

THE SALVATION ARMY
COMBINED FINANCIAL STATEMENTS

Report and Financial Statements
For the year ended 31st March, 2018

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2018

<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 - 43

INDEPENDENT AUDITOR'S REPORT

TO THE COMMAND GOVERNANCE 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 43, which comprise the statement of financial position as at 31st March, 2018, 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 Army as at 31st March, 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 Army 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 Command Governance Council Members and Those Charged with Governance for the Financial Statements

The Command Governance 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 Command Governance 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 Command Governance Council members are responsible for assessing the Army'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 Command Governance Council members either intend to liquidate the Army or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

TO THE COMMAND GOVERNANCE 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 Army's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Command Governance Council members.
- Conclude on the appropriateness of the Command Governance 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 Army'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 Army 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 COMMAND GOVERNANCE COUNCIL MEMBERS OF
THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS - continued

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Army to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
12th March, 2019

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31ST MARCH, 2018

	<u>NOTES</u>	<u>2018</u> HK\$	<u>2017</u> HK\$
INCOME			
Recurrent government grants and subventions	6	465,066,033	436,119,820
Government projects and administered funds		33,041,836	20,637,697
Donations and project grants			
- The Hong Kong Jockey Club Charities Trust		4,966,134	7,757,225
- The Community Chest of Hong Kong	7	5,907,329	6,289,645
- Others		32,825,796	24,373,246
Dues and fees		42,227,475	41,225,243
Rental income		983,424	860,594
Interest income		3,841,467	3,051,898
Gain from changes in fair value of financial assets classified as held for trading		31,944,205	13,425,526
Recycling programme income		81,407,022	78,878,512
Projects, education and general programmes fee income		32,837,736	30,342,178
Property and management fee income		10,050,747	10,375,067
Hostel income		8,601,167	6,955,311
Sales of goods and services		15,928,367	16,241,826
Other income		5,575,505	3,726,357
		<u>775,204,243</u>	<u>700,260,145</u>
EXPENDITURE			
Staff costs	8	455,056,168	457,627,048
Depreciation on property and equipment and investment properties	12,13	37,450,761	31,396,904
Operating lease rentals - land and buildings		40,122,520	36,378,761
Auditors' remuneration		1,330,250	1,181,307
Interest expenses		648,352	1,001,724
Programs, administration and others		171,285,530	156,824,066
		<u>705,893,581</u>	<u>684,409,810</u>
Surplus for the year	10	69,310,662	15,850,335
Other comprehensive income (expenditure) <i>Items that will not be reclassified to income and expenditure:</i>			
Remeasurement of obligation on defined benefit plan	22	9,701,498	(4,554,867)
Other comprehensive income (expenditure) for the year		<u>9,701,498</u>	<u>(4,554,867)</u>
Total comprehensive income for the year		<u>79,012,160</u>	<u>11,295,468</u>
Transferred to (from):			
- Lump Sum Grant Reserve Fund		96,074	3,153,849
- Provident Fund Reserve		3,024,456	4,594,960
- Contributed Fund		(7,573,463)	(7,573,464)
- Designated Funds		81,813,510	4,457,015
- Accumulated Funds		1,651,583	6,663,108
		<u>79,012,160</u>	<u>11,295,468</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

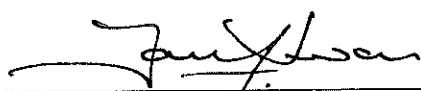
STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH, 2018

	<u>NOTES</u>	<u>2018</u> HK\$	<u>2017</u> HK\$
Non-current assets			
Property and equipment	12	145,677,863	148,821,637
Investment properties	13	2,512,817	2,619,712
Loans to Corps	15	3,035,115	3,194,099
		<u>151,225,795</u>	<u>154,635,448</u>
Current assets			
Held-to-maturity investments	14	19,921,530	27,173,954
Inventories	16	447,766	367,221
Accounts and other receivable, deposits and prepayments		33,339,927	22,607,052
Amount due from Social Welfare Department	18	18,234,208	16,113,300
Amounts due from Divisional Headquarters	19	-	861,798
Amounts due from Corps	19	603,449	29,590
Amounts due from related parties	19	831,576	597,024
Held for trading investments	17	211,277,807	260,648,724
Bank balances and cash	21	460,919,430	353,679,410
		<u>745,575,693</u>	<u>682,078,073</u>
Current liabilities			
Accounts and other payables, receipts in advance and accrued charges		14,791,758	15,585,440
Amount due to Social Welfare Department	18	2,136,888	6,839,487
Amounts due to Corps	19	19,720,899	18,192,986
Amount due to Education Fund	19	56,701,058	40,749,290
Amounts due to International Headquarters	19	80,416	532,533
Provision for unutilised annual leave	8	18,724,307	18,310,323
Deferred income	20	26,700,594	20,248,517
		<u>138,855,920</u>	<u>120,458,576</u>
Net current assets		<u>606,719,773</u>	<u>561,619,497</u>
Non-current liabilities			
Deferred income	20	84,742,130	83,992,780
Obligation on defined benefit plan	22	9,614,526	44,653,034
Provision for long service payments	8	3,526,038	6,558,417
		<u>97,882,694</u>	<u>135,204,231</u>
Net assets		<u>660,062,874</u>	<u>581,050,714</u>

