

THE SALVATION ARMY, HONG KONG AND
MACAU COMMAND
GENERAL FUND

Report and Financial Statements
For the year ended 31st March, 2009

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2009

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INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF THE SALVATION ARMY, HONG KONG AND MACAU COMMAND GENERAL FUND

We have audited the financial statements of the General Fund (the "Fund") of The Salvation Army, Hong Kong and Macau Command (the "Army") set out on pages 3 to 27, which comprise the balance sheet as at 31st March, 2009, and the income and expenditure account, statement of changes in total funds and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Finance Council Members' responsibility for the financial statements

The Finance Council members of the Army are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Army's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Army's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Finance Council members, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF
THE SALVATION ARMY, HONG KONG AND MACAU COMMAND GENERAL FUND

- continued

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31st March, 2009 and of the Fund's deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18th February, 2010

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST MARCH, 2009

	<u>NOTE</u>	<u>2009</u> HK\$	<u>2008</u> HK\$
INCOME			
Donations			
- The Community Chest of Hong Kong		246,700	246,700
- Others		37,277,847	49,330,856
Dividend income		1,515,979	1,886,436
Interest income		5,469,323	6,808,896
Increase in fair value of investments held for trading		-	13,051,003
Department sundry income		997,710	1,620,231
Management fee income		572,759	759,148
Hostel income		12,719,380	13,926,632
Recycle programme income		45,414,037	37,814,473
Sundry income		2,207,543	7,387,859
		<u>106,421,278</u>	<u>132,832,234</u>
EXPENDITURE			
Staff costs	7	32,127,178	26,446,711
Operating lease rentals - land and buildings		4,487,413	3,039,304
Rentals paid to Property Fund		2,277,847	1,993,116
Auditor's remuneration		101,851	4,107
Decrease in fair value of investments held for trading		36,570,419	-
Interest expenses		246,543	376,995
Programs, administration and others		59,285,855	71,053,271
		<u>135,097,106</u>	<u>102,913,504</u>
(Deficit) surplus for the year		<u>(28,675,828)</u>	<u>29,918,730</u>

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

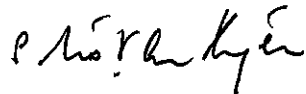
BALANCE SHEET
AS AT 31ST MARCH, 2009

	<u>NOTES</u>	<u>2009</u> HK\$	<u>2008</u> HK\$
Non-current assets			
Property, plant and equipment	9	8,612,263	8,299,572
Held-to-maturity investments	10	10,000,000	-
Certificate of deposits		-	2,000,000
		<u>18,612,263</u>	<u>10,299,572</u>
Current assets			
Accounts receivable, deposits and prepayments	11	3,705,056	3,592,961
Amount due from Trade Fund	12	672,070	618,412
Amount due from related party	12	777,924	346,958
Certificate of deposits		2,000,000	-
Investments held for trading	13	102,604,138	136,758,495
Bank balances and cash		210,777,875	131,072,216
		<u>320,537,063</u>	<u>272,389,042</u>
Current liabilities			
Accounts payable and accrued charges		1,194,256	1,149,946
Amounts due to Corps	12	9,692,997	9,099,561
Amount due to Divisional Headquarters	12	1,444,440	1,351,793
Amount due to Education Fund	12	51,656,511	40,398,359
Amount due to International Headquarters	12	338,167	919,494
Amount due to Property Fund	12	27,633,305	24,528,418
Amount due to Social Fund	12	26,891,721	28,179,992
Provision of unutilised annual leave		1,169,945	1,027,573
		<u>120,021,342</u>	<u>106,655,136</u>
Net current assets		<u>200,515,721</u>	<u>165,733,906</u>
Total assets less current liabilities		<u>219,127,984</u>	<u>176,033,478</u>
Non-current liabilities			
Deferred income	14	124,361,484	52,618,700
Obligation on defined benefits plan	15	7,315,000	7,528,000
Provision for long service payment		473,037	232,487
		<u>132,149,521</u>	<u>60,379,187</u>
Net assets		<u>86,978,463</u>	<u>115,654,291</u>

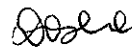
THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

	<u>2009</u> HK\$	<u>2008</u> HK\$
Represented by:		
Accumulated fund	15,900,127	45,253,884
Designated fund	62,466,073	48,051,860
Contributed fund	8,612,263	22,348,547
Total funds	<u>86,978,463</u>	<u>115,654,291</u>

