

**THE SALVATION ARMY
COMBINED FINANCIAL STATEMENTS**

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2019

F. S. Li & Co.

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CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

THE SALVATION ARMY
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FOR THE YEAR ENDED 31ST MARCH 2019

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT
TO THE COMMAND GOVERNANCE COUNCIL MEMBERS OF
THE SALVATION ARMY (the "Army")
FOR THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS
(incorporated in Hong Kong under the Salvation Army Ordinance)

Opinion

We have audited the Salvation Army combined financial statements set out on pages 3 to 43, which comprise the statement of financial position as at 31st March 2019, and 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 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 2019 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 Hong Kong Institute of Certified Public Accountants ("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 that are relevant to these financial statements, 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.

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. This report is made 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.
- ◆ 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.

F.S.U. & Co.

F.S. Li & Co.
Certified Public Accountants

Hong Kong, 6th July 2020.

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

FOR THE YEAR ENDED 31ST MARCH 2019

	<u>Notes</u>	HK\$	<u>2019</u> HK\$	<u>2018</u> HK\$
<u>INCOME</u>				
Recurrent government grants and subventions, net of refund	4		513,959,287	465,066,033
Government projects and administered funds			30,851,659	33,041,836
Donations and project grants				
- The Hong Kong Jockey Club Charities Trust			14,388,752	4,966,134
- The Community Chest of Hong Kong	5		6,271,754	5,907,329
- Others			36,131,125	32,825,796
Dues and fees			43,666,518	42,227,475
Rental income			848,679	983,424
Interest income			13,982,676	3,841,467
Gain from changes in fair value of financial assets classified as held for trading			-	31,944,205
Gain on disposal of property, plant and equipment			131,577,944	-
Recycling programme income			92,804,608	81,407,022
Projects, education and general programmes fee income			33,096,680	32,837,736
Property and management fee income			10,455,794	10,050,747
Hostel income			10,030,901	8,601,167
Sales of goods and services			20,456,811	15,928,367
Other income			1,894,824	5,575,505
			<u>960,418,012</u>	<u>775,204,243</u>
<u>EXPENDITURE</u>				
Staff costs	6	(527,513,041)		(455,056,168)
Loss from changes in fair value of financial assets at fair value through profit or loss		(8,518,974)		-
Depreciation on property and equipment and investment properties	10, 11	(46,098,491)		(37,450,761)
Operating lease rentals-land and buildings		(47,862,540)		(40,122,520)
Auditors' remuneration		(803,898)		(1,330,250)
Interest expenses		(950,797)		(648,352)
Programs, administration and others		<u>(196,828,508)</u>		<u>(171,285,530)</u>
			<u>(828,576,249)</u>	<u>(705,893,581)</u>
SURPLUS FOR THE YEAR	8		131,841,763	69,310,662
OTHER COMPREHENSIVE (EXPENDITURE)/INCOME FOR THE YEAR				
<i>Item that will not be reclassified to income and expenditure:</i>				
Remeasurement of obligation on defined benefit plan	20		<u>(11,600,748)</u>	9,701,498
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			<u>120,241,015</u>	<u>79,012,160</u>
Transferred to/(from):				
- Lump Sum Grant Reserve Fund			10,356,338	96,074
- Provident Fund Reserve			4,459,534	3,024,456
- Contribution Funds			6,758,030	(7,573,463)
- Designated Funds			116,370,212	81,813,510
- Accumulated Funds			<u>(17,703,099)</u>	<u>1,651,583</u>
			<u>120,241,015</u>	<u>79,012,160</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AT 31ST MARCH 2019

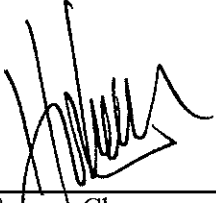
	<u>Note</u>	<u>2019</u>	<u>2018</u>
		HK\$	HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	10	163,000,285	145,677,863
Investment properties	11	1,831,725	2,512,817
Loans to Corps	12	2,885,136	3,035,115
		<u>167,717,146</u>	<u>151,225,795</u>
CURRENT ASSETS			
Held-to-maturity investments		-	19,921,530
Inventories - Goods for resale		1,269,752	447,766
Account and other receivables, deposits and prepayments	13	48,508,622	33,339,927
Amount due from Social Welfare Department	14	20,774,086	18,234,208
Amount due from Corps	15	1,197,238	603,449
Amounts due from related parties	15	746,132	831,576
Held for trading investments		-	211,277,807
Bank balances and cash		797,961,864	460,919,430
		<u>870,457,694</u>	<u>745,575,693</u>
CURRENT LIABILITIES			
Accounts payable and accrued charges	16	24,146,152	14,791,758
Amount due to Social Welfare Department	14	2,108,671	2,136,888
Amount due to Education Fund	15	62,177,298	56,701,058
Amount due to Corps	15	22,768,894	19,720,899
Amounts due to International Headquarters	15	6,645	80,416
Provision for unutilised annual leave	17	20,799,482	18,724,307
Deferred income	19	24,913,229	26,700,594
Bank overdrafts		451,918	-
		<u>157,372,289</u>	<u>138,855,920</u>
NET CURRENT ASSETS		<u>713,085,405</u>	<u>606,719,773</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		880,802,551	<u>757,945,568</u>
NON-CURRENT LIABILITIES			
Deferred income	19	73,595,080	84,742,130
Provision for long service payments	18	5,481,327	3,526,038
Obligation on defined benefit plan	20	21,422,255	9,614,526
		<u>100,498,662</u>	<u>97,882,694</u>
NET ASSETS		<u>780,303,889</u>	<u>660,062,874</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS


STATEMENT OF FINANCIAL POSITION AT 31ST MARCH 2019

	<u>2019</u> HK\$	<u>2018</u> HK\$
<i>Represented by:</i>		
Lump Sum Grant Reserve Funds	120,773,864	110,417,526
Provident Fund Reserve	58,099,820	53,640,286
Contribution Funds	89,213,067	82,455,037
Designated Funds	454,215,576	337,845,364
Accumulated Funds	<u>58,001,562</u>	<u>75,704,661</u>
	<u>780,303,889</u>	<u>660,062,874</u>

The financial statements on pages 3 to 43 were approved and authorised for issue by the Command Governance Council on 6th July 2020.



