

Report of the Trustees and Audited Financial Statements

SAVE THE CHILDREN HONG KONG LIMITED
香港救助兒童會有限公司

31 December 2019



SAVE THE CHILDREN HONG KONG LIMITED

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SAVE THE CHILDREN HONG KONG LIMITED

REPORT OF THE TRUSTEES

The trustees have the pleasure of submitting their annual report together with the audited financial statements for the year ended 31 December 2019.

Principal place of business

Save the Children Hong Kong Limited (“the Company” or “SCHK”) is a charitable organisation limited by guarantee, incorporated and domiciled in Hong Kong. Its registered office and principal place of business is at 8/F Pacific Plaza, 410-418 Des Voeux West, Sai Wan, Hong Kong.

Principal activities

The principal activities of SCHK are fundraising and creating and delivering evidence-based health, education, protection, and humanitarian programmes for children in Hong Kong and across the world, as well as advocating for and promoting children’s rights.

Business review

Background and business objectives

Established in April 2009, SCHK is an independent, non-profit development and humanitarian organisation and a Member of the global Save the Children movement, the world’s largest independent charity focused on children. The global movement is made up of 30 member organisations, and operates in 117 countries. Our ambition for 2030 is to create a world in which all children:

- Survive: No child dies from preventable causes before their fifth birthday
- Learn: All children learn from a quality basic education
- Are Protected: Violence against children is no longer tolerated.

SCHK raises funds, supports programmes in Hong Kong and around the world, to achieve its vision of a world in which every child attains their basic rights to survival, protection, development, and participation.

Key Areas of Our Work

SCHK, together with other offices in the Save the Children global movement, focuses on the following areas:

Child Protection

At least three-quarters of the world’s children experience violence. Violence takes many forms, including physical and emotional abuse, sexual abuse and exploitation, and neglect or deliberate deprivation. Growing up with violence, and the threat of violence, can lead to life-long physical, emotional and mental health problems. SCHK works with children, families, communities and societies to put in place laws, policies and services to protect children. We also promote social norms, gender equality, and positive changes in attitudes and behaviours. We work to prevent and respond to all forms of abuse, neglect, exploitation and violence affecting children.

Health & Nutrition

Every child has a right to survival. Yet, every year, millions of children are dying from illnesses that are entirely preventable – and most of them in their first years of life. Marginalised children are the most vulnerable as they lack access to quality healthcare, such as vaccines, medicines, or nutrients – all of which save lives. This is especially true in conflict and emergencies, or in poor and deprived areas, where the challenge of keeping children alive is heightened. At SCHK, we strive to provide effective health and nutrition programmes to save children’s lives and ensure they grow up healthy.

SAVE THE CHILDREN HONG KONG LIMITED

REPORT OF THE TRUSTEES

Business review (continued)

Key Areas of Our Work (continued)

Education

All children have the right to learn from a quality education. However, millions of children are being denied this opportunity simply because of who they are or where they live. They are deprived of learning because they are caught up in emergencies, face extreme poverty, or are discriminated against because of their gender, disability or ethnicity. SCHK works to help children develop so they are ready to learn when they start school. We ensure children learn to read and write, and give children safe places to develop essential cognitive and life skills.

Child Poverty

Children are more than twice as likely as adults to be living in extreme poverty. An estimated two out of every five children worldwide lives in multi-dimensional poverty. Children living in poverty face a higher risk of death before age 5, and malnutrition that stunts their growth and development. They also are at greater risk of being out of school, being forced into harmful labour or child marriage, or giving birth while they are still children themselves. SCHK works to lift families out of poverty. We equip adolescents and caregivers with the knowledge and skills they need to better manage their food security and livelihoods, and take a child-sensitive approach to all of our poverty alleviation programmes.

Humanitarian Programmes

SCHK is committed to providing child-focused emergency relief and humanitarian responses in the face of natural and man-made disasters, as well as conflict situations. We also help communities facing recurrent hazards and calamities, particularly those that are highly vulnerable to various hazards due to geographical location, socio-economic conditions and/or war, with disaster risk reduction measures integrated into development programmes to build community resilience.

Investment in Programmes

SCHK supported programmes in Hong Kong and countries around the world, with a primary focus on Asia.

In 2019, SCHK continued to expand its own domestic programmes, particularly in the area of child protection with a primary focus on parenting without violence and protection of children online. We conducted 89 sessions of the Heart to Heart Parent-Child Programme to enhance child protection for the most vulnerable families in Hong Kong, and launched an online protection website called Netizen Academy and delivered schools talks on online protection. In addition, SCHK supported six partner organisations' projects on child protection, health, education and child rights governance.

