

Directors' Report

Audited Financial Statements

Habitat For Humanity Hong Kong Limited

30 June 2018

Habitat For Humanity Hong Kong Limited

Directors' Report

The directors submit herewith their report and audited consolidated financial statements of Habitat For Humanity Hong Kong Limited (the "Association") for the year ended 30 June 2018.

Principal activities

The principal activities of the Association are developing communities with people in need by building and renovating houses, as well as promoting and developing specific regional programmes towards elimination of sub-standard housing and homelessness in the region. The activities of its subsidiaries are set out in note 7 to the consolidated financial statements.

Results and dividends

The results of the Association and its subsidiaries (together the "Group") for the year ended 30 June 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 6.

Directors

The directors who held office during the year or during the period from the end of the year to the date of this report were:

As a director of the Association and its subsidiaries

Lai Kam Cheung, Michael
Yam Tak Fai, Ronald
Richard Kevin Hathaway
Chen Darwin
Szeto Wing Fu Ricky
Wong Olivia Ka Ying
Castro Garcia Fernando Ernesto

In accordance with the Association's Articles of Association, all directors will retire and being eligible, will offer themselves for re-election.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Equity-linked agreements

No equity-linked agreements into which the Company entered subsisted at any time during the year.

Permitted indemnity provisions

No permitted indemnity provision was in force during the year or is in force at the date of this report, for the benefit of a then director or a director of the Company (whether made by the Company or otherwise) or a then director or a director of its headquarter or subsidiary (if made by the Company).

Habitat For Humanity Hong Kong Limited

Directors' Report

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Mazars CPA Limited, *Certified Public Accountants*, as the auditor of the Association.

Approved by the Board of Directors and signed on its behalf by



Director

Richard Kevin Hathaway

8 December 2018

Independent Auditor's Report

To the members of

Habitat For Humanity Hong Kong Limited

(incorporated in Hong Kong with liability limited by guarantee and not having a share capital)

Opinion

We have audited the consolidated financial statements of Habitat For Humanity Hong Kong Limited (the "Association") and its subsidiaries (together the "Group") set out on pages 6 to 28, which comprise the consolidated statement of financial position as at 30 June 2018, and 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 financial position of the Group as at 30 June 2018, and of its financial performance and 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 (the "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 ("HKSAs") 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.

Other Information

The directors of the Association are responsible for the other information. The other information comprises the directors' report.

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

To the members of

Habitat For Humanity Hong Kong Limited

(incorporated in Hong Kong with liability limited by guarantee and not having a share capital)

Responsibilities of Directors for the Consolidated Financial Statements

The directors of the Association 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 directors 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 directors 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 directors 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. This 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 judgment and maintain professional skepticism 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 directors.

Independent Auditor's Report

To the members of

Habitat For Humanity Hong Kong Limited

(incorporated in Hong Kong with liability limited by guarantee and not having a share capital)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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 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.

We communicate with the directors 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, 8 December 2018

The engagement director on the audit resulting in this independent auditor's report is:

Fung Shiu Hang

Practising Certificate number: P04793

Habitat For Humanity Hong Kong Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 30 June 2018

	<i>Note</i>	2018 <i>HK\$</i>	2017 <i>HK\$</i>
Revenue	<i>2</i>	26,472,944	20,618,996
Other revenue	<i>2</i>	62,556	27,913
Other income	<i>3</i>	928,004	425,707
Administrative expenses		(1,784,059)	(1,695,882)
Fund raising expense		(2,850,598)	(2,107,597)
Programme expenses		(20,957,475)	(15,840,595)
Surplus before tax	<i>4</i>	1,871,372	1,428,542
Income tax expense	<i>5</i>	(111,167)	(129,097)
Surplus for the year		1,760,205	1,299,445
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		1,760,205	1,299,445

Habitat For Humanity Hong Kong Limited

Consolidated Statement of Changes in Equity

Year ended 30 June 2018

	General fund HK\$
At 1 July 2016	4,955,037
Surplus for the year and total comprehensive income for the year	<u>1,299,445</u>
At 30 June 2017 and 1 July 2017	6,254,482
Surplus for the year and total comprehensive income for the year	<u>1,760,205</u>
At 30 June 2018	<u>8,014,687</u>


