



THE SALVATION ARMY
GENERAL FUND

Report and Financial Statements
For the year ended 31st March, 2011

THE SALVATION ARMY
GENERAL FUND

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2011

<u>CONTENTS</u>	<u>PAGE(S)</u>
INDEPENDENT AUDITOR'S REPORT	1 & 2
INCOME AND EXPENDITURE ACCOUNT	3
STATEMENT OF FINANCIAL POSITION	4 & 5
STATEMENT OF CHANGES IN TOTAL FUNDS	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8 - 27

INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF THE SALVATION ARMY GENERAL FUND

We have audited the financial statements of the General Fund (the "Fund") of The Salvation Army (the "Army") set out on pages 3 to 27, which comprise the statement of financial position as at 31st March, 2011, the income and expenditure account, statement of changes in total funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Finance Council Members' Responsibility for the Financial Statements

The Finance Council members are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the Finance Council members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the financial statements that give a true and fair view 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.

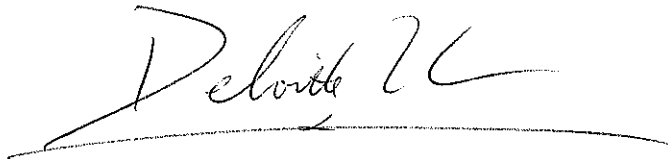
INDEPENDENT AUDITOR'S REPORT

TO THE FINANCE COUNCIL MEMBERS OF THE SALVATION ARMY
GENERAL FUND

- continued

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Fund's affairs as at 31st March, 2011 and of the Fund's surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

A handwritten signature in black ink, appearing to read "Deloitte TC", is written over a horizontal line.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9th December, 2011

THE SALVATION ARMY
GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST MARCH, 2011

	<u>NOTE</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
INCOME			
Donations			
- The Community Chest of Hong Kong		246,700	246,700
- Others		71,873,047	46,715,298
Dividend income		710,179	638,403
Interest income		1,494,987	3,623,740
Increase in fair value of investments held for trading		11,772,481	17,571,209
Department sundry income		881,756	1,012,352
Management fee income		342,742	327,415
Hostel income		13,450,331	9,725,666
Recycle programme income		59,174,256	50,773,336
Sundry income		2,730,313	2,400,817
		<u>162,676,792</u>	<u>133,034,936</u>
EXPENDITURE			
Staff costs	7	36,820,363	35,548,599
Operating lease rentals - land and buildings		6,545,639	4,939,992
Rentals paid to Property Fund		2,642,307	2,642,307
Auditor's remuneration		113,900	103,900
Interest expenses		536,743	259,245
Programs, administration and others		90,267,298	63,693,231
		<u>136,926,250</u>	<u>107,187,274</u>
Surplus for the year		<u>25,750,542</u>	<u>25,847,662</u>

THE SALVATION ARMY
GENERAL FUND

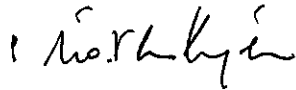
STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH, 2011

	<u>NOTES</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
Non-current assets			
Property, plant and equipment	9	4,480,517	5,733,995
Held-to-maturity investments	10	11,900,000	-
		<u>16,380,517</u>	<u>5,733,995</u>
Current assets			
Accounts receivable, deposits and prepayments	11	2,737,335	3,553,405
Amount due from Trade Fund	12	-	747,410
Amount due from a related party	12	656,908	346,958
Investments held for trading	13	134,287,946	122,340,760
Held-to-maturity investments	10	-	10,000,000
Bank balances and cash		220,689,612	223,466,768
		<u>358,371,801</u>	<u>360,455,301</u>
Current liabilities			
Accounts payable and accrued charges		1,797,727	1,212,174
Amounts due to Corps	12	11,155,379	10,576,580
Amounts due to Divisional Headquarters	12	250,551	1,430,234
Amount due to Education Fund	12	50,320,842	54,246,875
Amounts due to International Headquarters	12	471,881	595,413
Amount due to Property Fund	12	20,257,131	35,766,200
Amount due to Social Fund	12	6,480,758	18,145,948
Amount due to Trade Fund	12	98,052	-
Provision of unutilised annual leave		1,439,498	1,230,507
		<u>92,271,819</u>	<u>123,203,931</u>
Net current assets		<u>266,099,982</u>	<u>237,251,370</u>
Total assets less current liabilities		<u>282,480,499</u>	<u>242,985,365</u>
Non-current liabilities			
Deferred income	14	133,959,320	119,307,867
Obligation on defined benefits plan	15	9,770,000	10,576,000
Provision for long service payment		174,512	275,373
		<u>143,903,832</u>	<u>130,159,240</u>
Net assets		<u><u>138,576,667</u></u>	<u><u>112,826,125</u></u>