On international programmes, SCHK supported 31 development programmes across 12 countries in 2019. On child protection, SCHK supported programmes in Bhutan, Cambodia, China, Laos, Nepal, Sri Lanka and Thailand. On health, SCHK supported communities and health professionals in various parts of China to improve maternal, newborn and child health, and in Laos to strengthen adolescent healthcare. On education, SCHK worked with families, communities, schools and governments in Cambodia, China, Indonesia, Laos, Lebanon, Pakistan, Sri Lanka, Thailand, and Vietnam, to help children reach their full potential. To address child poverty issues, SCHK supported a programme in India to empower rural, adolescent girls with financial literacy, livelihood, and self-protection skills.

SAVE THE CHILDREN HONG KONG LIMITED

REPORT OF THE TRUSTEES

Business review (continued)

Investment in Programmes (continued)

On humanitarian response, the Save the Children global movement supported children and their families in 130 emergencies across 64 countries in 2019. SCHK's contribution provided vital funding to many of these responses including: Cyclones Idai and Kenneth in Mozambique; monsoon preparedness for Rohingya refugees in Bangladesh; early action for the Horn of Africa drought; the dengue epidemic in the Philippines, winterisation preparation for refugees in Lebanon, and support for conflict-affected families in the occupied Palestinian territory. In addition, SCHK secured a grant of HK\$2.52 million from the Disaster Relief Fund of the Government of Hong Kong Special Administrative Region, to distribute essential shelter, hygiene, household, and education items to victims of Cyclone Fani in India – the strongest tropical cyclone to strike the country in 20 years.

Financial Performance

Key Financial Summary

- Funding for programmes was HK\$124.87 million, an increase of 2%, or HK\$1.98 million from 2018. Total funding for programmes represented 78% of total expenditures in 2019 (2018: 78%).
- Fundraising costs were HK\$32.59 million, an increase of 3%, or HK\$0.91 million from 2018. Total fundraising costs represented 20% of total expenditures in 2019 (2018: 20%).
- Administration costs were HK\$3.05 million, an increase of 30%, or HK\$0.71 million from 2018. Total administration costs represented 2% of total expenditures in 2019 (2018: 2%).
- General donations from the public for international development programmes amounted to HK\$127.71 million, a decrease of 4%, or HK\$4.85 million from 2018.
- Designated donations from leading corporates, foundations and government amounted to HK\$32.42 million, a decrease of 14%, or HK\$5.41 million from 2018.

Donations Summary

SCHK income is primarily derived from donations from individual donors, foundations, corporations, and the Hong Kong Government. These donations are either (i) general donations, not restricted by the donor on how they may be used or (ii) designated donations, whose use is restricted to a designated programme, programmes, or types of programmes.

In 2019, despite the very challenging economy and the interruptions to our fundraising activities, with the support of our long term individual donors, leading corporates, foundations and the Hong Kong government, SCHK managed to achieve total income of HK\$160.14 million. This represents a decrease of 6% from our 2018 income of HK\$170.39 million.

Governance and administration

Administration expenditures were HK\$3.05 million in 2019, an increase of 30%, or HK\$0.71 million, from our 2018 expenditures of HK\$2.34 million. Excluding the release of an unused provision of \$1.22 million in 2018, our administrative expenses were reduced by 14% or HK\$0.51 million lower in 2019 compared to the 2018 amount of \$3.56 million before this one-time adjustment.

SAVE THE CHILDREN HONG KONG LIMITED

REPORT OF THE TRUSTEES

Business review (continued)

Financial Performance (continued)

Funds Allocation

The majority of organisational spending is dedicated to delivering evidence-based health, education, protection, and humanitarian programmes for children, as well as the promotion of children's rights. In 2019, SCHK spent HK\$124.87 million on programmes – an increase of 2%, or HK\$1.98 million, from 2018.

To ensure every dollar raised is properly used and/or invested to maximise impact, all operations are bound by cost controls and internal policies, in line with Save the Children's global procedures. In addition to continuously improving our efficiencies and costs, SCHK also strives to maintain an optimum balance between investment in key activities such as fundraising and programme delivery, with a target programme expenditure ratio as a percentage of total expenditure of 75-80%.

Accountability measures and internal controls

SCHK remains focused on efficiencies and effectiveness and has continued to enhance and streamline its operations as well as its fundraising efforts under the guidance and stewardship of the Board. By enhancing and streamlining its operations, SCHK will continue to strive to reduce costs as a percentage of income over time.

Board Subcommittees

Established in 2016 our subcommittees under the Board continued to guide our operations. Each Committee is chaired by one SCHK Board member and all Board members are expected to be members of at least two subcommittees.

Audit, Finance and Risk Committee: Reviews and discusses all financial, auditing, governance and risk management issues related to SCHK, including Accounting Policy and Guidelines, Capital Expenditure, three years growth plan, bi-annual forecast, review of financial results as well as operational, financial and business risks related to SCHK.

Programme Committee: Provides guidance, advice and oversight on the implementation of best-in-class standards in policies and procedures in managing project funding, proper use of donations, as well as monitoring and evaluating the effectiveness of projects for future improvement.

