

**HONG CHI ASSOCIATION**  
(incorporated in Hong Kong as a company limited by guarantee)

**Report of the Council and  
Audited Financial Statements  
For the year ended 31 March 2021**



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**HONG CHI ASSOCIATION**  
**REPORT OF THE COUNCIL**

The Council members present their annual report together with the audited financial statements for the year ended 31 March 2021.

**PRINCIPAL ACTIVITIES**

Hong Chi Association (the "Association") is a charitable organisation and is engaged in promoting the welfare of people with intellectual disabilities in Hong Kong. The principal activities and other particulars of the subsidiary of the Association are set out in Note 13 to the financial statements.

**FINANCIAL STATEMENTS AND APPROPRIATIONS**

The financial performance of the Association for the year ended 31 March 2021 and the financial position of the Association as at that date are set out in the financial statements on pages 11 to 50.

**CHARITABLE DONATIONS**

Total donations made by the Association to its related parties, the Incorporated Management Committee Schools, for charitable and other purposes during the year amounted to HK\$8,910,466.

**COUNCIL MEMBERS**

The Council members of the Association during the year and up to the date of this report were as follows:

Mr. Owen S.S. Chan	(Chairman)
Mr. Philip C.C. Poon	(Hon Treasurer)
Ms. Betty W.S. Chu	(Resigned on 24 October 2020)
Mr. David W. Chang	(Vice-Chairman)
Mr. Bruce K.I. Kong	
Ms. Lydia S.M. Yip	(Vice-Chairman)
Mr. Morison C.K. Chan	(Hon Secretary)
Ms. Nancy Chan	
Mrs. Brenda C.Y. Wong	
Ms. Lam May Lin	
Ms. Michelle W.K. Lam	(Vice-Chairman)
Mrs. Arleta Y.L. Tam	
Prof. C.K. Yeung	
Mr. Sam Y.S. Chan	(Vice-Chairman)
Ms. Cheung Oi Chung Lorraine	
Mr. Tan Chuen Yan Paul	

In accordance with Articles 61 and 62 of the Association's Articles of Association, all Council members retire and, being eligible, offer themselves for re-election.

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**HONG CHI ASSOCIATION**  
**REPORT OF THE COUNCIL**

**MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

No transactions, arrangements or contracts of significance to which the Association's subsidiary was a party and in which a Council member of the Association or an entity connected with a Council member is or was materially interested, whether directly or indirectly, subsisted during or at the end of the financial year.

**ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the year was the Association, or its subsidiary, a party to any arrangements to enable the Council members of the Association to acquire benefits by means of the acquisition of shares in, or debentures of, the Association or any other body corporate, nor were any such rights exercised by them.

**MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the operation of the Association was entered into or existed during the year.

**PERMITTED INDEMNITY PROVISIONS**

No qualifying indemnity provision made by the Association for the benefit of the Council members of the Association was in force during the financial year and as at the date of this report.

**HONG CHI ASSOCIATION**  
**REPORT OF THE COUNCIL**

**BUSINESS REVIEW**

Hong Chi Association was founded as a class for just four children with intellectual disabilities in 1965. Today the Association has grown to become one of the largest non-profit organisations dedicated solely to serving people with intellectual disabilities ("PIDs") in Hong Kong. Currently, the Association operates a comprehensive spectrum of services for about 6,670 persons of all ages and all grades of PIDs as well as their families. The Association provides high quality early childhood education for children with special learning needs and self-care training from an early age through children home services. The Association also provides integrated vocational training centre, sheltered workshops, hostels and day activity centres for adults with different grades of intellectual disabilities. No significant changes in the principal services of the Association were noted during the year.

The redevelopment of Pinehill Village at Tai Po commenced in late 2014. The project is divided into three phases and has been completed in the year. It provides an addition of about 834 rehabilitation places for PIDs of all ages. The completion of the project has alleviated the acute shortfall in pre-school services, day care centres, sheltered workshops and hostel services for PIDs.

INCOME

Government grants and subventions is a major source of funding which amounted to HK\$547.3 million (2020: HK\$485.0 million) for the year, representing 84.5% (2020: 81.9%) of the total income (including interest income). Other grants and donations (excluding fund raising projects) amounted to HK\$89.6 million (2020: HK\$98.3 million) for the year. The income from fund raising projects was HK\$9.1 million (2020: HK\$6.7 million) for the year. Fund raising income increased by 35.5% (2020: decreased by 36.2%) in the year because of the resume of fund raising campaigns and easing of pandemic over the year.

During the year, the overall sales of the social enterprise projects and overall operation recorded net operating loss of HK\$0.014 million (2020: net operating loss of HK\$2.7 million), due to the outbreak of pandemic and social unrest over the year.

EXPENDITURE

During the year, total expenditure amounted to HK\$686.1 million (2020: HK\$542.4 million) which mainly including employee costs of HK\$511.4 million (2020: HK\$381.1 million). Employee costs increased by 34.2% (2020: increased by 26.4%) mainly because of the increase in number of headcount to new services, increase in provisions for unutilised annual leave and the salary increment for the year.

Every dollar the Association spent on the fund raising activities, it generates approximately more than HK\$5.03 (2020: HK\$6.97). Volunteers have always been vital in delivery of work and bring their time, energy and enthusiasm to many campaigns organised by the Association including, but not limited to, fund raising activities. The Association is hugely indebted and very grateful to every volunteer for the time they give.

RESERVE

The Association regularly reviews the reserves position to ensure that the Association has adequate funds to support the services in future. In doing this, the Council will take into consideration the forecasted reserve movement and working capital required for existing and future projects. During the year, the reserves from Social Welfare Department (the "SWD") and other reserves amounted to HK\$97.3 million (2020: HK\$137.7 million) and HK\$50.2 million (2020: HK\$49.8 million), respectively.

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**HONG CHI ASSOCIATION**  
**REPORT OF THE COUNCIL**

**BUSINESS REVIEW - Continued**

NET CURRENT ASSETS

Net current assets of HK\$110.2 million was noted as at 31 March 2021 (2020: HK\$147.3 million).

The net book value of property, plant and equipment (including right-of-use assets) has decreased by HK\$21.5 million (2020: increased by HK\$67.7 million) for the year.

No bank borrowings was noted as at 31 March 2021 and 2020.

CASH FLOWS

The cash and cash equivalents was HK\$77.1 million (2020: HK\$89.1 million) as at 31 March 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

In addition to the financial risks and the capital risk highlighted in Notes 31 and 32 to the financial statements, a number of risks have been identified and are mitigated as follows:

*Operation Risk*

Poor quality services or unsafe environment causes death, injury, abuse or harm to the service users, the staff or the volunteers. To mitigate the risk, the Association provides appropriate training, briefing or written guidelines to all of our staff and volunteers before the commencement of their work. During the annual internal insurance workshop organised for the managerial staff, all of them are reminded the importance of providing timely staff briefing or training. Furthermore, we have ensured the service users, staff and volunteers have been covered by accident insurance appropriately.

The Association always aims to ensure that salaries reflect the knowledge, skills, responsibilities and personal competencies required for the satisfactory performance of each position. In order to ensure that the pay scales of staff of the Association are competitive in attracting potential candidates and retaining the existing staff, the Association closely monitors the market trend and reviews the salary of the staff timely.

*Risk of Inadequate Internal Control*

Insufficient internal controls, programs that continuously run at a deficit or ineffective fundraising activities can all put the Association at risk. In order to prevent control deficiencies, the Association has prepared a financial and accounting manual (the "FAM") and it is subject to review from time to time. The FAM sets out accounting and internal controls policies, guidelines, and procedures with a view to enhancing accountability, efficiency and cost-effectiveness in the use of public funds for the provision of welfare services to PIDs. Furthermore, the internal auditor carries out internal audit in accordance with the annual plan regularly. The internal audit report evaluates the effectiveness of the managerial controls.

The Association has also emphasised in the FAM that staff should also refer to and strictly follow the latest manuals issued by the SWD. In view of major Association income comes from the lump sum grants of the SWD, the risk of losing such income should be eliminated.

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**HONG CHI ASSOCIATION**  
**REPORT OF THE COUNCIL**

**BUSINESS REVIEW - Continued**

PRINCIPAL RISKS AND UNCERTAINTIES - Continued

*Risk of Inadequate Control Over Expenditures*

Out of budgets for expenditures will put the Association at risk. The Association has a comprehensive annual budgeting process which is approved by the Council. The project managers and service supervisors monitor that all resources are distributed and consumed based on the picture that is portrayed by the approved budget. The Association has clear delegation of authority to ensure spending within clearly defined limits. Any unbudgeted expenditures must get proper approval as stipulated in the FAM. The Council also reviews the comparison between the actual and the budgeted results regularly.