Habitat For Humanity Hong Kong Limited

Consolidated Statement of Financial Position

At 30 June 2018

	Note	2018 HK\$	2017 HK\$
Non-current assets			
Property, plant and equipment	6	<u>170,873</u>	<u>223,130</u>
Current assets			
Accounts and other receivables	8	5,476,760	4,674,269
Amount due from affiliate office	9	158,662	-
Bank balances and cash		<u>5,916,181</u>	<u>4,728,024</u>
		<u>11,551,603</u>	<u>9,402,293</u>
Current liabilities			
Accounts and other payables	10	3,170,689	2,745,391
Amount due to headquarter office	9	97,193	371,377
Amount due to affiliate offices	9	<u>439,907</u>	<u>254,173</u>
		<u>3,707,789</u>	<u>3,370,941</u>
Net current assets		<u>7,843,814</u>	<u>6,031,352</u>
NET ASSETS		<u><u>8,014,687</u></u>	<u><u>6,254,482</u></u>
Reserves			
General fund		<u>8,014,687</u>	<u>6,254,482</u>
TOTAL EQUITY		<u><u>8,014,687</u></u>	<u><u>6,254,482</u></u>

Approved and authorised for issue by the Board of Directors on 8 December 2018 and signed on its behalf by


 Director
 Richard Kevin Hathaway


 Director
 Yam Tak Fai, Ronald

Habitat For Humanity Hong Kong Limited

Consolidated Statement of Cash Flows

Year ended 30 June 2018

	2018 HK\$	2017 HK\$
OPERATING ACTIVITIES		
Surplus before tax	1,871,372	1,428,542
Depreciation	68,568	71,347
Interest income	(62,556)	(27,913)
Impairment loss on revolving loan receivables	533,387	276,000
Loss on disposal of property, plant and equipment	-	56
Changes in working capital:		
Accounts and other receivables	(1,494,540)	(624,078)
Accounts and other payables	336,848	(1,554,926)
Cash generated from (used in) operations	1,253,079	(430,972)
Tax paid	(111,167)	(129,097)
Net cash generated from (used in) operating activities	1,141,912	(560,069)
INVESTING ACTIVITIES		
Interest received	62,556	27,913
Purchase of property, plant and equipment	(16,311)	(29,101)
Net cash from (used in) investing activities	46,245	(1,188)
Net increase (decrease) in cash and cash equivalents	1,188,157	(561,257)
Cash and cash equivalents at beginning of year	4,728,024	5,289,281
Cash and cash equivalents at end of year, represented by bank balances and cash	5,916,181	4,728,024

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

CORPORATE INFORMATION

Habitat For Humanity Hong Kong Limited (the "Association") is a private company limited by guarantee and incorporated in Hong Kong. The Association's registered office is located at 23/F, Congregation House, No. 119, Leighton Road, Causeway Bay, Hong Kong.

Every member of the Association undertakes to contribute to the assets of the Association, in the event of its being wound up while he/she is a member, or within one year after he/she ceases to be a member, for payment of the debts and liabilities of the Association contracted before he/she ceases to be a member, and of the costs, charges and expenses of winding up, and for the adjustment of the rights of the contributories among themselves, such amount as may be required but not exceeding the sum of one hundred dollars.

The principal activities of the Association are developing communities with people in need by building and renovating houses, as well as promoting and developing specific regional programmes towards elimination of sub-standard housing and homelessness in the region, and the principal activities of its subsidiaries are detailed in note 7 to the consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

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

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements. The adoption of the new / revised HKFRSs that are relevant to the Group and effective from the current year had no significant effects on the results and financial position of the Group for the current and prior years. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of the new / revised HKFRSs

Amendments to HKAS 7: Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The adoption of the amendments did not have any impact on the financial statements.

Amendments to HKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of the amendments did not have any significant impact on the financial statements.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Association and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Association using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Association's statement of financial position, which is presented within these notes, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiary are accounted for by the Association on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. When parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and is depreciated separately:

Leasehold improvement	Over the unexpired term of lease
Furniture, fixtures and office equipment	5 years
Computer equipment	5 years

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

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

1) Loans and receivables

Loans and receivables including accounts and other receivables and bank balances and cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

2) Financial liabilities

The Group's financial liabilities include accounts and other payables. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Subsidy income is recognised when the Group's right to receive payment is established.

Fund raising income for general administration and designated project and administrative income for Project Global Village is recognised when the Group's right to receive payment is established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Association's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Association in an independently administered fund.