Partnership and Philanthropy Committee: Defines and approves fundraising strategies and risk mitigation, supports key signature events and facilitates introductions to corporates and foundations.

Governance and Nomination Committee: Reviews current board members based on regular participation and contribution to Board meetings, and considers future members to ensure Board diversity and a mix of members with an appropriate range of skills.

Communications Committee: Provides strategic planning support to ensure focus and direction of communication and media engagement.

Strategy Committee: Supports and oversees the development, refinement and implementation of a medium and long-term strategic plan to support continuous growth.

SAVE THE CHILDREN HONG KONG LIMITED

REPORT OF THE TRUSTEES

Financial statements

The surplus of the Company for the year ended 31 December 2019 and the state of the Company's affairs as at that date are set out in the financial statements on pages 11 to 36.

Funds

Details of the movements in funds, as described in note 15 to the financial statements, are set out in the statement of changes in funds.

Share capital

The Company was incorporated under the laws of Hong Kong as a company limited by guarantee and without any share capital. The details of the liability of its members are set out in note 1 to the financial statements.

SAVE THE CHILDREN HONG KONG LIMITED

REPORT OF THE TRUSTEES

Trustees

The trustees, who pursuant to section 2 of the Hong Kong Companies Ordinance are regarded as directors of the Company, during the year were:

Hing Lun Chan	
Farhan Faruqui	
Lin Ho-Ping	
Hongxia Catherine Burrows	
Winnie Yu Wing, Au-Yeung	
Michael Klosson	
Ming Yunn Stephanie Hui	
Kwong Yui Spencer Wong	
Leonie Valentine	
Paul Michael Kennedy	(appointed on 29 June 2019)
Conway Kong Wai Lee	(resigned on 29 June 2019)
Wei Wei	(resigned on 12 September 2019)
Michael George DeSombre	(resigned on 18 September 2019)
Michael Foontat Wong	(resigned on 22 September 2019)
Zhang Liping	(resigned on 31 December 2019)

In accordance with article 29 of the Company's articles of association, all present trustees continue in office for the following year.

Trustees' interests

At no time during the year was the Company a party to any arrangement to enable the trustees of the Company to acquire benefits by means of the acquisition of an interest in the Company or any other body corporate.

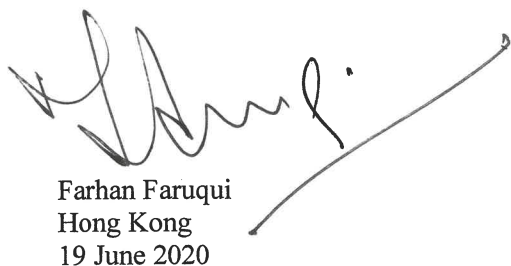
Trustees' interests in transactions, arrangements and contracts

No transaction, arrangement or contract of significance to which the Company was a party, and in which a trustee of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Auditor

Ernst & Young retire and a resolution for their reappointment as the auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the trustees



Farhan Faruqui
Hong Kong
19 June 2020

Independent auditor's report**To the members of Save the Children Hong Kong Limited**

(Incorporated in Hong Kong and limited by guarantee)

Opinion

We have audited the financial statements of Save the Children Hong Kong Limited (the "Company") set out on pages 11 to 36, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, the statement of changes in 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 Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 ("HSAs") 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 the information included in the report of the trustees.

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 (continued)
To the members of Save the Children Hong Kong Limited
(Incorporated in Hong Kong and limited by guarantee)

Responsibilities of the trustees for the financial statements

The trustees of the Company 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 of the Company 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 of the Company 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 of the Company 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. Our 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 HKSAAs 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.

Independent auditor's report (continued)
To the members of Save the Children Hong Kong Limited
(Incorporated in Hong Kong and limited by guarantee)

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism 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.
- 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.

Independent auditor's report (continued)
To the members of Save the Children Hong Kong Limited
(Incorporated in Hong Kong and limited by guarantee)

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

We communicate with the board of 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
Hong Kong
19 June 2020

SAVE THE CHILDREN HONG KONG LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

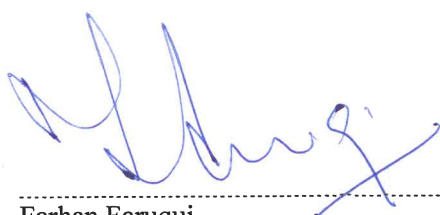
	Notes	2019 HK\$	2018 HK\$
INCOME			
General donations	3	127,712,976	132,560,433
Designated donations	3	32,422,891	37,833,969
Other income		49,426	69,431
		<u>160,185,293</u>	<u>170,463,833</u>
EXPENDITURE			
Fundraising expenditures		32,587,137	31,678,215
Administrative expenses		3,054,919	2,340,548
Funding for programs		<u>124,872,116</u>	<u>122,894,340</u>
		<u>160,514,172</u>	<u>156,913,103</u>
SURPLUS/(DEFICIT) BEFORE TAX	4	(328,879)	13,550,730
Income tax	5	<u>-</u>	<u>-</u>
SURPLUS/(DEFICIT) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>(328,879)</u>	<u>13,550,730</u>