*Risk of Losing Reputation*

Bad reputation will definitely jeopardise the Association's future donations or grants from the public and the support from volunteers. In order to mitigate such risk, the Association will monitor digital and traditional media channels to ensure that the Association is delineated positively. The Association also proactively manages issues that we think may be controversial.

ENVIRONMENTAL POLICY AND PERFORMANCE AND COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

“Green” Hong Chi and Promotion of Inclusive Society

Environmental protection and sustainability of future development are the irresistible trend nowadays. To be a leading rehabilitation non-governmental agency in Hong Kong, in line with our policy of “Children Come First”, Hong Chi (the Association) keeps abreast all of her times to carry through the “Going Green” philosophy to her services and special schools. The Association helps the children to aware the need for environmental protection and integrate themselves to the inclusive society.

The Association have been participating in various programmes, actively share our Green philosophy with all walks of life. The programmes include:

- 2010 Hong Chi Jockey Club Glass Bottle Recycling Project
- 2015 Yuen Long District Community Green Station
- 2019 Tai Po District Community Green Station and Hong Chi Jockey Club Solar Energy Education Programme

Environmental Protection Steering Committee has been set up for co-ordination, to optimize our resources, to maximize our effectiveness and to strengthen the works on our services and schools.

The Association always aims to provide safe working environment to staff, volunteers and service users. Please refer to discussion above under subsection of operation risk for details of safe working environment.

**HONG CHI ASSOCIATION**  
**REPORT OF THE COUNCIL**

**BUSINESS REVIEW - Continued**

RELATIONSHIPS WITH STAKEHOLDERS

*Grantors/Donors*

The Association received continuous support from the grantors or donors during the year. The total grants, subvention and donations amounted to HK\$615.8 million (2020: HK\$553.6 million) for the year, which represented an increase of 11.2% (2020: increase of 25.3%).

*Employees*

Details of employees' compensation are discussed above under subsection of operation risk. As stipulated in our Human Resources Policies and Procedures Manual (the "HRM"), all qualified applicants are treated equally in the interview and selection process. Consistent criteria must be applied throughout the recruitment process to ensure that assessment is solely based on the applicant's job related abilities and suitability. The Association also strictly follows the Personal Data (Privacy) Ordinance, all candidates' personal information are treated with the strictest confidentiality.

*Volunteers*

Volunteers have always been vital in delivery of work and bringing their time, energy and enthusiasm to many campaigns organised by the Association. During the year, the Association continuously obtained various forms of voluntary support from the public. It is not only facilitating the services for PIDs, but also offering great opportunities for the trainees to learn and further enhance their communication skills, assisting them to integrate into the society.

*Service Users*

The Association is one of the largest non-profit organisations dedicated solely to serving PIDs in Hong Kong and has served about 6,670 PIDs in the year. The Association's quality services are well recognised by the public because the Association continuously received various forms of grants and donations. Besides, the continuous expansion of the services under various programs/funding, such as redevelopment project of Pinehill Village, also proved that the services to PIDs are highly recognised among the community.

**AUDITOR**

A resolution will be proposed at the forthcoming annual general meeting of the Association to re-appoint the auditor, BDO Limited.

By order of the Council



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Mr. Owen S.S. Chan  
Chairman

Hong Kong, 27 September 2021

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF HONG CHI ASSOCIATION**

(incorporated in Hong Kong as a company limited by guarantee)

**Opinion**

We have audited the financial statements of Hong Chi Association (the "Association") set out on pages 11 to 50, which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in total funds and the 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 Association as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Basis for Opinion**

We conducted our audit in accordance with 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 Association 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.

**Other Information**

The council members are responsible for the other information. The other information comprises the information included in the Report of the Council and the Detailed Income and Expenditure Account.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF HONG CHI ASSOCIATION**

(incorporated in Hong Kong as a company limited by guarantee)

**Council Members' Responsibilities for the Financial Statements**

The council members are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the 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 council members are responsible for assessing the Association'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 council members of the Association either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

The council members are also responsible for overseeing the Association's financial reporting process. The Audit Committee assists the council members in discharging their responsibilities in this regard.

**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 Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF HONG CHI ASSOCIATION**

(incorporated in Hong Kong as a company limited by guarantee)

**Auditor's Responsibilities for the Audit of the Financial Statements - Continued**

- 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 Association's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the council members.
- conclude on the appropriateness of the 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 Association'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 Association to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.



BDO Limited  
Certified Public Accountants  
Lam Pik Wah  
Practising Certificate Number P05325

Hong Kong, 27 September 2021

HONG CHI ASSOCIATION

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 HK\$	2020 HK\$
Income			
Government grants and subventions	6	547,271,228	484,962,658
Lotteries Fund grants		20,982,087	24,925,792
Donations			
- Hong Kong Jockey Club		22,763,842	17,810,290
- Community Chest allocations		2,171,897	2,037,053
- Others		8,150,111	13,998,236
Fund raising projects			
- Other fund raising projects	26	9,113,428	6,725,641
Furniture and equipment replenishment and minor works block grants	25	5,339,504	3,163,013
Others		30,189,442	36,380,086
		<u>645,981,539</u>	<u>590,002,769</u>
Expenditure	7	<u>(686,148,687)</u>	<u>(542,369,455)</u>
Net operating (deficit)/surplus		(40,167,148)	47,633,314
Interest income		<u>1,519,852</u>	<u>2,117,353</u>
(Deficit)/Surplus and total comprehensive (loss)/income for the year	8	(38,647,296)	49,750,667
Transferred to designated funds	22	(8,802,029)	(4,982,335)
Transferred from designated funds to compensate the designated expenditure	22	4,667,372	4,468,764
Transferred from/(to) Social Welfare lump sum reserve	23	39,971,212	(47,978,330)
Transferred to other Social Welfare reserve	24	(1,060,207)	(243,891)
Transferred from furniture and equipment replenishment and minor works block grant reserve	25	<u>42,415</u>	<u>512,549</u>
Balances transferred (to)/from deficit reserve for unsubvented projects	21	<u>(3,828,533)</u>	<u>1,527,424</u>

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**HONG CHI ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2021**

	Notes	2021 HK\$	2020 HK\$
<b>Non-current assets</b>			
Property, plant and equipment	11	637,903,260	649,593,593
Right-of-use assets	12	11,119,163	20,941,032
Amount due from an Incorporated Management Committee School	15	463,230	-
Interest in a subsidiary	13	-	-
		<u>649,485,653</u>	<u>670,534,625</u>
<b>Current assets</b>			
Accounts receivable		32,071,097	32,884,140
Amount due from Social Welfare Department	14	230,428	3,554,393
Amounts due from Incorporated Management Committee Schools	15	779,624	1,946,572
Deposits and prepayments		7,965,203	12,910,256
Cash at financial institutions			
- Bank deposits with original maturity more than three months when acquired	16	80,000,000	100,000,000
- Short-term bank deposits	16	20,000,000	20,000,000
- Current and savings accounts	16	55,852,041	67,818,416
Cash in hand	16	1,255,937	1,274,618
		<u>198,154,330</u>	<u>240,388,395</u>
<b>Total assets</b>		<u>847,639,983</u>	<u>910,923,020</u>
<b>Current liabilities</b>			
Deferred income			
- Grants/funds for capital projects	17	40,210,537	38,775,387
- Others		9,988,387	10,407,823
Lease liabilities	18	9,406,080	9,875,116
Amounts due to Incorporated Management Committee Schools	15	454	332,382
Contract liabilities	19	5,273,505	5,484,944
Accounts payable and accrued charges		23,047,182	28,226,217
		<u>87,926,145</u>	<u>93,101,869</u>
<b>Net current assets</b>		<u>110,228,184</u>	<u>147,286,526</u>
<b>Total assets less current liabilities</b>		<u>759,713,838</u>	<u>817,821,151</u>
<b>Non-current liabilities</b>			
Provisions for employee benefits	20	16,066,903	11,260,073
Deferred income - grants/funds for capital projects	17	595,038,959	608,430,439
Lease liabilities	18	1,179,138	10,559,867
		<u>612,285,000</u>	<u>630,250,379</u>
<b>Total liabilities</b>		<u>700,211,145</u>	<u>723,352,248</u>
<b>NET ASSETS</b>		<u>147,428,838</u>	<u>187,570,772</u>

