

Report of the Council Members and Audited Financial Statements

HONG KONG CHINESE ORCHESTRA LIMITED

香港中樂團有限公司

(Limited by Guarantee)

31 March 2020



HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONTENTS

	Pages
REPORT OF THE COUNCIL MEMBERS	1 - 6
INDEPENDENT AUDITOR'S REPORT	7 - 9
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of income and expenditure	10 - 11
Consolidated statement of comprehensive income	12
Consolidated statement of financial position	13 - 14
Consolidated statement of changes in equity	15
Consolidated statement of cash flows	16
Notes to financial statements	17 - 46

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

REPORT OF THE COUNCIL MEMBERS

The council members (the "Council Members") present their report and the audited financial statements of Hong Kong Chinese Orchestra Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2020.

Principal activities

With effect from 1 April 2001, the Company took over from Leisure and Cultural Services Department ("LCSD") of the Government of the Hong Kong Special Administrative Region ("the Government") the running of the Hong Kong Chinese Orchestra.

The Hong Kong Chinese Orchestra is the only professional Chinese orchestra in Hong Kong and one of the largest and most renowned of its type in the world. The Company and the Group present symphonic music based on traditional folk repertoires and full-scale contemporary compositions. The principal activities of the Company and of the Group consist of providing Chinese music programmes of different styles to blend the diverse artistic expressions and techniques of today with the traditional culture of China in interpretation of metropolitan life, as well as rendering promotion, education, research and development of traditional and modern Chinese music. There were no significant changes in the nature of the Group's principal activities during the year.

Results

The Group's surplus for the year ended 31 March 2020 and the Group's financial position at that date are set out in the financial statements on pages 10 to 46.

Council

The Council Members of the Company during the year and up to date of this report were:

Li Wai Keung	(elected as Chairman on 26 November 2019)
Chan Wai Kai	(elected as Vice Chairman on 26 November 2019)
Lai Hin Wing, Henry	(elected as Vice Chairman on 26 November 2019)
Chan Shum Yue, Bonnie	(elected as Treasurer on 26 November 2019)
Lu Hing Yiu, Bryant	(elected as Hon Secretary on 26 November 2019)
Wong Ka Lun	
Chan Wing Wah	
Chung Shu Kun, Christopher	
Ng Sau Kei, Wilfred	
Woo King Hang	
Liu Kam Hing	(elected on 26 November 2019)

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

REPORT OF THE COUNCIL MEMBERS

Council (continued)

The Council Members of the subsidiaries during the year and up to date of this report were:

Chan Shum Yue, Bonnie

Chan Wai Kai

Chan Wing Wah

Chung Shu Kun, Christopher

Lai Hin Wing, Henry

Li Wai Keung

Lu Hing Yiu, Bryant

Ng Sau Kei, Wilfred

Wong Ka Lun

Liu Kam Hing

(elected on 26 November 2019)

In accordance with article 50 of the Company's articles of association, the Chairman, Vice-Chairmen and Treasurer will retire from their respective offices and shall be eligible for re-election at the forthcoming annual general meeting.

Permitted indemnity provision

During the year ended 31 March 2020, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for indemnities against liabilities incurred by council members of the Company.

Council Members' interests

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Council Members to acquire benefits by means of the acquisition of debentures of the Company or any other body corporate.

Council Members' interests in transactions, arrangements or contracts

No Council Members had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party during the year.

Business review

Our business

The Group is committed to promoting Chinese music culture, with the provision of high-quality and wide-ranging Chinese music programmes as its core activities which include orchestral and ensemble concerts, educational activities, training courses, themed festivals, competitions, and research and development of musical instruments.

REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Such principal activities are reviewed under the following categories:

Regular concerts, outreach performances, hired engagements and festivals

To bring the colourful world of Chinese music to the public, the Company organises more than one hundred regular and outreach concerts a year as well as mass activities and themed festivals. To date, it has achieved three Guinness World Records in mass performance, and laid many milestones in the development of Chinese orchestral music. Notable examples are the Hong Kong Drum Festival, launched in 2003, and The International Conducting Competition for Chinese Music in 2011, both of which have become regular and keenly anticipated events on the local and international music scene.

Overseas tours

The Company has been invited to perform at various famous venues and international festivals around the world. It has contributed tremendously to cultural diplomacy and is widely acclaimed as a cultural ambassador of Hong Kong.

Art education

To nurture the growth of a new generation of music-makers and widen the audience base in Chinese music, the Company gives performances in schools and organises instrumental classes. The Hong Kong Children Chinese Orchestra and the Hong Kong Junior Chinese Orchestra were established in 2003. Educational projects have been organised in conjunction with radio and television stations as well as other institutions. The Company has been working in conjunction with the Hong Kong Academy for Performing Arts, the Music Office, the Hong Kong Arts Development Council, the Leisure and Cultural Services Department to provide opportunities for local artists, arts administrators through training, internship and commissioning of works.

Research and development

The Company has been dedicated to developing and conducting research on Chinese music, whether traditional or contemporary. It explores new frontiers in music through commissioning new works of various types and styles. Over the years, it has commissioned about 2,300 original compositions and arrangements, many of which have won awards at home and abroad.

In the constant search for excellence in Chinese music, the Group has put in long-term efforts for instrument research and development, and has developed a full range of *eco-huqins*. The expressiveness and performance of the *eco-huqin* series are an improvement over the traditional versions, as a result of which it has won many awards in China, including national awards, and elsewhere.