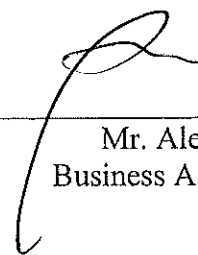
THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Represented by:		
Lump Sum Grant Reserve Fund	110,417,526	110,321,452
Provident Fund Reserve	53,640,286	50,615,830
Contributed Fund	82,455,037	90,028,500
Designated Funds	337,845,364	256,031,854
Accumulated Funds	75,704,661	74,053,078
Total funds	<u>660,062,874</u>	<u>581,050,714</u>

The financial statements on pages 4 to 43 were approved by and authorised for issue by the Command Governance Council on 12th March, 2019 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, 2018

	<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 Funds</u> HK\$	<u>Total</u> HK\$
At 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	110,321,452	50,615,830	90,028,500	256,031,854	74,053,078	581,050,714
Transfer from (to) statement of comprehensive income and expenditure	<u>96,074</u>	<u>3,024,456</u>	<u>(7,573,463)</u>	<u>81,813,510</u>	<u>1,651,583</u>	<u>79,012,160</u>
At 31st March, 2018	<u><u>110,417,526</u></u>	<u><u>53,640,286</u></u>	<u><u>82,455,037</u></u>	<u><u>337,845,364</u></u>	<u><u>75,704,661</u></u>	<u><u>660,062,874</u></u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH, 2018

	<u>2018</u>	<u>2017</u>
	HK\$	HK\$
Operating activities		
Surplus for the year	69,310,662	15,850,335
Interest income	(3,841,467)	(3,051,898)
Interest expenses	648,352	1,001,724
Depreciation on property and equipment	37,343,866	31,290,009
Depreciation on investment properties	106,895	106,895
Loss on disposals of property and equipment	40,898	45,000
Gain from changes in fair value of financial assets classified as held for trading	(31,944,205)	(13,425,526)
(Utilisation of) provision for long service payments	(3,032,379)	1,248,370
Provision for unutilised annual leave	413,984	1,452,193
	<hr/>	<hr/>
Operating cash flows before movements in working capital	69,046,606	34,517,102
Increase in inventories	(80,545)	(20,154)
Increase in accounts and other receivable, deposits and prepayments	(10,732,875)	(4,083,676)
(Increase) decrease in amount due from Social Welfare Department	(2,120,908)	9,383,146
Decrease in amount due to Social Welfare Department	(4,702,599)	(3,728,940)
(Increase) decrease in amounts due from related parties	(234,552)	111,534
Increase in net amounts due to Corps	954,054	2,089,613
Decrease in amounts due from Divisional Headquarters	861,798	3,440,143
Increase in amount due to Educational Fund	15,951,768	1,613,974
(Decrease) increase in amounts due to International Headquarters	(452,117)	426,285
Decrease in accounts and other payable, receipts in advance and accrued charges	(793,682)	(1,053,539)
(Decrease) increase in obligation on defined benefit plan	(25,337,010)	1,345,114
Increase in deferred income	7,201,427	1,654,759
	<hr/>	<hr/>
Cash generated from operations	49,561,365	45,695,361
Interest paid	(648,352)	(1,001,724)
	<hr/>	<hr/>
Net cash from operating activities	48,913,013	44,693,637
	<hr/>	<hr/>
Investing activities		
Proceeds from redemption of investments held for trading	81,315,122	-
Purchase of held-to-maturity investment	(19,918,900)	(5,014,055)
Purchases of property and equipment	(34,240,990)	(22,584,997)
Proceeds from redemption of held-to-maturity investments	27,000,000	
Repayments of loan from Corps	158,984	166,941
Interest received	4,012,791	2,921,951
	<hr/>	<hr/>
Net cash used in investing activities	58,327,007	(24,510,160)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	107,240,020	20,183,477
Cash and cash equivalents at beginning of the year	353,679,410	333,495,933
	<hr/>	<hr/>
Cash and cash equivalents at end of the year, represented by bank balances and cash	460,919,430	353,679,410
	<hr/> <hr/>	<hr/> <hr/>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2018