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HONG CHI ASSOCIATION

STATEMENT OF FINANCIAL POSITION - Continued  
AS AT 31 MARCH 2021

	Notes	2021 HK\$	2020 HK\$
Representing			
Deficit reserve for unsubvented projects	21	(9,249,628)	(5,421,095)
Designated funds	22	59,425,541	55,290,884
Social Welfare lump sum reserve	23	86,370,172	127,835,479
Other Social Welfare reserve	24	5,545,934	4,486,270
Furniture and equipment replenishment and minor works block grant reserve	25	<u>5,336,819</u>	<u>5,379,234</u>
<b>TOTAL FUNDS</b>		<u><u>147,428,838</u></u>	<u><u>187,570,772</u></u>

On behalf of the Council members



Mr. Owen S.S. Chan  
Chairman



Mr. Philip C.C. Poon  
Hon. Treasurer

HONG CHI ASSOCIATION

STATEMENT OF CHANGES IN TOTAL FUNDS  
FOR THE YEAR ENDED 31 MARCH 2021

	Deficit reserve for unsubvented projects HK\$ (Note 21)	Designated funds HK\$ (Note 22)	Social Welfare lump sum reserve HK\$ (Note 23)	Other Social Welfare reserve HK\$ (Note 24)	Furniture and equipment replenishment and minor works block grant reserve HK\$ (Note 25)	Total funds HK\$
At 1 April 2019	(6,948,519)	54,777,313	82,544,476	4,252,405	5,891,783	140,517,458
Surplus/(deficit) for the year	1,527,424	513,571	47,978,330	243,891	(512,549)	49,750,667
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	1,527,424	513,571	47,978,330	243,891	(512,549)	49,750,667
Amount clawed back by Social Welfare Department	-	-	(2,687,327)	(10,026)	-	(2,697,353)
At 31 March 2020 and 1 April 2020	(5,421,095)	55,290,884	127,835,479	4,486,270	5,379,234	187,570,772
Surplus/(deficit) for the year	(3,828,533)	4,134,657	(39,971,212)	1,060,207	(42,415)	(38,647,296)
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	(3,828,533)	4,134,657	(39,971,212)	1,060,207	(42,415)	(38,647,296)
Amount clawed back by Social Welfare Department	-	-	(1,494,095)	(543)	-	(1,494,638)
At 31 March 2021	(9,249,628)	59,425,541	86,370,172	5,545,934	5,336,819	147,428,838

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**HONG CHI ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2021**

	Notes	2021 HK\$	2020 HK\$
<b>Cash flows from operating activities</b>			
(Deficit)/Surplus for the year		(38,647,296)	49,750,667
Adjustments for			
Written off of items of property, plant and equipment		215,023	166,376
Depreciation on property, plant and equipment		41,573,004	39,928,849
Depreciation on right-of-use assets		9,873,199	9,847,534
Covid-19-related rent concessions		(426,200)	-
Interest income		(1,519,852)	(2,117,353)
Increase in provisions for employee benefits, net		4,806,830	2,049,825
Interest expense on lease liabilities		771,081	276,359
<b>Operating surplus before working capital changes</b>		<b>16,645,789</b>	<b>99,902,257</b>
Decrease in accounts receivable		813,043	21,930,169
Decrease/(Increase) in amount due from Social Welfare Department		3,323,965	(2,752,427)
Decrease/(Increase) in amounts due from Incorporated Management Committee Schools		703,718	(924,876)
Decrease/(Increase) in deposits and prepayments		4,945,053	(1,085,376)
(Decrease)/Increase in deferred income - others		(419,436)	1,111,276
(Decrease)/Increase in amounts due to Incorporated Management Committee Schools		(331,928)	281,334
(Decrease)/Increase in contract liabilities		(211,439)	1,242,106
Decrease in accounts payable and accrued charges		(5,179,035)	(2,453,248)
<b>Cash generated from operations</b>		<b>20,289,730</b>	<b>117,251,215</b>
Amount clawed back by Social Welfare Department		(1,494,638)	(2,697,353)
<b>Net cash generated from operating activities</b>		<b>18,795,092</b>	<b>114,553,862</b>
<b>Cash flows from investing activities</b>			
Purchases of items of property, plant and equipment		(30,097,694)	(86,836,841)
Interest income		1,519,852	2,117,353
Decrease/(Increase) in bank deposits		20,000,000	(52,000,000)
(Decrease)/Increase in deferred income - grants/funds for capital projects		(11,956,330)	45,614,378
<b>Net cash used in investing activities</b>		<b>(20,534,172)</b>	<b>(91,105,110)</b>
<b>Cash flows from financing activities</b>			
Interest paid	29	(771,081)	(276,359)
Repayment of principal portion of lease liabilities	29	(9,474,895)	(10,353,583)
<b>Net cash used in financing activities</b>		<b>(10,245,976)</b>	<b>(10,629,942)</b>
<b>Net (decrease)/Increase in cash and cash equivalents</b>		<b>(11,985,056)</b>	<b>12,818,810</b>
Cash and cash equivalents at beginning of the year	16	89,093,034	76,274,224
Cash and cash equivalents at end of the year	16	77,107,978	89,093,034

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**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2021**

**1. GENERAL**

Hong Chi Association (the “Association”) was incorporated in Hong Kong on 20 February 1968 as a company limited by guarantee. Every member of the Association undertakes to contribute, if required, an amount not exceeding twenty dollars to the assets of the Association in the event of it being wound up.

The Association is a charitable organisation and is engaged in promoting the welfare of people with intellectual disabilities in Hong Kong. Its registered office is at Pinehill Village, Chung Nga Road, Nam Hang, Tai Po, New Territories, Hong Kong.

Since 2008, in response to the government policy on school governance and administration, all schools of the Association have established their own Incorporated Management Committees (“IMCs”) registered under the Education Ordinance. Starting from the date of establishment of IMCs, the assets, liabilities, income, expenditures and cash flows of these schools (“IMC Schools”) are excluded from the Association’s financial statements.

On 23 July 2010, Hong Chi Association Schools, a company limited by guarantee, was established with no capital injection by the Association. It was dormant during the year. The company is accounted for as a subsidiary by virtue of the Association’s control over it. As the subsidiary has no income or expenditure from its date of incorporation to 31 March 2021, and has no assets and liabilities as at 31 March 2021 and 2020, no consolidated financial statements of the Association and its subsidiary are prepared. It was de-registered on 23 July 2021.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “HKFRSs”) and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements.

**(b) Basis of measurement**

The financial statements have been prepared under the historical cost basis.

**(c) Functional and presentation currency**

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the functional currency of the Association.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

**(a) Adoption of new/revised HKFRSs - Effective 1 April 2020**

Amendments to the Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting 2018
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform

The adoption of these amendments have no material impact on the Association’s financial statements.

**(b) Early adoption of Amendments to HKFRS 16 Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021**

Amendments to HKFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

The Amendments allow, as a practical expedient, a lessee to elect not to assess whether a rent concession that meets the conditions below is a lease modification.

A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying HKFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and (iii) there is no substantive change to other terms and conditions of the lease.

The Association has early applied the practical expedient to all rent concessions that meet the conditions specified in the Amendments. During the year ended 31 March 2021, the Association recognised HK\$426,200 as negative variable lease payments in the statement of profit or loss or other comprehensive income for the Covid-19-related rent concessions provided by lessors, with a corresponding adjustment to the lease liabilities.

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**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - Continued**

**(c) New/revised HKFRSs that have been issued but are not yet effective**

The following new/revised HKFRSs, potentially relevant to the Association’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Association. The Association’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use <sup>1</sup>
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current <sup>2</sup>
Hong Kong Interpretation 5 (2020) Presentation of Financial Statements	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>2</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

The Association is not yet in a position to state whether these new pronouncements will result in substantial changes to the Association’s accounting policies and financial statements.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Subsidiary**

A subsidiary is an investee over which the Association is able to exercise control. The Association controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Association's statement of financial position, investment in a subsidiary is stated at cost less impairment loss, if any. The results of subsidiary are accounted for by the Association on the basis of dividend received and receivable, if any.