Records and publications

The Company has an extensive discography of over 60, which includes live recordings of its concerts and studio recordings in CD, VCD and DVD formats. Apart from collating and publishing papers presented at symposia and conferences, it has also published many books on Chinese music.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

REPORT OF THE COUNCIL MEMBERS

Business review (continued)
Financial review

Income

The total income of the Group was HK\$102.8 million (2019: HK\$99.4 million) for the year, of which HK\$78.0 million (2019: HK\$69.0 million) were subsidies from the Home Affairs Bureau of the Hong Kong Government, accounted for 75.9% of its total income. In addition, the Group received HK\$6.8 million (2019: HK\$4.8 million) from the Home Affairs Bureau of the Hong Kong Government, accounted for 6.6% of its total income under Art Development Matching Grants Pilot Scheme. The Group's box office income, and outbound cultural exchange activities income decreased by 61.4% and 59.4% respectively; at the same time the Group's outreach and other activities income, and donations and sponsorships decreased by 52.1% and increased by 9.8% respectively. Total earned income of the Group (excluding Government subsidies and Government grants included in other revenue) for the year decreased 34.4% to HK\$16.5 million (2019: HK\$25.2 million). The overall decrease in box office income, outbound cultural exchange activities and outreach activities were mainly due to the social events last year and the outbreak of COVID-19 since January 2020. We have cancelled more than 10 sessions of regular concerts and lost more than forty thousand expected audience. Our outreach activities were also highly affected. The number of actual audience reduced by forty-five thousand than expected.

Expenditure

The Group continues to exercise stringent control over its general expenditures. The total operating costs of the Group increased by 1.6% to HK\$96.2 million (2019: HK\$94.7 million) was mainly attributable to the increase in human resources cost in current year.

Surplus for the year

In conclusion of the analysis above, the Group recognised a surplus of HK\$6.7 million (2019: HK\$4.7 million) for the year.

Liquidity and financial resources

The Group funds its operation mainly through Government subvention, cash from operations and other self-financing activities. It has maintained a healthy liquid position for business development and adopted a prudent treasury policy. The total cash and bank deposits as at 31 March 2020 amounted to HK\$47.2 million (2019: HK\$34.1 million). The working capital (current assets less current liabilities) of the Group was HK\$28.6 million (2019: HK\$24.5 million). The Company will continue to place fixed deposits with its surplus cash with banks to maintain stable and safe investment returns.

Key performance indicators

A framework of Key Performance Indicators for a performing arts organisation should include both financial and non-financial data. Non-financial data to show intangible contribution is especially vital in this case due to the shorter history of the art form of Chinese orchestral music. The indicators involve creating innovative programmes, nurturing local young practitioners and commissioning of original compositions etc. Some indicators are listed below for reference:

	2020	2019
Average income from regular concerts per audience (Income from regular concerts/number of audiences)	HK\$124.8	HK\$182.6
Total local performing sessions (including local concerts and other performance activities)	157	183
Total overseas performing sessions	19	20

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Corporate relations with Government, sponsors, employees, customers and suppliers

As a non-profit-distributing organisation subvented by the Government, the Company strictly observes and follows the requirements and regulations laid down by the Government. In being accountable to the Government, sponsors and other stakeholders as to the specific use of funds, the Company seeks to disclose information through various channels such as annual reports and the Company's website, with a view to achieving a high level of transparency to offer the stakeholders and the public a clear and thorough understanding of the business.

The Group regards its employees as valuable assets and for this purpose, provides its staff with various channels in day-to-day operations to express their views and opinions related to work. The Council Chairman or Council Members meet with employees from time to time to listen to their opinions. An effective staff appraisal system is in place, which links compensation with team spirit, discipline, market trends, and Company and individual performance. For years, the Group has been supporting its staff's professional development by enrolling them in training courses, seminars or performances of other art groups so as to enhance their technical and practical knowledge.

In its continuous pursuit of improvement and enhancement of programmes, the Group proactively seeks feedback and views from the audience by inviting them to complete post-performance questionnaires. These are collated and evaluated to ensure that the Company will meet the highest professional and artistic standards.

The Group strives to maintain a fair and collaborative relationship with suppliers, and no major supplier has had an undue influence on its operations arising out of the nature of their business with the Group.

Corporate cultural, education and social responsibilities

The Company aims to enhance the quality of life of the public by presenting programmes that are well-balanced, diversified and abreast of the times. It reciprocates the support and encouragement of the community with innovative programming and artistic excellence that would please and delight the audience.

To assume an ambassadorial role for Chinese music culture, the Company has been actively promoting Chinese music by performing and giving educational workshops overseas. At its home base, its educational initiatives for the young include the establishment of the Hong Kong Junior Chinese Orchestra, instrumental training classes, touring concerts to schools and workshops, etc.

The Company launched the "*Music for Love*" scheme in 2005 with the purpose of allowing all members of the community to attend the Company's performances for free. Since then, many primary and secondary school students and underprivileged groups and families have had the opportunity to enjoy the beauty of Chinese music.

The Company is the first performing arts group to be awarded the "Ten Plus Caring Company" logo by the Hong Kong Council of Social Service in recognition of its continuous efforts in implementing corporate responsibility and contribution to social environment.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Compliance with laws and regulations

The Group has an internal control system in place to monitor on-going compliance with relevant laws and regulations. During the year, there was no instance of non-compliance with any relevant laws and regulations that the Group was aware of which might cause a significant impact.

Environmental policies and performances

The Group supports the protection of the environment by researching and developing the *Eco-Huqin* series, its uniqueness being its use of bio-degradable materials in place of python skin as used in traditional huqins. The value of the *Eco-Huqin* series is well recognised and acknowledged.

It is also the Group's ongoing concern to save energy, reduce waste and protect the environment during its day-to-day operations. A number of measures have been implemented for such purposes.

Principal risks and uncertainties

The general outlook of the Group is positive, but the following uncertainties may be worth considering and may cause concern.

Subvention by the Government

The major source of revenue of the Company is Government subvention. A change in the Government policy on subsidy will affect the operations of the Company.

Future development of the Group's business

The Group will continue to strive for artistic excellence, broaden its range of services to the community, and make Chinese orchestral music accessible to all by producing a good mix of innovative programmes. By working together, it hopes to create a more close-knit society, with music as an excellent bond.

Auditors

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

ON BEHALF OF THE COUNCIL



.....
Li Wai Keung
Chairman

Hong Kong
28 August 2020



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report

To the members of Hong Kong Chinese Orchestra Limited
(Incorporated in Hong Kong with limited liability by guarantee)

Opinion

We have audited the consolidated financial statements of Hong Kong Chinese Orchestra Limited (the "Company") and its subsidiaries (the "Group") set out on pages 10 to 46, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of income and expenditure, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The council members of the Company (the "Council Members") are responsible for the other information. The other information comprises the information included in the report of the Council Members.