THE SALVATION ARMY
GENERAL FUND

	<u>2011</u> HK\$	<u>2010</u> HK\$
Represented by:		
Accumulated fund	24,445,431	28,015,536
Designated fund	109,650,719	79,076,594
Contributed fund	4,480,517	5,733,995
Total funds	<u>138,576,667</u>	<u>112,826,125</u>

The financial statements on pages 3 to 27 were approved by and authorised for issue by the Finance Council on 9th December, 2011 and are signed on its behalf by:



Lieut. Colonel Samuel Pho
Officer Commanding



Ms. Deirdre Ashe
Business Administrator

THE SALVATION ARMY
GENERAL FUND

STATEMENT OF CHANGES IN TOTAL FUNDS
FOR THE YEAR ENDED 31ST MARCH, 2011

	Accumulated <u>fund</u> HK\$	Designated <u>fund</u> HK\$	Contributed <u>fund</u> HK\$	<u>Total</u> HK\$
As at 1st April, 2009	15,900,127	62,466,073	8,612,263	86,978,463
Surplus for the year	25,847,662	-	-	25,847,662
Funds transfer	(13,732,253)	16,610,521	(2,878,268)	-
As at 31st March, 2010 and 1st April, 2010	28,015,536	79,076,594	5,733,995	112,826,125
Surplus for the year	25,750,542	-	-	25,750,542
Funds transfer	(29,320,647)	30,574,125	(1,253,478)	-
As at 31st March, 2011	24,445,431	109,650,719	4,480,517	138,576,667

THE SALVATION ARMY
GENERAL FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH, 2011

	<u>2011</u> HK\$	<u>2010</u> HK\$
Operating activities		
Surplus for the year	25,750,542	25,847,662
Interest income	(1,494,987)	(3,623,740)
Interest expenses	536,743	259,245
Dividend income	(710,179)	(638,403)
Depreciation	3,635,924	3,633,058
Increase in fair value of investments held for trading	(11,772,481)	(17,571,209)
Write-back of provision of long service payments	(100,861)	(197,664)
Provision for unutilised annual leave	208,991	60,562
	<hr/>	<hr/>
Operating cash flows before working capital changes	16,053,692	7,769,511
Decrease in accounts receivable, deposits and prepayments	816,070	151,651
(Increase) decrease in amount due from a related party	(309,950)	430,966
Increase in amounts due to Corps	578,799	883,583
Decrease in amounts due to Divisional Headquarters	(1,179,683)	(14,206)
(Decrease) increase in amounts due to International Headquarters	(123,532)	257,246
(Decrease) increase in net amounts due to inter-funds	(30,254,830)	1,902,146
(Decrease) increase in obligation on defined benefits plan	(806,000)	3,261,000
Increase in accounts payable and accrued charges	585,553	17,918
Increase (decrease) in deferred income	14,651,453	(5,053,617)
	<hr/>	<hr/>
Cash generated from operations	11,572	9,606,198
Interest paid	(536,743)	(259,245)
	<hr/>	<hr/>
Net cash (used in) generated from operating activities	(525,171)	9,346,953
Investing activities		
Increase in investments held for trading	(174,705)	(2,165,413)
Dividend received	710,179	638,403
Interest received	1,494,987	3,623,740
Purchase of held-to-maturity investments	(11,900,000)	-
Redemption of held-to-maturity investment	10,000,000	-
Redemption of certificate of deposits	-	2,000,000
Purchase of property, plant and equipment	(2,382,446)	(754,790)
	<hr/>	<hr/>
Net cash (used in) generated from investing activities	(2,251,985)	3,341,940
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(2,777,156)	12,688,893
Cash and cash equivalents at 1st April	223,466,768	210,777,875
	<hr/>	<hr/>
Cash and cash equivalents at 31st March, representing bank balances and cash	<u>220,689,612</u>	<u>223,466,768</u>