SAVE THE CHILDREN HONG KONG LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$	2018 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	7	1,296,806	1,743,097
Right-of-use asset	8	3,330,144	-
Intangible assets	9	1,346,458	-
Total non-current assets		<u>5,973,408</u>	<u>1,743,097</u>
CURRENT ASSETS			
Receivables, prepayments, deposits and other receivables	10	2,610,638	2,074,902
Due from other Save the Children offices	11	8,056,582	7,530,337
Cash and bank balances	12	22,156,926	15,733,741
Total current assets		<u>32,824,146</u>	<u>25,338,980</u>
CURRENT LIABILITIES			
Creditors, accruals and contract liabilities	13	4,248,769	3,101,284
Due to other Save the Children offices	11	1,818,756	1,200,250
Deferred income	14	9,162,362	2,552,985
Lease liabilities	8	1,323,011	-
Total current liabilities		<u>16,552,898</u>	<u>6,854,519</u>
NET CURRENT ASSETS		<u>16,271,248</u>	<u>18,484,461</u>
NON-CURRENT LIABILITIES			
Lease liabilities	8	2,345,977	-
Total non-current liabilities		<u>2,345,977</u>	<u>-</u>
NET ASSETS		<u>19,898,679</u>	<u>20,227,558</u>
GENERAL FUND			
General fund	15	<u>19,898,679</u>	<u>20,227,558</u>



Farhan Faruqui
Trustee



Paul Michael Kennedy
Trustee

SAVE THE CHILDREN HONG KONG LIMITED

STATEMENT OF CHANGES IN FUNDS

Year ended 31 December 2019

	General fund HK\$ (note 15)
At 1 January 2018	6,676,828
Surplus for the year and total comprehensive income for the year	<u>13,550,730</u>
At 31 December 2018 and 1 January 2019	20,227,558
Deficit for the year and total comprehensive loss for the year	<u>(328,879)</u>
At 31 December 2019	<u><u>19,898,679</u></u>

SAVE THE CHILDREN HONG KONG LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 HK\$	2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(deficit) before tax		(328,879)	13,550,730
Adjustments for:			
Bank interest income		(21,897)	(30,387)
Depreciation of items of property, plant and equipment	4	604,364	600,960
Depreciation of right-of-use assets	4	1,289,088	-
Amortisation of intangible assets	4	155,924	-
Interest on lease liabilities	8	252,589	-
Impairment losses of receivables	4	96,000	-
		<u>2,047,189</u>	<u>14,121,303</u>
Decrease/(increase) in receivables, prepayments, deposits and other receivables		(1,032,165)	1,481,700
Increase in creditors, accruals and contract liabilities		1,410,032	293,752
Increase in amounts due from other Save the Children offices		(526,245)	(4,519,077)
Increase/(decrease) in amounts due to other Save the Children offices		618,506	(10,000,515)
Increase/(decrease) in deferred income		<u>6,609,377</u>	<u>(874,451)</u>
Cash generated from operations		9,126,694	502,712
Interest element on lease liabilities		(252,589)	-
Net cash flows from operating activities		<u>8,874,105</u>	<u>502,712</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(158,073)	(121,260)
Addition of intangible assets		(1,101,953)	-
Interest received		<u>21,897</u>	<u>30,387</u>
Net cash flows used in investing activities		<u>(1,238,129)</u>	<u>(90,873)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(1,212,791)	-
Net cash flows used in financing activities		<u>(1,212,791)</u>	<u>-</u>

continued/...

SAVE THE CHILDREN HONG KONG LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2019

	2019 HK\$	2018 HK\$
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,423,185	411,839
Cash and cash equivalents at the beginning of the year	<u>15,733,741</u>	<u>15,321,902</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>22,156,926</u>	<u>15,733,741</u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>22,156,926</u>	<u>15,733,741</u>

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE INFORMATION

Save The Children Hong Kong Limited is incorporated in Hong Kong as a company limited by guarantee. Its registered office and principal place of business is located at 8/F, Pacific Plaza, 410-418 Des Voeux West, Sai Wan, Hong Kong.

During the year, the Company was involved in fund raising for the promotion of children's rights and the delivery of immediate and lasting relief to children.

Under the provision of the Company's memorandum and 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 liability of the Company but not exceeding HK\$100 per member.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars ("HK\$").