**(b) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's 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 Association and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual depreciation rates are as follows:

Owned-assets

Buildings	2%
Leasehold improvements	10% - 12 <sup>1</sup> / <sub>2</sub> %
Furniture and fixtures	20%
Computer	33 <sup>1</sup> / <sub>3</sub> %
Other equipment	20%
Motor vehicles	20%

Right-of-use assets

Leased properties	Shorter of 2% or over the lease term
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**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(b) Property, plant and equipment - Continued**

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in statement of profit or loss and other comprehensive income on disposal.

**(c) Financial instruments**

**(i) Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Association commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets at amortised cost are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gains or losses on derecognition is recognised in profit or loss.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(c) Financial instruments - Continued**

**(ii) Impairment loss on financial assets**

The Association recognises loss allowances for expected credit loss (“ECL”) on accounts receivable, amount due from Social Welfare Department, amounts due from Incorporated Management Committee Schools, cash at financial institutions, cash in hand measured at amortised cost. The ECL are measured on either of the following bases: (1) 12-month ECL: these are the ECL that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECL is the maximum contractual period over which the Association is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Association in accordance with the contract and all the cash flows that the Association expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Association has elected to measure loss allowances for accounts receivable using HKFRS 9 simplified approach and has calculated ECL based on lifetime ECL. The Association has established a provision matrix that is based on the Association’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For the remaining financial assets, the ECL are based on the 12-month ECL. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Association considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Association’s historical experience and informed credit assessment and including forward-looking information.

The Association considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Association in full, without recourse by the Association to actions such as realising security (if any is held); or (2) the financial asset is more than 12 months past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(c) Financial instruments - Continued**

**(iii) Financial liabilities**

The Association classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost including accounts payable and accrued charges, amounts due to Incorporated Management Committee Schools and lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

**(iv) Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

**(vi) Derecognition**

The Association derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

HONG CHI ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
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4. SIGNIFICANT ACCOUNTING POLICIES - Continued

(d) Leasing

*The Association as lessee*

All leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Association has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Association applies the revaluation model, the Association measures the right-of-use assets applying a cost model. Under the cost model, the Association measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Association uses the Association's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(e) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**(f) Revenue and deferred income**

Grants and subventions for general purposes are recorded as income when the right to receive payment is established. Grants for specific projects are initially recorded as deferred income and released to the statement of profit or loss and other comprehensive income as income when the related expenditure on the specific projects are incurred.

Specific grants received for the purchase of property, plant and equipment are recorded as deferred income in the statement of financial position and released to the statement of profit or loss and other comprehensive income over the useful lives of the relevant assets.

Donations for specific purposes or projects are initially recorded as deferred income and is released to the statement of profit or loss and other comprehensive income as income when the related expenditure on the specific projects are incurred. Any portion of unspent balance for over 5 years will be recognised as income in the statement of profit or loss and other comprehensive income.

Donations for general purposes and Lotteries Fund grants are recorded as income when the right to receive payment is established.

Surpluses from fund raising functions are recognised when the functions are held.

Other income, which comprises dues and fees from provision of education, training, sessions, programme, function and other activities, is recognised over time as the related services are rendered.

Revenue from sales of goods is recognised at a point of time when customers obtain control of the goods under the delivery terms.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable. Interest income is credited to either the statement of profit or loss and other comprehensive income or a particular fund as appropriate.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(g) Contract liabilities**

A contract liability represents the Association's obligation to transfer services or goods to a service user or customer for which the Association has received consideration (or an amount of consideration is due) from the service user or customer.

A contract liability is recognised when the service user or customer pays consideration before the Association recognises the related revenue. A contract liability would also be recognised if the Association has an unconditional right to receive consideration before the Association recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

**(h) Employee benefits**

**(i) Defined contribution retirement plans**

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

The Association's contributions to both Schemes are expensed as incurred. Contributions forfeited in respect of those employees who leave the Schemes prior to vesting fully in the contributions are retained in the Schemes and allocated to existing employees.

Contributions to defined contribution retirement plans are recognised as an expense in the statement of profit or loss and other comprehensive income when the services are rendered by the employees.

**(ii) Employee entitlements to annual leave and long service payments**

Employee entitlements to annual leave and statutory long service payments due on retirement or termination are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the end of the reporting period.

The estimated liability for long service payments is calculated net of expected reduction from benefits available from the ORSO Schemes and/or MPF Scheme.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(i) Impairment of assets (other than financial assets)**

At the end of each reporting period, the Association reviews the carrying amounts of property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) 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 as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

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

**(j) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Association has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(k) Related parties**

- (a) A person or a close member of that person's family is related to the Association if that person:
  - (i) has control or joint control over the Association;
  - (ii) has significant influence over the Association; or
  - (iii) is a member of key management personnel of the Association.
  
- (b) An entity is related to the Association if any of the following conditions applies:
  - (i) The entity and the Association are members of the same group.
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Association or an entity related to the Association.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Association.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## HONG CHI ASSOCIATION

### NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2021

#### 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Association's accounting policies, the Council members are required to make judgments, 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 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.

#### **Key sources of estimation uncertainty**

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

##### **(i) Depreciation of property, plant and equipment**

The cost of property, plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Council members determine the estimated useful lives of those property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of these property, plant and equipment of similar nature and functions.

The Council members will revise the depreciation charge where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

##### **(ii) Provision for employee benefits**

The Association's financial statements include the costs and obligations associated with the provision of pension and other post-retirement benefits to current and former employees. It is the Council members' responsibility to set the assumptions used in determining the key elements of the costs of meeting such future obligations. These assumptions are set by the Association and include those used to determine regular service costs and the financing elements related to the retirement schemes' assets and liabilities. Whilst the Council members believe that the assumptions used are appropriate, a change in the assumptions used could affect the Association's surplus for the year and financial position at the reporting date.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2021**

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - Continued**

(iii) **Impairment of property, plant and equipment and right-of-use assets**

The Association reviews internal and external sources of information at the end of each reporting period to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. The Association estimates the asset's recoverable amount when any such indication exists. The assessment involves the estimation of future revenue and operating costs which are based on reasonable assumptions supported by information available to the Association. Changes in the estimates would result in impairment provisions or reversal of impairment (if any) in future years.

**6. GOVERNMENT GRANTS AND SUBVENTIONS**

	<b>2021</b>	<b>2020</b>
	<b>HK\$</b>	<b>HK\$</b>
Anti-epidemic fund	2,869,600	160,000
Environmental Protection Department grants	10,122,457	5,405,233
Home Affairs Bureau grants	1,346,794	508,953
Home Affairs Department grants	9,301	28,450
Labour & Welfare Bureau grants	427,266	493,179
Social Welfare Department subventions		
- Social Welfare grants received	517,437,989	462,794,183
- Rent and rates	<u>15,057,821</u>	<u>15,572,660</u>
	<u>547,271,228</u>	<u>484,962,658</u>

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2021**

**7. EXPENDITURE**

	2021 HK\$	2020 HK\$
Depreciation of owned assets (Note 11)	41,573,004	39,928,849
Depreciation of right-of-use assets (Note 12)	9,873,199	9,847,534
Employee costs (Note 10)	511,447,766	381,067,903
Insurance	6,283,534	5,024,987
Interest on lease liabilities	771,081	276,359
Other operating expenses		
- Education services expenses utilised from the net proceeds of lottery events	-	663,091
- Others	26,375,668	18,866,605
Professional services	12,669,496	10,788,581
Programme and training expenses	4,101,598	6,531,503
Rent and rates	6,107,679	6,500,208
- Government rent and rates	4,518,326	3,247,667
- Covid-19-related rent concessions	(426,200)	-
- Licence and management fees	1,816,944	2,200,108
- Short-term leases	188,602	634,069
- Low value leases	10,007	418,364
Service related expenses	45,529,177	42,515,986
Utilities	8,231,398	8,712,068
Wages and allowance to sheltered workers and volunteers	13,185,087	11,645,781
	<u>686,148,687</u>	<u>542,369,455</u>

**8. (DEFICIT)/SURPLUS AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR**

(Deficit)/Surplus and total comprehensive (loss)/income for the year is arrived at after charging:

	2021 HK\$	2020 HK\$
Auditor's remuneration	431,000	537,000
Depreciation of owned assets (Note 11)	41,573,004	39,928,849
Depreciation of right-of-use assets (Note 12)	9,873,199	9,847,534
Written off of items of property, plant and equipment (Note 11)	<u>215,023</u>	<u>166,376</u>

No fees or other remuneration were paid or payable to the Council members in respect of their services rendered to the Association during the year (2020: Nil).