THE SALVATION ARMY
GENERAL FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2011

1. GENERAL

The Salvation Army is an international religious and charitable movement organised and operated on a military pattern. The Salvation Army (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 Army 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 and Macau, the work of the Army is assisted by an Advisory Board and supporting committees whose members are drawn from the private, commercial and government sectors. 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 Board. Some of the Finance Council members and General Maintenance 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 or staff for acting in their capacity as board members.

The financial statements of the General Fund (the "Fund") 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
GENERAL FUND

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s)

In the current year, the Fund has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 32 (Amendments)	Classification of rights issues
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HK(IFRIC*) - INT 17	Distributions of non-cash assets to owners
HK - INT 5	Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause

* IFRIC represents the IFRS Interpretations Committee (formerly known as the International Financial Reporting Interpretations Committee).

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 issued in 2010 ¹
HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets ³
HKFRS 9	Financial instruments ⁵
HKFRS 10	Consolidated financial statements ⁵
HKFRS 11	Joint arrangements ⁵
HKFRS 12	Disclosure of interests in other entities ⁵
HKFRS 13	Fair value measurement ⁵
HKAS 1 (Amendments)	Presentation of items of other comprehensive income ⁴
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ⁶
HKAS 19 (Revised 2011)	Employee Benefits ⁵
HKAS 24 (as revised in 2009)	Related party disclosures ⁷
HKAS 27 (Revised 2011)	Separate financial statements ⁵
HKAS 28 (Revised 2011)	Investments in associates and joint ventures ⁵
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement ⁷
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments ²
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine ³

¹ Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate.

² Effective for annual periods beginning on or after 1st July, 2010.

³ Effective for annual periods beginning on or after 1st July, 2011.

⁴ Effective for annual periods beginning on or after 1st July, 2012.

⁵ Effective for annual periods beginning on or after 1st January, 2013.

⁶ Effective for annual periods beginning on or after 1st January, 2012.

⁷ Effective for annual periods beginning on or after 1st January, 2011.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) - continued

HKFRS 9 "Financial instruments" (as issued in November 2009 and revised in November 2010) introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. This standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The management of the Fund of the Army anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the financial statements.

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 on initial recognition.

THE SALVATION ARMY
GENERAL FUND

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 account as donation income to the Fund 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.

Translation of foreign currencies

Transactions in currencies other than the functional currency of the Army (foreign currencies) are recorded in respective 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 the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that 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 income and expenditure account in the period in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss if any.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income and expenditure account.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, using the straight line method, over their estimated useful lives of:

Furniture, fixtures and equipment	4 years
Computer equipment	3 years
Leasehold improvement	Over the shorter of 5 years or the remaining lease term
Motor vehicles	4 years

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 statement of financial position 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 income and expenditure account) 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 income and expenditure account.

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 to the net carrying amount on initial recognition.

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.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement 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. Subsequent to initial recognition, loans and receivables (including accounts receivable, deposits, amount due from Trade Fund, amount due from a 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 Army's management has the positive intention and ability to hold to maturity. Bonds with fixed or determinable payments and fixed maturity debts where the Army has a positive intention and ability to held to maturity are classified as held-to-maturity investments. 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 the end of the reporting period. 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 affected.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as accounts receivables and amount due from a related party, 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 financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and amount due from a 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 amount due from a related party are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to income and expenditure account.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets - continued

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.

Financial liabilities

Financial liabilities 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, amounts due to Divisional Headquarters, amount due to inter-funds and amounts 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 total fund is recognised in income and expenditure account.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. 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 end of the reporting period.

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

Long service payments

Certain of the Fund's employees have completed the required number of years of service to the Fund 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 Fund 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 Fund to the end of the reporting period.