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has fully assessed and adopted, to the extent that is relevant to the Company, the following new and revised HKFRSs for the first time for the current year's financial statements:

HKFRS 16	<i>Leases</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>

The adoption of the above new and revised standards has had no significant financial effect on these financial statements except for the following:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The Company has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the comparative information for 2018 was not restated and continued to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Company has a lease arrangement as a lessee for an office premise. As a lessee, the Company previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Company. Under HKFRS 16, the Company applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases. Instead of recognising rental expenses under operating leases on the straight-line basis over the lease term commencing from 1 January 2019, the Company recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities as at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019 and were separately presented on the face of the statement of financial position.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Company elected to present the right-of-use assets separately on the face of the statement of financial position.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Financial impact on 1 January 2019

The impact arising from the adoption of HKFRS 16 on 1 January 2019 was as follows:

	HK\$
Assets	
Increase in right-of-use assets and total assets	<u>4,619,232</u>
Liabilities	
Increase in lease liabilities	4,881,779
Decrease in creditors, accruals and contract liabilities	<u>(262,547)</u>
Increase in total liabilities	<u>4,619,232</u>

A reconciliation of the operating lease commitments as at 31 December 2018 to the lease liabilities as at 1 January 2019 is as follows:

	HK\$
Operating lease commitments as at 31 December 2018 (note 8)	5,418,417
Incremental borrowing rate as at 1 January 2019	<u>6%</u>
Discounted operating lease commitments and lease liabilities as at 1 January 2019 (note 8)	<u>4,881,779</u>

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2019 in these financial statements:

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9	<i>Interest Rate Benchmark Reform</i> ¹
HKAS 39 and HKFRS 7	
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

The Company is in the process of making an assessment of the impact of the new and revised HKFRSs upon initial application. The new and revised HKFRSs are not expected to have any significant impact on the financial position or performance of the Company upon adoption.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and 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 of a holding company of the Company;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company 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 holding company of the entity); and
 - (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 holding company of the Company.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	over the term of lease
Fixture and furniture	33%
Computer equipment	50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least annually at each financial year end.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of 5 years.

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Website development costs

Costs directly associated with the development of specific website, which include external direct costs of services incurred in developing the website, are capitalised. The capitalisation of such costs ceases no later than the point at which the website is substantially completed and ready for its intended purpose. Website development costs are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of 5 years.

Leases (applicable from 1 January 2019)

The Company assesses at contract inception whether a 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.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use asset

Right-of-use asset is recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asset includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use asset is depreciated on the straight-line basis over the following depreciation period, which is the shorter of the lease term and the estimated useful life of the asset:

Office premise

5 years

If ownership of the leased asset is transferred to the Company by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for termination of a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the interest rate implicit in the lease or, where that rate cannot be readily determined, the Company uses its incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Financial assets

Financial assets of the Company are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Company commits to purchase or sell the assets.

(a) Classification and measurement

Debt instruments are measured at amortised cost using the effective interest method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(b) Impairment

The Company applies the expected credit loss model on all the financial assets that are subject to impairment. For account receivables without a significant financial component, the Company applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.

The Company considers a default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities

Financial liabilities include creditors and due to other Save the Children offices. They are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

General donations

General donations are recognised when the Company becomes entitled to the donations and it is probable that they will be received, which is generally upon receipt of cash.

Designated donations

Designated donations are earmarked for specific purposes and are initially recognised as deferred income and then recognised in the statement of comprehensive income over the same period as the related costs which they are intended to compensate.

Interest income

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a donor before the Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Company transfers control of the related goods or services to the donor.

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 comprehensive income.

Employee benefits - pension scheme

The Company operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3. INCOME

The principal activities of the Company are fund raising for the promotion of children's rights and the delivery of immediate and lasting relief to children.

Income mainly represents general donations and designated donations received for the year.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. SURPLUS/(DEFICIT) BEFORE TAX

The Company's surplus/(deficit) before tax is arrived at after charging/(crediting):

	Notes	2019 HK\$	2018 HK\$
Depreciation of items of property, plant and equipment	7	604,364	600,960
Depreciation of a right-of-use asset	8	1,289,088	-
Amortisation of intangible assets	9, (i)	155,924	-
Auditor's remuneration		-	-
Minimum lease payments under operating leases in respect of land and buildings		-	1,883,141
Employee benefits expense:			
Wages, salaries and allowances		20,322,128	19,077,426
Pension scheme contributions		646,013	540,476
		<u>20,968,141</u>	<u>19,617,902</u>
Less: Amounts capitalised in intangible assets		(378,000)	-
		<u>20,590,141</u>	<u>19,617,902</u>
Impairment losses of receivables	10, (ii)	96,000	-
Foreign exchange losses, net		11,098	4,940
Reversal of overprovision for software upgrade costs	(iii)	-	(348,000)
Refund of unused grant		-	(640,339)
		<u>-</u>	<u>(640,339)</u>

The Company's expenditure is allocated to one or more of the three expenditure categories shown in the statement of comprehensive income: "Fundraising expenditures", "Administrative expenses" and "Funding for programs". These allocations are based on various factors including estimates of time spent and office space utilised by the departments performing work in each of these three areas. Expenditure related to governance matters is allocated entirely to Administrative Expenditure. Management reviews the basis of expenditure allocation annually to ensure that the estimates used fairly reflect the costs incurred.