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 MARCH 2021**

**9. TAXATION**

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

**10. EMPLOYEE COSTS**

	<b>2021</b> <b>HK\$</b>	<b>2020</b> <b>HK\$</b>
Salaries and allowances	470,756,989	351,251,802
Contributions to defined contribution plans - ORSO Schemes and MPF Scheme	34,116,811	26,374,376
Provisions for employee benefits (Note 20)	<u>6,573,966</u>	<u>3,441,725</u>
	<u>511,447,766</u>	<u>381,067,903</u>

HONG CHI ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS  
31 MARCH 2021

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Computer equipment HK\$	Other equipment HK\$	Motor vehicles HK\$	Construction in progress HK\$	Total HK\$
At 1 April 2020								
Cost	551,473,452	176,909,958	13,262,297	14,847,184	41,202,966	27,223,638	3,683,075	828,602,570
Accumulated depreciation	(29,747,960)	(86,254,995)	(9,059,017)	(10,656,450)	(26,009,259)	(17,281,296)	-	(179,008,977)
Net carrying amount at 1 April 2020	521,725,492	90,654,963	4,203,280	4,190,734	15,193,707	9,942,342	3,683,075	649,593,593
Additions	7,076,933	1,908,990	2,009,090	4,488,767	8,833,116	2,481,698	3,299,100	30,097,694
Transfer from construction in progress upon completion	-	-	132,250	297,675	217,250	-	(647,175)	-
Written off of items of property, plant and equipment (Note 8)	-	(4,762)	(101,022)	(3,880)	(107,328)	1,969	-	(215,023)
Depreciation for the year (Note 7)	(11,171,008)	(13,830,018)	(1,831,583)	(4,212,045)	(6,841,323)	(3,687,027)	-	(41,573,004)
At 31 March 2021, net of accumulated depreciation	517,631,417	78,729,173	4,412,015	4,761,251	17,295,422	8,738,982	6,335,000	637,903,260
At 31 March 2021								
Cost	558,550,385	178,795,743	14,863,581	18,901,309	48,561,818	29,216,157	6,335,000	855,223,993
Accumulated depreciation	(40,918,968)	(100,066,570)	(10,451,566)	(14,140,058)	(31,266,396)	(20,477,175)	-	(217,320,733)
Net carrying amount	517,631,417	78,729,173	4,412,015	4,761,251	17,295,422	8,738,982	6,335,000	637,903,260

HONG CHI ASSOCIATION

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11. PROPERTY, PLANT AND EQUIPMENT - Continued

	Buildings HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Computer equipment HK\$	Other equipment HK\$	Motor vehicles HK\$	Construction in progress HK\$	Total HK\$
<b>2020</b>								
At 1 April 2019								
Cost	544,722,081	104,706,743	11,093,244	9,574,225	31,054,924	21,299,665	22,605,202	745,056,084
Accumulated depreciation	(18,718,491)	(72,014,767)	(8,064,149)	(7,720,513)	(21,975,383)	(13,710,804)	-	(142,204,107)
Net carrying amount at 1 April 2019	526,003,590	32,691,976	3,029,095	1,853,712	9,079,541	7,588,861	22,605,202	602,851,977
Additions	6,751,371	51,438,137	2,787,107	4,787,507	11,895,834	6,116,010	3,060,875	86,836,841
Transfer from construction in progress upon completion	-	20,912,998	-	1,070,004	-	-	(21,983,002)	-
Written off of items of property, plant and equipment (Note 8)	-	-	(29,160)	(5,043)	(132,173)	-	-	(166,376)
Depreciation for the year (Note 7)	(11,029,469)	(14,388,148)	(1,583,762)	(3,515,446)	(5,649,495)	(3,762,529)	-	(39,928,849)
At 31 March 2020, net of accumulated depreciation	521,725,492	90,654,963	4,203,280	4,190,734	15,193,707	9,942,342	3,683,075	649,593,593
At 31 March 2020								
Cost	551,473,452	176,909,958	13,262,297	14,847,184	41,202,966	27,223,638	3,683,075	828,602,570
Accumulated depreciation	(29,747,960)	(86,254,995)	(9,059,017)	(10,656,450)	(26,009,259)	(17,281,296)	-	(179,008,977)
Net carrying amount	521,725,492	90,654,963	4,203,280	4,190,734	15,193,707	9,942,342	3,683,075	649,593,593

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. RIGHT-OF-USE ASSETS**

The Association leases offices, service centers, hostels, carparks and restaurants in Hong Kong. The leases of which comprise only fixed payments over the lease term.

	<b>Leased properties HK\$</b>
Recognition of right-of-use asset upon initial adoption of HKFRS 16 on 1 April 2019	10,602,721
Additions	<u>20,185,845</u>
	30,788,566
Depreciation for the year	<u>(9,847,534)</u>
Closing net carrying amount at 31 March 2020 and 1 April 2020	20,941,032
Lease modifications	51,330
Depreciation for the year	<u>(9,873,199)</u>
Closing net carrying amount at 31 March 2021	<u><u>11,119,163</u></u>
<b>At 31 March 2021</b>	
Cost	30,839,896
Accumulated depreciation	<u>(19,720,733)</u>
Net carrying amount	<u><u>11,119,163</u></u>
<b>At 31 March 2020</b>	
Cost	30,788,566
Accumulated depreciation	<u>(9,847,534)</u>
Net carrying amount	<u><u>20,941,032</u></u>

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**13. INTEREST IN A SUBSIDIARY**

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
Unlisted, at cost, under non-current assets	<u>-</u>	<u>-</u>

Details of the subsidiary as at the end of the reporting period are as follows:

Name	Form of business structure	Place of incorporation	Place of operation and principal activity	Percentage of direct ownership interests
Hong Chi Association Schools	Company limited by guarantee	Hong Kong	Dormant	100

Hong Chi Association Schools was established on 23 July 2010 with no capital injection by the Association and is accounted for as a subsidiary by virtue of the Association's control over it. As the subsidiary has no income or expenditure from its date of incorporation to 31 March 2021, and has no assets and liabilities as at 31 March 2021 and 2020, no consolidated financial statements of the Association and its subsidiary are prepared.

The subsidiary was de-registered on 23 July 2021.

**14. AMOUNT DUE FROM SOCIAL WELFARE DEPARTMENT**

	<b>2021 HK\$</b>	<b>2020 HK\$</b>
At 1 April	3,554,393	801,966
Rent and rates charged to statement of profit or loss and other comprehensive income	15,057,821	15,572,660
Refunded to Social Welfare Department	44,559	29,712
Grant received for rent and rates for the year	<u>(18,426,345)</u>	<u>(12,849,945)</u>
At 31 March	<u>230,428</u>	<u>3,554,393</u>

The amount due from Social Welfare Department is unsecured, interest-free and has no fixed term of repayment.

**15. AMOUNTS DUE FROM/(TO) INCORPORATED MANAGEMENT COMMITTEE ("IMC") SCHOOLS**

As at 31 March 2021, included in amounts due from IMC Schools was an advance to an IMC School of HK\$1,141,294 of which HK\$463,230 was repayable on or before 31 March 2023 and HK\$678,064 was repayable on or before 31 March 2022. The advance was made to finance the Quality Education Fund programme of the IMC School and was unsecured and interest-free.

The amounts due from IMC Schools of HK\$101,560 (2020: HK\$1,946,572) and due to IMC Schools of HK\$454 (2020: HK\$332,382) are unsecured, interest-free and repayable on demand.

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**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**16. CASH AND BANK BALANCES**

	Notes	2021 HK\$	2020 HK\$
<b>Cash and bank balances comprise :</b>			
Bank deposits maturing over three months at placement	(i)	<u>80,000,000</u>	<u>100,000,000</u>
Short-term bank deposits	(ii)	20,000,000	20,000,000
Current and savings accounts		55,852,041	67,818,416
Cash in hand		<u>1,255,937</u>	<u>1,274,618</u>
<b>Cash and cash equivalents in the statement of cash flows</b>		<u><b>77,107,978</b></u>	<u><b>89,093,034</b></u>

Notes:

- (i) As at 31 March 2021, the Association's bank deposits with original maturities over three months when acquired, earned interest at bank deposit rates ranged from 0.42% to 0.71% (2020: 2.49% to 2.55%) per annum.
- (ii) As at 31 March 2021, the Association's short term bank deposits with original maturities within three months at placement earned interest at bank deposit rates of 0.23% (2020: 1.18%) per annum.