The financial statements on pages 3 to 27 were approved by and authorised for issue by the Finance Council on 18th February, 2010 and are signed on its behalf by:



Lieut. Colonel Samuel Pho
Officer Commanding



Ms. Deirdre Ashe
Financial Administrator

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

STATEMENT OF CHANGES IN TOTAL FUNDS
FOR THE YEAR ENDED 31ST MARCH, 2009

	Accumulated <u>fund</u> HK\$	Designated <u>fund</u> HK\$	Contributed <u>fund</u> HK\$	<u>Total</u> HK\$
As at 1st April, 2007	11,769,837	48,989,723	24,976,001	85,735,561
Surplus for the year	29,918,730	-	-	29,918,730
Funds transfer	3,565,317	(937,863)	(2,627,454)	-
As at 31st March, 2008	45,253,884	48,051,860	22,348,547	115,654,291
Deficit for the year	(28,675,828)	-	-	(28,675,828)
Funds transfer	(677,929)	14,414,213	(13,736,284)	-
As at 31st March, 2009	<u>15,900,127</u>	<u>62,466,073</u>	<u>8,612,263</u>	<u>86,978,463</u>

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST MARCH, 2009

	<u>2009</u> HK\$	<u>2008</u> HK\$
Operating activities		
(Deficit) surplus for the year	(28,675,828)	29,918,730
Interest income	(5,469,323)	(6,808,896)
Interest expenses	246,543	376,995
Dividend income	(1,515,979)	(1,886,436)
Depreciation	3,773,571	2,495,639
Loss on disposal of property, plant and equipment	272,699	-
Decrease (increase) in fair value of investments held for trading	36,570,419	(13,051,003)
Provision (write-back of provision) of long service payments	240,550	(175,985)
Provision for unutilised annual leave	142,372	321,059
Operating cash flows before working capital changes	5,585,024	11,190,103
Increase in accounts receivable, deposits and prepayments	(112,095)	(853,224)
Increase in amount due from related party	(430,966)	(296,414)
Increase in amounts due to Corps	593,436	1,169,465
Increase in amounts due to Divisional Headquarters	92,647	446,872
(Decrease) increase in amounts due to International Headquarters	(581,327)	880,817
Increase in net amounts due to inter-funds	13,021,110	11,450,084
Decrease in obligation on defined benefits plan	(213,000)	(1,467,000)
Increase (decrease) in accounts payable and accrued charges	44,310	(995,876)
Increase (decrease) in deferred income	71,742,784	(443,884)
Cash generated from operations	89,741,923	21,080,943
Interest paid	(246,543)	(376,995)
Net cash generated from operating activities	89,495,380	20,703,948
Investing activities		
Increase in investments held for trading	(2,416,062)	(3,037,553)
Dividend received	1,515,979	1,886,436
Interest received	5,469,323	6,808,896
Purchase of held-to-maturity investments	(10,000,000)	-
Purchase of property, plant and equipment	(4,358,961)	(9,467,306)
Net cash used in investing activities	(9,789,721)	(3,809,527)
Net increase in cash and cash equivalents	79,705,659	16,894,421
Cash and cash equivalents at 1st April	131,072,216	114,177,795
Cash and cash equivalents at 31st March, representing bank balances and cash	210,777,875	131,072,216

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2009

1. GENERAL

The Salvation Army is an international religious and charitable movement organised and operated on a military pattern. The Salvation Army, Hong Kong and Macau Command (the "Army") is responsible for all administrative matters of the Salvation Army in Hong Kong and Macau and, accordingly, the financial statements included only the financial results of the Hong Kong and Macau operations.

The daily administration of the Army is coordinated by the Command Headquarters (the "CHQ") staffed by Army officers and supporting personnel. The operations of the CHQ are reported under the "General Fund". The General Fund operates a travellers' lodge which is located in the CHQ building. The Army operates family stores selling donated items to the public for revenue. The Army has certain surplus cash balances which are drawn from its operating funds and pooled for investment in fixed deposits and quoted investments through investment managers. These investments are administered and included under the General Fund. These operations are also reported under the General Fund.

