



Asia Society Hong Kong Center

30 June 2020



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Trustees' Report

The Trustees submit herewith their annual report together with the audited financial statements for the year ended 30 June 2020.

Principal place of business

Asia Society Hong Kong Center ("ASHK" or "the company") is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 9 Justice Drive, Admiralty, Hong Kong.

Principal activities

The company is a not-for-profit institution limited by guarantee. Its aim is to promote mutual understanding and to strengthen partnerships among peoples, leaders and institutions of Asia and the United States in a global context. It undertakes charitable and educational programs in the Hong Kong Special Administrative Region ("HKSAR") to promote awareness and understanding of the countries and cultures of Asia, and global issues affecting the Asia Pacific region. The company, being a charitable institution, is exempt from tax under Section 88 of the Inland Revenue Ordinance.

On 23 September 2005, the company was granted under a Private Treaty Grant the right to use the land and build a permanent center at the Explosives Magazine on 9 Justice Drive, Admiralty, Hong Kong at a nominal premium plus annual rent for a lease of 21 years. Transformation of the Explosives Magazine, through conservation and rehabilitation, into the new permanent home of the company was completed in December 2011. The Center is now opened to the general public for activities in relation to the promotion of arts, culture and contemporary affairs. A charitable organization in HKSAR approved and provided the company with a grant of HK\$102.5 million in building the permanent center.

Business review

Operation Highlight

The financial year ended 30 June 2020 was affected by social disruption in Hong Kong in the first half and the COVID-19 pandemic in the second. Both caused restrictions on activities in the community that got worse as the year progressed, and those related to the pandemic still affects the operation of the ASHK at the time of writing.

As a result of this adverse environment, the ASHK's income for the year ended 30 June 2020 reduced to HK\$52.4 million from HK\$75.8 million in the previous year; all categories of income fell. As the number of physical meetings were reduced due to social distancing restrictions, program sponsorship and admission fees reduced by HK\$8.2 million to HK\$14 million during the year, and income from events held in the ASHK facilities reduced by HK\$9.8 million to only HK\$2.8 million during the year. General donations received in the year totalled HK\$8.3 million, a reduction from the HK\$11.5 million received in 2019.

Expenditure fell by HK\$10.2 million to HK\$67.7 million. While staff and other expenses were reduced by great efforts to economize and became more efficient, the largest fall -HK\$6.8 million - was because of the reduction in physical programming.

Business review (continued)

For the year ended 30 June 2020, the ASHK recorded a deficit of HK\$15.3 million compared with a deficit of HK\$2.2 million in the previous year. As a result, ASHK's accumulated fund fell to HK\$19.4 million at 30 June 2020.

In response to the reduction in social activities in Hong Kong in 2020, the ASHK rapidly converted to on-line programming. This was very well received and brought a huge increase in the number of people enjoying the ASHK's activities. This is illustrated in the below table:

For the period ended 30

September 2020

(For the year ended 30 June
2019)

| | <i>Physical programs</i> | | <i>On-line programs</i> | |
|---------------------|--------------------------|------------------|-------------------------|------------------|
| | <i>Number of events</i> | <i>Attendees</i> | <i>Number of events</i> | <i>Attendees</i> |
| Arts and culture | 189 (148) | 6,336 (8,725) | 82 (-) | 199,711 (-) |
| Business and policy | 65 (41) | 2,652 (4,121) | 40 (-) | 54,328 (-) |
| COVID related | - (-) | - (-) | 35 (-) | 150,731 (-) |

Unfortunately, on-line programs generated very little income.

Two exhibitions were held during the year: "The Art an Inspiration of Irene Chow: the Hong Kong Jockey Club Presents – A World Within"; and the "Hidden Forests Summer Project". 14,443 people attended exhibitions compared with 52,948 in the previous year when 3 exhibitions were offered. We developed a virtual exhibition tour and attracted notable press coverage.

Internal Control

Management has reviewed and discussed the financials, auditing and internal control issue related to the company.

Risks and Uncertainties

The company encountered different level of risks and uncertainties and this poses a challenge. Dedicated effort has been made to manage costs and seek sponsorship funds for programmes and exhibitions.

The Board of Trustees has appointed a finance committee incorporating the responsibilities of an audit committee. Members are two independent trustees both with long experience as directors of listed companies and their audit committees. The finance committee reviews and approves an annual plan/budget. They have specified the format and content of detailed management accounts. They carefully scrutinise these monthly and calls for explanations for anything that might indicate weak internal controls or compromised risk management. They report to the Board of Trustees at its periodic meetings.

Outlook

The center site been in operation since 2012 upon conservation and rehabilitation of the Explosives Magazine. To preserve its heritage, the company is cautious about its maintenance and it is expected that spending on site maintenance and repairs shall rise in the coming years. The company shall be cost-conscious and exercise stringent control over the operating costs.

On the revenue side, the company shall continue to organize various programs and exhibitions in order to attract more members and participants. The company also keeps on exploring new income streams and widening the base of the donors and sponsors.

Trustees

The Trustees and the offices held by them, where appropriate, during the financial year and up to the date of this report are set out below:

Ronnie Chan (Chairman)
Hans Michael Jebesen
Vernon Francis Moore
John Estmond Strickland
Anita Yuen Mei Fung
Eric Li
Ming Wai Lau
Ching Kit Ho
Wei Ting Chao

In accordance with article 36 of the company's articles of association, Mr. Ronnie Chan, Mr. Vernon Francis Moore and Mr. Hans Michael Jebesen shall retire from office at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election thereat.

