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Variety - The Children's Charity Hong Kong Limited

30 September 2020

Directors' Report

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 September 2020.

Principal place of business

The company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 6th floor, Wyndham Place, 40-44 Wyndham Street, Central, Hong Kong.

Principal activities

The company is a charitable institution limited by guarantee to provide assistance and support to children in Hong Kong who are physically, mentally, socially or economically disadvantaged.

Directors

The directors during the financial year and up to the date of the report were:

Hess, Donald James
Lam, Wai Man Virginia
Blurton, Daniel Stuart
Loughnan, Kenneth Vincent
Lam, Mei Ling May
Lam, Wai Yee
Kok, Chui Lai Joy
Yu, Wing Yee Monique
Mundy, Kirsten Dominica (appointed on 14 April 2020)
Chan, Wai Ling (resigned on 13 April 2020)

Lam Wai Yee, Hess, Donald James and Blurton, Daniel Stuart will retire from the board in accordance with Article 12.8 of the Company's Articles of Association at the forthcoming Annual General Meeting ("AGM"). Yu, Wing Yee Monique and Mundy, Kirsten Dominica will retire from the board in accordance with Article 12.9 of the Company's Articles of Association at the forthcoming AGM. The retiring directors, being eligible, offer themselves for re-election.

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

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the company is currently in force and was in force throughout this year.

Directors' interests in transactions, arrangements or contracts

No contract of significance to which the company, or any of its holding company or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Lam, Wai Man Virginia
Director

Hong Kong, 29 April 2021

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Independent auditor's report to the members of Variety - The Children's Charity Hong Kong Limited ("the company")

(Incorporated in Hong Kong and limited by guarantee)

Opinion

We have audited the financial statements of Variety – The Children's Charity Hong Kong Limited ("the company") set out on pages 6 to 17, which comprise the statement of financial position as at 30 September 2020,the income and expenditure account, the statement of changes in reserve and the cash flow statement for the 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 company as at 30 September 2020 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 ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company 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 financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's 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.

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Independent auditor's report to the members of Variety - The Children's Charity Hong Kong Limited ("the company") (continued)

(Incorporated in Hong Kong and limited by guarantee)

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 company'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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 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 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 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 company's internal control.

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Independent auditor's report to the members of Variety - The Children's Charity Hong Kong Limited ("the company") (continued)

(Incorporated in Hong Kong and limited by guarantee)

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

- 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 company'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 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 company 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 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.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong, 29 April 2021

Income and expenditure account for the year ended 30 September 2020

(Expressed in Hong Kong dollars)

	Note	Year ended 30 September 2020	Year ended 30 September 2019
Income			
Donations	2	$ 4,631,761	$ 2,818,018
Interest income		141	815
		$ 4,631,902	$ 2,818,833
Expenditure			
Grants expenditure		$ (2,785,536)	$ (2,403,567)
Administrative and other operating expenses		(194,741)	(371,406)
Bank charges		(5,018)	(4,645)
		$ (2,985,295)	$ (2,779,618)
Surplus and total comprehensive income for the year	3	$ 1,646,607	$ 39,215

The notes on pages 10 to 17 form part of the financial statements.

Statement of financial position at 30 September 2020

(Expressed in Hong Kong dollars)

	Note	2020	2019
Current asset			
Cash at bank		$ 2,012,409	$ 2,682,444
Donation receivable	8	1,406,250	-
Other receivables		12,800	-
		$ 3,431,459	$ 2,682,444
Current liabilities			
Other payables		$ (429,825)	$ (272,910)
Deferred income	7	(409,011)	(1,463,518)
		$ (838,836)	$ (1,736,428)
NET ASSETS		$ 2,592,623	$ 946,016
General reserve		$ 2,592,623	$ 946,016

Approved and authorised for issue by the board of directors on 29 April 2021.

Lam, Wai Man Virginia)
) Directors
Yu, Wing Yee Monique)

The notes on pages 10 to 17 form part of the financial statements.

