u>	<u>(49,248,042)</u>
As at 31st March	<u>104,241,297</u>	<u>102,586,538</u>

21. BANK BALANCES AND CASH

The Army's bank balances and cash which are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	<u>2017</u> HK\$	<u>2016</u> HK\$
RMB	133,162	491,358
MOP	5,408,916	4,169,666
	<u>5,542,078</u>	<u>4,661,024</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN

The Army has a defined benefit plan which is established under a trust containing assets of the funded plans, which are held independently from the Army's assets in separate trustee administered funds. The actuarial valuations of the plan assets and the present value of the defined benefit obligation were carried out by Willis Towers Watson, Fellow of the Institute of Actuaries in Hong Kong. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit method.

The plan exposes the Army to actuarial risks such as investment risk, interest rate risk and salary risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes and Government Bonds; if the return on plan asset is below this rate, it will create a plan deficit.

Interest risk

A decrease in the interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. However, as the salary of plan participant's fluctuates in accordance with the inflation, the increase in salary is stable and predictable.

The amounts recognised in the statement of financial position are determined as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Present value of funded obligations	(105,888,222)	(91,949,181)
Fair value of plan assets	<u>61,235,188</u>	<u>53,196,128</u>
Liability in the statement of financial position	<u>(44,653,034)</u>	<u>(38,753,053)</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN - continued

Salary risk - continued

The amounts recognised in the income and expenditure account was as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Administrative expenses	10,939	-
Current service cost	3,251,256	4,296,000
Interest cost	1,548,620	1,527,072
Expected return on plan assets	(910,547)	(894,896)
Total expense, included in staff costs (note 8)	<u>3,900,268</u>	<u>4,928,176</u>

Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows.

	<u>2017</u> HK\$	<u>2016</u> HK\$
Remeasurement on the net defined benefit liability:		
(Loss) return on plan assets (excluding amounts included in net interest expense)	6,155,951	(4,979,937)
Actuarial loss due to changes in demographic assumptions	(1,698,529)	(1,972,058)
Actuarial gain due to changes in economic assumptions	2,033,643	11,219,655
Actuarial (loss) gain due to experience adjustments	(11,045,932)	(5,055,006)
	<u>(4,554,867)</u>	<u>(787,346)</u>

Movements in the liability recognised in the statement of financial position:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Beginning of the year	(38,753,053)	(36,466,000)
Expense as above	(3,900,268)	(4,928,176)
Remeasurement of net liability recognised in other comprehensive expenditure	(4,554,867)	(787,346)
Contributions paid by employer, including administrative costs	2,555,154	3,428,469
	<u>(44,653,034)</u>	<u>(38,753,053)</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN - continued

Salary risk - continued

Movements in the present value of funded obligations in the current year were as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Beginning of the year	(91,949,181)	(91,854,000)
Current service cost	(3,251,256)	(4,296,000)
Interest cost	(1,548,620)	(1,527,072)
Benefits paid	1,571,653	1,535,300
Actuarial loss due to charges in demographic assumptions	(1,698,529)	(1,972,058)
Actuarial gain due to charges in economic assumptions	2,033,643	11,219,655
Actuarial (loss) gain due to experience adjustments	(11,045,932)	(5,055,006)
	<u>(105,888,222)</u>	<u>(91,949,181)</u>

Movements in the fair value of the plan assets in the current year were as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Beginning of the year	53,196,128	55,388,000
Expected return on Scheme assets	910,547	894,896
Employer and employee contributions	2,555,154	3,428,469
Benefits paid from the Scheme	(1,582,592)	(1,535,300)
Actuarial gain (loss) on Scheme assets	6,155,951	(4,979,937)
	<u>61,235,188</u>	<u>53,196,128</u>

The actual loss on plan assets was HK\$7,066,498 (2016: return HK\$4,085,041).

The major categories of plan assets at the end of the reporting period are as follows: The major categories of plan assets, and the percentage of the fair value at the end of the reporting period for each category are as follows:

	<u>2017</u> %	<u>2016</u> %
Equities	76	77
Bonds	17	17
Money Instruments	7	6
Total	<u>100</u>	<u>100</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN - continued

Salary risk - continued

The principal actuarial assumptions used were as follows:

	<u>2017</u> %	<u>2016</u> %
Discount rate	1.80	1.70
Expected rate of future salary increases	<u>2.50</u>	<u>2.50</u>

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increase. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by HK\$9,389,291 (increase by HK\$10,747,075).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would decrease by HK\$10,302,475 (decrease by HK\$9,113,118).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

The average duration of the benefit obligation at 31 March 2017 is 18.8 years (2016: 19.2 years). This number can be analysed as follows:

- active members: 21.6 years (2016: 22.6 years);
- retired members: 10.5 years (2016: 10.8 years).

The Army expects to make a contribution of HK\$3,072,222 (2016: HK\$2,438,692) to the defined benefit plan during the next financial year.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

23. COMMITMENTS

Capital commitments for leasehold land and buildings

As at 31st March, 2017, the Army had contracted capital commitments for construction and renovation projects amounting to approximately HK\$7,335,253 (2016: HK\$8,132,143).

Operating lease commitments - lessor

As at 31st March, 2017, the Army had future aggregate minimum lease receipts under non-cancellable operating lease in respect of land and buildings as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Within one year	607,266	651,600
In the second to fifth years inclusive	7,676	494,300
	<u>614,942</u>	<u>1,145,900</u>

Operating lease commitments - lessee

At the end of the reporting period, the Army had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Within one year	26,088,983	22,112,325
In the second to fifth years inclusive	24,237,266	28,550,435
	<u>50,326,249</u>	<u>50,662,760</u>

Operating lease payments represent rentals payable by the Army for certain of its office properties leases are negotiated for an average term of 1-3 years and rentals are fixed for an average of 1-3 years.

24. CONTINGENCIES

Certain premises of the Army occupy land sections were granted by the HKSAR Government. These land sections, together with the buildings erected thereon, may be repossessed by the HKSAR Government if they are no longer used for the purposes specified in the terms of the grants, or if repossession is considered necessary by the HKSAR Government for redevelopment purposes.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

25. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the financial statements, during the year, the Combined Financial Statements had the following related party transactions:

	<u>2017</u> HK\$	<u>2016</u> HK\$
Sales and services income from		
Education Fund	48,002	112,858
Divisional Headquarters and Corps	117,312	134,364
Related parties	142,475	119,949
 Purchase from related parties	 61,588	 45,658
 Property management fee income from		
Education Fund	1,649,917	1,633,886
Divisional Headquarters and Corps	6,085,525	5,888,353
 Interest income from Corps	 106,744	 94,493
 Management fee income from		
Divisional Headquarters and Corps	-	125,158
 Sundry income from		
Education Fund	1,775	1,150
Divisional Headquarters and Corps	25,140	96,016
 Interest expenses to		
Education Fund	452,000	480,667
Corps	541,793	530,240
 Programs, administration and other expenses to		
Education Fund	2,500,000	140,000
International Headquarters	238,059	264,985
Divisional Headquarters and Corps	5,257,035	1,294,617