1. GENERAL AND BASIS OF PREPARATION

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 Trade Department of the Army sells needed supplies to third party customers in Hong Kong and Macau and to various Army units in Hong Kong, Macau and other parts of the world. These supplies include Army books, outfits and unit supplies as well as miscellaneous gift items. These operations are also 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 collectively as the Social Fund.

The General Fund and Social Fund are reported collectively in the Combined Financial Statements. It reflects over 73% 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 24% 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 AND BASIS OF PREPARATION - continued

Daily operation of the Army is guided by a Command Governance Council whose members are the officers and staffs of the Army. The Command Governance Council is in turn supported by a range of boards, including Cabinet, Audit Board, Property Maintenance Board and Social Services Governance Council, Business Governance Council. Some Council 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 staffs 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 Army.

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

2. APPLICATION OF NEW AND AMENDMENTS TO 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 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 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 amendments to HKFRSs and Interpretations in issue but not yet effective

The Army has not early applied the following new and amendments to HKFRSs 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
HKFRS 17	Insurance Contracts ⁴
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 3	Definition of a Business ⁵
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

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

New and amendments to HKFRSs and Interpretations in issue but not yet effective - continued

Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
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 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ²

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.

⁴ Effective for annual periods beginning on or after 1st January, 2021.

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

Except for the new HKFRSs and amendments to HKFRS mentioned below, the Command Governance Council members of the Army anticipate that the application of all the other new and amendments to HKFRSs and Interpretations will have no material impact on the financial statements in the foreseeable future.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Fund is:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

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

HKFRS 9 Financial Instruments - continued

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Army's combined financial instruments and risk management policies as at 31st March, 2018, the Command Governance Council members of the Army anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Debt instrument classified as loans to Corps carried at amortised cost as disclosed in note 15: it is held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, this financial asset will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.
- All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the Command Governance Council members of the Army anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Army's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Army.

Based on the assessment by the Command Governance Council members of the Army, if the expected credit loss model were to be applied by the Army, the accumulated amount of impairment loss to be recognised by the Army as at 1st April, 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on loans and receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated funds at 1st April, 2018.

The Command Governance Council members of the Army anticipate that it is unlikely to have other material impact on the results and financial position of the Army based on an analysis of the Army's existing financial instruments as at 31st March, 2018.

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

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Command Governance Council members of the Army anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Command Governance Council members of the Army do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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 SALVATION ARMY COMBINED FINANCIAL STATEMENTS

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

HKFRS 16 Leases - continued

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. For the classification of cash flows, the Army currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Fund.

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, 2018, the Army has non-cancellable operating lease commitments of HK\$54,241,995 as disclosed in note 23. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Army currently considers refundable rental deposits paid of HK\$5,696,707 and refundable rental deposits received of HK\$104,600 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Amendments to HKAS 19 Plan Amendment , Curtailment or Settlement

The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). The change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is recognised in other comprehensive income.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

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

Amendments to HKAS 19 Plan Amendment , Curtailment or Settlement - continued

In addition, an entity is required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under paragraph 99 of HKAS 19 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The Command Governance Council members of the Army anticipate that the amendments to HKAS 19 in the future may have a material impact on the amounts reported and disclosures made in the Army's financial statements. However, it is not practicable to provide a reasonable estimate of the effect until the Army perform a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and on the historical cost basis, except for certain financial instruments that are measured at fair values 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 Army 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 financial statements is determined on such a basis, except for 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 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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 SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

The principal accounting policies adopted are as follows:

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Army and when specific criteria have been met for each of the Army's activities, as described below.

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 and title has passed.

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.

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

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

Programme 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.

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.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Operating lease rental income is recognised in the statement of comprehensive income and expenditure on a straight-line basis over the term of the relevant lease.

Donated materials and services

The value of donated materials and services to the Army is not recorded in the accounts because of the difficulty in assessing their monetary benefits at market value.

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

Government grants and subventions

Government grants 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.

Government grants and subventions, other than Lump Sum Grant from Social Welfare Department and including government projects and administered funds, 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.