Statement of changes in reserve for the year ended 30 September 2020

(Expressed in Hong Kong dollars)

		General reserve
At 1 October 2018	$	906,801
Surplus and total comprehensive income		39,215
At 30 September 2019 and 1 October 2019	$	946,016
Surplus and total comprehensive income		1,646,607
At 30 September 2020	$	2,592,623

The notes on pages 10 to 17 form part of the financial statements.

Cash flow statement for the year ended 30 September 2020

(Expressed in Hong Kong dollars)

	Year ended 30 September 2020	Year ended 30 September 2019
Operating activities		
Surplus for the year	$ 1,646,607	$ 39,215
Adjustment for:		
Interest income	(141)	(815)
Operating surplus before changes in working capital	$ 1,646,466	$ 38,400
Increase in donation receivable	(1,406,250)	-
Increase in other receivables	(12,800)	-
Increase in other payables	156,915	96,664
Increase in deferred income	(1,054,507)	525,234
Net cash (used in)/generated from operating activities	$ (670,176)	$ 660,298
Investing activity		
Interest received and net cash generated from investing activity	$ 141	$ 815
Net (decrease)/increase in cash and cash equivalents	$ (670,035)	$ 661,113
Cash and cash equivalents at 1 October 2019/2018	2,682,444	2,021,331
Cash and cash equivalents at 30 September	$ 2,012,409	$ 2,682,444

Cash and cash equivalents represent cash at bank.

The notes on pages 10 to 17 form part of the financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant accounting policies (continued)

(c) Changes in accounting polices

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the company. Of these, HKFRS 16 is relevant to the company's financial statements.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, *HK(IFRIC) 4, Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases - incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

The key changes to the company's accounting policies resulting from the adoption of HKFRS 16 are summarised below.

As a lessee, the company previously classified leases as operating or finance leases under HKAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company. Under all leases except that the company decided to apply recognition exemptions to short-term leases that have a lease term of 12 months or less and leases of low-value assets.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Transition

The company applied HKFRS 16 with a date of initial application of 1 October 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in the opening balances at 1 October 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

For leases previously classified as operating leases under HKAS 17, at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as of 1 October 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

When applying HKFRS 16 to leases previously classified as operating leases under HKAS 17, as a practical expedient, the company elected not to recognise right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months as of 1 October 2019.

Impacts on the financial statements

Since the leases entered by the company are short term leases which are eligible for the exemption, the adoption of HKFRS 16 does not have significant impact on these financial statements.

1 Significant accounting policies (continued)

(d) Payables

Payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(e) Donation and other receivables

A receivable is recognised when the company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses as determined below:

For donation and other receivables, the company recognises loss allowances equal to 12-month expected credit losses ("ECLs") unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The loss allowance is estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

ECLs are remeasured at each reporting date with any changes recognised as an impairment gain or loss in income and expenditure account. The company recognises impairment gain or loss with a corresponding adjustment to the carrying amount of receivables through a loss allowance account.

The gross carrying amount of receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(g) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

1 Significant accounting policies (continued)

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. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(h) Leased assets

At inception of a contract, the company assesses 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Policy applicable from 1 October 2019

As a lessee, at lease commencement date, the company recognises a right-of-use asset and a corresponding lease liability with respect to all leases, except for short-term leases (with a lease term of 12 months or less) and leases of low value assets. For these leases, the company recognises the lease payments as expenses on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The company presents right-of-use assets that meet the definition of investment property in "investment properties". Otherwise, they are presented in "other properties, plant and equipment", where applicable.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

Lease payments included in the measurement of the lease liability comprise the fixed payments (including in-substance fixed payments), less any lease incentives. Variable lease payments that do not depend on an index or rate are charged to income and expenditure account in the accounting period in which they are incurred.

Policy applicable on or before 30 September 2019

Leases of assets under which the lessor did not transfer all the risks and benefits of ownership were classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property was classified as an investment property on a property-by-property basis and was accounted for as if held under a finance lease.