Major Tommy Chan
General Secretary



Mr. Alex Wong
Senior Director
for Business and Administration

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN TOTAL FUNDS

FOR THE YEAR ENDED 31ST MARCH 2019

	Lump Sum Grant Reserve Funds HK\$	Provident Fund Reserve HK\$	Contribution Funds HK\$	Designated Funds HK\$	Accumulated Funds HK\$	Total HK\$
Balance at 1st April 2018	110,417,526	53,640,286	82,455,037	337,845,364	75,704,661	660,062,874
Transfer from/(to) statement of comprehensive income and expenditure the year ended 31st March 2019	10,356,338	4,459,534	6,758,030	116,370,212	(17,703,099)	120,241,015
Balance at 31st March 2019	<u>120,773,864</u>	<u>58,099,820</u>	<u>89,213,067</u>	<u>454,215,576</u>	<u>58,001,562</u>	<u>780,303,889</u>
Balance at 1st April 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 for the year ended 31st March 2018	96,074	3,024,456	(7,573,463)	81,813,510	1,651,583	79,012,160
Balance at 31st March 2018	<u>110,417,526</u>	<u>53,640,286</u>	<u>82,455,037</u>	<u>337,845,364</u>	<u>75,704,661</u>	<u>660,062,874</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST MARCH 2019

	<u>2019</u>	(restated)
	HK\$	<u>2018</u>
		HK\$
Cash flows from operating activities		
Surplus for the year	131,841,763	69,310,662
Adjustments for:		
Interest income	(13,982,676)	(3,841,467)
Interest expenses	950,797	648,352
Gain from changes in fair value of financial assets classified as held for trading	-	(31,944,205)
Loss from changes in fair value of financial assets at fair value through profit or loss	8,518,974	-
Depreciation on property, plant and equipment	46,012,103	37,343,866
Depreciation on investment properties	86,388	106,895
(Gain)/Loss on disposal of property, plant and equipment	(131,577,944)	40,898
Provision for/(Utilisation of) long service payments, net utilised	1,955,289	(3,032,379)
Provision for unutilised annual leave, net utilised	<u>2,075,175</u>	<u>413,984</u>
Operating surplus before working capital changes	45,879,869	69,046,606
Increase in inventories	(821,986)	(80,545)
Increase in account and other receivables, deposits and prepayments	(9,799,920)	(10,732,875)
Increase in amount due from Social Welfare Department	(2,539,878)	(2,120,908)
Decrease in amounts due from Divisional Headquarters	-	861,798
Increase in amount due from Corps	(593,789)	-
Decrease/(Increase) in amount due from related parties	85,444	(234,552)
Increase/(Decrease) in accounts payable and accrued charges	9,354,394	(793,682)
Decrease in amount due to Social Welfare Department	(28,217)	(4,702,599)
Increase in amount due to Education Fund	5,476,240	15,951,768
Increase in amount due to Corps	3,047,995	954,054
Decrease in amount due to International Headquarters	(73,771)	(452,117)
Increase/(Decrease) in obligation on defined benefit plan	206,981	(25,337,010)
(Decrease)/Increase in deferred income	<u>(12,934,415)</u>	<u>7,201,427</u>
Cash generated from operations	37,258,947	49,561,365
Interest paid	<u>(950,797)</u>	<u>(648,352)</u>
Net cash generated from operating activities	36,308,150	48,913,013

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31ST MARCH 2019

	<u>2019</u>	(restated) <u>2018</u>
	HK\$	HK\$
Net cash generated from operating activities	<u>36,308,150</u>	<u>48,913,013</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(63,260,877)	(34,240,990)
Proceeds from sale of property, plant and equipment	132,099,000	-
Purchase of held-to-maturity investments	-	(19,918,900)
Proceeds from redemption of investments held for trading	-	81,315,122
Proceeds from redemption of financial assets at fair value through profit or loss	202,758,833	-
Redemption of held-to-maturity investments	19,921,530	27,000,000
Repayment of loans from Corps	149,979	158,984
Interest received	8,613,901	4,012,791
Net increase in fixed deposits of more than 3 months to maturity from date of deposit	<u>(225,206,385)</u>	<u>(177,728,467)</u>
Net cash generated from/(used in) investing activities	<u>75,075,981</u>	<u>(119,401,460)</u>
Net increase/(decrease) in cash and cash equivalents	111,384,131	(70,488,447)
Cash and cash equivalents at beginning of year	<u>283,190,963</u>	<u>353,679,410</u>
Cash and cash equivalents at end of the year	<u>394,575,094</u>	<u>283,190,963</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	797,961,864	460,919,430
Bank overdrafts	<u>(451,918)</u>	<u>-</u>
	797,509,946	460,919,430
<u>Less: Fixed deposits of more than 3 months to maturity from date of deposit</u>	<u>(402,934,852)</u>	<u>(177,728,467)</u>
	<u>394,575,094</u>	<u>283,190,963</u>

THE SALVATION ARMY COMBINED FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2019