The Army also operates Property Fund, Trade Fund, Social Fund and Education Fund. These funds are reported in separate financial statements.

Moreover, the Army also operates The Salvation Army Corps (the "Corps"), which are established for religious purposes and their major activities include organising religious meetings and fellowship. The activities of the Corps are not included in the financial statements.

In Hong Kong, the work of the Army is assisted by an Advisory Board and supporting committees whose members are drawn from the private, commercial and government sectors. Both the Advisory Board and the supporting committees conduct regular meetings to discuss matters of administration and progress of social work and community programs. Members of the Advisory Board and the supporting committees are not remunerated to their services.

Daily operation of the Army is guided by a Finance Council whose members are the officers or staff of the Army. The Finance Council is in turn supported by a range of expenditure boards, including the General Maintenance Expenditure Board. Some of the Finance Council members and General Maintenance Expenditure Board members receive accommodation and use of motor vehicles of the Army as part of their officership in accordance with the established Salvation Army guidelines. No additional remuneration is received by these officers for acting in their capacity as board members.

The financial statements of the Army is presented in Hong Kong dollars which is also the functional currency of the Army.

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

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Fund has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs"), amendments, or interpretations ("INTs") (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for the Fund's accounting periods beginning 1st April, 2008. The adoption of the new HKFRSs has no material effect on how the results and financial position for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The Fund has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 1 (Revised)	Presentation of financial statements ³
HKAS 23 (Revised)	Borrowing costs ³
HKAS 24 (Revised)	Related party disclosure ⁴
HKAS 27 (Revised)	Consolidated and separate financial statements ⁵
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ³
HKAS 32 (Amendment)	Classification of right issues ⁶
HKAS 39 (Amendment)	Eligible hedge items ⁵
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ³
HKFRS 2 (Amendment)	Vesting conditions and cancellations ³
HKFRS 2 (Amendment)	Group cash settled share-based payment transactions ⁷
HKFRS 3 (Revised)	Business combinations ⁵
HKFRS 7 (Amendment)	Improving disclosures about financial instruments ³
HKFRS 8	Operating segments ³
HKFRS 9	Financial instrument ⁸
HK(IFRIC) - INT 9 & HKAS 39 (Amendments)	Embedded derivatives ⁹
HK(IFRIC) - INT 13	Customer loyalty programmes ¹⁰
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement ⁴
HK(IFRIC) - INT 15	Agreements for the construction of real estate ³
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation ¹¹
HK(IFRIC) - INT 17	Distribution of non-cash assets to owners ⁵
HK(IFRIC) - INT 18	Transfer of assets from customers ¹²
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ¹³

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS - continued

- ¹ Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.
- ² Effective for annual periods beginning on or after 1st January, 2009, 1st July, 2009 and 1st January, 2010, as appropriate.
- ³ Effective for annual periods beginning on or after 1st January, 2009.
- ⁴ Effective for annual periods beginning on or after 1st January, 2011.
- ⁵ Effective for annual periods beginning on or after 1st July, 2009.
- ⁶ Effective for annual periods beginning on or after 1st February, 2010.
- ⁷ Effective for annual periods beginning on or after 1st January, 2010.
- ⁸ Effective for annual periods beginning on or after 1st January, 2013.
- ⁹ Effective for annual periods ending on or after 30 June 2009.
- ¹⁰ Effective for annual periods beginning on or after 1st July, 2008.
- ¹¹ Effective for annual periods beginning on or after 1st October, 2008.
- ¹² Effective for transfer of assets from customers received on or after 1st July, 2009.
- ¹³ Effective for annual periods beginning on or after 1st July, 2010.

* IFRIC represents the International Financial Reporting Interpretations Committee.

The Finance Council members anticipate that the application of above new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values.

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA.

Revenue recognition

Donations from third parties which are earmarked for specific purposes, are initially recognised as deferred income and then they are recognised in the income and expenditure account over the period necessary to match with the related costs which they are intended to compensate.

Donations for general purposes are dealt with in the income and expenditure account when the right to receive payment is established.

Revenue from the sale of goods at family stores (including donated materials) is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Income from travellers' lodge operation is recognised upon rendering of services.

Dividends income is recognised when the rights to receive payment have been established.

Management fee is recognised when the services is rendered.