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

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

Independent auditor's report (continued)

To the members of Hong Kong Chinese Orchestra Limited

(Incorporated in Hong Kong with limited liability by guarantee)

Responsibilities of the Council Members for the consolidated financial statements

The Council Members are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Council Members determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Council Members are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council Members either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Independent auditor's report (continued)
To the members of Hong Kong Chinese Orchestra Limited
(Incorporated in Hong Kong with limited liability by guarantee)

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

- Conclude on the appropriateness of the Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Certified Public Accountants
Hong Kong
28 August 2020

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE

Year ended 31 March 2020

	Notes	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
INCOME							
Income from concerts and other performances							
Box office income		2,706,584	-	2,706,584	7,003,934	-	7,003,934
Hired engagement income		617,000	-	617,000	981,400	-	981,400
Outbound cultural exchange activities income		2,831,235	-	2,831,235	6,969,132	-	6,969,132
Outreach and other activities income		137,500	-	137,500	287,350	-	287,350
Government subsidies							
Recurrent	4	78,008,394	-	78,008,394	69,043,133	-	69,043,133
Anti-epidemic fund	4	1,195,817	-	1,195,817	-	-	-
Art Development Matching Grants Scheme	4	6,760,601	-	6,760,601	4,815,735	-	4,815,735
Donations and sponsorships	5	8,361,797	4,542	8,366,339	7,615,517	700	7,616,217
Revenue from training courses		-	608,674	608,674	-	967,652	967,652
Other revenue	6	1,119,283	439,824	1,559,107	1,288,374	399,926	1,688,300
		<u>101,738,211</u>	<u>1,053,040</u>	<u>102,791,251</u>	<u>98,004,575</u>	<u>1,368,278</u>	<u>99,372,853</u>
EXPENDITURE							
Concert production costs	7	24,522,792	49,156	24,571,948	24,619,999	68,901	24,688,900
Payroll and related expenses	8	55,745,694	546,069	56,291,763	53,681,360	773,992	54,455,352
Marketing and fund raising expenses		8,876,681	27,252	8,903,933	9,275,413	20,873	9,296,286
Other operating expenses	9	5,658,741	371,483	6,030,224	5,886,428	335,048	6,221,476
Finance cost	10	339,077	22,525	361,602	-	-	-
		<u>95,142,985</u>	<u>1,016,485</u>	<u>96,159,470</u>	<u>93,463,200</u>	<u>1,198,814</u>	<u>94,662,014</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE (continued)

Year ended 31 March 2020

	Notes	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
SURPLUS BEFORE TAX	11	6,595,226	36,555	6,631,781	4,541,375	169,464	4,710,839
Income tax expense	13	-	-	-	-	-	-
SURPLUS FOR THE YEAR		<u>6,595,226</u>	<u>36,555</u>	<u>6,631,781</u>	<u>4,541,375</u>	<u>169,464</u>	<u>4,710,839</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2020

	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
SURPLUS FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,595,226	36,555	6,631,781	4,541,375	169,464	4,710,839

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2020

	Notes	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
NON CURRENT ASSETS							
Plant and equipment	14	1,368,375	-	1,368,375	1,508,730	-	1,508,730
Right-of-use assets	19(a)	5,150,911	311,616	5,462,527	-	-	-
Total non-current assets		6,519,286	311,616	6,830,902	1,508,730	-	1,508,730
CURRENT ASSETS							
Accounts receivable	15	950,649	-	950,649	3,284,867	-	3,284,867
Prepayments, deposits and other receivables	16	7,107,605	94,715	7,202,320	3,642,411	76,961	3,719,372
Cash and bank balances	17	39,289,048	7,870,353	47,159,401	26,223,730	7,858,039	34,081,769
Total current assets		47,347,302	7,965,068	55,312,370	33,151,008	7,935,000	41,086,008
CURRENT LIABILITIES							
Creditors and accrued liabilities	18	23,677,812	247,176	23,924,988	16,347,631	266,552	16,614,183
Lease liability	19(b)	2,573,212	226,260	2,799,472	-	-	-
Total current liabilities		26,251,024	473,436	26,724,460	16,347,631	266,552	16,614,183
NET CURRENT ASSETS		21,096,278	7,491,632	28,587,910	16,803,377	7,668,448	24,471,825
TOTAL ASSET LESS CURRENT LIABILITIES		27,615,564	7,803,248	35,418,812	18,312,107	7,668,448	25,980,555
NON-CURRENT LIABILITIES							
Lease liabilities	19(b)	2,708,231	98,245	2,806,476	-	-	-

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 March 2020

	Notes	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
NET ASSETS		<u>24,907,333</u>	<u>7,705,003</u>	<u>32,612,336</u>	<u>18,312,107</u>	<u>7,668,448</u>	<u>25,980,555</u>
RESERVES		<u>24,907,333</u>	<u>7,705,003</u>	<u>32,612,336</u>	<u>18,312,107</u>	<u>7,668,448</u>	<u>25,980,555</u>



.....
Li Wai Keung
Chairman



.....
Chan Wai Kai
Vice Chairman

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

	General Fund HK\$	Development Fund and subsidiaries HK\$	Total HK\$
At 1 April 2018	13,770,732	7,498,984	21,269,716
Total comprehensive income for the year	<u>4,541,375</u>	<u>169,464</u>	<u>4,710,839</u>
At 31 March 2019 and 1 April 2019	18,312,107	7,668,448	25,980,555
Total comprehensive income for the year	<u>6,595,226</u>	<u>36,555</u>	<u>6,631,781</u>
At 31 March 2020	<u>24,907,333</u>	<u>7,705,003</u>	<u>32,612,336</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2020