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 Command Governance Council for those unidentifiable donors. The revenue recognition policy is set out above.

Deferred income on Lotteries Fund

Funds under deferred income on Lotteries Fund are established from government grants and are earmarked for specific purposes. Any unspent amounts are not required to be refunded to the Government unless there is clawback action taken by the Government. The revenue recognition policy is set out in policy above.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Lump Sum Grant Reserve Fund

Lump Sum Grant was implemented by the Social Welfare Department for the Army 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 Army 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 contributed 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.

Foreign currencies

Transactions in currencies other than the functional currency of the Army (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in the statement of comprehensive income and expenditure in the period in which they arise.

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 of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property and equipment

Property and equipment are stated in the statement of financial position at cost less subsequent accumulated depreciation and subsequent 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.

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

When a lease includes both land and building elements, the Army assesses the classification of each element accounted 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 Army, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the leasehold land and the building element in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

When the entire lease cannot be allocated reliably between the land and buildings elements, the entire property is generally classified as if the leasehold land is under finance lease and accounted for as property and equipment.

An item of property 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 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 properties held to earn rentals and/or for capital appreciation. 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 the statement of comprehensive income and expenditure in the period in which the item is derecognised.

Impairment on assets

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 disposal 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 in statement of comprehensive income and expenditure immediately.

Financial instruments

Financial assets and financial liabilities are recognised 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 are classified as 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 debt instrument 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 and points 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 debt instrument, 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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified 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.

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.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Financial assets at FVTPL - continued

Financial assets at FVTPL are stated at fair value, with any gains and losses arising on remeasurement recognised in the statement of comprehensive income and expenditure. The net gain or loss recognised in statement of comprehensive income and expenditure excludes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 17.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Army 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.

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 loans to Corps, accounts and other receivable, amount due from Social Welfare Department, amounts due from Divisional Headquarters, amount due from Corps, amount due from Education Fund, amounts due from related parties and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each 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.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets - continued

For certain categories of financial asset, such as accounts and other receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Army's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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, with the exception of loans to Corps, accounts and other receivable, amounts due from Divisional Headquarters, amount due from Corps, amounts due from related parties, 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. When accounts receivable, loans to Corps, amount due from Divisional Headquarters and amounts due from related parties are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income and expenditure.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment 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 investment 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 according to 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 and points 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 at amortised cost

Financial liabilities, including accounts and other payables, amount due to Social Welfare Department, amounts due to Corps, amounts due to Education Fund, amounts due to International Headquarters 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, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in total fund is recognised in the statement of comprehensive income and expenditure.

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

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when the annual leave is accrued 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 Army 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 by 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 total funds and will not be reclassified to the statement of comprehensive income and expenditure. Past service cost is recognised in the statement of comprehensive income and expenditure 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 the statement of comprehensive income and expenditure 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.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits - continued

Pension obligations - continued

For defined contribution plans, the Army operates defined contribution retirement schemes under the Occupational Retirement Schemes Ordinance ("ORSO scheme") and a mandatory provident fund scheme ("MPF scheme") in Hong Kong, the assets of which are held in separate trustee-administered funds. The ORSO Scheme and MPF Scheme ("Schemes") are funded by payments from employees and by the Army. The Army's contributions to the Schemes are based on a fixed percentage of the employees' relevant salaries or income.

Payments to the Schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Army as lessee

Operating lease payment are recognised as an expense on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. CRITICAL ACCOUNTING JUDGEMENT

In the application of the Army's accounting policies, which are described in note 3, the Command Governance 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 Command Governance Council members concluded that no specific judgements, estimates and assumptions had significant effect on the amounts recognised in both current and future periods.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2018</u>	<u>2017</u>
	HK\$	HK\$
Financial assets		
Loans to Corps	3,035,115	3,194,099
Held-to-maturity investments	19,921,530	27,173,954
Investments held for trading	211,277,807	260,648,724
Loans and receivables (including cash and cash equivalents)	502,767,994	386,320,182
	<u>737,002,446</u>	<u>677,336,959</u>
Financial liabilities		
Amortised cost	83,793,051	70,861,625
	<u>83,793,051</u>	<u>70,861,625</u>

Financial risk management objectives and policies

The Army's major financial instruments include loans to Corps, held-to-maturity investments, accounts and other receivable, amount due from Social Welfare Department, amounts due from Divisional Headquarters, amounts due from Corps, amounts due from related parties, held-for-trading investments, bank balances and cash, accounts and other payables, amount due to Social Welfare Department, amounts due to Corps, amount due to Education Fund and amounts due to International Headquarters. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), and liquidity risk. The policies on how to mitigate these risks are set out below. The Command Governance Council members manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Army's exposure to the risks mentioned above or the manner in which it manages and measures the risk from prior year.