1. General

- (a) 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.
- (b) The daily administration of the Army is coordinated by the Command Headquarters (the "CHQ") staffed by Army officers and supporting personnel. The Army operates a travelers' 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 reported under the General Fund.
- (c) Further, the Army owns certain premises occupied by its business units, social service centres, schools and The Salvation Army Corps (the "Corps"), and 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 reported under the General Fund.
- (d) The Army operates a number of community centres, homes for the physically and mentally handicapped, elderly centres and homes for children. These services, which are provided in Hong Kong and Macau, are mostly financed by government subventions, and are administered and reported under the Social Fund.
- (e) The General Fund and Social Fund are reported collectively in the combined financial statements (the "Fund").
- (f) The Army also operates pre-schools, primary schools, secondary school and special education for mentally handicapped children. These services are reported in separate financial statements for which the financial year is September to August.
- (g) Moreover, the Army also operates the 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 combined financial statements.
- (h) 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.
- (i) Daily operation of the Army is guided by a Command Governance Council. The Command Governance Council is in turn supported by a range of committees and boards.

1. General (continued)

- (j) 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.
- (k) The registered address of the Army is 11 Wing Sing Lane, Yaumatei, Kowloon.

2. Basis of preparation

(a) Statement of compliance

These financial statements of the Fund have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The HKICPA has issued a number of new and revised HKFRSs that are first effective for the current accounting year of the Army. The Army adopts the following new and revised HKFRSs which are relevant to its operations:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments

The effects of the application of these HKFRSs are summarised below.

(i) *HKFRS 9, Financial instruments*

Previously, the Army applied HKAS 39 "Financial instruments: recognition and measurement" and its assets were classified as loans and receivables, and impairment losses on financial assets were recognised in statement of comprehensive income and expenditure when there was objective evidence that an impairment loss had been incurred at the end of each reporting period.

For impairment losses on receivables, HKFRS 9 introduces a new "expected credit loss" model that replaces the "incurred loss" impairment model in HKAS 39. Under the new "expected credit loss" model, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, the Army always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

The Army takes the transitional provisions in HKFRS 9 by not restating comparative information with respect to classification and measurement (including impairment) requirements. It does not have any material effects on the Army's financial performance and positions.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

(ii) HKFRS 15, Revenue from contracts with customers

Previously, the Army applied HKAS 18 "Revenue" and fee income was measured at the fair value of the consideration received or receivable and, provided that it was probable that the economic benefits associated with the revenue transaction would flow to the Army and the revenue and the costs, if any, in respect of the transaction could be measured reliably, revenue was recognised when the Army had delivered the goods or services to the customer and the customer had accepted the goods together with the risks and rewards of ownership of the goods.

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 superseded the preceding 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.

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Adoption of HKFRS 15 did not result in significant impact on the amounts reported on the Army's financial statements.

In addition, the Army has not early adopted new and revised HKFRSs that are not yet effective for the current accounting year. The management of the Army anticipates that the adoption of them is unlikely to have a significant impact on the Army's financial statements.

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

The estimates and underlying assumptions are reviewed on an ongoing 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.

2. Basis of preparation (continued)

(b) Basis of measurement

Historical cost is generally based on the fair value of the consideration given in exchange for 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 value in use in HKAS 36 Impairment of Assets.

The measurement bases used in preparing these financial statements are set out in note 3 to the financial statements.

3. Summary of significant accounting policies

The following are the specific accounting policies that are necessary for a proper understanding of these financial statements.

(a) Revenue recognition

- (i) The Army recognises revenue from contracts with clients when the Army satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a client. An asset is transferred when the client obtains control of that asset. When a performance obligation is satisfied, the Army recognises as revenue the amount of the transaction price that is allocated to that performance obligation.
- (ii) Income from donations are recognised on an accrual basis when receipt thereof is certain. Otherwise, they are recognised on a receipt basis.
- (iii) Income from project grants which are earmarked for specific purposes is not recognised until there is a reasonable assurance that the Army will comply with conditions attaching to them and that grant will be received. It is initially recognised as deferred income and then it is recognised in the statement of comprehensive income and expenditure over the period necessary to match with related costs which it is intended to compensate.
- (iv) Other 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.

3. Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

- (v) 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.
- (vi) 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.
- (vii) Revenue from the sale of goods is recognized 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 good;
 - 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.
- (viii) Hostel income represents the income from travellers' lodge operation, which is recognised upon rendering of services.
- (ix) Property and management fee income is recognised when the services is rendered.
- (x) Operating lease rental income is recognized in the statement of comprehensive income and expenditure on a straight-line basis over the term of the relevant lease.
- (xi) *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.

3. Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

(xii) *Government grant and subventions*

Government grant and subventions are not recognised until there is 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.

(xiii) *Lotteries Fund Grant*

The Lotteries Fund Grant represents 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. The interest income generated from this Lotteries Fund Grant account is recognised in the Lotteries Fund Grant accounts directly as it may be utilised as part of the grant.

(xiv) *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 area 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 in policy above.

(xv) *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 claw back action taken by the Government. The revenue recognition policy is set out in policy below:

Furniture and Equipment Replenishment and Minor Works Block Grant Reserve ("Block Grant Reserve") included in deferred income on Grants represents grants for replenishment of furniture and equipment and minor works relating to the provision of subvented welfare services.

3. Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

(xv) *Deferred income on Lotteries Fund* (continued)

Social Welfare Development Fund included in deferred income represents grants for information technology improvement and general staff training.

These funds are represented by the unspent Lotteries Fund Grants, which according to Chapter 4.4.2 of the "Lotteries Fund Manual", must be kept in a separate interest bearing account.