**17. DEFERRED INCOME FROM GRANTS/FUNDS FOR CAPITAL PROJECTS**

	2021 HK\$	2020 HK\$
At 1 April	647,205,826	601,591,448
Amount released to statement of profit or loss and other comprehensive income		
- Depreciation charge - owned assets	(40,210,537)	(38,775,387)
- Written off of property, plant and equipment	(207,965)	(164,885)
Construction in progress	3,299,100	3,016,224
Purchase of items of property, plant and equipment	<u>25,163,072</u>	<u>81,538,426</u>
At 31 March	<u><b>635,249,496</b></u>	<u><b>647,205,826</b></u>

At the end of reporting period, deferred income from grants/funds for capital projects was classified as follows:

	2021 HK\$	2020 HK\$
Current	40,210,537	38,775,387
Non-current	<u>595,038,959</u>	<u>608,430,439</u>
	<u><b>635,249,496</b></u>	<u><b>647,205,826</b></u>

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**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**18. LEASES LIABILITIES**

	<b>Leased properties HK\$</b>
Initial application of HKFRS 16 on 1 April 2019	10,602,721
Additions during the year	20,185,845
Interest expense	276,359
Lease payments	<u>(10,629,942)</u>
At 31 March 2020 and 1 April 2020	20,434,983
Lease modification	51,330
Interest expense	771,081
Covid-19-related rent concession	(426,200)
Lease payments	<u>(10,245,976)</u>
At 31 March 2021	<u><u>10,585,218</u></u>

Future lease payments are due as follows:

	<b>Minimum lease payments HK\$</b>	<b>Interest HK\$</b>	<b>Present value HK\$</b>
<b>2021</b>			
Within one year	10,645,175	1,239,095	9,406,080
Later than one year and not later than two years	600,000	95,166	504,834
Later than two years and not later than five years	<u>850,000</u>	<u>175,696</u>	<u>674,304</u>
	<u><u>12,095,175</u></u>	<u><u>1,509,957</u></u>	<u><u>10,585,218</u></u>
<b>2020</b>			
Within one year	10,645,176	770,060	9,875,116
Later than one year and not later than two years	10,618,176	1,237,448	9,380,728
Later than two years and not later than five years	<u>1,450,000</u>	<u>270,861</u>	<u>1,179,139</u>
	<u><u>22,713,352</u></u>	<u><u>2,278,369</u></u>	<u><u>20,434,983</u></u>

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**HONG CHI ASSOCIATION**  
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**18. LEASES LIABILITIES - Continued**

The present value of future lease payments are analysed as follows:

	2021 HK\$	2020 HK\$
Current liabilities	9,406,080	9,875,116
Non-current liabilities	<u>1,179,138</u>	<u>10,559,867</u>
	<u>10,585,218</u>	<u>20,434,983</u>

**19. CONTRACT LIABILITIES**

The Association has recognised the following revenue-related contract liabilities:

	2021 HK\$	2020 HK\$
Contract liabilities	<u>5,273,505</u>	<u>5,484,944</u>
Movements in contract liabilities:		
	2021 HK\$	2020 HK\$
At 1 April	5,484,944	4,242,838
Increase in contract liabilities as a result of billing in advance of provision of services/sales of goods	11,145,601	12,808,641
Decrease in contract liabilities as a result of recognising revenue:		
- At the beginning of the year	(5,484,944)	(3,546,882)
- During the year	<u>(5,872,096)</u>	<u>(8,019,653)</u>
At 31 March	<u>5,273,505</u>	<u>5,484,944</u>

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**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**20. PROVISIONS FOR EMPLOYEE BENEFITS**

	Unutilised annual leave (i) HK\$	Long service payment (ii) HK\$	Total HK\$
At 1 April 2019	8,653,231	557,017	9,210,248
Additional provision in the year (Note 10)	3,396,794	44,931	3,441,725
Utilisation of provision	<u>(1,346,969)</u>	<u>(44,931)</u>	<u>(1,391,900)</u>
At 31 March 2020 and 1 April 2020, categorised as non-current liabilities	10,703,056	557,017	11,260,073
Additional provision in the year (Note 10)	6,487,703	86,263	6,573,966
Utilisation of provision	<u>(1,680,873)</u>	<u>(86,263)</u>	<u>(1,767,136)</u>
At 31 March 2021, categorised as non-current liabilities	<u>15,509,886</u>	<u>557,017</u>	<u>16,066,903</u>

- (i) It represents the estimated liability for unutilised annual leave as a result of services rendered by the employees up to the end of the reporting period.
- (ii) Under the Hong Kong Employment Ordinance, the Association is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Association. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Association's retirement plans that are attributable to contributions made by the Association. The management of the Association estimated and accrued for the amount of long service payment that may be required at the end of each reporting period. The Association does not set aside any assets to fund any remaining obligations.

**21. DEFICIT RESERVE FOR UNSUBVENTED PROJECTS**

	2021 HK\$	2020 HK\$
At 1 April	(5,421,095)	(6,948,519)
(Deficit)/Surplus transferred (from)/to statement of profit or loss and other comprehensive income	<u>(3,828,533)</u>	<u>1,527,424</u>
At 31 March	<u>(9,249,628)</u>	<u>(5,421,095)</u>

Deficit reserve for unsubvented projects are (deficit)/surplus transferred (from)/to the statement of profit or loss and other comprehensive income.

HONG CHI ASSOCIATION

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22. DESIGNATED FUNDS

	Public education and information programme fund HK\$	Staff development training fund HK\$	Capital and maintenance fund HK\$	China exchange programme fund HK\$	Adult services fund HK\$	Meal fund HK\$	Business enterprises fund HK\$	Curriculum development fund HK\$	Welfare fund HK\$	Project contingency fund HK\$	New project fund HK\$	Community Chest reserve fund HK\$	Reserve for depreciable assets HK\$	Total HK\$
At 1 April 2020	1,822,917	1,054,593	3,569,965	378,023	11,935,256	5,072,131	1,133,808	3,917,868	3,638,427	5,783,172	14,059,573	1,595,966	1,329,185	55,290,884
Transferred from statement of profit or loss and other comprehensive income:														
Donations and fund raising	242,045	-	-	-	-	381,014	-	-	-	-	6,120,459	420,556	-	7,164,074
Interest income	76	44	149	16	496	220	46	162	151	241	765	67	-	2,433
Purchase of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	458,760	-	1,176,762	1,635,522
	242,121	44	149	16	496	381,234	46	162	151	241	6,579,984	470,623	1,176,762	8,802,029
Transferred to statement of profit or loss and other comprehensive income to compensate the designated expenditure:														
Fund consumed	(296,037)	-	-	-	-	(183,834)	-	(18,869)	-	-	(2,799,107)	-	-	(3,297,847)
Depreciation charges	(13,000)	-	-	-	(18,774)	-	-	-	-	-	(432,552)	-	(898,141)	(1,362,467)
Written off of items of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	(387)	-	(6,671)	(7,058)
	(309,037)	-	-	-	(18,774)	(183,834)	-	(18,869)	-	-	(3,232,046)	-	(904,812)	(4,667,372)
At 31 March 2021	1,756,001	1,054,637	3,570,114	378,039	11,916,978	5,269,531	1,133,854	3,899,161	3,638,578	5,783,413	17,407,511	2,016,589	1,601,135	59,425,541

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NOTES TO THE FINANCIAL STATEMENTS  
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22. DESIGNATED FUNDS - Continued