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Long service payments

The Association's net obligation in respect of long service payments under the Employment Ordinance is the amounts of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefits.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable income in those years. The estimate of future taxable income includes:

- (a) income or loss excluding reversals of temporary differences; and
- (b) reversals of existing temporary differences.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if 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 the parent of the Group.

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities 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. If the Group is itself such a plan, the sponsoring employers are also 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).
- (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.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Key sources of estimation uncertainty:

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. At the end of the reporting period, the carrying amount of receivables after provision for impairment amounted to HK\$5,097,634 (2017: HK\$4,293,327).

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRSs that are not yet effective for the current year, which the Company has not early adopted.

The directors are of the opinion that except for HKFRS 9 and 16 which are explained below, the adoption of the new / reviewed HKFRSs will not have any significant impact on the financial statements of the Company.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, hedge accounting and impairment requirements for financial assets. Key requirements of HKFRS 9 that are relevant to the Company are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value; and
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised

The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

Classification and measurement

The Company's other receivables and bank balances and cash are currently classified as receivables and measured at amortised cost. The Company does not expect the new guidance to affect the classification and measurement of these financial assets.

Impairment

In general, the directors of the Company anticipates that the application of the expected credit loss model of HKFRS 9 may result in earlier recognition of credit losses which are not yet incurred in relation to the Company's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Company. However, the directors expect the effect would not be significant.

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in HKFRSs (Continued)

HKFRS 16: Leases

HKFRS 16 significantly changes the lessee accounting by replacing the dual model under HKAS 17 with a single model which requires a lessee to recognise assets and liabilities for the rights and obligations created by leases unless the exemptions apply. Besides, among other changes, it requires enhanced disclosures to be provided by lessees and lessors. Based on the preliminary assessment, the management is of the opinion that the leases of certain properties by the Company which are currently classified as operating leases under HKAS 17 will trigger the recognition of right-of-use assets and lease liabilities in accordance with HKFRS 16. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively, of which the amount in total for each reporting period is not expected to be significantly different from the periodic operating lease expenses recognised under HKAS 17. Apart from the effects as outlined above, it is not expected that HKFRS 16 will have a material impact on the future financial position, financial performance and cash flows of the Company upon adoption.

As set out in Note 14, at 30 June 2018, the total future minimum lease payments under non-cancellable operating leases of the Company in respect of the office premise amounted to approximately HK\$1,940,670. The management of the Company does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Company's financial performance but it is expected that the Company has to separately recognise the interest expenses on the lease liabilities and the depreciation expense on the right-of-use assets, and that certain portion of the future minimum lease payments under the Company's operating leases will be required to be recognised in the Company's statements of financial position as right-of-use assets and lease liabilities. The Company will also be required to re-measure the lease liabilities upon the occurrence of certain events such as a change in the lease term and recognise the amount of the re-measurement of the lease liabilities as an adjustment to the right-of-use assets. In addition, payments for the principal portion of the lease liabilities will be presented within financing activities in the Company's statements of cash flows.

2. REVENUE

	2018 HK\$	2017 HK\$
Revenue		
Subsidy income	1,187,732	1,971,477
Fund raising income	21,403,612	15,437,811
Income from Project Global Village	3,881,600	3,209,708
	<u>26,472,944</u>	<u>20,618,996</u>
Other revenue		
Bank interest income	62,556	27,913
Total revenue	<u>26,535,500</u>	<u>20,646,909</u>

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

3. OTHER INCOME

	2018 HK\$	2017 HK\$
Exchange gain, net	74,973	-
Project construction cost recovery	770,061	421,107
Sundry income	82,970	4,600
	<u>928,004</u>	<u>425,707</u>

4. SURPLUS BEFORE TAX

This is stated after charging:

	2018 HK\$	2017 HK\$
Staff cost by nature:		
Salaries and allowances	6,315,374	5,488,719
Contributions to defined contribution plans	960,807	838,158
	<u>7,276,181</u>	<u>6,326,877</u>
Staff cost by function:		
Administrative expenses	1,216,969	1,479,535
Fund raising expense	2,122,798	1,026,206
Programme expenses	3,936,414	3,821,136
	<u>7,276,181</u>	<u>6,326,877</u>
Auditor's remuneration	83,400	81,000
Construction costs	3,230,391	2,728,841
Depreciation	68,568	71,347
Exchange (gain) loss, net	(74,973)	76,761
Operating lease payments on premises	1,469,921	1,139,764
Net impairment loss on revolving loan receivables (Note 8(a))	533,387	276,000
Loss on disposal of property, plant and equipment	-	56

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

5. TAXATION

	2018 HK\$	2017 HK\$
Mainland China Enterprise Income Tax:		
Current year	<u>111,167</u>	<u>129,097</u>

Hong Kong Profit Tax has not been provided as the Association is an approved charitable institution and is exempted from Hong Kong Tax under section 88 of the Hong Kong Inland Revenue Ordinance.