Interest income is recognised on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Donated materials and services

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

Deferred income

Funds under deferred income are established from donations from third parties and are subject to a restriction imposed by the donor as to the objects upon which, or the area in which, the Army may be spent. Any unspent amounts are not required to be refunded to the donors. The unspent amounts for those completed projects are recognised in the income and expenditure accounts as donation income to the Army for general and specific purpose upon the approval from identifiable donors or the Finance Council for those unidentifiable donors. The revenue recognition policy is set out in policy above.

Designated funds

Designated funds are funds set aside by the Army for designated purposes. The income and expenditure relating to these funds are directly dealt with in the income and expenditure account. Any net surpluses or deficits relating to these funds are transferred from the income and expenditure account to these funds.

Translation of foreign currencies

Transactions in currencies other than the functional currency of the Army (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the Army operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income and expenditure account in the year in which the item is derecognised.

Depreciation is provided to write off the cost of other property, plant and equipment, using the straight line method, over their estimated useful lives of:

Furniture, fixtures and equipment	25%
Computer equipment	33%
Leasehold improvement	Over the shorter of 5 years or the remaining lease term
Motor vehicles	25%

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment

At each balance sheet date, the Army reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Army becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Fund's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instrument that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Army's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income and expenditure account in the period in which they arise. The net gain or loss recognised in income and expenditure account excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including certificate of deposits, accounts receivable, amount due from Trade Fund, amount due from related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Bonds with fixed or determinable payments and fixed maturity debts where the Company has a positive intention and ability to held to maturity are classified as held-to-maturity investments. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, amount due from Trade Fund and amount due from related party, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When accounts receivable, amount due from Trade Fund and amounts due from related parties are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities

Financial liabilities issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

The Fund's financial liabilities, including accounts payable and amounts due to Corps, amount due to Divisional Headquarters, amount due to inter-funds and amount due to International Headquarters are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Fund has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in income and expenditure account.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits

Employee leave entitlements

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

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

Long service payments

Certain of the Army's employees have completed the required number of years of service to the Army in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Army is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Army to the balance sheet date.

Pension obligations

The Army operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Army has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defined an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Army pays fixed contributions into a separate entity. Under a defined contribution plan, the Army has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected until credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the present value of the defined benefit obligation are recognised in the income and expenditure account over the employees' expected average remaining working lives.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits - continued

Long service payments - continued

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Army pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Army has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION
UNCERTAINTY

In the process of applying the Army's accounting policies which are described in note 3, the Finance Council had made all reasonable judgements and no specific judgements had significant effect on the amounts recognised in the financial statements. All accounting policies are consistent with the Army's policies.

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2009</u> HK\$	<u>2008</u> HK\$
Financial assets		
Investments held for trading	102,604,138	136,758,495
Loans and receivables (including cash and cash equivalents)	226,428,104	136,471,259
Held-to-maturity investments	10,000,000	-
	<u>339,032,242</u>	<u>273,229,754</u>
Financial liabilities		
Other financial liabilities	<u>118,410,610</u>	<u>105,067,466</u>

Financial risk management objectives and policies

The Fund's major financial instruments include certificate of deposits, accounts receivable, amounts due from (to) inter-funds, amount due from related party, investments held for trading, bank balances and cash, accounts payable, amounts due to Corps, amount due to Divisional Headquarters and amount due to International Headquarters. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Fund's overall strategy remains unchanged from prior year.

Market risk

(i) Currency risk

The carrying amounts of the Fund's foreign currency denominated monetary assets and monetary liabilities, which include inter-company loans and receivables, at the reporting date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2009</u> HK\$	<u>2008</u> HK\$	<u>2009</u> HK\$	<u>2008</u> HK\$
British pounds ("GBP")	3,997,723	3,443,408	-	-
Japanese Yen ("JPY")	14,533,976	11,274,673	-	-
Euro	17,372,478	16,971,307	-	-
United States dollar ("US\$")	40,513,822	60,853,589	-	-
Others	1,072,782	6,700,569	-	-
	<u>63,480,781</u>	<u>99,183,546</u>	<u>-</u>	<u>-</u>

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(i) Currency risk - continued

The Fund currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the Finance Council members monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

Sensitivity analysis

The Fund is mainly exposed to currency of GBP, JPY, Euro and US\$.