(xvi) *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.

(xvii) *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".

(xviii) *Contribution funds*

Contribution funds are 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 contribution funds is directly dealt with in the statement of comprehensive income and expenditure.

3. Summary of significant accounting policies (continued)

(a) Revenue recognition (continued)

(xix) *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.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less any government grant or donation related to assets (hereafter referred to as "net cost"), less any accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Army and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income or expenditure during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line basis to allocate net cost over their estimated useful lives, as follows:

Leasehold land	over unexpired period of lease
Buildings	20 years
Leasehold improvement	5 years or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	4 years
Computer equipment	3 years
Motor Vehicles	4 years

(c) 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 recognized 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.

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

3. Summary of significant accounting policies (continued)

(d) Impairment of non-financial assets

Non-financial assets are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each financial reporting period.

(e) Financial assets

HKFRS 9 categorises financial assets into three principal classification categories: financial assets measured (a) at amortised cost, (b) at fair value through other comprehensive income ("FVOCI") and (c) at fair value through profit or loss ("FVPL"). The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

(i) Held-to-maturity investment (before the adoption of HKFRS 9)

Held-to-maturity investment is non-derivative financial asset with fixed or determinable payment and fixed maturity date that the Army has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investment is measured at amortised cost using the effective interest method, less any impairment.

(ii) Financial assets at FVPL

Investment in securities held for trading is classified as financial assets at FVPL. Financial assets at FVPL are carried at fair value. At end of each reporting period, the net unrealised gains or losses arising from the changes in fair value of financial assets at FVPL are recognised in profit or loss. Profits or losses on disposal of financial assets at FVPL, representing the difference between the net sales proceeds and the carrying amounts, are recognised in profit or loss as they arise.

(f) Receivables

A receivable is recognised when the Army has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Army has an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

3. Summary of significant accounting policies (continued)

(g) Impairment of financial assets

The Army recognises loss allowances for expected credit loss on the financial instruments that are not measured at fair value through profit or loss. The Army considers the probability of default upon initial recognition of financial assets and assesses whether there has been a significant increase in credit risk on an ongoing basis.

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

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

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs 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.

(i) Creditors and accruals

Creditors and accruals are initially recognised at fair value and subsequently stated at amortised cost, except where the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Receipts in advance

Receipts in advance are recognised when the clients pay consideration before the Army recognises the income. Receipts in advance would also be recognised if the Army has an unconditional right to receive consideration before the Army recognises the income. In such cases, a corresponding receivable would also be recognised.

(k) Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Army has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

3. Summary of significant accounting policies (continued)

(l) Assets held under operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments under operating leases are charged to statement of comprehensive income and expenditure on a straight-line basis over the lease periods.

(m) Disposal of property, plant 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 statement of comprehensive income and expenditure.

(n) Foreign currencies

The Army's functional and presentation currency is Hong Kong dollars.

Transactions arising in foreign currencies during the year are converted at exchange rates approximating to those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated at rates of exchange approximating to those ruling at the end of reporting period. All exchange differences are dealt with in statement of comprehensive income and expenditure.

(o) Cash and cash equivalents

For the purpose of presenting the statement of cash flows, cash and cash equivalents comprise cash at bank and on hand and deposits with banks that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having maturity within three months at acquisition, less bank overdrafts.

(p) Employee benefits

(i) Employee leave entitlements

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

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

3. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) Long service payments

Certain of the Army's 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 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.

(iii) 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 Army 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.

3. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(iii) Pension obligations (continued)

The Army presents the first two components of defined benefit costs in the statement of comprehensive income and expenditure in the line item 'Staff costs'. Curtailment gains and losses are accounted for as past service costs.

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

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

For defined contribution plans, the Army 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 are funded by payments from employees and by the Army. The Army's contributions to both schemes are based on a fixed percentage of the employees' relevant salaries or income.

Payments to the ORSO Scheme and MPF Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

(q) Effective interest method

Financial assets

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.

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3. Summary of significant accounting policies (continued)

(q) Effective interest method (continued)

Financial liabilities

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.

(r) Fair value

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.

Fair value of an investment on initial recognition is normally the transaction price, unless it is estimated by using a valuation technique when part of the consideration given or received is for something other than the investments.

After initial recognition, the fair value of an investment quoted in an active market is based on the unadjusted quoted price and, for investments not quoted in an active market, the Army establishes the fair value of such investment by using a valuation technique.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

4. Recurrent government grants and subventions, net of refund

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Social Welfare Department subventions:		
- Lump sum grant	433,197,322	383,755,009
- Central items, rent and rates	43,641,210	45,686,848
- Lotteries fund block grant	5,854,397	5,405,294
- Lotteries fund grant	21,852,677	23,583,989
- Social Welfare Development Fund	2,305,140	1,860,130
Leisure and Culture Service Department Subventions	2,100,460	1,693,948
Macau Social Work Bureau	5,008,081	3,080,815
	<u>513,959,287</u>	<u>465,066,033</u>

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FOR THE YEAR ENDED 31ST MARCH 2019*

5. Donations from the Community Chest of Hong Kong

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Donations for Baseline Allocation		
Total received during the year	3,697,600	3,589,900
Allocation of donations to other funds during the year		
North Point Creche and Pak Tin Creche	<u>(143,015)</u>	<u>(143,015)</u>
	3,554,585	3,446,885
Donations for Time-limited Project	<u>2,717,169</u>	<u>2,460,444</u>
Total donations received	<u><u>6,271,754</u></u>	<u><u>5,907,329</u></u>