	Notes	2020 HK\$	2019 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus before tax		6,631,781	4,710,839
Adjustments for:			
Interest income	6	(405,183)	(299,383)
Depreciation of plant and equipment	9	814,039	870,977
Depreciation of right-of-use asset	9	2,795,419	-
Loss on disposal of items of plant and equipment	11	18,059	29,816
Finance cost	10	361,602	-
		<u>10,215,717</u>	<u>5,312,249</u>
Decrease in accounts receivable		2,334,218	352,214
Decrease/(increase) in prepayments, deposits and other receivables		(3,482,948)	1,860,674
Increase in creditors and accrued liabilities		<u>7,310,805</u>	<u>3,475,117</u>
Cash generated from operations		16,377,792	11,000,254
Interest elements of lease liability		(361,602)	-
Net cash flow from operating activities		<u>16,016,190</u>	<u>11,000,254</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		405,183	299,383
Purchases of items of plant and equipment	14	(691,743)	(870,294)
Net cash flows used in investing activities		<u>(286,560)</u>	<u>(570,911)</u>
CASH FLOWS FROM A FINANCING ACTIVITY			
Principal portion of lease payments and net cash flows used in a financing activity	21	(2,651,998)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,077,632	10,429,343
Cash and cash equivalents at beginning of year		<u>34,081,769</u>	<u>23,652,426</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>47,159,401</u>	<u>34,081,769</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	<u>47,159,401</u>	<u>34,081,769</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in Hong Kong on 7 February 2001 with limited liability by guarantee. The liability of the members is limited to HK\$100 per member.

The registered office of the Company is located at 7/F, Sheung Wan Municipal Services Building, 345 Queen's Road Central, Hong Kong.

During the year, the Group was involved in providing Chinese music programmes of different styles to blend the diverse artistic expressions and techniques of today with the traditional culture of China in interpretation of metropolitan life, as well as rendering promotion, education, research and development of traditional and modern Chinese music.

Pursuant to the government's approval on 14 August 2002, a Development Fund was set up for the funding of non-subsentved activities which fall outside the ambit of government subvention and will be used for organising events and activities to further promote Chinese music. The General Fund accounts for all government subsentved activities and the Development Fund accounts for all non-subsentved activities.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation and business	Issued ordinary share capital	Percentage of equity directly attributable to the Company		Principal activities
			2020	2019	
Hong Kong Children Chinese Orchestra Limited*	Hong Kong	HK\$2	100	100	Dormant
Hong Kong Junior Chinese Orchestra Limited*	Hong Kong	HK\$2	100	100	Dormant
Hong Kong Young Chinese Orchestra Limited*	Hong Kong	HK\$2	100	100	Dormant
HKCO Orchestral Academy Limited*	Hong Kong	HK\$1	100	100	Dormant
HKCO Artistic Research and Development Company Limited*	Hong Kong	HK\$1	100	100	Artistic research and development

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention and are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated under Development Fund from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group assets and liabilities, reserves, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the statement of income and expenditure. The Group's share of components previously recognised in other comprehensive income is reclassified to the statement of income and expenditure or reserves, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs, which are applicable to its operations, for the first time for the current year's financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above revised standard has had no significant financial effect on these financial statements.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17 whereby lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 has not had an impact on leases where the Group is the lessor.

For leases previously classified as operating leases applying HKAS 17 and HK(IFRIC)-Int 4 in which the Group is the lessee, the Group has applied HKFRS 16 retrospectively in accordance with the transitional provisions therein using the modified retrospective approach. Under this approach, the cumulative effect of initially applying HKFRS 16 was recognised as an adjustment to the opening balance of reserves at 1 April 2019 and the comparative information has not been restated and continued to be reported under HKAS 17. In addition, lease liabilities were recognised at 1 April 2019 and measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at that date and the corresponding right-of-use assets were measured at the same amount, adjusted by any prepaid or accrued lease payments recognised immediately before 1 April 2019.

The Group has elected to use the transitional practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 16 Leases (continued)

The adoption of HKFRS 16 on 1 April 2019 by the Group has given rise to additional lease liabilities of HK\$7,816,705 at 1 April 2019 with corresponding right-of-use assets of the same amount recognised. The adoption has had no impact on the Group's equity at 1 April 2019.

The weighted average incremental borrowing rate applied to the lease liabilities recognised at 1 April 2019 is 5.1%.

There is no significant difference between the amount of the operating lease commitments at 31 March 2019 disclosed applying the previous accounting standards, discounted using the incremental borrowing rate at 1 April 2019 and the amount of lease liabilities recognised in the statement of financial position at 1 April 2019.

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 is as follows:

	HK\$
Operating lease commitments as at 31 March 2019	8,449,600
Weighted average incremental borrowing rate as at 1 April 2019	<u>5.1%</u>
Discounted operating lease commitments and lease liabilities as at 1 April 2019	<u><u>7,816,705</u></u>

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied any of the new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group is in the process of making an assessment of the impact of the new and revised HKFRSs upon their initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's financial performance and financial position.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Impairment of non-financial assets

The Group assesses at the end of each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, the Group makes an estimate of the asset's recoverable amount.

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

An impairment loss is recognised in the statement of income and expenditure whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the statement of income and expenditure in the year in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment

Items of plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of income and expenditure in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Furniture and equipment	33 $\frac{1}{3}$ %
Musical instruments	25%
Computer equipment	33 $\frac{1}{3}$ %

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

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

Leases (applicable from 1 April 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

(a) Right-of-use assets

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

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 April 2019) (continued)

Group as a lessee (continued)

(a) Right-of-use assets (continued)

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

(b) Lease liabilities

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

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

Operating leases (applicable before 1 April 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of income and expenditure on the straight-line basis over the lease terms.

Foreign currency transactions

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of income and expenditure.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or the statement of income and expenditure is also recognised in other comprehensive income or the statement of income and expenditure, respectively).

Cash and cash equivalents

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

Financial assets

Accounts receivable, financial assets included in prepayment, deposits and other receivables, and cash and bank balances are classified as financial assets at amortised cost under HKFRS 9. All financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Group commits to purchase or sell the assets.