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 Fund 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 Fund pays fixed contributions into a separate entity. Under a defined contribution plan, the Fund 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 statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period 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 unit 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 statement of comprehensive income over the employees' expected average remaining working lives.

THE SALVATION ARMY
GENERAL FUND

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Employee benefits - continued

Pension obligations - 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 Fund pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Fund has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. 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.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2011</u> HK\$	<u>2010</u> HK\$
Financial assets		
Investments held for trading	134,287,946	122,340,760
Loans and receivables (including cash and cash equivalents)	223,776,360	226,419,669
Held-to-maturity investments	11,900,000	10,000,000
	<u>369,964,306</u>	<u>358,760,429</u>
Financial liabilities		
Other financial liabilities	90,105,508	121,336,392
	<u>90,105,508</u>	<u>121,336,392</u>

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Fund's major financial instruments include accounts receivable, deposits, amounts due from (to) inter-funds, amount due from a related party, investments held for trading, bank balances and cash, accounts payable, amounts due to Corps, amounts due to Divisional Headquarters and amounts 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>2011</u> HK\$	<u>2010</u> HK\$	<u>2011</u> HK\$	<u>2010</u> HK\$
British pounds ("GBP")	16,577,287	5,283,403	-	-
Japanese Yen ("JPY")	22,988,446	17,982,540	-	-
Euro	27,277,274	19,473,542	-	-
United States dollar ("US\$")	36,182,190	56,015,205	-	-
Others	29,119,798	3,611,390	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Fund currently does not have a foreign currency hedging policy to eliminate the currency exposures. However, the Finance Council members monitor 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.

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(i) Currency risk - continued

Sensitivity analysis - continued

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 increase in surplus 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 surplus for the year, and the balances below would be negative.

	<u>GBP Impact</u>		<u>JPY Impact</u>		<u>Euro Impact</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Increase in surplus	<u>828,864</u>	<u>264,170</u>	<u>1,149,422</u>	<u>899,127</u>	<u>1,363,864</u>	<u>973,677</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 Corps 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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank deposits and amounts due to Corps, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period 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.

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk - continued

Sensitivity analysis - continued

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Increase in surplus for the year	<u>1,106,713</u>	<u>1,064,047</u>

(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% (2010: 5%) higher/lower, surplus for the year ended 31st March, 2011 would be increased/decreased by HK\$6,714,397 (2010: surplus for the year increased/decreased by HK\$6,117,038) 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.

THE SALVATION ARMY
GENERAL FUND

5. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity and interest risk tables

	Effective interest rate %	Repayable on demand HK\$	1-3 months HK\$	Total undiscounted cash flows HK\$	Carrying amounts HK\$
2011					
Non-interest bearing					
Accounts payable	-	-	1,070,914	1,070,914	1,070,914
Amounts due to International Headquarters	-	471,881	-	471,881	471,881
Amount due to Education Fund	-	10,320,842	-	10,320,842	10,320,842
Amounts due to Divisional Headquarters	-	250,551	-	250,551	250,551
Amount due to Property Fund	-	257,131	-	257,131	257,131
Amount due to Social Fund	-	6,480,758	-	6,480,758	6,480,758
Amount due to Trade Fund	-	98,052	-	98,052	98,052
Amounts due to Corps	-	4,942	-	4,942	4,942
		17,884,157	1,070,914	18,955,071	18,955,071
Interest bearing					
Amount due to Education Fund	0.43%	40,000,000	-	40,000,000	40,000,000
Amount due to Property Fund	0.43%	20,000,000	-	20,000,000	20,000,000
Amounts due to Corps	2.56%	11,150,437	-	11,150,437	11,150,437
		89,034,594	1,070,914	90,105,508	90,105,508
2010					
Non-interest bearing					
Accounts payable	-	-	575,142	575,142	575,142
Amount due to International Headquarters	-	595,413	-	595,413	595,413
Amount due to Education Fund	-	54,246,875	-	54,246,875	54,246,875
Amount due to Divisional Headquarters	-	1,430,234	-	1,430,234	1,430,234
Amount due to Property Fund	-	35,766,200	-	35,766,200	35,766,200
Amount due to Social Fund	-	18,145,948	-	18,145,948	18,145,948
Amounts due to Corps	-	51,708	-	51,708	51,708
		110,236,378	575,142	110,811,520	110,811,520
Interest bearing					
Amounts due to Corps	2.50%	10,524,872	-	10,524,872	10,524,872
		120,761,250	575,142	121,336,392	121,336,392