Notes:

- (i) Amounts included in "Fundraising expenditures", "Administrative expenses" and "Funding for programs" on the face of the statement of comprehensive income are HK\$64,977, HK\$25,438 and HK\$65,509, respectively.
- (ii) This item is included in "Fundraising expenditures" on the face of the statement of comprehensive income.
- (iii) This item is included in "Administrative expenses" on the face of the statement of comprehensive income.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. INCOME TAX

No provision for Hong Kong Profits Tax has been made in these financial statements as the Company is an approved charitable institution and is exempted from taxation under section 88 of the Hong Kong Inland Revenue Ordinance.

6. TRUSTEES' EMOLUMENTS

No trustees received any fees or emoluments in respect of their services rendered to the Company during the year (2018: Nil).

7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Fixtures and furniture HK\$	Computer equipment HK\$	Total HK\$
Cost:				
At 1 January 2018	1,830,552	352,372	339,910	2,522,834
Additions	-	7,000	114,260	121,260
Disposals	-	-	(15,236)	(15,236)
At 31 December 2018 and 1 January 2019	1,830,552	359,372	438,934	2,628,858
Additions	-	37,980	120,093	158,073
At 31 December 2019	<u>1,830,552</u>	<u>397,352</u>	<u>559,027</u>	<u>2,786,931</u>
Accumulated depreciation:				
At 1 January 2018	61,018	19,576	219,443	300,037
Charge for the year (note 4)	366,110	119,791	115,059	600,960
Disposals	-	-	(15,236)	(15,236)
At 31 December 2018 and 1 January 2019	427,128	139,367	319,266	885,761
Charge for the year (note 4)	<u>366,110</u>	<u>120,846</u>	<u>117,408</u>	<u>604,364</u>
At 31 December 2019	<u>793,238</u>	<u>260,213</u>	<u>436,674</u>	<u>1,490,125</u>
Net book value:				
At 31 December 2019	<u>1,037,314</u>	<u>137,139</u>	<u>122,353</u>	<u>1,296,806</u>
At 31 December 2018	<u>1,403,424</u>	<u>220,005</u>	<u>119,668</u>	<u>1,743,097</u>

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

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8. LEASES

The Company has a lease arrangement as a lessee for an office premise with an original lease term of 5 years for use in its operations. The Company is restricted from assigning and subleasing the leased office premise outside of the Company.

Right-of-use asset (applicable after 1 January 2019)

The carrying amount of the Company's right-of-use asset for an office premise and the movement during the year ended 31 December 2019 are as follows:

	Office premise HK\$
At 1 January 2019	4,619,232
Depreciation provided during the year (note 4)	<u>(1,289,088)</u>
At 31 December 2019	<u>3,330,144</u>

Lease liabilities (applicable after 1 January 2019)

The carrying amount of the Company's lease liabilities and the movements during the year ended 31 December 2019 are as follows:

	HK\$
At 1 January 2019 (note 2.3)	4,881,779
Accretion of interest recognised during the year	252,589
Payments	<u>(1,465,380)</u>
At 31 December 2019	3,668,988
Portion classified as current liabilities	<u>(1,323,011)</u>
Non-current portion	<u>2,345,977</u>

Other lease information (applicable after 1 January 2019)

The amounts recognised in the statement of comprehensive income for the year ended 31 December 2019 in relation to leases are as follows:

	2019 HK\$
Interest expenses on lease liabilities (note)	252,589
Depreciation of right-of-use assets	<u>1,289,088</u>
Total amount recognised in statement of comprehensive income	<u>1,541,677</u>

Note: Amounts included in "Fundraising expenditures", "Administrative expenses" and "Funding for programs" on the face of the statement of comprehensive income are HK\$102,238, HK\$42,099 and HK\$108,252, respectively.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

8. LEASES (continued)

Operating lease commitments as at 31 December 2018 (applicable before 1 January 2019)

The Company leased an office premise under operating lease arrangements, with leases negotiated for an original term of 5 years.

