

FRIENDS OF HONG KONG CHARITIES, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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FRIENDS OF HONG KONG CHARITIES, INC.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Corporation is a non-profit organization organized and operated exclusively for charitable, religious, educational, and other purposes beneficial to social welfare.

CAPITAL STOCK

The Corporation is not organized for profit and has no authority to issue capital stock.

MEMBERS

The Corporation has members. The members are qualified and elected as provided in the Corporation's Bylaws.

RESULTS

The financial performance of the Corporation for the year ended 31 December 2016 and the financial position of the Corporation as at that date are set out in the financial statements on pages 4 to 10.

DIRECTORS

The directors who held office during the year were as follows:

David Kent Sutherland
James Christerson Glover
Andrew Michael Ostrognai
Howard Abe
Tobin Allyn Miller

In accordance with the Corporation's Bylaws, all directors shall retire but, being eligible, offer themselves for re-election.

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements or contracts of significance to which the Corporation was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN THE SHARES AND DEBENTURES OF THE CORPORATION OR ANY OTHER BODY CORPORATE

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

AUDITORS

Messrs. M.S.P. Shing & Co. now retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Chairman
Hong Kong, 1 Mar 2019



INDEPENDENT AUDITORS' REPORT

To the members of
Friends of Hong Kong Charities, Inc.
(incorporated in United States of America with limited liability)

OPINION

We have audited the financial statements of Friends of Hong Kong Charities, Inc. ("the Corporation") set out on pages 4 to 10, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation 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.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the report of the directors set out on page 1, but does not include the financial statements and our auditors' report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, the directors are responsible for assessing the Corporation'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 directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

M.S.P. SHING & CO.

Certified Public Accountants (Practising)

INDEPENDENT AUDITORS' REPORT – continued

To the members of
Friends of Hong Kong Charities, Inc.
(incorporated in United States of America with limited liability)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion 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. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.


M.S.P. SHING & CO.
Certified Public Accountants (Practising)
Hong Kong, 1 Mar 2019

FRIENDS OF HONG KONG CHARITIES, INC.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>2016</u> HK\$	<u>2015</u> HK\$
INCOME		
Offering	48,435,271.75	46,091,538.36
Interest income	27.08	17.57
Sundry income	<u>399.13</u>	<u>354,730.94</u>
	<u>48,435,697.96</u>	<u>46,446,286.87</u>
EXPENDITURE		
Auditors' remuneration	8,500.00	8,000.00
Bank charges	110.08	310.47
Exchange loss	581.32	651.72
Postage and delivery	575.00	315.00
Legal and professional fees	26,966.05	40,621.70
Management fee	240,000.00	240,000.00
Mission	48,435,271.75	46,091,639.06
Printing and stationery	-	300.00
Sundry expenses	15,141.00	-
Website expenses	<u>9,796.80</u>	<u>17,588.21</u>
	<u>48,736,942.00</u>	<u>46,399,426.16</u>
(DEFICIT)/SURPLUS FOR THE YEAR	(301,244.04)	46,860.71
Other comprehensive income	-	-
TOTAL COMPREHENSIVE (EXPENSES)/INCOME	<u>(301,244.04)</u>	<u>46,860.71</u>

The notes on pages 8 to 10 form an integral part of these financial statements.

FRIENDS OF HONG KONG CHARITIES, INC.

STATEMENT OF CHANGES IN ACCUMULATED SURPLUS/(DEFICIT)

FOR THE YEAR ENDED 31 DECEMBER 2016

	HK\$
At 31 December 2014	(39,435.44)
Total comprehensive income	<u>46,860.71</u>
At 31 December 2015	7,425.27
Total comprehensive (expenses)	<u>(301,244.04)</u>
At 31 December 2016	<u><u>(293,818.77)</u></u>

The notes on pages 8 to 10 form an integral part of these financial statements.

FRIENDS OF HONG KONG CHARITIES, INC.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	<u>2016</u> HK\$	<u>2015</u> HK\$
CURRENT ASSETS		
Accounts receivable	52,000.00	755,779.82
Cash at bank	<u>13,012,145.80</u>	<u>11,345,073.46</u>
	<u>13,064,145.80</u>	<u>12,100,853.28</u>
CURRENT LIABILITIES		
Accounts payable and accrued charges	<u>13,357,964.57</u>	<u>12,093,428.01</u>
NET (LIABILITIES)/ASSETS	<u>(293,818.77)</u>	<u>7,425.27</u>
Representing:		
ACCUMULATED (DEFICIT)/SURPLUS	<u>(293,818.77)</u>	<u>7,425.27</u>

Approved by the Board of Directors on 1 Mar 2019



Director



Director

The notes on pages 8 to 10 form an integral part of these financial statements.