Trustees' interests in transactions, arrangements or contracts

During the year, a subsidiary of Hang Lung Properties Limited ("Hang Lung") leased an apartment to the company. Rental and management expenses paid to that company amounted to HK\$550,800 (2019: HK\$529,200) during the year ended 30 June 2020. During the year, the company received donations of HK\$555,000 (2019: HK\$530,000) from a subsidiary of Hang Lung. Morningside Foundation Limited ("Morningside") made a sponsorship of \$387,500(2019: Nil) to the company during the year. Mr. Ronnie Chan was beneficially interested in these transactions as the Chairman of Hang Lung and director of Morningside.

In February 2011, Regent Centure Limited ("Regent Centure") granted a loan facility ("2011 Facility") of HK\$100 million to the company. Under the supplement agreement in May 2015, the loan facility was revised to HK\$92 million. The loan facility was further revised to HK\$75 million, HK\$65 million and HK\$34 million in July 2016, June 2017 and June 2018 respectively. At 30 June 2020, the loan facility of HK\$34 million was fully drawdown by the company (2019: HK\$34 million). On 2 July 2020, Regent Centure granted a new loan facility ("2020 Facility") of HK\$49 million to the company. The amount was fully drawn on 10 August 2020. On the same date, HK\$34 million outstanding loan of the 2011 Facility was fully settled (2019: HK\$Nil of settlement made). Mr. Ronnie Chan was beneficially interested in this contract as a director of Regent Centure.

Trustees' interests in transactions, arrangements or contracts (continued)

Apart from the foregoing, no transaction, arrangement or contract of significance to which the company was a party, and in which a Trustee had a material interest, subsisted at the end of the year or at any time during the year.

At no time during the year was the company a party to any arrangement to enable the Trustees to acquire benefits by means of the acquisition of debentures of the company or shares in or debentures of any other body corporate.

Auditors

KPMG retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Trustees



Ronnie Chan

Chairman

Hong Kong, 10 November 2020



Independent auditor's report to the members of Asia Society Hong Kong Center

(Incorporated in Hong Kong and limited by guarantee)

Opinion

We have audited the financial statements of Asia Society Hong Kong Center ("the company") set out on pages 8 to 36, which comprise the statement of financial position as at 30 June 2020, the statement of income and expenditure and other comprehensive income, the statement of changes in accumulated fund and the cash flow statement 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 company as at 30 June 2020 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 company 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.

Information other than the financial statements and auditor's report thereon

The Trustees are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

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 Asia Society Hong Kong Center (continued)

(Incorporated in Hong Kong and limited by guarantee)

Responsibilities of the Trustees for the financial statements

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

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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.



Independent auditor's report to the members of Asia Society Hong Kong Center (continued)

(Incorporated in Hong Kong and limited by guarantee)

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the Trustees' 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 company'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 company 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 the Trustees 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.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 November 2020

Statement of income and expenditure and other comprehensive income for the year ended 30 June 2020 (Expressed in Hong Kong dollars)

| | Note | 2020 | 2019 |
|--|------|------------------------|------------------------|
| Income | | | |
| Construction project funds recognition | 4 | \$ 19,584,410 | \$ 19,584,410 |
| General donations | | 8,335,378 | 11,519,322 |
| Programs sponsorship and admission fees | 5 | 14,025,229 | 22,192,995 |
| Membership fees | | 4,026,625 | 4,683,416 |
| Venue income | | 2,754,674 | 12,588,186 |
| Rental income | | 2,283,083 | 2,851,388 |
| Merchandise sales | | 484,329 | 814,178 |
| Other revenue | 3 | 326,940 | 361,713 |
| Other net income | 3 | 580,902 | 1,205,913 |
| | | <u>\$ 52,401,570</u> | <u>\$ 75,801,521</u> |
| Expenditure | | | |
| Cost of sales | 6(c) | \$ (246,332) | \$ (430,997) |
| Depreciation and amortisation | 6(c) | (25,457,333) | (25,864,309) |
| Finance costs | 6(a) | (1,073,198) | (989,960) |
| Marketing expenses | | (250,935) | (216,986) |
| Program expenses | | (6,440,587) | (13,266,712) |
| Property management expenses | | (5,166,303) | (5,112,054) |
| Staff costs | 6(b) | (19,215,817) | (21,481,767) |
| Utilities | | (2,085,446) | (2,212,935) |
| Other net loss | 3 | (853,680) | - |
| Other operating expenses | | (6,955,528) | (8,418,197) |
| | | <u>\$ (67,745,159)</u> | <u>\$ (77,993,917)</u> |
| Deficit and total comprehensive income for the year | 6 | <u>\$ (15,343,589)</u> | <u>\$ (2,192,396)</u> |

The notes on pages 14 to 36 form part of these financial statements.

Statement of financial position at 30 June 2020

(Expressed in Hong Kong dollars)