At 31 December 2018, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK\$
Within one year	1,465,380
In the second to fifth years, inclusive	<u>3,953,037</u>
Total	<u>5,418,417</u>

9. INTANGIBLE ASSETS

	Computer software HK\$	Website development costs HK\$	Total HK\$
Cost:			
At 1 January 2018, 31 December 2018 and 1 January 2019	416,200	-	416,200
Additions	<u>1,007,950</u>	<u>494,432</u>	<u>1,502,382</u>
At 31 December 2019	<u>1,424,150</u>	<u>494,432</u>	<u>1,918,582</u>
Accumulated amortisation:			
At 1 January 2018, 31 December 2018 and 1 January 2019	416,200	-	416,200
Charge for the year (note 4)	<u>131,203</u>	<u>24,721</u>	<u>155,924</u>
At 31 December 2019	<u>547,403</u>	<u>24,721</u>	<u>572,124</u>
Net book value:			
At 31 December 2019	<u>876,747</u>	<u>469,711</u>	<u>1,346,458</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

10. RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2019 HK\$	2018 HK\$
Receivables	(a)	254,544	913,601
Deposits, prepayments and other receivables	(a)	<u>2,452,094</u>	<u>1,161,301</u>
		2,706,638	2,074,902
Impairment	(b)	<u>(96,000)</u>	<u>-</u>
		<u>2,610,638</u>	<u>2,074,902</u>

Notes:

(a) All of the receivables, prepayments, deposits and other receivables are expected to be settled within one year.

(b) The movements in loss allowance for impairment during the year are as follows:

	2019 HK\$	2018 HK\$
At 1 January	-	-
Impairment losses (note 4)	<u>96,000</u>	<u>-</u>
At 31 December	<u>96,000</u>	<u>-</u>

Other than those mentioned above, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

11. BALANCES WITH OTHER SAVE THE CHILDREN OFFICES

The amounts due from/(to) other Save the Children offices are unsecured and interest-free.

Impairment of balances with other Save the Children offices

The carrying amount of amounts due from other Save the Children offices approximated to their fair value as at 31 December 2019 and 2018. Their recoverability was assessed with reference to their financial position provided by the management, and the expected credit losses as at 31 December 2019 and 2018 were considered to be minimal.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

12. CASH AND BANK BALANCES

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balance is deposited with banks with high credit ratings and no recent history of default.

13. CREDITORS, ACCRUALS AND CONTRACT LIABILITIES

	Notes	2019 HK\$	2018 HK\$
Accruals	(a)	389,155	1,064,945
Creditors	(a)	62,910	1,773,792
Rent-free incentives	(a)	-	262,547
Contract liabilities	(b)	<u>3,796,704</u>	<u>-</u>
		<u>4,248,769</u>	<u>3,101,284</u>

Notes:

- (a) All of the creditors and accruals are expected to be settled within one year, except for rent-free incentive offered by the landlord of the Company's leased office premise in 2018, which was recognised as a reduction of rental expenses on a straight-line basis over the lease term in 2018, and has been reclassified to right-of-use assets upon the adoption of HKFRS 16 *Leases* during the year.
- (b) Contract liabilities represented advances received from donors in respect of a charitable event to be held in 2020. The contract liabilities are expected be recognised as income in the following year. The increase in contract liabilities was mainly due to the postponement of the charitable event from 2019 to 2020.

14. DEFERRED INCOME

The balance represents donations received for which the designated program activities had not been undertaken as at the end of the reporting period. They are recognised in the statement of comprehensive income over the period that matches the related costs which they are intended to fund.

15. GENERAL FUND

General fund is used for the general operation and administration of the Company.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

16. FUND-RAISING EVENTS SUBJECT TO GOVERNMENT LICENSE

The following surplus from events held during the year, which required a public subscription permit from the Hong Kong Social Welfare Department, have been included in the statement of comprehensive income:

	2019 HK\$	2018 HK\$
Donations received	16,509	31,400
Expenditure incurred	(2,887)	(3,250)
	<u>13,622</u>	<u>28,150</u>

The public subscription permits issued by the Hong Kong Social Welfare Department were as follows:

Year ended 31 December 2019

Permit number	Gross income HK\$	Gross expenditure HK\$	Net surplus HK\$
2019/024/1	1,201	-	1,201
2019/085/1	<u>15,308</u>	<u>(2,887)</u>	<u>12,421</u>
	<u>16,509</u>	<u>(2,887)</u>	<u>13,622</u>

Year ended 31 December 2018

Permit number	Gross income HK\$	Gross expenditure HK\$	Net surplus HK\$
2017/284/1	<u>31,400</u>	<u>(3,250)</u>	<u>28,150</u>

The funds raised above are used for supporting local programs of the Company.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

17. RELATED PARTY DISCLOSURES

- (a) In addition to those transactions and balances disclosed elsewhere in the financial statements, the Company had the following transactions with related parties during the year:

	2019 HK\$	2018 HK\$
Funding for programs granted to other Save the Children offices	106,424,803	109,354,180
Funding for programs received from other Save the Children offices	<u>2,232,182</u>	<u>4,609,732</u>

- (b) Compensation of key management personnel of the Company

	2019 HK\$	2018 HK\$
Short term employee benefits	7,657,470	7,878,841
Pension scheme contributions	<u>90,000</u>	<u>120,000</u>
Total compensation paid to key management personnel	<u>7,747,470</u>	<u>7,998,841</u>

18. FAIR VALUE MEASUREMENT

The Company has assessed that the fair values of receivables, deposits and other receivables, amounts due from/(to) other Save the Children offices, cash and bank balances, creditors and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments include receivables, deposits and other receivables, amounts due from/(to) other Save the Children offices, cash and bank balances, creditors and lease liabilities. Details of these financial instruments are disclosed in the respective notes to the financial statements.