(a) Classification and measurement

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

(b) Impairment

The Group applies the expected credit loss model on all the financial assets that are subject to impairment, financial guarantee contracts, contract assets under HKFRS 15 and lease receivables under HKFRS 16. For accounts receivable and contract assets without a significant financial component, the Group applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in the following stages.

Stage 1 - Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 - Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(b) Impairment (continued)

Stage 3 - Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

The Group considers a default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(c) Derecognition

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

Financial liabilities

Financial liabilities include creditors and accrued liabilities and lease liability. They are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the statement of income and expenditure is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided using liability method, on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to be that which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Contributions from sponsors and donations

Contributions from sponsors and donations are recognised on a cash receipt basis or in the period as specified by the sponsor or donor.

Performance fee, income from concerts and other programmes

Revenue from performance, concerts and other programmes is recognised based on date of performance and concerts.

Training course income

Revenue from the provision of training course is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Revenue from the sale of goods or souvenirs is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods or souvenirs.

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

Membership fees is recognised over the subscription period.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfer control of the related goods or services to the customers).

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension scheme

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

Development Fund

Development Fund was established for the funding of non-subvented activities, which fall outside the ambit of government subvention. Development Fund raised funds from public by soliciting donations and organising Chinese music related events.

NOTES TO FINANCIAL STATEMENTS

31 March 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Key sources of estimation uncertainty and critical judgements in applying the Group's accounting policies which have a significant effect on the financial statements are set out below.

Revenue recognition

The Group applied judgements in determining the amount and timing of revenue. Management are required to exercise significant judgement in their view for completing the satisfaction of the performance obligations based on the past experience and specific circumstances.

Provision for expected credit losses on accounts receivable

The Group uses a provision matrix to calculate ECLs for accounts receivable. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type). The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's accounts receivable is disclosed in note 15 to the financial statements.

4. GOVERNMENT SUBSIDIES

(i) Recurrent subsidy

The Group's Government subsidies include recurrent subsidy of HK\$78,008,394 (2019: HK\$69,043,133) from the Government for providing Chinese musical programmes of different styles. There are no unfulfilled conditions or contingencies relating to these grants.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

4. GOVERNMENT SUBSIDIES (continued)

(ii) Supplementary subsidies under Anti-epidemic Fund

The Group's supplementary Government subsidies of HK\$1,195,817 were granted under Anti-epidemic Fund in 2020. Included in the consolidated statements of income and expenditure and financial position were the following items which were related to the Anti-epidemic Fund.

	2020 HK\$
Income	
Supplementary government subsidy	<u>1,195,817</u>
Expenditure	
Concert production costs	654,558
Marketing expenses	541,259
	<u>(1,195,817)</u>
Surplus for the year	<u><u>-</u></u>
	2020 HK\$
Deferred income - supplementary government subsidy	
At the beginning of the year	-
Received during the year	5,889,330
Released to the statement of income and expenditure	<u>(1,195,817)</u>
At the end of the year #	<u><u>4,693,513</u></u>

Amounts are included in "Creditors and accrued liabilities" on the face of the consolidated statement of financial position.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

4. GOVERNMENT SUBSIDIES (continued)

(iii) Supplementary subsidies under Contestable Funding Pilot Scheme

The Group's supplementary Government subsidies of HK\$99,986 under Contestable Funding Pilot Scheme (the "Scheme") for project "International Youth Chinese Music Festival" were refunded to the government in 2019.

	2019 HK\$
Deferred income - supplementary government subsidy	
At the beginning of the year	99,986
Refund to the Government	<u>(99,986)</u>
At the end of the year	<u><u>-</u></u>

(iv) Arts Development Matching Grants Scheme

The Group's supplementary government subsidy of HK\$6,760,601 (2019: HK\$4,815,735) is granted under Arts Development Matching Grants Scheme (the "Scheme") for the major Performing Arts Groups. Included in the consolidated statements of income and expenditure and financial position are the following items which are related to the Scheme.

	Matching Grants (including in General Fund)	
	2020 HK\$	2019 HK\$
Income		
Supplementary government subsidy	6,760,601	4,815,735
Interest income	11,494	-
	<u>6,772,095</u>	<u>4,815,735</u>
Expenditure		
Concert product cost	4,520,120	-
Marketing expenses	697,000	-
	<u>5,217,120</u>	<u>-</u>
Operating surplus	<u>1,554,975</u>	<u>4,815,735</u>
Reserves	<u>6,370,710</u>	<u>4,815,735</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

4. GOVERNMENT SUBSIDIES (continued)

(a) Disaggregated revenue information for revenue from contracts with customers

	2020 HK\$	2019 HK\$
Types of government subsidies		
Recurrent	78,008,394	69,043,133
Anti-epidemic Fund	1,195,817	-
Matching Grants	<u>6,760,601</u>	<u>4,815,735</u>
	<u>85,964,812</u>	<u>73,858,868</u>
Timing of revenue recognition		
Services transferred at a point in time	<u>85,964,812</u>	<u>73,858,868</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Government subsidies

The performance obligation is satisfied as performance is presented.

5. DONATIONS AND SPONSORSHIPS

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
Donations and sponsorships for designated concerts	6,520,000	-	6,520,000	6,253,400	-	6,253,400
The Hong Kong Jockey Club Charities Trust	1,721,956	-	1,721,956	1,246,363	-	1,246,363
Other donations and sponsorships (note)	<u>119,841</u>	<u>4,542</u>	<u>124,383</u>	<u>115,754</u>	<u>700</u>	<u>116,454</u>
	<u>8,361,797</u>	<u>4,542</u>	<u>8,366,339</u>	<u>7,615,517</u>	<u>700</u>	<u>7,616,217</u>

Note: The grant from the donation box income was Nil (2019: Nil) for the year.