| | Note | 2020 | 2019 |
|---|------|------------------------|------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | \$ 153,497,445 | \$ 178,913,675 |
| Interest in leasehold land held for own use | 9 | 297 | 345 |
| Art work | 10 | 3,335,000 | 3,335,000 |
| | | <u>\$ 156,832,742</u> | <u>\$ 182,249,020</u> |
| Current assets | | | |
| Inventories | 11 | \$ 300,350 | \$ 327,760 |
| Financial assets at fair value through profit or loss | 12 | 12,116,699 | 12,970,379 |
| Account and other receivables | 13 | 9,787,431 | 6,175,681 |
| Amount due from a related party | 14 | 3,737,653 | 3,264,201 |
| Cash and cash equivalents | 15 | 6,258,368 | 16,568,258 |
| | | <u>\$ 32,200,501</u> | <u>\$ 39,306,279</u> |
| Current liabilities | | | |
| Other payables and accruals | 16 | \$ (3,143,744) | \$ (4,338,099) |
| Amount due to a related party | 14 | (3,573,395) | (1,392,830) |
| Contract liabilities | 17 | (1,899,254) | (1,651,450) |
| Deferred income | 18 | (23,882,520) | (22,718,693) |
| Loan from a related party | 19 | (34,000,000) | - |
| | | <u>\$ (66,498,913)</u> | <u>\$ (30,101,072)</u> |
| Net current (liabilities)/assets | | <u>\$ (34,298,412)</u> | <u>\$ 9,205,207</u> |
| Total assets less current liabilities | | <u>\$ 122,534,330</u> | <u>\$ 191,454,227</u> |

Statement of changes in accumulated fund for the year ended 30 June 2020

(Expressed in Hong Kong dollars)

| | <i>Accumulated fund</i> |
|--|-----------------------------|
| Balance at 1 July 2018 | \$ 36,894,643 |
| Change in accumulated fund for the year ended 30 June 2019: | |
| Deficit and total comprehensive income for the year | <u>(2,192,396)</u> |
| Balance at 30 June 2019 and 1 July 2019 | \$ 34,702,247 |
| Change in accumulated fund for the year ended 30 June 2020: | |
| Deficit and total comprehensive income for the year | <u>(15,343,589)</u> |
| Balance at 30 June 2020 | <u>\$ 19,358,658</u> |

The notes on pages 14 to 36 form part of these financial statements.

Cash flow statement for the year ended 30 June 2020

(Expressed in Hong Kong dollars)

| | Note | 2020 | 2019 |
|--|------|-----------------------|-----------------------|
| Operating activities | | | |
| Deficit for the year | | \$ (15,343,589) | \$ (2,192,396) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 6(c) | 25,457,285 | 25,864,261 |
| Amortisation of land lease premium | 6(c) | 48 | 48 |
| Finance costs | 6(a) | 1,073,198 | 989,960 |
| Loss on disposal of property, plant and equipment | 6(c) | 1,245 | - |
| Construction project funds recognised in the statement of income and expenditure | 4 | (19,584,410) | (19,584,410) |
| Dividend income from equity securities | 3 | (314,319) | (343,948) |
| Bank interest income | 3 | (12,621) | (17,765) |
| Net unrealised loss/(gain) on equity securities | 3 | 853,680 | (176,395) |
| Write on of other payables | 3 | - | (975,268) |
| Operating (deficit)/surplus before changes in working capital | | \$ (7,869,483) | \$ 3,564,087 |
| Decrease/(increase) in inventories | | 27,410 | (17,370) |
| Increase in account and other receivables | | (3,611,750) | (1,418,524) |
| Decrease in amount due from a related party | | (473,452) | (1,247,252) |
| (Decrease)/increase in other payables and accruals | | (1,167,368) | 273,889 |
| Increase in amount due to a related party | | 2,180,565 | 1,242,802 |
| Increase in contract liabilities | | 255,904 | 2,000,750 |
| Increase/(decrease) in deferred income | | 1,163,829 | (8,257,746) |
| Net cash generated used in operating activities | | \$ (9,494,345) | \$ (3,859,364) |

Cash flow statement for the year ended 30 June 2020 (continued)

(Expressed in Hong Kong dollars)

| | Note | 2020 | 2019 |
|---|------|-----------------------------|-----------------------------|
| Investing activities | | | |
| Payment for the purchase of property, plant and equipment | | \$ (42,300) | \$ (374,435) |
| Payment for the purchase of art work | | - | (775,000) |
| Dividend received from equity securities | | 314,319 | 343,948 |
| Bank interest received | | 12,621 | 17,765 |
| | | <u> </u> | <u> </u> |
| Net cash generated from/(used in) investing activities | | <u>\$ 284,640</u> | <u>\$ (787,722)</u> |
| Financing activity | | | |
| Interest paid and net cash used in financing activity | 19 | <u>\$ (1,100,185)</u> | <u>\$ (963,472)</u> |
| Net decrease in cash and cash equivalents | | <u>\$ (10,309,890)</u> | <u>\$ (5,610,558)</u> |
| Cash and cash equivalents at 1 July 2019/2018 | | <u>16,568,258</u> | <u>22,178,816</u> |
| Cash and cash equivalents at 30 June 2020/2019 | 15 | <u>\$ 6,258,368</u> | <u>\$ 16,568,258</u> |

The notes on pages 14 to 36 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Status of the company

Asia Society Hong Kong Center (“the company”) is limited by guarantee and was incorporated in Hong Kong on 30 June 2004 under Hong Kong Companies Ordinance. The company is a not-for-profit institution.

Under the provisions of the company’s articles of association, every member shall, in the event of the company being wound up, contribute such amount as may be required to meet the liabilities of the company but not exceeding \$10 per member.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the company are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investments in equity securities held for trading are stated at their fair value as explained in the accounting policy set out below (see note 2(d)).

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

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

2 Significant accounting policies (continued)

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the company.

Except for HKFRS16, none of these developments have had a material effect on how the company's results and financial position for the current or prior periods have been prepared or presented. The company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 24).

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the company is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

As at 1 July 2019, all the operating lease commitments of the company related to short-term leases. The company decided to apply recognition exemptions to short-term leases. Hence, there is no impact on the financial statements.

b. Lessor accounting

The company leases out an area of the center as the lessor of operating lease. The accounting policies applicable to the company as a lessor remain substantially unchanged from those under HKAS 17.