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the 'Bill') which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

Hong Kong Profits Tax has not been provided as the Group's Hong Kong subsidiary incurred a loss for taxation purposes (2017: Nil).

The income tax provision in respect of operations in Mainland China was calculated at the applicable tax rates at 25% on the estimated assessable profits of the Group's subsidiary arising from Mainland China calculated by means of the expenditure-plus method for the year based on existing legislation interpretations and practices in respect thereof.

	2018 HK\$	2017 HK\$
<i>Reconciliation of tax expense</i>		
Surplus before tax	<u>1,871,372</u>	<u>1,428,542</u>
Income tax at applicable tax rate of 8.25% (2017: 16.5%)	154,388	235,709
Tax exempt revenue	(154,275)	(220,480)
Utilization of previously unrecognized tax losses	-	(10,204)
Unrecognised temporary differences	(398)	(1,205)
Unrecognised tax losses	285	-
Others	-	(3,820)
Mainland China Enterprise Income Tax	<u>111,167</u>	<u>129,097</u>
Tax expense for the year	<u>111,167</u>	<u>129,097</u>

Deferred taxation has not been provided in the consolidated financial statements as the amount involved is insignificant at the end of the reporting period.

Habitat For Humanity Hong Kong Limited

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Year ended 30 June 2018

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$	Furniture, and fixtures HK\$	Computer equipment HK\$	Total HK\$
Reconciliation of carrying amount – year ended 30 June 2017				
At 1 July 2016	218,500	12,637	34,295	265,432
Addition	-	5,042	24,059	29,101
Depreciation	(46,000)	(4,481)	(20,866)	(71,347)
Disposals	-	(56)	-	(56)
At 30 June 2017	172,500	13,142	37,488	223,130
Reconciliation of carrying amount – year ended 30 June 2018				
At 1 July 2018	172,500	13,142	37,488	223,130
Addition	-	-	16,311	16,311
Depreciation	(46,000)	(4,078)	(18,490)	(68,568)
At 30 June 2018	126,500	9,064	35,309	170,873
At 30 June 2017				
Cost	230,000	66,237	299,156	595,393
Accumulated depreciation	(57,500)	(53,095)	(261,668)	(372,263)
Net carrying amount	172,500	13,142	37,488	223,130
At 30 June 2018				
Cost	230,000	63,965	268,738	562,703
Accumulated depreciation	(103,500)	(54,901)	(233,429)	(391,830)
Net carrying amount	126,500	9,064	35,309	170,873

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

7. INTERESTS IN A SUBSIDIARY

	2018 HK\$	2017 HK\$
Unlisted shares, at cost	<u>1</u>	<u>1</u>

At 30 June 2018, particulars of the subsidiaries are as follows:

Name of subsidiary	Principal place of business and place of incorporation	Class of shares held	Proportion of value of capital held by the Association		Principal activities
			<u>Directly</u>	<u>Indirectly</u>	
Habitat For Humanity Consultants Limited	People's Republic of China ("PRC") / Hong Kong	Ordinary share	100%	-	Providing consultancy and supportive services to the Group
援建房信息咨询(上海)有限公司	PRC	Registered capital	-	100%	Not yet commenced business

The subsidiary 援建房信息咨询(上海)有限公司 was incorporated on 23 July 2015. The registered capital will be fully paid up within 5 years from the date of incorporation. At the end of reporting period, no investment cost was paid and the Group had capital commitment of US\$350,000 for capital injection into the PRC subsidiary.

8. ACCOUNTS AND OTHER RECEIVABLES

	Note	2018 HK\$	2017 HK\$
Accounts receivables		<u>5,097,634</u>	<u>4,293,327</u>
Revolving loan receivables	8(a)	<u>1,921,094</u>	1,051,625
Less: Impairment for revolving loan receivables	8(a)	<u>(1,921,094)</u>	<u>(1,051,625)</u>
		-	-
Deposits and prepayment		<u>379,126</u>	<u>380,942</u>
		<u>5,476,760</u>	<u>4,674,269</u>

There were no past due nor impaired account receivables at the end of the reporting date. The Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired related to donors for whom there was no history of default and the management believes that the amounts are recoverable.