1 Significant accounting policies (continued)

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income and expenditure account as follows:

Donations in cash and cash equivalents or other investment instruments for general purpose are recognised as income at fair values when it is probable that they will be received, which is generally upon receipt of cash. Donations for special purposes designated by the donors are initially recognised as deferred income when received, and then as income when the specific purposes are met.

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(k) Related parties

(a) A person, or a close member of that person's family, is related to the company if that person:

   (i) has control or joint control over the company;

   (ii) has significant influence over the company; or

   (iii) is a member of the key management personnel of the company or the company's parent.

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

   (i) The entity and the company 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 company or an entity related to the company.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

1 Significant accounting policies (continued)

(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 company or to the company's parent.

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.

2 Donations

The amount represents donations income recognised for charity purpose.

The amount of each significant category of donation income is as follows:

	2020	*2019*
General	$ 1,684,725	$ 38,400
Programs specific donation for Variety Butterfly Program and Vareity Falcon Program	2,947,036	2,779,618
	$ 4,631,761	$ 2,818,018

3 Surplus for the year

Surplus for the year is arrived at after charging:

	2020	*2019*
Operating lease charges: minimum lease payments under HKAS 17	$ -	$ 48,000

4 Taxation

The company is exempt under section 88 of the Hong Kong Inland Revenue Ordinance from any tax by reason of being a charitable institution or trust of a public character. Accordingly, no provision for Hong Kong taxation is required in these financial statements.

5 Directors' remuneration

All directors acted in honorary capacity and no director received any remuneration during the year.

6 Reserve

Capital management

The company is a charitable institution limited by guarantee and has no share capital.

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to provide assistance and support to children in Hong Kong who are physically, mentally, socially or economically disadvantaged.

The company defines "capital" as including general reserve maintained by the company. The company actively and regularly reviews and manages its capital structure to ensure effective use of reserve and sound financial status of the company.

7 Deferred income

The deferred income represented the balance of donations designated for the sponsorship of Variety Butterfly Program and Variety Falcon Program and are expected to be recognised as income and credited to the statement of income and expenditure when related expenditure was incurred.

8 Donation receivable

The donation receivable represented the balance of donations expected to be received from donor before year end as stated in donation agreement. The amount was subsequently received in November 2020.

9 Lease

The leasing activity of the company is associated with its lease of property for operational use. The company did not recognise right-of-use assets and lease liabilities as these leases are of short-term.

Amounts recognised in income and expenditure account:

		2020		*2019*
Expenses relating to short-term leases	$	55,350	$	48,000

Amounts recognised in the cash flow statement:

		2020		*2019*
Within operating cash flows	$	55,350	$	48,000

10 Financial risk management

Exposure to credit and liquidity risks arises in the normal course of the company's operations.

The company's exposure to these risks and the financial risk management policies and practices used by the company to manage these risks are described below.

(a) Credit risk

The company's credit risk is primarily attributable to cash at bank deposited with financial institutions and donation receivable, the maximum exposure of which at the end of the reporting period is their carrying amounts.

Credit risk in respect of cash at bank is considered to be low because cash at bank are placed with major financial institutions with sound credit ratings. Donation receivable is reviewed regularly, for which the company considers to have a low credit risk. The company measure loss allowance for donation receivable in accordance with note 1(e), with reference to the recent historical credit loss experience and forward looking factor, the loss allowance is considered insignificant.

(b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserve of cash and funding lines to meet its liquidity requirements in the short and longer term.

The contractual maturities at the end of the reporting period of the company's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date on which the company can be required to pay, are within one year or on demand.

11 Related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the company entered into the following material related party transactions:

		2020		*2019*
Donations received from the company's directors	$	25,500	$	33,000
Consultancy fee paid/payable to a company's director		282,777		253,537

12 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 September 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 30 September 2020 and which have not been adopted in these financial statements.

The company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's result of operations and financial position.