FRIENDS OF HONG KONG CHARITIES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>2016</u> HK\$	<u>2015</u> HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit)/surplus for the year	(301,244.04)	46,860.71
Adjustment for:		
Interest income	<u>(27.08)</u>	<u>(17.57)</u>
Operating (deficit)/surplus before working capital changes	(301,271.12)	46,843.14
Decrease/(increase) in accounts receivable	703,779.82	(572,663.82)
Decrease in prepayments	-	1,871.70
Increase in accounts payable and accrued charges	<u>1,264,536.56</u>	<u>696,779.12</u>
Net cash inflow from operating activities	<u>1,667,045.26</u>	<u>172,830.14</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>27.08</u>	<u>17.57</u>
Net cash inflow from investing activities	<u>27.08</u>	<u>17.57</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,667,072.34	172,847.71
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,345,073.46</u>	<u>11,172,225.75</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>13,012,145.80</u>	<u>11,345,073.46</u>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash at bank	<u>13,012,145.80</u>	<u>11,345,073.46</u>

The notes on pages 8 to 10 form an integral part of these financial statements.

FRIENDS OF HONG KONG CHARITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES AND REGISTERED OFFICE

The Corporation was incorporated in the State of Delaware, United States of America with limited liability on 15 November 2002 with the registered office located at 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, U.S.A. and registered as an oversea company in Hong Kong on 30 May 2003 with the principal place of business located at 22/F., Siu On Building, 243-245 Des Voeux Road West, Hong Kong.

The Corporation is a non-profit organization organized and operated exclusively for charitable, religious, educational, and other purposes beneficial to social welfare.

2. PRINCIPAL ACCOUNTING POLICIES

a. Basis of preparation

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance.

The Corporation has not early applied the new HKFRSs that have been issued but are not yet effective. The directors anticipate that the application of these HKFRSs will have no material impact on the financial statements of the Corporation.

b. Income recognition

Offering income is accounted for on a cash basis. Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

c. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of the Corporation are measured using the currency of the primary environment in which the Corporation operates (the functional currency). The financial statements are presented in Hong Kong dollars, which is the Corporation's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated into Hong Kong dollars at the closing rate at the yearend date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. 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 determined. All exchange differences are dealt with in the statement of comprehensive income.

d. Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Corporation expects a provision to be reimbursed, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

FRIENDS OF HONG KONG CHARITIES, INC.

NOTES TO FINANCIAL STATEMENTS - continued

3. TAXATION

No provision for profits tax has been made in the financial statements because the Corporation is exempt from federal income tax under section 501(a) of the United States of America Internal Revenue Code as an organization described in section 501(c)(3) and all taxes payable under section 88 of the Hong Kong Inland Revenue Ordinance (Cap. 112).

4. DIRECTORS' REMUNERATION

No fees or other emoluments were paid or payable to the directors during the year ended 31 December 2016.

5. RELATED PARTY TRANSACTIONS

No director receives any fees or other emoluments for serving as a director.

There were no material transactions between the Corporation and its directors or parties related to the directors.

6. DISSOLUTION

In the event of the liquidation, dissolution, or winding up of the affairs of the Corporation, the directors of the Corporation shall transfer all of the assets of the Corporation in such manner as the directors, may by a majority vote determine, provided, however, that any such distribution of assets shall be calculated to carry out the objects and purposes of the Corporation; and, provided further, that all such distributions must be to one or more organizations (a) which are exempt from tax as organizations described in section 501(c)(3) of the United States of America Internal Revenue Code, and (b) contributions to which are deductible under the provisions of sections 170, 2055, and 2522 of the United States of America Internal Revenue Code.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation does not have written risk management policies and guidelines. However, the management meets periodically to analyse and formulate measures to manage the Corporation's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Corporation employs a conservative strategy regarding its risk management. As the directors consider that the Corporation's exposure to market risk is kept at a minimum level, the Corporation has not used any derivatives or other instruments for hedging purposes. The Corporation does not hold or issue derivative financial instruments for trading purposes.

The Corporation's principal financial instrument comprises cash at bank. The main purpose of this financial instrument is to raise finance for the Corporation's capital expenditure and operations. The Corporation has various other financial assets and liabilities such as accounts receivable and accounts payable and other payables, which arise directly from its operations.

a) Interest rate risk

As at the yearend date, the Corporation does not have any significant exposure to interest rate risk as the Corporation currently has no material financial assets or liabilities with floating rates.

b) Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through its business activities that are denominated in a currency other than the functional currency of the operations to which they relate. The Corporation has not used any forward currency contracts to eliminate the foreign currency exposures.

FRIENDS OF HONG KONG CHARITIES, INC.

NOTES TO FINANCIAL STATEMENTS - continued

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

c) Credit risk

The Corporation's bank balances are deposits with banks located in Hong Kong and do not have a significant exposure to credit risk. The Corporation's credit risk is primarily attributable to accounts receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

d) Liquidity risk

The management monitors and maintains a level of cash and cash equivalents considered adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows and considers that the Corporation's exposure to liquidity risk is insignificant.

e) Fair values

The fair values of the Corporation's financial assets and financial liabilities were not materially different from their carrying amounts as at the yearend date because of the immediate or short-term maturity of these financial instruments.

No quantitative disclosures are made for the Corporation's credit risk, liquidity risk and market risk because their exposure is not material. No sensitivity analysis for each type of market risk is made because the effect to the profit and equity as a result of the change in other relevant risk variables is not material.