	2020 HK\$	2019 HK\$
Timing of revenue recognition		
Services transferred at a point in time	4,966,339	4,216,217
Services transferred over time	<u>3,400,000</u>	<u>3,400,000</u>
	<u>8,366,339</u>	<u>7,616,217</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

6. OTHER REVENUE

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
Membership fees from "Friends of Hong Kong Chinese Orchestra"	19,100	-	19,100	25,350	-	25,350
Bank interest income	309,377	95,806	405,183	225,647	73,736	299,383
Sales of souvenirs	83,690	-	83,690	72,029	-	72,029
Other income (notes)	707,116	344,018	1,051,134	965,348	326,190	1,291,538
	<u>1,119,283</u>	<u>439,824</u>	<u>1,559,107</u>	<u>1,288,374</u>	<u>399,926</u>	<u>1,688,300</u>

Notes:

- (i) Included in the balance is a total grant of HK\$326,918 (2019: HK\$347,247) for the year from Leisure and Cultural Services Department ("LCSD") of the Government under trainee programmes of Venture Partnership Scheme.
- (ii) Excluded from the balance are management fee of HK\$25,500 (2019: HK\$24,500) and royalty fee of HK\$17,850 (2019: HK\$17,150) received by the Group from a subsidiary during the year. They are eliminated in full on consolidation.

7. CONCERT PRODUCTION COSTS

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
Honorariums to guest conductors, artists and soloists	6,111,987	-	6,111,987	7,338,221	-	7,338,221
Transportation of musical instruments	2,908,202	2,300	2,910,502	2,595,868	1,600	2,597,468
Venue rental for rehearsals and performances	1,328,440	-	1,328,440	2,482,158	-	2,482,158
Music scores, tapes and records	302,900	-	302,900	681,468	-	681,468
Other production costs	13,871,263	46,856	13,918,119	11,522,284	67,301	11,589,585
	<u>24,522,792</u>	<u>49,156</u>	<u>24,571,948</u>	<u>24,619,999</u>	<u>68,901</u>	<u>24,688,900</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

8. PAYROLL AND RELATED EXPENSES

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
Artistic						
Salaries	34,977,878	357,625	35,335,503	33,887,467	471,593	34,359,060
Benefits	5,582,885	-	5,582,885	5,320,292	-	5,320,292
Administration						
Salaries	12,708,668	180,119	12,888,787	11,055,716	287,231	11,342,947
Benefits	991,766	8,325	1,000,091	937,618	15,168	952,786
Staff welfare	1,484,497	-	1,484,497	2,480,267	-	2,480,267
	<u>55,745,694</u>	<u>546,069</u>	<u>56,291,763</u>	<u>53,681,360</u>	<u>773,992</u>	<u>54,455,352</u>

9. OTHER OPERATING EXPENSES

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
Rent and rates for office	124,900	-	124,900	2,704,400	219,600	2,924,000
Depreciation of plant and equipment	814,039	-	814,039	870,977	-	870,977
Depreciation of right-of-use assets	2,575,455	219,964	2,795,419	-	-	-
Printing, stationery and postage	247,019	-	247,019	234,113	138	234,251
Renovation and repairs	233,236	-	233,236	211,111	-	211,111
Other office expenses	1,528,165	151,519	1,679,684	1,727,366	115,310	1,842,676
Miscellaneous expenses	135,927	-	135,927	138,461	-	138,461
	<u>5,658,741</u>	<u>371,483</u>	<u>6,030,224</u>	<u>5,886,428</u>	<u>335,048</u>	<u>6,221,476</u>

10. FINANCE COST

	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
Interest on lease liabilities	<u>339,077</u>	<u>22,525</u>	<u>361,602</u>	<u>-</u>	<u>-</u>	<u>-</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

11. SURPLUS BEFORE TAX

The Group's surplus before tax is arrived at after charging:

	General Fund HK\$	Development Fund and subsidiaries HK\$	2020 Total HK\$	General Fund HK\$	Development Fund and subsidiaries HK\$	2019 Total HK\$
Auditors' remuneration	129,800	8,500	138,300	127,300	8,500	135,800
Loss on disposal of items of plant and equipment	18,059	-	18,059	29,816	-	29,816
Depreciation of plant and equipment	814,039	-	814,039	870,977	-	870,977
Depreciation of right-of-use assets	2,575,455	219,964	2,795,419	-	-	-
Operating lease rental on land and building	<u>1,328,440</u>	<u>-</u>	<u>1,328,440</u>	<u>5,062,158</u>	<u>219,600</u>	<u>5,281,758</u>

12. COUNCIL MEMBERS' REMUNERATION

No Council Members received or are going to receive any remuneration in respect of their services during the year (2019: Nil).

13. INCOME TAX

The Company exempted from all taxes under Section 88 of the Inland Revenue Ordinance. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil).

No provision for Hong Kong profits tax has been provided for its subsidiaries as they did not generate any assessable profits arising in Hong Kong during the year (2019: Nil).

There was no material unprovided deferred tax for its subsidiaries in respect of the year and as at the end of the reporting period (2019: Nil).

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

14. PLANT AND EQUIPMENT

	Furniture and equipment HK\$	Musical instruments HK\$	Computer equipment HK\$	Total HK\$
At 31 March 2020				
At 1 April 2019:				
Cost	4,767,179	4,939,949	1,260,601	10,967,729
Accumulated depreciation	<u>(4,444,208)</u>	<u>(4,261,406)</u>	<u>(753,385)</u>	<u>(9,458,999)</u>
Net carrying amount	<u>322,971</u>	<u>678,543</u>	<u>507,216</u>	<u>1,508,730</u>
At 1 April 2019, net of accumulated depreciation	322,971	678,543	507,216	1,508,730
Additions	421,335	169,970	100,438	691,743
Disposal	-	(18,059)	-	(18,059)
Depreciation provided during the year	<u>(212,293)</u>	<u>(361,642)</u>	<u>(240,104)</u>	<u>(814,039)</u>
At 31 March 2020, net of accumulated depreciation	<u>532,013</u>	<u>468,812</u>	<u>367,550</u>	<u>1,368,375</u>
At 31 March 2020:				
Cost	5,148,722	5,022,577	1,338,759	11,510,058
Accumulated depreciation	<u>(4,616,709)</u>	<u>(4,553,765)</u>	<u>(971,209)</u>	<u>(10,141,683)</u>
Net carrying amount	<u>532,013</u>	<u>468,812</u>	<u>367,550</u>	<u>1,368,375</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