Market risk

(i) Currency risk

The carrying amounts of the Army's foreign currency denominated monetary assets and monetary liabilities, which include cash on hand and held for trading investments, at the reporting date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	HK\$	HK\$	HK\$	HK\$
United States dollar ("US\$")	211,286,089	260,648,724	-	4,226
	<u>211,286,089</u>	<u>260,648,724</u>	<u>-</u>	<u>4,226</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(i) Currency risk - continued

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

Sensitivity analysis

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

As HK\$ is currently pegged to US\$, the Command Governance Council consider that the exposure to exchange rate fluctuation in US\$ against HK\$ is limited and therefore no sensitivity analysis has been prepared.

(ii) Interest rate risk

The Army is exposed to cash flows interest rate risk in relation to variable-rate bank balances (see note 21 for details) and amounts due to Corps and amount due to Education Fund which bear floating interest rates (see note 15 & 19 for details).

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 (2017: 50 basis points) 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 (2017: 50 basis points) higher and all other variables were held constant, the potential effect on surplus for the year is as follows:

	<u>2018</u> HK\$	<u>2017</u> HK\$
Increase in surplus for the year	<u>2,006,443</u>	<u>1,477,793</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(iii) Other price risk

The Army is exposed to equity price risk through its investments in listed equity securities and commodities. The Command Governance 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% (2017: 5%) higher/lower, surplus for the year ended 31st March, 2018 would be increased/decreased by HK\$10,563,890 (2017: HK\$13,032,436) as a result of the changes in fair value of investments held for trading.

In the opinion of Command Governance 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.

Credit risk

As at 31st March, 2018, the Army's maximum exposure to credit risk which will cause a financial loss to the Army due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statement of financial position.

The Army's principal financial assets are bank balances, 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.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Fair value measurement of financial instruments

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 Command Governance 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 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.

<u>Level 1</u>	<u>At 31st March</u>	
	<u>2018</u> HK\$	<u>2017</u> HK\$
Investments held for trading		
Money market funds	<u>211,277,807</u>	<u>260,648,724</u>

Liquidity risk

Liquidity risk management

In the management of the liquidity risk, the Command Governance Council members monitor and maintain a level of cash and cash equivalents deemed adequate by the Command Governance Council members to finance the Army's operations and mitigate the effects of fluctuations in cash flows.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity risk management - continued

The following table details the Army's contractual maturity for its non-derivative financial liabilities as at 31st March, 2018 and 2017. The table has been drawn up based on the undiscounted cash flows of financial instruments based on the earliest date on which the Army can be required to pay.

	Weighted average effective interest rate %	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>2018</u>					
Non-interest bearing					
Accounts and other payables	N/A	5,101,891	51,899	5,153,790	5,153,790
Amount due to Social Welfare Department	N/A	2,136,888	-	2,136,888	2,136,888
Amounts due to Corps	N/A	90,082	-	90,082	90,082
Amount due to Education Fund	N/A	16,701,058	-	16,701,058	16,701,058
Amounts due to International Headquarters	N/A	80,416	-	80,416	80,416
Sub-total		<u>24,110,335</u>	<u>51,899</u>	<u>24,162,234</u>	<u>24,162,234</u>
Interest bearing					
Amounts due to Corps	1.31	19,630,817	-	19,630,817	19,630,817
Amount due to Education Fund	3.31	40,000,000	-	40,000,000	40,000,000
Total		<u>83,741,152</u>	<u>51,899</u>	<u>83,793,051</u>	<u>83,793,051</u>
<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
Sub-total		<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
Total		<u>69,543,177</u>	<u>1,318,448</u>	<u>70,861,625</u>	<u>70,861,625</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

6. RECURRENT GOVERNMENT GRANTS AND SUBVENTIONS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Social Welfare Department subventions:		
- Lump Sum Grant	383,755,009	370,179,187
- Central items, rent and rates	45,686,848	36,736,523
- Lotteries Fund Block Grant	5,405,294	4,954,933
- Lotteries Fund	23,583,989	15,630,618
- Social Welfare Development Fund	1,860,130	3,350,656
Leisure and Culture Service Department Subventions	1,693,948	1,459,006
Macau Social Work Bureau	3,080,815	3,808,897
	<u>465,066,033</u>	<u>436,119,820</u>