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8. ACCOUNTS AND OTHER RECEIVABLES (CONTINUED)

8(a) Revolving loan receivables

Revolving loans are made to village families located in rural areas with an aim to improve their living standard. They are unsecured, interest bearing of 2% and contained repayment terms that might be repayable after more than one year.

Revolving loan movement

	2018 HK\$	2017 HK\$
Balance at beginning of year	1,051,625	775,625
Increase during the year	711,341	276,000
Increase in prior years (<i>Note</i>)	336,082	-
Repayment	(177,954)	-
	<u>1,921,094</u>	<u>1,051,625</u>

Note: During the year, the Company became aware that loans of HK\$336,082 were not recorded as such in prior years but they were incorrectly charged to profit or loss directly. Such loan balances have been restated in the loan book in the current year.

Under HKAS 39, such revolving loans should have been recognised at amortised cost using the effective interest method and should be stated at fair value at the end of reporting period, and classified under non-current assets or current assets accordingly. Imputed interest should also be calculated and recorded in the accounts while the carrying amount would be subject to impairment assessment periodically. The Association adopted a policy to critically assess the impairment at initial recognition and recorded a full impairment loss whenever appropriate and, on this basis, the financial impact on calculating the amortised cost and imputed interest in accordance with HKAS 39 would be minimal.

During the year, revolving loans amounting to HK\$711,341 were lent to the borrowers. Accordingly, the impairment for revolving loan receivables has been increased by HK\$711,341 (2017: increased by HK\$276,000).

Impairment for revolving loan receivables

	2018 HK\$	2017 HK\$
Balance at beginning of year	1,051,625	775,625
Increase in impairment	711,341	276,000
Under-recorded impairment of prior years (<i>Note</i>)	336,082	-
Amount recovered	(177,954)	-
	<u>1,921,094</u>	<u>1,051,625</u>

Habitat For Humanity Hong Kong Limited

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Year ended 30 June 2018

9. AMOUNT DUE FROM (TO) HEADQUARTER OFFICE / AFFILIATE OFFICES

The amounts due are unsecured, interest-free and have no fixed repayment term.

10. ACCOUNTS AND OTHER PAYABLES

	2018 HK\$	2017 HK\$
Accounts payables	244,272	136,602
Accrued charges	235,174	435,739
Other payables	2,691,243	2,173,050
	<u>3,170,689</u>	<u>2,745,391</u>

11. RELATED PARTY TRANSACTIONS

In addition to the transactions / information disclosed elsewhere in these financial statements, during the year, the Group had the following significant transactions with its related parties.

Related party relationship	Nature of transaction	2018 HK\$	2017 HK\$
Headquarter of the Group	Subsidy income	1,187,732	1,971,477
	Administrative income for		
	Project Global Village	238,251	246,833
	Fund raising income for		
	designated project	2,169,752	1,994,416
	Management fee expenses	<u>675,792</u>	<u>430,272</u>
Other affiliates of the Group	Subsidy paid	<u>9,815,000</u>	<u>6,734,008</u>

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of bank balances. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as accounts and other receivables and accounts and other payables, which arise directly from its business activities.

Notes to the Financial Statements

Year ended 30 June 2018

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The main risk arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to these risks to a minimum. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risks

The Group's foreign currency exposures arise mainly from the exchange rate movement of United States Dollar ("US Dollar") and Renminbi ("RMB").

The Group considers the risk exposure to foreign currency fluctuation in US Dollar would be minimal as long as the Hong Kong dollar remains pegged to the US Dollar.

At the end of the reporting period, HK\$4,381,455 (2017: HK\$3,692,806) of accounts receivable and HK\$1,587,848 (2017: HK\$1,194,147) of bank balance were denominated in RMB. As at 30 June 2018, if the currency had strengthened/weakened by 5% (2017: 5%) against RMB with all other variables held constant, the Group's net surplus for the year would have been HK\$298,465 (2017: HK\$244,348) lower/higher, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated other receivables, bank balances and cash, and other payables and accrued charges.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to Group's exposure to currency risk for all financial instruments in existence at that date, and that all other variables remain constant. The stated changes in foreign currency represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period. the analysis is performed on the same basis for 2018.