14. PLANT AND EQUIPMENT (continued)

	Furniture and equipment HK\$	Musical instruments HK\$	Computer equipment HK\$	Total HK\$
At 31 March 2019				
At 1 April 2018:				
Cost	4,679,019	4,716,447	877,650	10,273,116
Accumulated depreciation	(4,230,011)	(3,884,117)	(619,759)	(8,733,887)
Net carrying amount	<u>449,008</u>	<u>832,330</u>	<u>257,891</u>	<u>1,539,229</u>
At 1 April 2018, net of accumulated depreciation	449,008	832,330	257,891	1,539,229
Additions	126,880	335,791	407,623	870,294
Disposal	-	(29,816)	-	(29,816)
Depreciation provided during the year	(252,917)	(459,762)	(158,298)	(870,977)
At 31 March 2019, net of accumulated depreciation	<u>322,971</u>	<u>678,543</u>	<u>507,216</u>	<u>1,508,730</u>
At 31 March 2019:				
Cost	4,767,179	4,939,949	1,260,601	10,967,729
Accumulated depreciation	(4,444,208)	(4,261,406)	(753,385)	(9,458,999)
Net carrying amount	<u>322,971</u>	<u>678,543</u>	<u>507,216</u>	<u>1,508,730</u>

15. ACCOUNTS RECEIVABLE

The Group's accounts receivable are receivables from Urban Ticketing System ("URBTIX") of LCSD on concert income, and receivables from its customers on performance fee and others. The sales of concert tickets are mainly conducted through URBTIX, and the Group receives the concert income from LCSD one to two months after the completion of the related concerts. The credit period offered to other customers is generally for a period of one to two months. The Group seeks to maintain strict control over their outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Accounts receivable are non-interest-bearing.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

15. ACCOUNTS RECEIVABLE (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, accounts receivable are written off if past due for more than one year and are not subject to enforcement activity. As at 31 March 2020 and 2019, the Group estimated that the expected loss rate of accounts receivable is minimal and no ECL allowance in respect of these balances is made.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 March 2020, the Group's deposits and other receivables were neither past due nor impaired (2019: Nil).

17. CASH AND BANK BALANCES

	2020 HK\$	2019 HK\$
Cash on hand and at banks	<u>47,159,401</u>	<u>34,081,769</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between two weeks and three months (2019: two weeks and three months) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

18. CREDITORS AND ACCRUED LIABILITIES

	Notes	2020 HK\$	2019 HK\$
Creditors	(a)	175,624	365,072
Accrued liabilities		15,558,707	13,216,990
Contract liabilities	(b)	<u>8,190,657</u>	<u>3,032,121</u>
		<u>23,924,988</u>	<u>16,614,183</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

18. CREDITORS AND ACCRUED LIABILITIES (continued)

Notes:

(a) Creditors are non-interest-bearing and are normally settled on 60-day terms.

(b) Details of contract liabilities as at 31 March 2020 and 2019 are as follows:

	31 March 2020 HK\$	31 March 2019 HK\$
Box office income received in advance	2,080,477	1,615,454
Sponsorships received in advance	1,416,667	1,416,667
Anti-epidemic Fund received in advance	4,693,513	-
	<u>8,190,657</u>	<u>3,032,121</u>

19. LEASE

The Group has lease contracts for offices used in its operations. Leases of offices has lease terms between two and three years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Offices HK\$
At 1 April 2019	7,816,705
Additions	441,241
Depreciation charge	<u>(2,795,419)</u>
As at 31 March 2020	<u>5,462,527</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

19. LEASE (continued)

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2020 HK\$
Carrying amount at 1 April 2019	7,816,705
New leases	441,241
Accrued interest	361,602
Payments	<u>(3,013,600)</u>
Carrying amount at 31 March 2020	<u>5,605,948</u>
Analysed into:	
Current	2,799,472
Non-current	<u>2,806,476</u>

(c) The amounts recognised in profit or loss in relation to lease are as follows:

	2020 HK\$
Interest on lease liabilities	361,602
Depreciation charge of right-of-use assets	<u>2,795,419</u>
Total amount recognised in profit or loss	<u>3,157,021</u>

(d) The total cash outflow for lease is disclosed in note 21(b), respectively, to the financial statements.

20. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Lease for these properties are negotiated for terms ranging from two to three years.

At 31 March 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2019 HK\$
Within one year	2,881,600
In the second to fifth years, inclusive	<u>5,568,000</u>
	<u>8,449,600</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

20. OPERATING LEASE ARRANGEMENTS (continued)

Upon adoption of HKFRS 16, the present value of future minimum lease payments, which are no longer disclosed as commitments as shown above, is recognised as right-of-use assets. The comparative information has not been restated.

21. NOTES TO STATEMENT OF CASH FLOW

(a) Changes in liabilities arising from financing activities

	Lease liabilities HK\$
At 31 March 2019	-
Effect of adoption of HKFRS 16	<u>7,816,705</u>
At 1 April 2019	7,816,705
Changes from financing cash flows	(2,651,998)
New leases	441,241
Interest expenses	361,602
Interest paid classified as operating cash flows	<u>(361,602)</u>
At 31 March 2020	<u><u>5,605,948</u></u>

(b) Total cash outflow for lease

The total cash outflow for lease included in the statement of cash flows is as follows:

	2020 HK\$
Within operating activities	361,602
Within financing activities	<u>2,651,998</u>
	<u><u>3,013,600</u></u>

22. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period, including the comparative information as at 31 March 2020, are as follows:

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

22. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

At the end of the reporting period, the financial assets of the Group only included the category of loan and receivables, which are as follows:

	2020 HK\$	2019 HK\$
Accounts receivable	950,649	3,284,867
Financial assets included in prepayments, deposits and other receivables	3,144,927	1,591,669
Cash and bank balances	47,159,401	34,081,769
	<u>51,254,977</u>	<u>38,958,305</u>

Financial liabilities

As at the end of the reporting period, the financial liabilities of the Group only included the category of financial liabilities at amortised cost, which are as follows:

	2020 HK\$	2019 HK\$
Financial liabilities included in creditors and accrued liabilities	3,935,801	2,154,527
Lease liabilities	5,605,948	-
	<u>9,541,749</u>	<u>2,154,527</u>

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Council Members review and agree policies for managing the risks as below.