2 Significant accounting policies (continued)

(d) Investments in equity securities

Investments are recognised/derecognised on the date the company commits to purchase/sell the investments or they expire. Investments in debt equity securities are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the company determines fair value of financial instruments, see note 20(f). These investments are subsequently accounted for as follows, depending on their classification:

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the company makes an irrevocable election to designate the investment at fair value through other comprehensive income ("FVOCI") (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in the statement of income and expenditure as other income in accordance with the policy set out in note 2(o)(vi).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 15 years.
- Leasehold improvements 5 years
- Furniture and fixtures 5 - 10 years
- Audio and visual, computer and office equipment 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of income and expenditure on the date of retirement or disposal.

2 Significant accounting policies (continued)

(f) Leased assets

At inception of a contract, the company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Leases for which the company is a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

The rental income from operating leases is recognised in accordance with the company's revenue recognition policies as set out in note 2(o)(viii).

(g) Art work

Art work is stated at cost less any impairment loss (see note 2(j)).

Art work is not depreciated while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an art work is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset.

Gains or losses arising from disposal of art work are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of income and expenditure on the date of disposal.

(h) Inventories

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

Cost is calculated using the first-in-first-out formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 Significant accounting policies (continued)

(i) Receivables (including amount due from a related party)

Account and other receivables and amount due from a related party are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for credit losses (see note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for credit loss.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The company recognises a loss allowance for expected credit loss ("ECL") on the financial assets measured at amortised cost (including cash and cash equivalents, account and other receivables, and amount due from a related party).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the company in accordance with the contract and the cash flows that the company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate account and other receivables, and amount due from a related party: effective interest rate determined at initial recognition or an approximation thereof; and
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

In measuring ECLs, the company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for account receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2 Significant accounting policies (continued)

For all other financial instruments, the company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- art work.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in the statement of income and expenditure if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of income and expenditure in the year in which the reversals are recognised.

2 Significant accounting policies (continued)

(k) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) *Payables and contract liabilities*

(i) Other payables and accruals (including amount due to a related party)

Other payables and accruals and amounts due to a related party are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the company recognises the related revenue (see note 2(o)). A contract liability would also be recognised if the company has an unconditional right to receive non-refundable consideration before the company recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(i)).

(m) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(j).

(n) *Employee benefits*

Salaries, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(o) *Revenue recognition*

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2 Significant accounting policies (continued)

Revenue is recognised in the statement of income and expenditure as follows:

- (i) General donations are recognised as revenue when it is probable that they will be received, i.e. generally upon receipt of cash. Donations with specific purposes are deferred until the relevant activities have been undertaken and the related expenses are incurred.
- (ii) Membership fees are recognised on an accrual basis and are recognised as revenue when the membership begins. Membership fee received for periods after the end of the reporting period are classified as contract liabilities in the statement of financial position.
- (iii) Program sponsorships are recorded as deferred income when received and are recognised as revenue on a systematic basis in the same periods in which the related expenses are incurred.
- (iv) Admission fees and venue income are recognised when the events are held.
- (v) Income arising from sale of merchandise is recognised on delivery of goods to customers.
- (vi) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (vii) Interest income is recognised as it accrues using the effective interest method.
- (viii) Rental income receivable under operating leases is recognised in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Variable lease payments are recognised as income in the accounting period in which they are earned.

(p) Grants

Grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the company will comply with the conditions attaching to them, if any. Grants that compensate the company for expenses incurred are recognised as income in the statement of income and expenditure in the same periods in which the expenses are incurred. Grants that compensate the company for the cost of an asset are recognised in the statement of income and expenditure as income on a systematic basis over the useful life of the asset.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the statement of income and expenditure.

2 Significant accounting policies (continued)

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(s) Related parties

- (a) A person, or a close member of that person's family, is related to the company if that person:
- (i) has control or joint control over the company;
 - (ii) has significant influence over the company; or
 - (iii) is a member of the key management personnel of the company or the company's parent.
- (b) An entity is related to the company if any of the following conditions applies:
- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (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 employees of either the company or an entity related to the company.
 - (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 the 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 company or to the company's parent.

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.

3 Other revenue, other net income and other net loss

| | 2020 | 2019 |
|--|-------------------|---------------------|
| Other revenue | | |
| Dividend income from equity securities | \$ 314,319 | \$ 343,948 |
| Bank interest income | 12,621 | 17,765 |
| | <u>\$ 326,940</u> | <u>\$ 361,713</u> |
| Other net income | | |
| Net unrealised gain on equity securities | \$ - | \$ 176,395 |
| Write on of other payables | - | 975,268 |
| Government subsidies (note) | 580,306 | - |
| Others | 596 | 54,250 |
| | <u>\$ 580,902</u> | <u>\$ 1,205,913</u> |
| Other net loss | | |
| Net unrealised loss on equity securities | \$ (853,680) | \$ - |

Note: Being subsidies received/receivable from the COVID-19 Anti-epidemic Fund under the Employment Support Scheme and other subsidy scheme as promulgated by the Government of the Hong Kong Special Administrative Region.

4 Construction project funds recognition

Donations of \$19,584,410 (2019: \$19,584,410) were recognised out of the construction project funds (see note 18) to compensate the cost and expenses incurred for the construction of the permanent center.

5 Program sponsorship and admission fees

During the year, the company received an amount of \$3,199,935 (2019: \$2,376,640) from The Hong Kong Jockey Club Charities Trust to support an exhibition held by the company.