Under the linked exchange rate system, the financial impact on exchange difference between Hong Kong dollars and US\$ will be immaterial and therefore no sensitivity analysis has been prepared.

The following table details the Fund's sensitivity to a 5% increase and decrease in GBP, JPY and Euro against the functional currency of the Fund. 5% is the sensitivity rate used when reporting foreign currency risk internally and represents Finance Council Members' assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates decrease in deficit for the year where GBP, JPY and Euro strengthen 5% against the functional currency of the Fund. For a 5% weakening of GBP, JPY and Euro against the functional currency of the Fund, there would be an equal and opposite impact on the profit for the year, and the balances below would be negative.

	<u>GBP Impact</u>		<u>JPY Impact</u>		<u>Euro Impact</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Decrease in deficit/ increase in surplus	<u>199,886</u>	<u>172,170</u>	<u>726,699</u>	<u>563,734</u>	<u>868,624</u>	<u>848,565</u>

In the opinion of Finance Council members, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Fund was exposed to cash flows interest rate risk through the impact of the rate changes amounts due to Crops which bears floating interest rate.

The Fund's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk - continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank deposits and amounts due to Crops, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was in deposit accounts or outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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

	<u>2009</u> HK\$	<u>2008</u> HK\$
Decrease in deficit for the year (2008: Increase in profit)	1,065,031	619,863

(iii) Other price risk

The Fund is exposed to equity price risk through its investments in listed equity securities and commodities. The Finance Council members manage this exposure by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% (2008: 5%) higher/lower, deficit for the year ended 31st March, 2009 would be decreased/increased by HK\$5,130,207 (2008: surplus for the year increased/decreased by HK\$6,837,925) as a result of the changes in fair value of investments held-for-trading.

In the opinion of Finance Council members, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure during the year.

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk

The Fund's principal financial assets are bank balances and cash, which represent the Fund's maximum exposure to credit risk in relation to financial assets.

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

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The Finance Council members consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Liquidity risk

Liquidity risk management

In the management of the liquidity risk, the Fund monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Fund's operations and mitigate the effects of fluctuations in cash flows.

The following table shows the details of the Fund's contractual maturity of the financial instruments.

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5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity and interest risk tables

	Effective <u>interest rate</u> %	Repayable <u>on demand</u> HK\$	1-3 <u>months</u> HK\$	Total undiscounted <u>cash flows</u> HK\$	Carrying <u>amounts</u> HK\$
2009					
Non-interest bearing					
Accounts payable	-	-	753,469	753,469	753,469
Amount due to International Headquarters	-	338,167	-	338,167	338,167
Amount due to Education Fund	-	51,656,511	-	51,656,511	51,656,511
Amount due to Divisional Headquarters	-	1,444,440	-	1,444,440	1,444,440
Amount due to Property Fund	-	27,633,305	-	27,633,305	27,633,305
Amount due to Social Fund	-	26,891,721	-	26,891,721	26,891,721
		107,964,144	753,469	108,717,613	108,717,613
Interest bearing					
Amounts due to Corps	1.58%	9,692,997	-	9,692,997	9,692,997
		117,657,141	753,469	118,410,610	118,410,610
2008					
Non-interest bearing					
Accounts payable	-	-	589,849	589,849	589,849
Amount due to International Headquarters	-	919,494	-	919,494	919,494
Amount due to Education Fund	-	40,398,359	-	40,398,359	40,398,359
Amount due to Divisional Headquarters	-	1,351,793	-	1,351,793	1,351,793
Amount due to Property Fund	-	24,528,418	-	24,528,418	24,528,418
Amount due to Social Fund	-	28,179,992	-	28,179,992	28,179,992
		95,378,056	589,849	95,967,905	95,967,905
Interest bearing					
Amounts due to Corps	3.14%	9,099,561	-	9,099,561	9,099,561
		104,477,617	589,849	105,067,466	105,067,466

6. TAXATION

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

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
GENERAL FUND

7. STAFF COSTS (INCLUDING FINANCE COUNCIL MEMBERS' EMOLUMENTS)

	<u>2009</u> HK\$	<u>2008</u> HK\$
Wages and salaries	28,414,651	24,312,052
Provision (write-back of provision) for long service payments	240,550	(175,986)
Provision for unutilised annual leave	142,372	321,059
Pension costs - defined contribution plans	1,650,605	1,434,586
Pension costs - defined benefits plan (note 15)	1,679,000	555,000
	<u>32,127,178</u>	<u>26,446,711</u>