	Public education and information programme fund HK\$	Staff development training fund HK\$	Capital and maintenance fund HK\$	China exchange programme fund HK\$	Adult services fund HK\$	Meal fund HK\$	Business enterprises fund HK\$	Curriculum development fund HK\$	Welfare fund HK\$	Project contingency fund HK\$	New project fund HK\$	Chest reserve fund HK\$	Reserve for depreciable assets HK\$	Total HK\$
At 1 April 2019	2,206,485	1,052,500	3,562,880	377,273	11,928,674	5,547,753	1,131,558	3,962,635	3,631,206	5,771,695	13,454,696	1,540,419	609,539	54,777,313
Transferred from statement of profit or loss and other comprehensive income:														
Donations and fund raising	-	-	-	-	-	45,054	-	-	-	-	2,490,971	52,484	-	2,588,509
Interest income	4,195	2,093	7,085	750	23,723	10,330	2,250	7,808	7,221	11,477	28,019	3,063	-	108,014
Purchase of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	832,106	-	1,450,086	2,282,192
Others	-	-	-	-	3,620	-	-	-	-	-	-	-	-	3,620
	4,195	2,093	7,085	750	27,343	55,384	2,250	7,808	7,221	11,477	3,351,096	55,547	1,450,086	4,982,335
Transferred to statement of profit or loss and other comprehensive income to compensate the designated expenditure:														
Fund consumed	(374,763)	-	-	-	-	(531,006)	-	(52,575)	-	-	(2,355,467)	-	-	(3,313,811)
Depreciation charges	(13,000)	-	-	-	(20,761)	-	-	-	-	-	(390,169)	-	(729,532)	(1,153,462)
Written off of items of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	(583)	-	(908)	(1,491)
	(387,763)	-	-	-	(20,761)	(531,006)	-	(52,575)	-	-	(2,746,219)	-	(730,440)	(4,468,764)
At 31 March 2020	1,822,917	1,054,593	3,569,965	378,023	11,935,256	5,072,131	1,133,808	3,917,868	3,638,427	5,783,172	14,059,573	1,595,966	1,329,185	55,290,884

## HONG CHI ASSOCIATION

### NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2021

#### 22. DESIGNATED FUNDS - Continued

Designated funds are funds transferred from the statement of profit or loss and other comprehensive income and set aside for designated purposes described below. Interest income related to these designated funds is recorded in the statement of profit or loss and other comprehensive income.

	<b>Funds</b>	<b>Nature and purpose of funds</b>
(1)	<b>Public education and information programme fund</b>	For providing educational programme to let the general public understand the strengths, potential and needs of people with intellectual disabilities.
(2)	<b>Staff development training fund</b>	For funding staff training to improve skills, knowledge and continuing professional development for staff.
(3)	<b>Capital and maintenance fund</b>	For funding capital expenditure on and maintenance for necessary equipments.
(4)	<b>China exchange programme fund</b>	For supporting professional exchange programme with Mainland China.
(5)	<b>Adult services fund</b>	For funding adult services projects when funds are insufficient to cover such expenses in the year.
(6)	<b>Meal fund</b>	For meal and travelling subsidy to pupils and service users who are in financial needs.
(7)	<b>Business enterprises fund</b>	For financial support to non-subsided units when their income is insufficient to cover expenditure in the year.
(8)	<b>Curriculum development fund</b>	For financial support to curriculum development related activities.
(9)	<b>Welfare fund</b>	For financing ad-hoc services projects.
(10)	<b>Project contingency fund</b>	For contingencies financial support to services projects.
(11)	<b>New project fund</b>	For financial support to pilot projects.
(12)	<b>Community Chest reserve fund</b>	For funding Pinehill Village General Office's operating expenses in the year when allocation is insufficient to cover operating expenses.
(13)	<b>Reserve for depreciable assets</b>	For purchases of property, plant and equipment and/or to cover its depreciation charges.

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NOTES TO THE FINANCIAL STATEMENTS  
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23. SOCIAL WELFARE LUMP SUM RESERVE

	Lump sum grant reserve HK\$	Provident fund reserve HK\$	Central items reserve HK\$	Total HK\$
At 1 April 2019	72,723,567	8,618,951	1,201,958	82,544,476
Grants received during the year	418,608,682	28,717,901	7,867,104	455,193,687
Interest income	1,999,145	-	-	1,999,145
Expenditure	(380,044,452)	(24,030,523)	(5,100,717)	(409,175,692)
Amount transfer to cover operational expenses	(486,642)	-	-	(486,642)
	40,076,733	4,687,378	2,766,387	47,530,498
	112,800,300	13,306,329	3,968,345	130,074,974
Right-of-use assets recognised under HKFRS 16	447,832	-	-	447,832
Amount clawed back by Social Welfare Department	-	-	(2,687,327)	(2,687,327)
At 31 March 2020 and 1 April 2020	113,248,132	13,306,329	1,281,018	127,835,479
Grants received during the year	466,591,929	31,184,239	6,406,943	504,183,111
Interest income	1,516,794	-	-	1,516,794
Expenditure	(508,426,996)	(31,673,620)	(5,348,532)	(545,449,148)
Amount transfer to cover operational expenses	(219,475)	-	-	(219,475)
	(40,537,748)	(489,381)	1,058,411	(39,968,718)
	72,710,384 (2,494)	12,816,948	2,339,429	87,866,761 (2,494)
Right-of-use assets		-	-	
Amount clawed back by Social Welfare Department	-	(1,045,970)	(448,125)	(1,494,095)
At 31 March 2021	72,707,890	11,770,978	1,891,304	86,370,172

Lump sum grants are allocated by the Social Welfare Department to the Association to cover certain approved expenditure including employee cost, provident fund contributions and other expenditure. The Association recognises the lump sum grants as income over the periods necessary to match them with the related expenditure which the grants are intended to compensate. The unspent portion of the grants for the year are transferred to designated lump sum reserves for future use of the Association.

The Social Welfare lump sum reserve must be kept in a separate interest-bearing account and is capped at 25% of the Association's relevant lump sum grant operating expenditure. Lump sum reserves have not exceeded the 25% cap in 2020 and 2021.

The reserve fund is repayable to the Social Welfare Department when the Association ceases to operate.

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**24. OTHER SOCIAL WELFARE RESERVE**

	2021 HK\$	2020 HK\$
At 1 April	<u>4,486,270</u>	<u>4,252,405</u>
Grants received during the year	12,286,345	4,196,055
Retail sales and other income for the year	3,441,923	6,244,723
Expenditure	<u>(14,668,061)</u>	<u>(10,196,887)</u>
Transferred from statement of profit or loss and other comprehensive income	<u>1,060,207</u>	<u>243,891</u>
Amount clawed back by Social Welfare Department	<u>(543)</u>	<u>(10,026)</u>
At 31 March	<u>5,545,934</u>	<u>4,486,270</u>

Other Social Welfare reserve represents the unspent portion of the grants allocated by the Social Welfare Department not included in the lump sum grants for future use of the Association.

**25. FURNITURE AND EQUIPMENT REPLENISHMENT AND MINOR WORKS BLOCK GRANT RESERVE**

	2021 HK\$	2020 HK\$
At 1 April	<u>5,379,234</u>	<u>5,891,783</u>
Grants recognised during the year		
Grants received	7,065,000	5,237,000
Net amount credit to deferred income	<u>(1,725,496)</u>	<u>(2,073,987)</u>
	5,339,504	3,163,013
Interest income	54	68
Expenditure for the year		
Minor works projects and vehicle overhauling	(1,905,915)	(834,045)
Depreciation charges	(3,341,003)	(2,746,798)
Property, plant and equipment written off	<u>(135,055)</u>	<u>(94,787)</u>
	<u>(42,415)</u>	<u>(512,549)</u>
At 31 March	<u>5,336,819</u>	<u>5,379,234</u>
Balance attributable to Lotteries Fund Block Grants	<u>5,336,819</u>	<u>5,379,234</u>

Furniture and equipment replenishment and minor works block grants are lump sum governmental grants for replenishment of furniture and equipment and minor works for existing premises providing subvented welfare services. The grants are recognised as capital grants under deferred income when acquiring property, plant and equipment. The remaining grants are recorded as income when there is a reasonable assurance that the Association will comply with the conditions attaching with it and that the grant will be received. The unspent portion for the year is transferred to the furniture and equipment replenishment and minor works block grant reserve.

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**26. FUND RAISING EVENTS**

Income from other fund raising projects includes the net donations received in the Flag Day Appeal and Roadshows as detailed below:

**Flag Day Appeal**

For the year ended 31 March 2021, Flag Day Appeal was held on 23 May 2020. No Flag Day Appeal was held during the year ended 31 March 2020.

	2021 HK\$
Public Subscription Permit number:	FD/R011/2020
Donations received:	
- Street collection	-
- Others	692,840
	<hr/> 692,840
Total expenditure	(47,386)
Net donations	<hr/> <hr/> 645,454

**Flag Day Appeal held on 23 May 2020**

Net donations of HK\$645,454 was raised from the Flag Day Appeal. All the net donations were utilised or purposed for supporting public education and other services for promotion of understanding and acceptance of people with intellectual disabilities, supporting administrative management of the special schools and service units; and supporting the continuous provision of non-subsented vocational training and job placement opportunities to people with intellectual disabilities at its social enterprise projects.