6 Deficit for the year

Deficit for the year is arrived at after charging:

| | 2020 | 2019 |
|--|----------------------|----------------------|
| (a) Finance costs | | |
| Interest on loan from a related company (note 19) | \$ 1,073,198 | \$ 989,960 |
| (b) Staff costs | | |
| Contributions to defined contribution retirement plans | \$ 635,058 | \$ 651,801 |
| Salaries and other benefits | 18,580,759 | 20,829,966 |
| | <u>\$ 19,215,817</u> | <u>\$ 21,481,767</u> |

The above staff costs included the remuneration for key management personnel as disclosed in note 22(e).

| | 2020 | 2019 |
|--|----------------|------------|
| (c) Other items | | |
| Auditors' remuneration | \$ 338,600 | \$ 331,000 |
| Costs of inventories sold | 246,332 | 430,997 |
| Depreciation of property, plant and equipment | 25,457,285 | 25,864,261 |
| Amortisation of land lease premium | 48 | 48 |
| Loss on disposal of property, plant and equipment | 1,245 | - |
| Total minimum lease payments in respect of properties (including the cost of staff quarters which is included in staff costs above) for leases previously classified as operating leases under HKAS17 | - | 601,501 |
| Expenses (including the cost of staff quarters which is included in staff costs above) relating to short-term leases | <u>595,501</u> | <u>-</u> |

7 Trustees' remuneration

Trustees' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

| | 2020 | 2019 |
|---|------------|------------|
| Fees | \$ Nil | \$ Nil |
| Salaries, allowances and benefits in kind | Nil | Nil |
| Discretionary bonuses | Nil | Nil |
| Retirement scheme contributions | <u>Nil</u> | <u>Nil</u> |

8 Taxation

No provision has been made for Hong Kong Profits Tax as the company, being a charitable institution, is exempted under Section 88 of the Inland Revenue Ordinance.

9 Property, plant and equipment and interest in leasehold land held for own use under operating lease

| | Building | Leasehold improvements | Furniture and fixtures | Audio and visual, computer and office equipment | Property, plant and equipment sub-total | Interest in leasehold land held for own | Total |
|---|-----------------------|------------------------|------------------------|---|---|---|-----------------------|
| Cost: | | | | | | | |
| At 1 July 2018 | \$ 355,070,014 | \$ 3,103,900 | \$ 1,018,151 | \$ 14,378,539 | \$ 373,570,604 | \$ 1,000 | \$ 373,571,604 |
| Additions | - | 17,650 | - | 356,785 | 374,435 | - | 374,435 |
| At 30 June 2019 | <u>\$ 355,070,014</u> | <u>\$ 3,121,550</u> | <u>\$ 1,018,151</u> | <u>\$ 14,735,324</u> | <u>\$ 373,945,039</u> | <u>\$ 1,000</u> | <u>\$ 373,946,039</u> |
| Accumulated depreciation and amortisation: | | | | | | | |
| At 1 July 2018 | \$ 154,220,451 | \$ 2,408,636 | \$ 597,318 | \$ 11,940,698 | \$ 169,167,103 | \$ 607 | \$ 169,167,710 |
| Charge for the year | 24,345,401 | 431,495 | 97,447 | 989,918 | 25,864,261 | 48 | 25,864,309 |
| At 30 June 2019 | <u>\$ 178,565,852</u> | <u>\$ 2,840,131</u> | <u>\$ 694,765</u> | <u>\$ 12,930,616</u> | <u>\$ 195,031,364</u> | <u>\$ 655</u> | <u>\$ 195,032,019</u> |
| Net book value: | | | | | | | |
| At 30 June 2019 | <u>\$ 176,504,162</u> | <u>\$ 281,419</u> | <u>\$ 323,386</u> | <u>\$ 1,804,708</u> | <u>\$ 178,913,675</u> | <u>\$ 345</u> | <u>\$ 178,914,020</u> |

| | Building | Leasehold improvements | Furniture and fixtures | Audio and visual, computer and office equipment | Property, plant and equipment sub-total | Interest in leasehold land held for own use under operating lease | Total |
|---|-----------------------|------------------------|------------------------|---|---|---|-----------------------|
| Cost: | | | | | | | |
| At 1 July 2019 | \$ 355,070,014 | \$ 3,121,550 | \$ 1,018,151 | \$ 14,735,324 | \$ 373,945,039 | \$ 1,000 | \$ 373,946,039 |
| Additions | - | - | - | 42,300 | 42,300 | - | 42,300 |
| Disposal | - | - | - | (3,659,222) | (3,659,222) | - | (3,659,222) |
| At 30 June 2020 | <u>\$ 355,070,014</u> | <u>\$ 3,121,550</u> | <u>\$ 1,018,151</u> | <u>\$ 11,118,402</u> | <u>\$ 370,328,117</u> | <u>\$ 1,000</u> | <u>\$ 370,329,117</u> |
| Accumulated depreciation and amortisation: | | | | | | | |
| At 1 July 2019 | \$ 178,565,852 | \$ 2,840,131 | \$ 694,765 | \$ 12,930,616 | \$ 195,031,364 | \$ 655 | \$ 195,032,019 |
| Charge for the year | 24,345,401 | 204,109 | 97,448 | 804,775 | 25,457,285 | 48 | 25,457,333 |
| Written back on disposal | - | - | - | (3,652,425) | (3,657,977) | - | (3,657,977) |
| At 30 June 2020 | <u>\$ 202,911,253</u> | <u>\$ 3,044,240</u> | <u>\$ 792,213</u> | <u>\$ 10,082,966</u> | <u>\$ 216,830,672</u> | <u>\$ 703</u> | <u>\$ 216,831,375</u> |
| Net book value: | | | | | | | |
| At 30 June 2020 | <u>\$ 152,158,761</u> | <u>\$ 77,310</u> | <u>\$ 225,938</u> | <u>\$ 1,035,436</u> | <u>\$ 153,497,445</u> | <u>\$ 297</u> | <u>\$ 153,497,742</u> |

On 23 September 2005, the company was granted by the Government of Hong Kong Special Administrative Region under a Private Treaty Grant the right to use the land at the Explosives Magazine on 9 Justice Drive, Admiralty, Hong Kong at a nominal premium plus annual rent for a lease term of 21 years. The nominal premium paid of \$1,000 has been classified as interest in leasehold land held for own use.