8. FINANCE COUNCIL MEMBERS' EMOLUMENTS

	<u>2009</u> HK\$	<u>2008</u> HK\$
Fees	-	-
Other emoluments	849,145	864,157
	<u>849,145</u>	<u>864,157</u>

9. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold improvement</u> HK\$	<u>Furniture, fixtures and equipment</u> HK\$	<u>Computer equipment</u> HK\$	<u>Motor vehicles</u> HK\$	<u>Total</u> HK\$
COST					
At 1st April, 2007	588,545	429,560	105,265	1,099,698	2,223,068
Additions	8,667,596	384,536	27,980	387,194	9,467,306
At 31st March, 2008	9,256,141	814,096	133,245	1,486,892	11,690,374
Additions	3,023,187	391,092	290,806	653,876	4,358,961
Disposals	(316,601)	(32,580)	(5,050)	-	(354,231)
At 31st March, 2009	<u>11,962,727</u>	<u>1,172,608</u>	<u>419,001</u>	<u>2,140,768</u>	<u>15,695,104</u>
ACCUMULATED DEPRECIATION					
At 1st April, 2007	291,593	174,955	45,763	382,852	895,163
Charge for the year	1,874,184	203,284	46,448	371,723	2,495,639
At 31st March, 2008	2,165,777	378,239	92,211	754,575	3,390,802
Charge for the year	2,682,958	301,777	130,675	658,161	3,773,571
Eliminated on disposal	(63,321)	(14,845)	(3,366)	-	(81,532)
At 31st March, 2009	<u>4,785,414</u>	<u>665,171</u>	<u>219,520</u>	<u>1,412,736</u>	<u>7,082,841</u>
CARRYING VALUES					
At 31st March, 2009	<u>7,177,313</u>	<u>507,437</u>	<u>199,481</u>	<u>728,032</u>	<u>8,612,263</u>
At 31st March, 2008	<u>7,090,364</u>	<u>435,857</u>	<u>41,034</u>	<u>732,317</u>	<u>8,299,572</u>

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
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10. HELD-TO-MATURITY INVESTMENTS

	<u>2009</u> HK\$	<u>2008</u> HK\$
Quoted debt securities, at amortised cost	10,000,000	-

The amount represents the investments in quoted debt securities with coupon rate at 2.5% per annum and the maturity date will be on June 2010. Hence, it is classified as non-current.

11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	<u>2009</u> HK\$	<u>2008</u> HK\$
Accounts receivable	105,980	88,167
Deposits and prepayments	3,599,076	3,504,794
	<u>3,705,056</u>	<u>3,592,961</u>

The Fund allows an average credit period of 60 days to its customers. The following is an aged analysis of accounts receivables at the reporting date:

	<u>2009</u> HK\$	<u>2008</u> HK\$
0 - 60 days	91,866	80,761
> 61 days	14,114	7,406
	<u>105,980</u>	<u>88,167</u>

Included in the Fund's accounts receivable balance are debtors with aggregate carrying amount of HK\$7,062 (2008: HK\$7,000) which are past due as at the reporting date for which the Fund has not provided for impairment loss. The Fund does not hold any collateral over these balances.

12. AMOUNTS DUE FROM (TO) INTER-FUNDS/DIVISIONAL
HEADQUARTERS/INTERNATIONAL HEADQUARTERS/RELATED PARTY

The amounts are unsecured and with no fixed terms of repayment. Except for the following payable amounts which are interest bearing, the remaining balances are interest free.

	<u>Interest rates</u>	<u>2009</u> HK\$
Amounts due to Corps	1.19% to 1.98%	9,692,997
	<u>Interest rates</u>	<u>2008</u> HK\$
Amounts due to Corps	2.26% to 4.02%	9,099,561

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
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13. INVESTMENTS HELD FOR TRADING

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

	<u>2009</u> HK\$	<u>2008</u> HK\$
Debts securities		
- listed in Hong Kong	9,975,112	9,062,913
- listed overseas	53,131,862	40,955,650
Equity securities		
- listed in Hong Kong	11,014,746	32,478,618
- listed overseas	17,337,762	47,931,019
Money market funds	11,144,656	6,330,295
	<u>102,604,138</u>	<u>136,758,495</u>

14. DEFERRED INCOME

	<u>2009</u> HK\$	<u>2008</u> HK\$
As at 1st April	52,618,700	53,062,584
Amounts received during the year (Note)	100,953,802	39,421,803
Amounts utilised during the year	(29,211,018)	(39,865,687)
As at 31st March	<u>124,361,484</u>	<u>52,618,700</u>

Note: No flag day fund raising event was held during the year (2008: HK\$1,334,251).