6. Staff costs (including Command Governance Council Members' emoluments)

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Wages and salaries	485,068,881	446,009,885
Provision for unutilised annual leave, net (Note 17)	2,075,175	413,984
Provision/(Utilisation of provision) for long service payments, net (Note 18)	1,955,289	(3,032,379)
Pension costs - defined contribution plans	36,823,683	35,171,084
Pension costs/(gain) - defined benefit plan (Note 20)	<u>1,590,013</u>	<u>(23,506,406)</u>
	<u><u>527,513,041</u></u>	<u><u>455,056,168</u></u>

7. Command Governance Council Members' emoluments

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Wages and salaries	4,599,936	4,325,487
Pension costs - Defined contribution plans	<u>323,518</u>	<u>304,582</u>
	<u><u>4,923,454</u></u>	<u><u>4,630,069</u></u>

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

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8. Surplus for the year

<u>2019</u>	<u>2018</u>
HK\$	HK\$

Surplus for the year is stated after crediting
and charging the following:

Crediting:

Gain on disposal on property, plant and equipment	131,577,944	-
Net foreign exchange gain	265,994	56,508
	131,843,938	56,508

Charging:

Depreciation on property, plant and equipment	46,012,103	37,343,866
Depreciation on investment properties	86,388	106,895
Auditors' remuneration	803,898	1,330,250
Government rent and rates	5,135,397	5,304,168
Loss on disposal on property, plant and equipment	-	40,898
	57,037,686	44,326,077

9. 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 (2018 - Same).

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10. Property, plant and equipment

	<u>Leasehold land and buildings</u> HK\$	<u>Leasehold improvement</u> HK\$	<u>Furniture, fixtures and equipment</u> HK\$	<u>Computer equipment</u> HK\$	<u>Motor vehicles</u> HK\$	<u>Total</u> HK\$
Cost						
At 1st April 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 and at 1st April 2018	216,754,747	201,455,727	53,672,097	20,731,840	5,725,313	498,339,724
Additions	15,318,290	36,339,754	9,015,888	2,586,945	-	63,260,877
Transfer from investment properties	861,295	-	-	-	-	861,295
Disposals	(825,505)	(1,589,796)	(460,510)	(171,754)	(1,597,192)	(4,644,757)
At 31st March 2019	<u>232,108,827</u>	<u>236,205,685</u>	<u>62,227,475</u>	<u>23,147,031</u>	<u>4,128,121</u>	<u>557,817,139</u>
Accumulated depreciation						
At 1st April 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
Written back on disposals	-	(2,374,090)	(1,403,748)	(325,334)	-	(4,103,172)
At 31st March 2018 at 1st April 2018	136,812,529	152,560,675	42,837,070	15,549,922	4,901,665	352,661,861
Charge for the year	7,992,409	29,318,722	5,455,589	2,856,034	389,349	46,012,103
Transfer from investment properties	266,591	-	-	-	-	266,591
Written back on disposals	(344,042)	(1,563,511)	(447,202)	(171,754)	(1,597,192)	(4,123,701)
At 31st March 2019	<u>144,727,487</u>	<u>180,315,886</u>	<u>47,845,457</u>	<u>18,234,202</u>	<u>3,693,822</u>	<u>394,816,854</u>
Carrying values						
At 31st March 2019	<u>87,381,340</u>	<u>55,889,799</u>	<u>14,382,018</u>	<u>4,912,829</u>	<u>434,299</u>	<u>163,000,285</u>
At 31st March 2018	<u>79,942,218</u>	<u>48,895,052</u>	<u>10,835,027</u>	<u>5,181,918</u>	<u>823,648</u>	<u>145,677,863</u>

11. Investment properties

	<u>HK\$</u>	<u>HK\$</u>
Cost		
At 1st April 2017 and at 31st March 2018 and at 1st April 2018		3,902,456
Transfer to property, plant and equipment		<u>(861,295)</u>
At 31st March 2019		3,041,161
Accumulated depreciation		
At 1st April 2017	1,282,744	
Charge for the year	<u>106,895</u>	
At 31st March 2018 and at 1st April 2018	1,389,639	
Charge for the year	86,388	
Transfer to property, plant and equipment	<u>(266,591)</u>	
At 31st March 2019		<u>1,209,436</u>
Carrying values		
At 31st March 2019		<u>1,831,725</u>
At 31st March 2018		<u>2,512,817</u>

The fair value of the Army's investment properties at 31st March 2019 was HK\$29,600,000 (2018 HK\$34,510,000). The fair values as at 31st March 2019 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 Army.

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

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.

12. Loans to Corps

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

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13. Account and other receivables, deposits and prepayments

	<u>2019</u> HK\$	<u>2018</u> HK\$
Accounts receivables	14,467,314	12,815,236
Other receivables	23,292,222	10,028,851
Deposits and prepayments	<u>10,749,086</u>	<u>10,495,840</u>
	<u><u>48,508,622</u></u>	<u><u>33,339,927</u></u>

The aging analysis of accounts receivables at the end of the reporting period is as follows:

	<u>2019</u> HK\$	<u>2018</u> HK\$
Not yet due	14,233,507	11,437,299
0 - 60 days	221,894	893,078
61-90 days	-	473,322
Over 90 days	<u>11,913</u>	<u>11,537</u>
	<u><u>14,467,314</u></u>	<u><u>12,815,236</u></u>

At the end of each financial reporting period, the Army's accounts receivables were individually assessed for impairment, based on their credit history.

Impairment losses in respect of accounts receivables are recorded using an allowance account unless the Army considers that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivables directly. As at the end of the financial reporting period, no accounts receivables were impaired or past due.

The utility deposits are expected to be recovered after one year. All accounts receivables and prepayments are expected to be recovered or recognised as expense within one year.