10 Art work

| | 2020 | 2019 |
|----------------------|---------------------|---------------------|
| Cost: | | |
| At 1 July 2019/2018 | \$ 3,335,000 | \$ 2,560,000 |
| Additions | <u>-</u> | <u>775,000</u> |
| At 30 June 2020/2019 | <u>\$ 3,335,000</u> | <u>\$ 3,335,000</u> |

The recoverable amount of the art work is, in the opinion of the Trustees of the company, greater than its carrying amount at the end of both reporting periods.

11 Inventories

Inventories in the statement of financial position represent the cost of merchandise for sale. No provision was made during the year and in prior year.

12 Financial assets at fair value through profit or loss

| | 2020 | 2019 |
|---------------------|----------------------|----------------------|
| Equity securities: | | |
| - in Hong Kong | \$ 7,233,450 | \$ 8,453,550 |
| - outside Hong Kong | <u>4,883,249</u> | <u>4,516,829</u> |
| | <u>\$ 12,116,699</u> | <u>\$ 12,970,379</u> |

13 Account and other receivables

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Donation receivable | \$ 5,000,000 | \$ - |
| Program sponsorship - receivable from The Hong Kong Jockey Club | 1,608,279 | 3,224,939 |
| Admission fees receivable | 147,070 | 208,521 |
| Venue income receivable | 5,000 | 7,000 |
| Deposits and prepayments | 2,806,252 | 2,564,534 |
| Other receivables | <u>220,830</u> | <u>170,687</u> |
| | <u>\$ 9,787,431</u> | <u>\$ 6,175,681</u> |

The amount of the company's deposits and prepayments expected to be recovered or recognised as an expense after one year is \$1,206,616 (2019: \$1,214,388). All of the other balances are expected to be recovered or recognised as an expense within one year.

14 Amounts due from/to a related party

Amounts due from/to a related party are interest-free, unsecured and are expected to be recovered/repaid within one year.

15 Cash and cash equivalents

| | 2020 | 2019 |
|--------------------------|--------------|---------------|
| Cash at bank and in hand | \$ 6,258,368 | \$ 16,568,258 |

16 Other payables and accruals

| | 2020 | 2019 |
|---------------------------|--------------|--------------|
| Provision for staff costs | \$ 1,243,061 | \$ 1,450,179 |
| Others | 1,900,683 | 2,887,920 |
| | \$ 3,143,744 | \$ 4,338,099 |

All of the other payables and accruals are expected to be settled within one year.

17 Contract liabilities

| | 2020 | | |
|---------------------|------------------------|-----------------------------------|-----------------------------------|
| | <i>Membership fees</i> | <i>Admission and venue income</i> | <i>Total contract liabilities</i> |
| Current portion | \$ 1,013,700 | \$ 885,554 | \$ 1,899,254 |
| Non-current portion | 357,400 | - | 357,400 |
| | \$ 1,371,100 | \$ 885,554 | \$ 2,256,654 |

| | 2019 | | |
|---------------------|------------------------|-----------------------------------|-----------------------------------|
| | <i>Membership fees</i> | <i>Admission and venue income</i> | <i>Total contract liabilities</i> |
| Current portion | \$ 813,150 | \$ 838,300 | \$ 1,651,450 |
| Non-current portion | 349,300 | - | 349,300 |
| | \$ 1,162,450 | \$ 838,300 | \$ 2,000,750 |

Membership fees represented fees received for membership period(s) beyond current financial year and they will be recognised as income and credited to the statement of income and expenditure when relevant membership period begins.

Admission and venue income represented program admission fees, venue rental and service charges received for period(s) beyond current financial year and they will be recognised as income and credited to the statement of income and expenditure when respective programs or events are held.

18 Deferred income

| | 2020 | | | |
|---------------------|-----------------------------------|----------------------|------------------------------------|------------------------------|
| | <i>Construction project funds</i> | <i>Program funds</i> | <i>Government subsidies (Note)</i> | <i>Total deferred income</i> |
| Current portion | \$ 19,584,410 | \$ 3,537,498 | \$ 760,612 | \$ 23,882,520 |
| Non-current portion | 102,818,272 | - | - | 102,818,272 |
| | <u>\$ 122,402,682</u> | <u>\$ 3,537,498</u> | <u>\$ 760,612</u> | <u>\$ 126,700,792</u> |
| | 2019 | | | |
| | <i>Construction project funds</i> | <i>Program funds</i> | <i>Government subsidies</i> | <i>Total deferred income</i> |
| Current portion | \$ 19,584,410 | \$ 3,134,283 | \$ - | \$ 22,718,693 |
| Non-current portion | 122,402,680 | - | - | 122,402,680 |
| | <u>\$ 141,987,090</u> | <u>\$ 3,134,283</u> | <u>\$ -</u> | <u>\$ 145,121,373</u> |

Note: Being subsidies receivable from the COVID-19 Anti-epidemic Fund, please refer to note 3.