Credit risk

The Group's credit risk is primarily attributable to bank balances, accounts receivables and revolving loan receivable. The related credit risk of the bank balances is considered limited because the counterparty is a reputable licensed bank in Hong Kong and PRC.

Management also closely monitors the outstanding accounts receivables and revolving loan receivable and reviews collectability of the borrower periodically.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Habitat For Humanity Hong Kong Limited

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Year ended 30 June 2018

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group manages to maintain its liquidity position at a prudent and adequate level. The directors monitor the cash flows daily to ensure sufficient funds available.

The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities at the end of reporting period, based on the earliest date on which the Group is required to settle are within one year or repayable on demand.

13. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard its ability to continue as a going concern for its charitable objectives. The Group principally relies on funding from donation received. No changes were made in the objectives, policies or processes during the year ended 30 June 2018 and 2017.

14. COMMITMENTS

Commitments under operating leases

The Group leases a number of properties under operating leases, which typically run for an initial period of 1 to 2 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	2018 HK\$	2017 HK\$
Within one year	1,181,749	585,360
In the second to fifth years inclusive	<u>758,921</u>	<u>253,820</u>
	<u>1,940,670</u>	<u>839,180</u>

Habitat For Humanity Hong Kong Limited

Notes to the Financial Statements

Year ended 30 June 2018

15. INFORMATION ABOUT THE BENEFITS OF DIRECTORS

The following disclosures are presented pursuant to section 383 of the Ordinance.

(a) Directors' emoluments

There is no directors' remuneration for the year (2017: *nil*).

(b) Loans, quasi-loans and other dealings in favour of directors

There are no loans, quasi-loans or other dealings in favour of the directors of the Association or headquarter that were entered into or subsisted during the year (2017: *nil*).

16. COMPARATIVE FIGURES

Conforming to current year's presentation, Mainland China Enterprise Income Tax of HK\$129,097 that was included in other operating expenses in prior years has been reclassified under income tax expense in statement of comprehensive income. The revised presentation reflects more appropriately the nature of these items. The reclassifications have no effect on the reported net financial position and results of the Group.

Conforming to current year's presentation, amount due to headquarter office of HK\$371,377 and amount due to affiliate offices of HK\$254,173 that were included in accounts and other payables in prior years have been reclassified under current liabilities items in statement of financial position. The revised presentation reflects more appropriately the nature of these items. The reclassifications have no effect on the reported net financial position and results of the Group.

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17. STATEMENT OF FINANCIAL POSITION OF THE ASSOCIATION

Pursuant to the Hong Kong Companies Ordinance, the statement of financial position of the Association and the movements in its reserves are set out below:

	2018 HK\$	2017 HK\$
Non-current assets		
Property, plant and equipment	160,273	212,692
Investment in a subsidiary	1	1
	<u>160,274</u>	<u>212,693</u>
Current assets		
Accounts and other receivables	5,432,863	4,586,879
Amount due from affiliate office	158,662	-
Amount due from a subsidiary	9,833	9,833
Bank balances and cash	5,829,615	4,556,371
	<u>11,430,973</u>	<u>9,153,083</u>
Current liabilities		
Accounts and other payables	2,744,403	2,361,655
Amount due to headquarter office	97,193	371,377
Amount due to affiliate offices	439,907	254,173
	<u>3,281,503</u>	<u>2,987,205</u>
Net current assets	<u>8,149,470</u>	<u>6,165,878</u>
NET ASSETS	<u>8,309,744</u>	<u>6,378,571</u>
Capital and reserves		
General funds	8,309,744	6,378,571
TOTAL EQUITY	<u>8,309,744</u>	<u>6,378,571</u>

Approved and authorised for issue by the Board of Directors on 8 December 2018 and signed on its behalf by


Director
Richard Kevin Hathaway


Director
Yam Tak Fai, Ronald

Habitat For Humanity Hong Kong Limited

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Year ended 30 June 2018

17. STATEMENT OF FINANCIAL POSITION OF THE ASSOCIATION (CONTINUED)

(a) Movements of reserves

	2018 <i>HK\$</i>	2017 <i>HK\$</i>
At beginning of the reporting period	6,378,571	5,678,962
Surplus for the year and total comprehensive income for the year	<u>1,931,173</u>	<u>699,609</u>
At end of the reporting period	<u><u>8,309,744</u></u>	<u><u>6,378,571</u></u>