14. Amounts due from/to Social Welfare Department

	<u>2019</u> HK\$	<u>2018</u> HK\$
Amount due from Social Welfare Department		
Subventions on rent and rates	6,767,770	5,546,390
Lotteries Fund	<u>14,006,316</u>	<u>12,687,818</u>
	<u><u>20,774,086</u></u>	<u><u>18,234,208</u></u>

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14. Amounts due from/to Social Welfare Department (continued)

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Amount due to Social Welfare Department		
Subventions on central items, rent and rates	344,580	820,076
Other Project Funds	1,764,091	1,316,812
	2,108,671	2,136,888

The Command Governance Council Members consider that the carrying values of these amounts approximate to their fair values. The amounts are interest free, unsecured and repayable on demand.

15. Amounts due from/to inter-funds/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.

	2019		2018	
	Interest rates	HK\$	Interest rates	HK\$
Amounts due to Corps	3.89% to 4.95%	22,768,894	3.08% to 3.53%	19,630,817
Amount due to Education Fund	-	-	1.08% to 1.53%	40,000,000

The amount due to Education Fund is unsecured, interest bearing and with no fixed terms of repayment. During the year, the amount is transferred from Education Fund to General Fund with interest rates ranging from 1.89% to 2.95%.

16. Accounts payable and accrued charges

The details of movement of receipts in advance included in accounts payable and accrued charges during the year are as follows:

	<u>2019</u>
	HK\$
Balance at beginning of year	530,901
Decrease as a result of recognising income	(530,901)
Increase as a result of receiving income	2,590,036
Balance at end of year	2,590,036

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17. Provision for unutilised annual leave

	<u>2019</u> HK\$	<u>2018</u> HK\$
At beginning of year	18,724,307	18,310,323
Additional provision during the year	22,681,012	3,390,407
Amount utilised during the year	(20,605,837)	(2,976,423)
	<u>2,075,175</u>	<u>413,984</u>
At end of year	<u>20,799,482</u>	<u>18,724,307</u>

18. Provision for long service payments

	<u>2019</u> HK\$	<u>2018</u> HK\$
At beginning of year	3,526,038	6,558,417
Additional provision during the year	2,192,999	315,389
Payment utilised during the year	(237,710)	(3,347,768)
	<u>1,955,289</u>	<u>(3,032,379)</u>
At end of year	<u>5,481,327</u>	<u>3,526,038</u>

19. Deferred income

	<u>2019</u> HK\$	<u>2018</u> HK\$
At beginning of the year	111,442,724	104,241,297
Amounts received during the year	47,022,807	51,394,742
Amounts refunded during the year	(3,976,142)	(819,799)
Amounts utilised during the year	(55,981,080)	(43,373,516)
At end of the year (Note)	<u>98,508,309</u>	<u>111,442,724</u>
Amounts shown under:		
- current liabilities	24,913,229	26,700,594
- non-current liabilities	73,595,080	84,742,130
	<u>98,508,309</u>	<u>111,442,724</u>

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19. Deferred income (continued)

Note: The details of public service permits during the year are as follows:

Project	Period	Permit No.	Total Income HK\$	Net Surplus HK\$	Purpose
For the year ended 31st March 2019					
(i) Kiss Mama Cookie Sale	14.04.2018- 13.05.2018	2018/091/1	532,721	361,912	To raise funds for The Salvation Army's community services in Hong Kong
(ii) Christmas Marshmallow Sale	24.11.2018- 16.12.2018	2018/213/1	568,241	409,709	To raise funds for The Salvation Army's community services in Hong Kong
(iii) Setting Up Donation Box at APM	11.06.2018- 02.09.2018	2018/138/1	15,024	12,024	To raise funds for supporting The Salvation Army's community services in Hong Kong
(iv) Setting Up Donation Box at APM	05.11.2018- 03.03.2019	2018/251/1	5,369	2,369	To raise funds for supporting the community services of The Salvation Army
For the year ended 31st March 2018					
(i) Flag Day	01.04.2017	FD/T023/2017	1,795,370	1,618,832	To support the programme expenses of "Igniting a Fall-free community for older people"
(ii) Kiss Mama Cookie Sale	06.05.2017- 14.05.2017	2017/120/1	306,576	211,749	To support the community services of The Salvation Army
(iii) Christmas Marshmallow Sale	25.11.2017- 17.12.2017	2017/290/1	600,646	446,212	To support The Salvation Army's residential childcare services for children and youth
(iv) Setting up donation box at APM	23.03.2017- 15.04.2017	2017/067/1	7,330	4,330	To support the community services of The Salvation Army
(v) Setting up donation box at APM	21.07.2017- 03.09.2017	2017/169/1	24,006	21,006	To support the community services of The Salvation Army
(vi) Setting up donation box at APM	11.11.2017- 02.03.2018	2017/282/1	53,983	50,983	To support the community services of The Salvation Army

20. 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 Mercer (Hong Kong) Limited (2018: 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 Bonds; if the return on plan asset is below this rate, it will create a plan deficit.