Construction project funds represented the balance of donations designated for the construction of the permanent center and are expected to be recognised as income and credited to the statement of income and expenditure over the useful life of the permanent center commencing on the date the center was ready for its intended use which was January 2012.

Program funds represented the balance of donations designated for the sponsorship of certain programs and are expected to be recognised as income and credited to the statement of income and expenditure when specific programs are held.

19 Loan from a related party

The loan from a related party (see note 22(d)) at 30 June 2020 bears interest at 1-month Hong Kong Interbank Offer Rate ("HIBOR") plus 1.25% (2019: 1-month HIBOR plus 1.25%) per annum. The loan is unsecured and repayable by 29 August 2020. On 10 August 2020, the loan was refinanced by the new loan facility.

The loan contains clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the company has met the scheduled repayment obligations.

Reconciliation of liabilities arising from financing activities

The table below details changes in the company's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

19 Loan from a related party (continued)

| | <i>Interest payable on loan from a related party</i> |
|---|--|
| | \$ |
| At 1 July 2018 | 63,665 |
| Changes from financing cash flows: | |
| Interest paid | (963,472) |
| Other changes: | |
| Finance cost | 989,960 |
| At 30 June 2019 | <u>90,153</u> |
| At 1 July 2019 | 90,153 |
| Changes from financing cash flows: | |
| Interest paid | (1,100,185) |
| Other changes: | |
| Finance cost | 1,073,198 |
| At 30 June 2020 | <u>63,166</u> |

Note: Interest payable on loan from a related party is included in other payables and accruals.

20 Financial risk management and fair values

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the company's business. The company is also exposed to equity price risk arising from its equity investments in other entities.

The company's exposure to these risks and the financial risk management policies and practices used by the company to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the company. The company's credit risk is primarily attributable to account and other receivables, amount due from a related party and cash and bank balances.

20 Financial risk management and fair values (continued)

The company's exposure to credit risk arising from cash and bank balances is limited because the counterparties are major financial institutions in Hong Kong, for which the company considers to have a low credit risk. Other receivables and amount due from a related party are reviewed regularly, for which the company considers to have a low credit risk.

The company does not provide any other guarantee which would expose the company to credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial positions.

Account receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past payment history, financial position and other factors. Account receivables are due on the date of billing. Normally, the company does not obtain collateral from customers.

The company measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

Given the company has not experienced significant credit losses in the past and based on the forward looking factor, the allowance for ECLs is insignificant.

20 Financial risk management and fair values (continued)

(b) Liquidity risk

The company is responsible for its own cash management. The company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to satisfy its contractual and reasonably foreseeable obligations as they fall due. The company refinanced of its loan from a related party which is due for repayment in August 2020(see note 22(d)).

The following table shows the remaining contractual maturities at the end of reporting period of the company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the company can be required to pay:

2020

| | <i>Contractual undiscounted cash outflow</i> | | | <i>Carrying amount at 30 June</i> |
|-------------------------------|--|---|---------------------|---|
| | <i>Within 1 year or on demand</i> | <i>More than 1 year but less than 2 years</i> | <i>Total</i> | |
| Other payables and accruals | \$ 3,143,744 | \$ - | \$ 3,143,744 | \$ 3,143,744 |
| Amount due to a related party | 3,573,395 | - | 3,573,395 | 3,573,395 |
| Loan from a related party | 35,740,800 | - | 35,740,800 | 34,000,000 |
| | <u>\$42,457,939</u> | <u>\$ -</u> | <u>\$42,457,939</u> | <u>\$40,717,139</u> |

2019

| | <i>Contractual undiscounted cash outflow</i> | | | <i>Carrying amount at 30 June</i> |
|-------------------------------|--|---|---------------------|---|
| | <i>Within 1 year or on demand</i> | <i>More than 1 year but less than 2 years</i> | <i>Total</i> | |
| Other payables and accruals | \$ 4,338,099 | \$ - | \$ 4,338,099 | \$ 4,338,099 |
| Amount due to a related party | 1,392,830 | - | 1,392,830 | 1,392,830 |
| Loan from a related party | 1,243,247 | 35,243,247 | 36,486,494 | 34,000,000 |
| | <u>\$ 6,974,176</u> | <u>\$35,243,247</u> | <u>\$42,217,423</u> | <u>\$39,730,929</u> |

20 Financial risk management and fair values (continued)

(c) Currency risk

The company's functional currency is Hong Kong dollars. The company is exposed to currency risk primarily from donations and payment of operating expenses that are denominated in United States dollars ("USD").

Exposure to currency risk

The following table details the company's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the company's functional currency of Hong Kong dollars. For presentation purposes, the amounts of the exposure are expressed in Hong Kong dollars.

| | <i>United States dollars</i> | |
|---------------------------------|------------------------------|----------------------|
| | 2020 | 2019 |
| Amount due from a related party | \$ 3,737,653 | \$ 3,264,201 |
| Cash and cash equivalents | 4,387,471 | 5,511,556 |
| Equity securities | 4,883,249 | 4,516,829 |
| Amount due to a related party | <u>(3,573,395)</u> | <u>(1,392,830)</u> |
| Net exposure to currency risk | <u>\$ 9,434,978</u> | <u>\$ 11,899,756</u> |

As the Hong Kong dollar ("HKD") is pegged to the USD, the company considers the risk of movements in exchange rates between the HKD and the USD to be insignificant. As a result, no sensitivity analysis is presented.