**Hong Chi Roadshows held under Public Subscription Permits**

Pursuant to the clause 23 in respect of Public Subscription Permit issued by Social Welfare Department under Section 4(17)(i), Summary of Offences Ordinance, Cap. 228, the net proceeds from the fund-raising activities approved in the Permits held on or after July 2017 and the usage of fund must be listed separately in the audited financial statements of the Permittee for the year concerned.

**For the year ended 31 March 2021**

No Roadshows were held during the year ended 31 March 2021.

**HONG CHI ASSOCIATION**  
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**26. FUND RAISING EVENTS - Continued**

**Hong Chi Roadshows held under Public Subscription Permits - Continued**

For the year ended 31 March 2020

Public Subscription Permit number:	2018/310/1	2019/176/1	2019/216/1
Period:	1 January 2019 to 30 June 2019 HK\$	7 September 2019 to 24 October 2019 HK\$	1 December 2019 to 31 December 2019 HK\$
Donations	7,765	1,651	25,948
Expenditure	-	(434)	(300)
Surplus	<u>7,765</u>	<u>1,217</u>	<u>25,648</u>

Note:

Surplus raised from the Hong Chi Roadshows were used to support the Association's services for people with intellectual disabilities.

**Lottery event held under Lottery licence**

No lottery event were held during the year ended 31 March 2021 (2020: Nil).

**27. RELATED PARTY TRANSACTIONS**

(a) During the year, the Association had the following transactions with IMC Schools in which some Council members are members of the incorporated management committees during the year:

	2021 HK\$	2020 HK\$
Contributions to the IMC Schools	8,910,466	4,234,436
Provisions of services to the IMC Schools:		
Occupational therapy services	-	902,100
Accounting services	908,231	640,000
School maintenance fee	6,870	6,923
Social work services	<u>448,290</u>	<u>1,174,930</u>

(b) Balances with related parties are the amounts due from/to IMC Schools, which are disclosed in the statement of financial position and Note 15.

**HONG CHI ASSOCIATION**  
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**27. RELATED PARTY TRANSACTIONS - Continued**

(c) Compensation of key management personnel

Council members are not remunerated.

Compensation of 12 (2020: 10) key management personnel of the Association was as follows:

	2021 HK\$	2020 HK\$
Salaries and allowances	10,780,772	9,439,503
Contributions to defined contribution plans - ORSO Schemes and MPF Scheme	708,199	611,137
Provisions for employee benefits	<u>586,863</u>	<u>509,193</u>
	<u>12,075,834</u>	<u>10,559,833</u>

**28. CAPITAL COMMITMENTS**

	2021 HK\$	2020 HK\$
Commitments for the acquisition of items of property, plant and equipment not provided for in the financial statements - authorised but not contracted for	<u>147,047,434</u>	<u>168,478,093</u>

HONG CHI ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
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29. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities:

	Lease liabilities HK\$ (Note 18)
At 1 April 2019	10,602,721
<i>Changes from cash flows:</i>	
Repayment of principal portion of the lease liabilities	(10,353,583)
Repayment of interest portion of the lease liabilities	(276,359)
Total changes from financing cash flow:	(10,629,942)
<i>Other non-cash movements:</i>	
Interest on lease liabilities	276,359
Increase in lease liabilities from entering into new leases during the year	20,185,845
Total other non-cash movements	20,462,204
At 31 March 2020 and 1 April 2020	20,434,983
<i>Changes from cash flows:</i>	
Repayment of principal portion of the lease liabilities	(9,474,895)
Repayment of interest portion of the lease liabilities	(771,081)
Total changes from financing cash flow:	(10,245,976)
<i>Other non-cash movements:</i>	
Interest on lease liabilities	771,081
Covid-19-related rent concessions	(426,200)
Lease modification	51,330
Total other non-cash movements	396,211
At 31 March 2021	10,585,218

(b) Major non-cash transactions

During the year ended 31 March 2020, the Association had non-cash additions to right-of-use assets and lease liabilities of HK\$20,185,845 and HK\$20,185,845, respectively, in respect of lease arrangements for leased properties.

**HONG CHI ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**30. CATEGORIES OF FINANCIAL INSTRUMENTS**

	2021 HK\$	2020 HK\$
<i>Financial assets at amortised cost:</i>		
Accounts receivable	32,071,097	32,884,140
Amount due from Social Welfare Department	230,428	3,554,393
Amounts due from Incorporated Management Committee Schools	1,242,854	1,946,572
Cash and bank balances	<u>157,107,978</u>	<u>189,093,034</u>
	<u>190,652,357</u>	<u>227,478,139</u>
<i>Financial liabilities at amortised cost:</i>		
Lease liabilities	10,585,218	20,434,983
Amounts due to Incorporated Management Committee Schools	454	332,382
Accounts payable and accrued charges	<u>23,047,182</u>	<u>28,226,217</u>
	<u>33,632,854</u>	<u>48,993,582</u>

**31. FINANCIAL RISK MANAGEMENT**

The main risks arising from the Association's financial instruments in the normal course of the Association's operations are credit risk, liquidity risk and interest rate risk.

These risks are limited by the Association's financial management policies and practices described in more detail below.

**(a) Credit risk**

The Association is exposed to credit risk since a counterparty may not be able or willing to perform its contractual obligations in full when due. It arises mainly from the Association's cash and deposit placements with various financial institutions and accounts receivables arising from service rendered and sales of goods.

The objective of the Association's measures to manage credit risk is to control potential exposure to recoverability problem. The Association's cash and cash equivalents are held in major reputable financial institutions in Hong Kong, which the Association believes are of high credit quality.

At 31 March 2021 and 2020, all of the Association's financial assets were exposed to credit risk. The maximum exposure to credit risk at the end of the reporting period is the carrying value of each financial asset in the Statement of Financial Position.

HONG CHI ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS  
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31. FINANCIAL RISK MANAGEMENT - Continued

(b) Liquidity risk

Liquidity risk is defined as the risk that the Association's funds will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Association's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The carrying amounts of the financial instruments approximate to their respective fair values.

The contractual maturities of the Association's financial liabilities are as below:

	Carrying amount HK\$	Total contractual undiscounted cash flows HK\$	Within 1 year or on demand HK\$	More than 1 year but less than 2 years HK\$	More than 2 years but less than 5 years HK\$
<b>At 31 March 2021</b>					
Lease liabilities	10,585,218	12,095,175	10,645,175	600,000	850,000
Accounts payables and accrued charges	23,047,182	23,047,182	23,047,182	-	-
Amounts due to Incorporated Management Committee Schools	454	454	454	-	-
	<u>33,632,854</u>	<u>35,142,811</u>	<u>33,692,811</u>	<u>600,000</u>	<u>850,000</u>
<b>At 31 March 2020</b>					
Lease liabilities	20,434,983	22,713,352	10,645,176	10,618,176	1,450,000
Accounts payables and accrued charges	28,226,217	28,226,217	28,226,217	-	-
Amounts due to Incorporated Management Committee Schools	332,382	332,382	332,382	-	-
	<u>48,993,582</u>	<u>51,271,951</u>	<u>39,203,775</u>	<u>10,618,176</u>	<u>1,450,000</u>

## HONG CHI ASSOCIATION

### NOTES TO THE FINANCIAL STATEMENTS 31 MARCH 2021

#### 31. FINANCIAL RISK MANAGEMENT - Continued

##### (c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Association's interest-bearing financial instruments is cash at financial institutions, which is subject to limited exposure to fair value changes due to fluctuations in the prevailing levels of market interest rates. Other than the cash at financial institutions, the Association has no significant third party interest-bearing assets/liabilities. The Association considered the interest rate risk exposure is minimal.

#### 32. CAPITAL RISK MANAGEMENT

The Council regards the total funds as capital of the Association. The total funds consist of reserves and funds of the Association, comprising deficit reserve for unsubvented projects (Note 21), designated funds (Note 22), Social Welfare lump sum reserve (Note 23), other Social Welfare reserve (Note 24) and furniture and equipment replenishment and minor works block grant reserve (Note 25).

The Association's objective of managing capital is to safeguard the Association's ability to continue as a going concern in order to provide benefits for all stakeholders. The Council regularly reviews and manages the capital to ensure adequacy for the Association's operational efficiency.

#### 33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Council members on 27 September 2021.