None of the income was granted by the Hong Kong Jockey Club Charities Trust during the year (2008: HK\$1,427,000).

15. OBLIGATION ON DEFINED BENEFIT PLAN

The Army has a defined benefit plan which is established under trust with the assets of the funded plans are held independently of the Army assets in separate trustee administered funds. The Army's defined benefit plan is valued by qualified actuaries annually using the projected unit credit method. The defined benefit plan is valued by HSBC Life (International) Limited.

The amounts recognised in the balance sheet are determined as follows:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Present value of funded obligations	(63,657,000)	(48,718,000)
Fair value of plan assets	22,234,000	32,139,000
	<u>(41,423,000)</u>	<u>(16,579,000)</u>
Unrecognised actuarial loss	34,108,000	9,051,000
Liability in the balance sheet	<u>(7,315,000)</u>	<u>(7,528,000)</u>

THE SALVATION ARMY, HONG KONG AND MACAU COMMAND
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15. OBLIGATION ON DEFINED BENEFIT PLAN - continued

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

	<u>2009</u> HK\$	<u>2008</u> HK\$
Current service cost	2,389,000	1,409,000
Interest cost	1,317,000	1,352,000
Expected return on plan assets	(2,288,000)	(2,063,000)
Net actuarial loss (gain) recognised	261,000	(143,000)
Total expense, included in staff costs (note 7)	<u>1,679,000</u>	<u>555,000</u>

The actual loss on plan assets was HK\$11,004,000 (2008: return HK\$2,029,000).

Movements in the liability recognised in the balance sheet:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Beginning of the year	(7,528,000)	(8,995,000)
Expense as above	(1,679,000)	(555,000)
Contributions paid by employer, including administrative costs	1,892,000	2,022,000
	<u>(7,315,000)</u>	<u>(7,528,000)</u>

The principal actuarial assumptions used were as follows:

	<u>2009</u> %	<u>2008</u> %
Discount rate	2.00	2.73
Expected rate of return on plan assets	7.00	7.00
Expected rate of future salary increases	3.00	3.00

16. OPERATING LEASE COMMITMENT

As at the balance sheet date, the Army had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Within one year	4,068,517	3,256,136
In the second to fifth years inclusive	2,291,594	3,448,172
	<u>6,360,111</u>	<u>6,704,308</u>

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17. CONTINGENT LIABILITIES

At the balance sheet date, an amount of HK\$10,000 was provided by the Army's banker, guaranteed by the Army, in favour of The Registrar of Newspaper.

18. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the financial statements, during the year, the General Fund had the following transactions with other funds of the Army:

	<u>2009</u> HK\$	<u>2008</u> HK\$
Management fee income received from Divisional Headquarters	92,416	96,727
Management fee income received from inter-funds	480,343	471,436
Designated fund income received from Corps	1,054,608	1,004,387
Designated fund income received from inter-funds	119,089	141,327
Department sundry income received from Corps	48,372	42,538
Department sundry income from Divisional Headquarters	864	558
Designated fund income received from Divisional Headquarters	161,250	154,350
Department sundry income received from inter-funds	282,313	306,168
Rental expenses paid to an inter-fund	2,277,847	1,993,116
Programs, administration and other expenses (management fee) paid to an inter-fund	1,640,368	1,390,628
Interest expense paid to Corps	246,543	376,995
Programs, administration and other expenses (administration expense) paid to International Headquarters	210,915	203,016
Programs, administration and other expenses (contribution) paid to inter-funds	1,732,000	1,780,000
Programs, administration and other expenses (contribution) paid to Divisional Headquarters	560,000	16,000
Programs, administration and other expenses (reimbursement of utility and other expenses) to an inter-fund	<u>1,230,722</u>	<u>1,312,683</u>