7. DONATIONS FROM THE COMMUNITY CHEST OF HONG KONG

	<u>2018</u> HK\$	<u>2017</u> HK\$
Donations for Baseline Allocation		
Total received during the year	3,589,900	3,485,300
Allocation of donations to other funds during the year		
North Point Creche and Pak Tin Creche	(143,015)	(143,015)
	<u>3,446,885</u>	<u>3,342,285</u>
Donations for Time-limited Project	2,460,444	2,947,360
Donations received	<u>5,907,329</u>	<u>6,289,645</u>

8. STAFF COSTS (INCLUDING COMMAND GOVERNANCE COUNCIL MEMBERS' EMOLUMENTS)

	<u>2018</u> HK\$	<u>2017</u> HK\$
Wages and salaries	446,009,885	419,817,454
(Utilisation of) provision for long service payments (Note 1)	(3,032,379)	1,248,370
Provision for unutilized annual leave (Note 2)	413,984	1,452,193
Pension costs - defined contribution plans	35,171,084	31,208,763
Pension costs - defined benefit plans	(23,506,406)	3,900,268
	<u>455,056,168</u>	<u>457,627,048</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

8. STAFF COSTS (INCLUDING COMMAND GOVERNANCE COUNCIL MEMBERS' EMOLUMENTS) - continued

Notes:

- (1) Provision for long service payments as at 31st March, 2018 is HK\$3,526,038 (2017: HK\$6,558,417). Additional provision of HK\$315,389 (2017: HK\$1,248,370) was recognised and provision of HK\$3,347,768 was utilised during the year.
- (2) Provision for unutilised annual leave as at 31st March, 2018 is HK\$18,724,307 (2017: HK\$18,310,323). Additional provision of HK\$3,390,407 was recognised and provision of HK\$2,976,423 was utilised during the year (2017: provision of HK\$1,452,193).

9. COMMAND GOVERNANCE COUNCIL MEMBERS' EMOLUMENTS

	<u>2018</u> HK\$	<u>2017</u> HK\$
Wages and salaries	4,325,487	4,974,584
Pension cost - defined contribution plans	304,582	364,766
	<u>4,630,069</u>	<u>5,339,350</u>

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

10. SURPLUS FOR THE YEAR

	<u>2018</u> HK\$	<u>2017</u> HK\$
Surplus for the year has been arrived at after charging:		
Command Governance Council Members' emoluments	4,630,069	5,339,350
Other staff costs	450,426,099	452,287,698
Total staff costs	<u>455,056,168</u>	<u>457,627,048</u>
Depreciation on property and equipment	37,343,866	31,290,009
Depreciation on investment properties	106,895	106,895
Auditor's remuneration	1,330,250	1,181,307
Government rent and rates	5,304,168	5,151,079
Loss on disposal of property, plant and equipment	40,898	45,000
and after crediting:		
Net foreign exchange gain	<u>56,508</u>	<u>37,394</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

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.

12. PROPERTY 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, 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	177,146,576	51,431,947	17,698,911	5,210,623	468,242,804
Additions	-	26,699,891	3,647,963	3,378,446	514,690	34,240,990
Disposals	-	(2,390,740)	(1,407,813)	(345,517)	-	(4,144,070)
At 31st March, 2018	216,754,747	201,455,727	53,672,097	20,731,840	5,725,313	498,339,724
ACCUMULATED DEPRECIATION						
At 1st April, 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)
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
Charge for the year	7,466,568	20,920,261	5,812,869	2,825,281	318,887	37,343,866
Eliminated on disposals	-	(2,374,090)	(1,403,748)	(325,334)	-	(4,103,172)
At 31st March, 2018	136,812,529	152,560,675	42,837,070	15,549,922	4,901,665	352,661,861
CARRYING VALUES						
At 31st March, 2018	79,942,218	48,895,052	10,835,027	5,181,918	823,648	145,677,863
At 31st March, 2017	87,408,786	43,132,072	13,003,998	4,648,936	627,845	148,821,637

The above items of property 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, 2016	2,717,686
Transfer from property and equipment	1,184,770
	3,902,456
At 31st March, 2017 and 31st March, 2018	3,902,456
DEPRECIATION	
At 1st April, 2016	785,816
Provided for the year	106,895
Transfer from property, plant and equipment	390,033
	1,282,744
At 31st March, 2017	1,282,744
Provided for the year	106,895
	1,389,639
At 31st March, 2018	1,389,639
CARRYING AMOUNTS	
At 31st March, 2018	2,512,817
At 31st March, 2017	2,619,712

The fair value of the Army' investment properties at 31st March, 2018 was HK\$34,510,000 (2017: HK\$27,140,000). The fair values as at 31st March, 2018 and 31st March, 2017 has been arrived at based on a valuation carried out on the respective dates by Messrs. S.H. NG & Co., Ltd., independent qualified professional valuers not connected to the Fund.