The Company's ordinary activities expose it to various financial risks, including credit risk and liquidity risk. The risks associated with financial instruments and the policies on how to mitigate these risks are described below. Management monitors closely the Company's exposures to financial risks to ensure appropriate measures are implemented in a timely and effective manner.

Credit risk

All the Company's cash and cash equivalents are held in major financial institutions which management believes are of high credit quality.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019 and 2018. The amounts presented are gross carrying amounts for financial assets.

31 December 2019

	General approach			Simplified approach	Total
	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	approach HK\$	HK\$
Financial assets included in receivables, prepayments, deposits and other receivables*					
- Normal	1,119,123	-	-	144,622	1,263,745
- Doubtful	-	-	-	96,000	96,000
Due from other Save the Children offices					
- Not yet past due	8,056,582	-	-	-	8,056,582
Cash and cash equivalents					
- Not yet past due	22,156,926	-	-	-	22,156,926
	<u>31,332,631</u>	<u>-</u>	<u>-</u>	<u>240,622</u>	<u>31,573,253</u>

SAVE THE CHILDREN HONG KONG LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2019

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

31 December 2018

	General approach			Simplified approach	Total
	Stage 1	Stage 2	Stage 3		
	HK\$	HK\$	HK\$	HK\$	HK\$
Financial assets included in receivables, prepayments, deposits and other receivables*					
- Normal	1,326,508	-	-	310,000	1,636,508
Due from other Save the Children offices					
- Not yet past due	7,530,337	-	-	-	7,530,337
Cash and cash equivalents					
- Not yet past due	15,733,741	-	-	-	15,733,741
	<u>24,590,586</u>	<u>-</u>	<u>-</u>	<u>310,000</u>	<u>24,900,586</u>

* The Company applies the simplified approach for impairment for its receivables.

The credit quality of the financial assets included in other receivables are considered as “normal” when they are not past due and there is no information indicating that the financial assets have significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets are considered as “doubtful”.

Liquidity risk

The Company’s policy is to monitor regularly the current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in short and medium terms.

The following table details the remaining contractual maturities at the end of the reporting period of the Company’s financial liability, which is based on contractual undiscounted cash flows and the earliest date that the Company could be required to repay:

At 31 December 2019

	On demand or within 1 year	1 to 2 years	2 to 5 years	Beyond 5 years	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Creditors, accruals and contract liabilities	4,158,288	-	-	-	4,158,288
Due to other Save the Children offices	1,818,756	-	-	-	1,818,756
Lease liabilities	1,500,270	1,549,116	903,651	-	3,953,037
	<u>7,477,314</u>	<u>1,549,116</u>	<u>903,651</u>	<u>-</u>	<u>9,930,081</u>

SAVE THE CHILDREN HONG KONG LIMITED

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19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

At 31 December 2018

	On demand or within 1 year HK\$	1 to 2 years HK\$	2 to 5 years HK\$	Beyond 5 years HK\$	Total HK\$
Creditors and accruals	2,119,756	-	-	-	2,119,756
Due to other Save the Children offices	1,200,250	-	-	-	1,200,250
	<u>3,320,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,320,006</u>

Currency risk

The Company's currency risk arises from donation income, cash balance, funding for programs granted to other Save the Children offices that are denominated in Euros ("EUR"), Renminbi ("RMB") and United States dollar ("USD"). As the HK\$ is pegged to the USD, the Company considers the risk of movements in exchange rates between the HK\$ and the USD to be insignificant. The movements in exchange rate between the EUR and RMB against HK\$ affect the Company's financial position and results of operations.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR/HK\$ and RMB/HK\$ exchange rate, with all other variables held constant, of the Company's surplus/(deficit) before tax and the Company's funds.

	Increase/ (decrease) in surplus and funds 2019 HK\$	Increase/ (decrease) in surplus and funds 2018 HK\$
If Hong Kong dollar weakens against EUR by 10%	188,272	155,712
If Hong Kong dollar strengthens against EUR by 10%	(188,272)	(155,712)
If Hong Kong dollar weakens against RMB by 10%	(11,214)	(7,890)
If Hong Kong dollar strengthens against RMB by 10%	<u>11,214</u>	<u>7,890</u>

Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return through the optimisation of the equity balance.

The Company reviews the capital structure on a periodic basis. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Company, to the extent that these do not conflict with the trustees' fiduciary duties towards the Company or the requirements of the Hong Kong Companies Ordinance.

SAVE THE CHILDREN HONG KONG LIMITED

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20. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation.

21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of trustees on 19 June 2020.