(d) Interest rate risk

The company's interest rate risk arises primarily from its loan from a related party issued at variable rates that exposes the company to cash flow interest rate risk. The following table details the interest rate profile of the company's loan from a related party at the end of reporting period:

| | 2020 | | 2019 | |
|---------------------------|------------------------------------|-------------------|------------------------------------|-------------------|
| | <i>Effective interest rate</i> | | <i>Effective interest rate</i> | |
| | % | \$ | % | \$ |
| Loan from a related party | 2.56% | <u>34,000,000</u> | 3.66% | <u>34,000,000</u> |

At 30 June 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the company's deficit and decreased/increased the company's accumulated fund by approximately \$340,000 (2019: \$340,000).

20 Financial risk management and fair values (continued)

The sensitivity analysis above indicates the instantaneous change in the company's deficit (and accumulated fund) that would arise assuming that the change in interest rates had occurred at the end of reporting period and had been applied to re-measure those financial instruments held by the company which expose the company to interest rate risk at the end of reporting period. The analysis is performed on the same basis as 2019.

(e) Equity price risk

The company is exposed to equity price changes arising from equity securities classified as financial assets at fair value through profit or loss (see note 12). All of these investments are listed securities. The company's equity securities are listed on the Hong Kong Stock Exchange and the New York Stock Exchange. Investments held have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the company.

The following table indicates the approximate change in the company's surplus and accumulated fund in response to reasonably possible changes in the relevant stock market index.

| | 2020 | | 2019 | |
|--|--|---|--|---|
| | <i>Increase/ (decrease) in the relevant equity price risk variable</i> | <i>Decrease/ (increase) in deficit and increase/ (decrease) accumulated fund \$'000</i> | <i>Increase/ (decrease) in the relevant equity price risk variable</i> | <i>Decrease/ (increase) in deficit and increase/ (decrease) accumulated fund \$'000</i> |
| Stock market index in respect of listed securities: | | | | |
| - Hang Seng Index | 5% (5)% | 358 (358) | 5% (5)% | 402 (402) |
| - Standard & Poor's Global 100 Index | 5% (5)% | 254 (254) | 5% (5)% | 228 (228) |

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index had occurred at the end of reporting period and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the company's equity investments would change in accordance with the historical correlation with the relevant stock market index and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index over the period until the next annual end of reporting period. The analysis is performed on the same basis as 2019.

20 Financial risk management and fair values (continued)

(f) Fair value measurement

(i) Financial instruments carried at fair value

HKFRS 13, *Fair value measurement* categorises fair value measurements into a three-level hierarchy. The level into which fair value is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

At 30 June 2020 and 2019, the financial instruments of the company carried at fair value were securities listed on the Hong Kong Stock Exchange and the New York Stock Exchange (see note 12) with a carrying value of \$12,116,699 (2019: \$12,970,379). These instruments are measured at fair value on a recurring basis and their fair value measurements fall into Level 1 of the fair value hierarchy described above.

(ii) Financial instruments carried at other than fair value

The carrying amounts of the company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2020 and 2019.

21 Commitments

At 30 June 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2019 |
|---------------|-------------------|
| Within 1 year | \$ <u>270,000</u> |

The company leased an apartment under an operating lease. The lease runs for an initial period of 1 year, at the end of which period all terms are renegotiated. The lease does not include contingent rentals. The company applied recognition exemptions to short-term leases as allowed under HKFRS 16.

22 Material related party transactions

During the year, the company entered into the following material related party transactions:

(a) Donations and sponsorships

A subsidiary of Hang Lung Properties Limited ("Hang Lung") made a donation of \$555,000 to the company during the year (2019: \$530,000). The Chairman of the company is also the Chairman of Hang Lung.

Morningside Foundation Limited ("Morningside") made a sponsorship of \$387,500 to the company during the year (2019: \$Nil). The Chairman of the company is also the director of Morningside.

Certain Trustees of the company made donations of \$10,950 to the company during the year (2019: \$220,000).

A member of the company made a donation of \$5,000,000 to the company during the year (2019: \$10,000,000).

(b) Participation fee

As part of the Asia Society organisation, a participation fee of \$373,705 (2019: \$405,015) was paid/payable to The Asia Society New York headquarters, which provided services to the company during the year.

(c) Rental and management expenses

Rental and management expenses of \$550,800 (2019: \$529,200) was paid/payable to a subsidiary of Hang Lung, which leased an apartment to the company during the year ended 30 June 2020.

(d) Loan facility

The Chairman of the company is a director of Regent Centure Limited ("Regent Centure").

A revised loan facility of \$34 million was obtained from Regent Centure on 25 June 2019, of which the loan balance of \$34 million is repayable on or before 29 August 2020. At 30 June 2020, the outstanding loan amounted to \$34,000,000 (2019: \$34,000,000) (see note 19) and interest expense paid/payable to Regent Centure during the year was \$1,073,198 (2019: \$989,960). On 2 July 2020, the company obtained a new loan facility of \$49 million from Regent Centure. The existing loan was refinanced with this new facility on 10 August 2020.

(e) Key management personnel remuneration

Remuneration for key management personnel employed by the company is as follows:

| | 2020 | 2019 |
|--------------------------|--------------|--------------|
| Employee benefits | \$ 2,840,833 | \$ 2,966,700 |
| Post-employment benefits | 18,000 | 18,000 |
| | \$ 2,858,833 | \$ 2,984,700 |

23 Comparative figures

Certain comparative figures in the statement of income and expenditure and other comprehensive income have been reclassified to conform to current year's presentation.

24 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 30 June 2020 and which have not been adopted in these financial statements.

The company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.