Interest risk

A decrease in 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>2019</u>	<u>2018</u>
	HK\$	HK\$
Present value of defined benefit obligation	(69,564,551)	(59,409,821)
Fair value of plan assets	<u>48,142,296</u>	<u>49,795,295</u>
Liability arising from defined benefit obligation in the statement of financial position	<u><u>(21,422,255)</u></u>	<u><u>(9,614,526)</u></u>

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20. Obligation on defined benefit plan (continued)

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

	<u>2019</u> HK\$	<u>2018</u> HK\$
Administrative expenses	9,778	11,050
Current service cost, net of employee contribution	1,391,232	2,303,922
Interest cost	1,226,006	1,267,746
Interest income	(1,037,003)	(851,344)
Past service cost-gains on curtailments	-	(26,237,780)
	<u>1,590,013</u>	<u>(23,506,406)</u>

Amounts recognised in other comprehensive expenditure in respect of these defined benefit plan are as follows:

	<u>2019</u> HK\$	<u>2018</u> HK\$
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	(2,216,697)	6,669,522
Actuarial loss due to changes in demographic assumptions	(1,427,281)	(57,682)
Actuarial (loss)/ gain due to changes in financial assumptions	(3,185,813)	2,884,374
Actuarial (loss)/ gain due to experience adjustments	(4,770,957)	205,284
	<u>(11,600,748)</u>	<u>9,701,498</u>

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

	<u>2019</u> HK\$	<u>2018</u> HK\$
At beginning of the year	(9,614,526)	(44,653,034)
(Expense)/Income as above	(1,590,013)	23,506,406
Remeasurement of net liability recognised in other comprehensive (expenditure)/income	(11,600,748)	9,701,498
Contributions paid by employer	1,383,032	1,830,604
	<u>(21,422,255)</u>	<u>(9,614,526)</u>

20. Obligation on defined benefit plan (continued)

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

	<u>2019</u>	<u>2018</u>
	%	%
Discount rate	1.8	2.1
Expected rate of future salary increases	2.5	2.5

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\$5,026,104 (increase by HK\$5,661,605) (2018: decrease by HK\$4,396,478 (increase by HK\$4,955,355)).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by HK\$5,258,443 (decrease by HK\$4,732,888) (2018: increase by HK\$4,720,887 (decrease by HK\$4,239,499)).

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 31st March 2019 is 15.8 years (2018: 15.6 years). This number can be analysed as follows:

- active members: 21.4 years (2018: 20.4 years); and
- retired members: 10.3 years (2018: 10.7 years).

The Fund expects to make a contribution of HK\$1,389,744 (2018: HK\$1,228,684) to the defined benefit plan during the next financial year.

21. Critical accounting judgement

In the process of applying the Army's accounting policies which are described in Note 3, the Command Governance Council has made all reasonable judgements and no specific judgements have significant effect on the amounts recognised in the financial statements.

22. Financial assets and financial liabilities

(a) Categories of financial assets and liabilities

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
<u>Financial assets</u>		
Non-current assets at amortised cost		
Loans to Corps	2,885,136	3,035,115
Current assets at fair value		
Held for trading investments	-	211,277,807
Current assets at amortised cost		
Held-to-maturity investment	-	19,921,530
Account and other receivables and deposits	47,308,842	22,179,331
Amount due from Social Welfare Department	20,774,086	18,234,208
Amount due from Corps	1,197,238	603,449
Amounts due from related parties	746,132	831,576
Bank balances and cash	797,961,864	460,919,430
	<u>870,873,298</u>	<u>737,002,446</u>
 <u>Financial liabilities - at amortised cost:</u>		
Current liabilities		
Accounts payable and accrued charges (excluding receipts in advance)	21,556,116	5,153,790
Amount due to Social Welfare Department	2,108,671	2,136,888
Amount due to Education Fund	62,177,298	56,701,058
Amount due to Corps	22,768,894	19,720,899
Amounts due to International Headquarters	6,645	80,416
Bank overdrafts	451,918	-
	<u>109,069,542</u>	<u>83,793,051</u>

22. Financial assets and financial liabilities (continued)

(b) Financial risk management objectives and policies

The Army's major financial instruments include loans to Corps, held-to-maturity investment accounts and other receivable, amounts due from (to) inter-funds, amounts due from Divisional Headquarters, amounts due from (to) Corps, amounts due from related parties, held for trading investments, bank balances and cash, accounts payable 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 and interest rate 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:

	Assets		Liabilities	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	HK\$	HK\$	HK\$	HK\$
United States dollar ("US\$")	287,243,873	211,286,089	-	-

The Army currently does not have a foreign exchange hedging policy. However, the Command Governance Council members monitor the 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 dollars.

As HK dollar is currently pegged to US dollar, the Command Governance Council consider that the exposure to exchange rate fluctuation in US dollar against HK dollar 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 and variable-rate amounts due to Corps and amount due to Education Fund which bear floating interest rates (see note 15 for details).

22. Financial assets and financial liabilities (continued)

(b) Financial risk management objectives and policies (continued)

(ii) Interest rate risk (continued)

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. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2018: 50 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2018: 50 basis points) higher and all other variables were held constant, the potential effect on surplus (deficit) for the year is as follows:

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Increase in surplus for the year	2,596,242	945,857

(iii) Credit risk

As at 31st March 2019, 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 credit risk is primarily attributable to its bank balances, which represent the Army's maximum exposure to credit risk in relation to financial assets.

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

The Army does not provide any guarantees which would expose the Army to credit risk.

The Army has no significant concentrations of credit risk with respect to the services provided to clients; the credit risk is therefore limited.

22. Financial assets and financial liabilities (continued)

(b) Financial risk management objectives and policies (continued)

(iii) Credit risk (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 to 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.

	At 31st March	
	2019	2018
	HK\$	HK\$
Level 1		
Investments held for trading		
Money market funds	-	211,277,807
	-	211,277,807

(iv) 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.

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22. Financial assets and financial liabilities (continued)

(b) Financial risk management objectives and policies (continued)

(iv) Liquidity risk (continued)

The following table details the Army's remaining contractual maturity for its non-derivative financial liabilities as at 31st March 2019 and 2018. 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.