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.

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 situated in Hong Kong.

14. HELD-TO-MATURITY INVESTMENT

The Army's held-to-maturity investment as at 31st March, 2017, represent two certificates of deposit that is issued by financial institutions, and carries fixed interest at 2.01% per annum, payable quarterly, and matured in Mar 2018 and carries fixed interest at 1.60% per annum, payable annually, and matured in February 2018, respectively. In March 2018, the Army purchased another certificate of deposit that is issued by a financial institution, carries a fixed interest at 1.00% per annum, payable annually, at a consideration of HK\$19,918,900 and will be matured in January 2019. The asset has not been past due or impaired at the end of reporting period. The asset's carrying amount approximates its present value of estimate future cash flows discounted at the asset's original effective interest rate.

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>2018</u> HK\$	<u>2017</u> HK\$
Merchandises	<u>447,766</u>	<u>367,221</u>

17. HELD-FOR-TRADING INVESTMENTS

Investments held for trading are stated at fair value and are analysed as follows:

	<u>2018</u> HK\$	<u>2017</u> HK\$
Money market funds	<u>211,277,807</u>	<u>260,648,724</u>

Included in investments held for trading are the following amounts denominated in a currency other than the functional currency of the Army:

	<u>2018</u> HK\$	<u>2017</u> HK\$
US\$	<u>211,277,807</u>	<u>260,648,724</u>

18. AMOUNT DUE FROM/TO SOCIAL WELFARE DEPARTMENT

	<u>2018</u> HK\$	<u>2017</u> HK\$
<u>Amount due from Social Welfare Department</u>		
Subventions on rent and rates	5,546,390	4,489,525
Lotteries Fund	12,687,818	11,623,775
	<u>18,234,208</u>	<u>16,113,300</u>
<u>Amount due to Social Welfare Department</u>		
Subventions on central items, rent and rates	820,076	4,604,223
Lotteries Fund	-	721,699
Other Project Funds	1,316,812	1,513,565
	<u>2,136,888</u>	<u>6,839,487</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>2018</u> HK\$
Amounts due to Corps	3.08% - 3.53%	19,630,817
Amount due to Education Fund	1.08% - 1.53%	<u>40,000,000</u>

	<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>

20. DEFERRED INCOME

	<u>2018</u> HK\$	<u>2017</u> HK\$
As at 1st April	104,241,297	102,586,538
Amounts received during the year	51,394,742	45,027,822
Amounts refunded during the year	(819,799)	-
Amounts utilised during the year	<u>(43,373,516)</u>	<u>(43,373,063)</u>
As at 31st March	<u>111,442,724</u>	<u>104,241,297</u>
Amounts shown under		
- current liabilities	26,700,594	20,248,517
- non-current liabilities	84,742,130	83,992,780
	<u>111,442,724</u>	<u>104,241,297</u>

21. BANK BALANCES AND CASH

Bank balances held by the Army as at 31st March, 2018 carry interest at market rate which ranged from 0.30% - 3.00% per annum.

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 (2017: Willis Towers Watson). 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>2018</u> HK\$	<u>2017</u> HK\$
Present value of defined benefit obligation	(59,409,821)	(105,888,222)
Fair value of plan assets	<u>49,795,295</u>	<u>61,235,188</u>
Liability arising from defined benefit obligation in the statement of financial position	<u><u>(9,614,526)</u></u>	<u><u>(44,653,034)</u></u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN - continued

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
Administrative expenses	11,050	10,939
Current service cost, net of employee contribution	2,303,922	3,251,256
Interest cost	1,267,746	1,548,620
Interest income	(851,344)	(910,547)
Past service cost - gains on curtailments	<u>(26,237,780)</u>	<u>-</u>
Total (income) expense, included in staff costs (note 8)	<u>(23,506,406)</u>	<u>3,900,268</u>