Credit risk

All the Group's cash and bank balances are held in major financial institutions located in Hong Kong, which management believes are of high credit quality.

Maximum exposure and year-end staging

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

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 March 2020

	12-month	Lifetime ECLs			Total HK\$
	ECLs	Stage 2	Stage 3	Simplified	
	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	approach HK\$	
Accounts receivable*	-	-	-	950,649	950,649
Financial assets included in prepayments, deposits and other receivables					
- Normal**	3,144,927	-	-	-	3,144,927
Cash and bank balances					
- Not yet past due	47,159,401	-	-	-	47,159,401
Total	50,304,328	-	-	950,649	51,254,977

As at 31 March 2019

	12-month	Lifetime ECLs			Total HK\$
	ECLs	Stage 2	Stage 3	Simplified	
	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	approach HK\$	
Accounts receivable*	-	-	-	3,284,867	3,284,867
Financial assets included in prepayments, deposits and other receivables					
- Normal**	1,591,669	-	-	-	1,591,669
Cash and bank balances					
- Not yet past due	34,081,769	-	-	-	34,081,769
Total	35,673,438	-	-	3,284,867	38,958,305

* For accounts receivable to which the Group applies the simplified approach for impairment allowance is disclosed in note 15 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The maturity of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2020		Total HK\$
	Less than 12 months HK\$	1 to 5 years HK\$	
Creditors and accrued liabilities	3,935,801	-	3,935,801
Lease liabilities	3,021,600	2,883,000	5,904,600
	<u>6,957,401</u>	<u>2,883,000</u>	<u>9,840,401</u>
	2019		
	Less than 12 months HK\$	1 to 5 years HK\$	Total HK\$
Creditors and accrued liabilities	<u>2,154,527</u>	-	<u>2,154,527</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2020 and 2019.

The Group monitors capital using a current ratio, which is current assets divided by current liabilities. The Group's policy is to keep the current ratio above 1.

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
NON-CURRENT ASSETS						
Plant and equipment	1,368,375	-	1,368,375	1,508,730	-	1,508,730
Interests in subsidiaries	8	-	8	8	-	8
Right-of-use asset	5,150,911	-	5,150,911	-	-	-
Total non-current assets	<u>6,519,294</u>	<u>-</u>	<u>6,519,294</u>	<u>1,508,738</u>	<u>-</u>	<u>1,508,738</u>
CURRENT ASSETS						
Amount due from a subsidiary	-	365,432	365,432	-	210,933	210,933
Accounts receivable	950,649	-	950,649	3,284,867	-	3,284,867
Prepayments, deposits and other receivables	7,107,605	26,615	7,134,220	3,642,411	-	3,642,411
Cash and bank balances	40,041,538	7,114,019	47,155,557	26,932,870	7,145,055	34,077,925
Total current assets	<u>48,099,792</u>	<u>7,506,066</u>	<u>55,605,858</u>	<u>33,860,148</u>	<u>7,355,988</u>	<u>41,216,136</u>
CURRENT LIABILITIES						
Creditors and accrued liabilities	23,677,812	226,484	23,904,296	16,347,631	242,978	16,590,609
Lease liability	2,573,212	-	2,573,212	-	-	-
Total current liabilities	<u>26,251,024</u>	<u>226,484</u>	<u>26,477,508</u>	<u>16,347,631</u>	<u>242,978</u>	<u>16,590,609</u>

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (continued)

	General Fund HK\$	Development Fund HK\$	2020 Total HK\$	General Fund HK\$	Development Fund HK\$	2019 Total HK\$
NET CURRENT ASSETS	21,848,768	7,279,582	29,128,350	17,512,517	7,113,010	24,625,527
TOTAL ASSETS LESS NON-CURRENT LIABILITIES	28,368,062	7,279,582	35,647,644	19,021,255	7,113,010	26,134,265
NON-CURRENT LIABILITY Lease liability	2,708,231	-	2,708,231	-	-	-
NET ASSETS	25,659,831	7,279,582	32,939,413	19,021,255	7,113,010	26,134,265
RESERVES (note)	25,659,831	7,279,582	32,939,413	19,021,255	7,113,010	26,134,265



Li Wai Keung
Chairman



Chan Wai Kai
Vice Chairman

HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

NOTES TO FINANCIAL STATEMENTS

31 March 2020

24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	General Fund HK\$	Development Fund HK\$	Total HK\$
At 1 April 2018	14,438,233	6,879,514	21,317,747
Surplus for the year	<u>4,583,022</u>	<u>233,496</u>	<u>4,816,518</u>
At 31 March 2019 and 1 April 2019	19,021,255	7,113,010	26,134,265
Surplus for the year	<u>6,638,576</u>	<u>166,572</u>	<u>6,805,148</u>
At 31 March 2020	<u>25,659,831</u>	<u>7,279,582</u>	<u>32,939,413</u>

The ratio of General Fund's reserves balance net of accumulated donation and sponsorship income to the expenditures in the subvention period at 31 Mar 2020 and 2019 are as follows:

	2020 HK\$	2019 HK\$
RESERVES		
Accumulated surplus	25,659,831	19,021,255
Less: accumulated donation and sponsorship	<u>(68,805,698)</u>	<u>(60,443,901)</u>
	<u>(43,145,867)</u>	<u>(41,422,646)</u>
EXPENDITURE	<u>95,142,985</u>	<u>93,463,200</u>
Ratio	<u>-45.3%</u>	<u>-44.3%</u>

Pursuant to the agreement entered into with the Government, the Company may keep and carry forward a reserve after deducting the accumulated donation and sponsorship income of not more than 25% of the total expenditure. As at 31 March 2020 and 2019, the reserves carried forward after deducting the accumulated donation and sponsorship income are less than 25% of the total expenditures in the subvention period.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Council Members on 28 August 2020.