Liquidity and interest risk tables

	Effective interest rate	Repayable on demand HK\$	1-3 months HK\$	Total undiscounted cash flows HK\$	Carrying amounts HK\$
<u>2019</u>					
Non-interest bearing					
Accounts payable	-	21,556,116	-	21,556,116	21,556,116
Amount due to Social Welfare Department	-	2,108,671	-	2,108,671	2,108,671
Amount due to Education Fund (Note 15)	-	62,177,298	-	62,177,298	62,177,298
Amounts due to International Headquarters	-	6,645	-	6,645	6,645
Bank overdrafts	-	451,918	-	451,918	451,918
Interest bearing					
Amounts due to Corps	4.42%	22,768,894	-	22,768,894	22,768,894
		<u>109,069,542</u>	<u>-</u>	<u>109,069,542</u>	<u>109,069,542</u>
	Effective interest rate	Repayable on demand HK\$	1-3 months HK\$	Total undiscounted cash flows HK\$	Carrying amounts HK\$
<u>2018</u>					
Non-interest bearing					
Accounts payable	-	5,101,891	51,899	5,153,790	5,153,790
Amount due to Social Welfare Department	-	2,136,888	-	2,136,888	2,136,888
Amount due to Education Fund	-	16,701,058	-	16,701,058	16,701,058
Amounts due to International Headquarters	-	80,416	-	80,416	80,416
Amounts due to Corps	-	90,082	-	90,082	90,082
Interest bearing					
Amount due to Education Fund	1.31%	40,000,000	-	40,000,000	40,000,000
Amounts due to Corps	3.31%	19,630,817	-	19,630,817	19,630,817
		<u>83,741,152</u>	<u>51,899</u>	<u>83,793,051</u>	<u>83,793,051</u>

22. Financial assets and financial liabilities (continued)

(c) Fair values

All financial assets and financial liabilities are carried at amounts not materially different from their fair values as at 31st March 2019 and 2018. Fair values of financial assets and liabilities are estimated as the present value of future cash flows, discounted at current market interest rate.

23. Capital management

The Army's capital management objectives are:

- (a) to ensure the Army's ability to continue as a going concern; and
- (b) to support the Army's sustainable growth.

"Capital" is regarded as total of funds. The capital management strategy remains unchanged from prior year.

The Army manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets so as to ensure adequacy for both operational and capital needs.

24. Capital commitment

At the end of the reporting period, the Army had contracted commitments for the construction and renovation projects amounting to approximately HK\$100,000 (2018 - HK\$10,135,489).

25. Operating leases commitment

At the end of the reporting period, the Army had commitments for the following future minimum lease receipt under a non-cancellable operating lease which falls due as follows:

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Within one year	202,300	615,600
In the second to fifth years inclusive	<u>148,500</u>	<u>395,800</u>
	<u><u>350,800</u></u>	<u><u>1,011,400</u></u>

At the end of the reporting period, the Army had commitments for the following future minimum lease payment under a non-cancellable operating lease which falls due as follows:

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Within one year	27,216,394	31,289,415
In the second to fifth years inclusive	<u>28,793,090</u>	<u>22,952,580</u>
	<u><u>56,009,484</u></u>	<u><u>54,241,995</u></u>

Operating lease payments represent rental payable by the Army for its office properties and certain of family stores. The leases are negotiated for an average term of 1 to 3 years (2018: 1 to 3 years) and the rentals are fixed during the lease term.

26. 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.

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27. Related party transactions

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

	<u>2019</u>	<u>2018</u>
	HK\$	HK\$
Sales and services income		
Education Fund	2,794,132	811,901
Divisional Headquarters and Corps	30,000	31,050
Oversea Army Units	49,238	219,773
Purchase from Oversea Army Units	21,048	54,349
Property and other management fee income from		
Education Fund	4,762,215	4,582,684
Divisional Headquarters and Corps	4,989,269	5,010,605
Interest income from Corps	81,600	93,649
Sundry income from		
Education Fund	31,462	58,336
Divisional Headquarters and Corps	91,054	-
Interest expenses to Corps	938,077	639,296
Programme, administration and other expenses to		
Education Fund	662,660	17,930
International Headquarters	255,439	250,449
Divisional Headquarters and Corps	<u>3,436,738</u>	<u>4,450,746</u>

28. Comparative figures

For the purpose of presenting the statement of cash flows, "fixed deposits of more than 3 months to maturity from date of deposit" are not cash and cash equivalents. Hence, the net increase of those deposits is presented as cash flows from investing activities. Accordingly, comparative figures are restated.

29. Issued but not yet effective Hong Kong Financial Reporting Standards

The Army has not early adopted the following relevant HKFRSs, which have been issued but are not yet effective. The Command Governance Council Members have already commenced an assessment of the impact of these new and revised HKFRSs, except for HKFRS 16 as set out below, would not have a material impact on the Army's results of operations or financial position.

HKFRS 16 Leases ¹

Annual improvements to HKFRSs 2015-2017 cycle ²

¹ Effective for annual periods beginning on or after 1st January 2019

² Effective for annual periods beginning on or after 1st January 2020

29. Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKFRS 16, Leases

HKFRS 16, issued in May 2016, replaces *HKAS 17, Leases*, *HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease*, *HK(SIC)-Int 15, Operating Leases - Incentives* and *HK(SIC)-Int 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees - leases of low-value assets and short-term leases.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases.

HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Army is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in Note 25 to the financial statements, at 31st March 2019, the Army had future aggregate minimum lease payments under non-cancellable operating leases of approximately HK\$56,009,484 (2018: HK\$54,241,995). Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights-of-use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.