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
GENERAL FUND

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Wages and salaries	32,495,725	28,847,240
Write-back of provision for long service payments	(100,861)	(197,664)
Provision for unutilised annual leave	208,991	60,562
Pension costs - defined contribution plans	1,788,508	1,650,461
Pension costs - defined benefits plan (note 15)	2,428,000	5,188,000
	<u>36,820,363</u>	<u>35,548,599</u>

8. FINANCE COUNCIL MEMBERS' EMOLUMENTS

	<u>2011</u> HK\$	<u>2010</u> HK\$
Fees	-	-
Other emoluments	774,510	762,061
	<u>774,510</u>	<u>762,061</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, 2009	11,962,727	1,172,608	419,001	2,140,768	15,695,104
Additions	537,875	184,801	32,114	-	754,790
Disposals	-	(74,604)	-	-	(74,604)
At 31st March, 2010	<u>12,500,602</u>	<u>1,282,805</u>	<u>451,115</u>	<u>2,140,768</u>	<u>16,375,290</u>
Additions	1,923,188	298,323	160,935	-	2,382,446
At 31st March, 2011	<u>14,423,790</u>	<u>1,581,128</u>	<u>612,050</u>	<u>2,140,768</u>	<u>18,757,736</u>
ACCUMULATED DEPRECIATION					
At 1st April, 2009	4,785,414	665,171	219,520	1,412,736	7,082,841
Charge for the year	2,811,591	280,952	113,250	427,265	3,633,058
Eliminated on disposal	-	(74,604)	-	-	(74,604)
At 31st March, 2010	<u>7,597,005</u>	<u>871,519</u>	<u>332,770</u>	<u>1,840,001</u>	<u>10,641,295</u>
Charge for the year	2,911,200	303,172	161,285	260,267	3,635,924
At 31st March, 2011	<u>10,508,205</u>	<u>1,174,691</u>	<u>494,055</u>	<u>2,100,268</u>	<u>14,277,219</u>
CARRYING VALUES					
At 31st March, 2011	<u>3,915,585</u>	<u>406,437</u>	<u>117,995</u>	<u>40,500</u>	<u>4,480,517</u>
At 31st March, 2010	<u>4,903,597</u>	<u>411,286</u>	<u>118,345</u>	<u>300,767</u>	<u>5,733,995</u>

THE SALVATION ARMY
GENERAL FUND

10. HELD-TO-MATURITY INVESTMENTS

	<u>2011</u> HK\$	<u>2010</u> HK\$
The quoted debt securities, at amortised cost are analysed for reporting purposes as:		
Non-current	11,900,000	-
Current	-	10,000,000
	<u>11,900,000</u>	<u>10,000,000</u>

The amount represents the investments in quoted debt securities with coupon rate at 2.1% per annum and the maturity date will be on 13th September, 2012. Hence, it is classified as non-current as at 31st March, 2011.

The amount represents the investments in quoted debt securities with coupon rate at 2.5% per annum and the maturity date will be on 21st June, 2010. Hence, it is classified as current as at 31st March, 2010.

11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	<u>2011</u> HK\$	<u>2010</u> HK\$
Accounts receivable	281,938	199,491
Deposits and prepayments	2,455,397	3,353,914
	<u>2,737,335</u>	<u>3,553,405</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>2011</u> HK\$	<u>2010</u> HK\$
0 - 60 days	178,245	192,851
> 61 days	103,693	6,640
	<u>281,938</u>	<u>199,491</u>

Included in the Fund's accounts receivable balance are debtors with aggregate carrying amount of HK\$104,000 (2010: 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.