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	6,669,522	6,155,951
Actuarial loss due to changes in demographic assumptions	(57,682)	(1,698,529)
Actuarial gain due to changes in financial assumptions	2,884,374	2,033,643
Actuarial gain (loss) due to experience adjustments	205,284	(11,045,932)
	<u>9,701,498</u>	<u>(4,554,867)</u>

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
Beginning of the year	(44,653,034)	(38,753,053)
Income (expense) as above	23,506,406	(3,900,268)
Remeasurement of net liability recognised in other comprehensive expenditure	9,701,498	(4,554,867)
Contributions paid by employer	1,830,604	2,555,154
	<u>(9,614,526)</u>	<u>(44,653,034)</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN - continued

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
Beginning of the year	(105,888,222)	(91,949,181)
Current service cost, net of employee contribution	(2,303,922)	(3,251,256)
Interest cost	(1,267,746)	(1,548,620)
Benefits paid	1,821,075	1,571,653
Actuarial loss due to charges in demographic assumptions	(57,682)	(1,698,529)
Actuarial gain due to charges in financial assumptions	2,884,374	2,033,643
Actuarial gain (loss) due to experience adjustments	205,284	(11,045,932)
Liabilities extinguished on settlements	18,959,238	-
Liabilities extinguished on curtailments	26,237,780	-
	<u>(59,409,821)</u>	<u>(105,888,222)</u>

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

	<u>2018</u> HK\$	<u>2017</u> HK\$
Beginning of the year	61,235,188	53,196,128
Interest income	851,344	910,547
Employer contributions	1,830,604	2,555,154
Benefits and administrative expenses paid from the Scheme	(1,832,125)	(1,582,592)
Actuarial gain on Scheme assets	6,669,522	6,155,951
Assets distributed on settlements	(18,959,238)	-
	<u>49,795,295</u>	<u>61,235,188</u>

The actual return on plan assets was HK\$7,520,866 (2017: HK\$7,066,498).

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>2018</u> %	<u>2017</u> %
Equities	75	76
Bonds	23	17
Money Instruments	2	7
Total	<u>100</u>	<u>100</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

22. OBLIGATION ON DEFINED BENEFIT PLAN - continued

The principal actuarial assumptions used for the purpose of the actuarial valuations were as follows:

	<u>2018</u> %	<u>2017</u> %
Discount rate	2.1	1.80
Expected rate of future salary increases	2.5	2.50

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\$4,396,478 (increase by HK\$4,955,355) (2017: 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 increase by HK\$4,720,887 (decrease by HK\$4,239,499) (2017: increase 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.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from the prior year.

The average duration of the benefit obligation at 31 March 2018 is 15.6 years (2017: 18.8 years). This number can be analysed as follows:

- active members: 20.4 years (2017: 21.6 years);
- retired members: 10.7 years (2017: 10.5 years).

The Army expects to make a contribution of HK\$1,228,684 (2017: HK\$3,072,222) 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, 2018, the Army had contracted capital commitments for construction and renovation projects amounting to approximately HK\$10,135,489 (2017: HK\$7,335,253).

Operating lease commitments - lessor

As at 31st March, 2018, the Army had future aggregate minimum lease receipts under non-cancellable operating lease in respect of land and buildings as follows:

	<u>2018</u> HK\$	<u>2017</u> HK\$
Within one year	615,600	607,266
In the second to fifth years inclusive	395,800	7,676
	<u>1,011,400</u>	<u>614,942</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>2018</u> HK\$	<u>2017</u> HK\$
Within one year	31,289,415	26,088,983
In the second to fifth years inclusive	22,952,580	24,237,266
	<u>54,241,995</u>	<u>50,326,249</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 Army entered into the following related party transactions:

	<u>2018</u> HK\$	<u>2017</u> HK\$
Sales and services income from		
Education Fund	811,901	48,002
Divisional Headquarters and Corps	31,050	117,312
Oversea Army Units	219,773	142,475
 Purchase from Oversea Army Units	 54,349	 61,588
 Property and other management fee income from		
Education Fund	4,582,684	1,649,917
Divisional Headquarters and Corps	5,010,605	6,085,525
 Interest income from Corps	 93,649	 106,744
 Sundry income from		
Education Fund	58,336	1,775
Divisional Headquarters and Corps	-	25,140
 Interest expenses to		
Education Fund	-	452,000
Corps	639,296	541,793
 Programs, administration and other expenses to		
Education Fund	17,930	2,500,000
International Headquarters	250,449	238,059
Divisional Headquarters and Corps	4,450,746	5,257,035