THE SALVATION ARMY
GENERAL FUND

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

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

	<u>Interest rates</u>	<u>2011</u> HK\$
Amounts due to Corps	2.56%	11,150,437
Amount due to Education Fund	0.43%	40,000,000
Amount due to Property Fund	0.43%	<u>20,000,000</u>

	<u>Interest rates</u>	<u>2010</u> HK\$
Amounts due to Corps	2.50%	<u>10,524,872</u>

13. INVESTMENTS HELD FOR TRADING

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Debts securities		
- listed in Hong Kong	4,532,297	7,399,574
- listed overseas	76,354,663	64,056,309
Equity securities		
- listed in Hong Kong	10,150,376	8,576,907
- listed overseas	37,440,336	31,391,396
Derivatives/Hedges/Forwards	-	129,101
Money market funds	5,810,274	10,787,473
	<u>134,287,946</u>	<u>122,340,760</u>

14. DEFERRED INCOME

	<u>2011</u> HK\$	<u>2010</u> HK\$
As at 1st April	119,307,867	124,361,484
Amounts received during the year	78,897,106	31,950,803
Amounts utilised during the year	(64,245,653)	(37,004,420)
As at 31st March	<u>133,959,320</u>	<u>119,307,867</u>

THE SALVATION ARMY
GENERAL FUND

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 statement of financial position are determined as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Present value of funded obligations	(61,306,000)	(57,046,000)
Fair value of plan assets	37,956,000	32,955,000
	<u>(23,350,000)</u>	<u>(24,091,000)</u>
Unrecognised actuarial loss	12,998,000	12,875,000
Unrecognised past service cost	582,000	640,000
	<u>(9,770,000)</u>	<u>(10,576,000)</u>

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Current service cost	2,661,000	3,282,000
Interest cost	1,635,000	1,263,000
Expected return on plan assets	(2,374,000)	(1,587,000)
Past service cost	58,000	381,000
Net actuarial loss recognised	448,000	1,849,000
	<u>2,428,000</u>	<u>5,188,000</u>

The actual loss on plan assets was HK\$3,081,000 (2010: loss HK\$9,836,000).

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Beginning of the year	(10,576,000)	(7,315,000)
Expense as above	(2,428,000)	(5,188,000)
Contributions paid by employer, including administrative costs	3,234,000	1,927,000
	<u>(9,770,000)</u>	<u>(10,576,000)</u>

The principal actuarial assumptions used were as follows:

	<u>2011</u> %	<u>2010</u> %
Discount rate	2.90	2.90
Expected rate of return on plan assets	8.00	7.00
Expected rate of future salary increases	3.00	3.00

THE SALVATION ARMY
GENERAL FUND

16. OPERATING LEASE COMMITMENT

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Within one year	6,645,565	5,023,087
In the second to fifth years inclusive	6,810,399	2,529,662
	<u>13,455,964</u>	<u>7,552,749</u>

Leases are negotiated for an average of 2 years and rentals are fixed for an average of 2 years.

17. RELATED PARTY TRANSACTIONS

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

	<u>2011</u> HK\$	<u>2010</u> HK\$
Management fee income received from Divisional Headquarters and Corps	118,320	98,495
Management fee income received from inter-funds	224,422	228,921
Designated fund income received from inter-funds	473,062	64,300
Department sundry income from Divisional Headquarters and Corps	401,693	150,180
Designated fund income received from Divisional Headquarters and Corps	1,502,061	1,251,835
Department sundry income received from inter-funds	317,761	328,839
Rental expenses paid to an inter-fund	2,642,307	2,642,307
Property maintenance expense paid to an inter-fund	1,108,602	1,108,602
Programs, administration and other expenses (management fee) paid to an inter-fund	2,246,923	1,801,493
Interest expense paid to inter-funds	256,000	-
Interest expense paid to Corps	280,569	259,245
Programs, administration and other expenses (administration expense) paid to International Headquarters	172,430	154,604
Programs, administration and other expenses (contribution) paid to inter-funds	3,416,187	462,368
Programs, administration and other expenses (contribution) paid to Divisional Headquarters and Corps	2,762,331	1,748,000
Programs, administration and other expenses (reimbursement of utility and other expenses) to inter-funds	<u>828,160</u>	<u>703,131</u>