

**THE HONG KONG PHILHARMONIC
SOCIETY LIMITED**

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

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**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
REPORT OF THE BOARD OF GOVERNORS**

The Governors have pleasure in submitting their annual report together with the audited financial statements of The Hong Kong Philharmonic Society Limited (the "Society") for the year ended 31 March 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Society are to manage and develop the Hong Kong Philharmonic Orchestra, to present public concerts and to promote the appreciation of music in Hong Kong.

FINANCIAL STATEMENTS

The results of the Society for the year ended 31 March 2012 and the state of the Society's affairs as at that date are set out in the financial statements on pages 6 and 7 respectively.

Movements in funds of the Society are set out in the statement of changes in funds on page 8.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Society are set out in note 7 to the financial statements.

GOVERNORS

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

Elected by Voting Members

Ms. Harriet Tung Wen	(appointed on 13 June 2012)
Mrs. Janice Choi Kwan Wing Kum, MH	
Mr. David Lawrence Fried	
Mr. Peter Alan Kilgour	
Mr. Peter Lo Chi Lik	
Mr. Daniel Ng Yat Chiu	
Mr. Liu Yuen Sung	
Dr. Lilian Leong, BBS, JP	
Mr. Glenn Fok	
Mr. Nicholas Robert Sallnow-Smith	
Mr. Jack So Chak Kwong, GBS, OBE, JP	
Ms. Winnie Chiu Wing Kwan	
Ms. Joanne Chan Jo Win	
Sir David Tang, KBE	(resigned on 1 November 2011)
Mr. Stephan Spurr	(resigned on 18 May 2012)

Appointed by the Secretary for Home Affairs

Mr. Lam Woon Kwong, GBS, JP	
Prof. Liu Ching Chih	
Mr. Benedict Sin Nga Yan	
Mr. Kenny Wong Kam Shan	
Prof. Daniel Chua	
Mr. David Zacharias	(resigned on 1 June 2012)

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
REPORT OF THE BOARD OF GOVERNORS**

(Continued)

GOVERNORS (Continued)

In accordance with Article 45 of the Articles of Association of the Society, the number of Governors shall not less than twelve and shall not more than twenty. Not more than six of the Governors shall be appointed by the Government of the Hong Kong Administrative Region.

On 28 March 2012, the Society has passed through a special resolution as follows:

- i) By deletion of Article 47 of the Articles of Association and the substitution of the following therefor:

The Governors shall elect from among themselves the Chairman, the Vice-Chairman, Treasurer and such other officers as the Board may think fit. No Governor shall hold office for a term in excess of six consecutive years, save that whenever a Governor is elected as Chairman, Vice-Chairman or Treasurer the computation of such six-year period will start afresh as if he was a newly elected or appointed Governor without regard to any preceding term of office served whether as Governor, Chairman, Vice-Chairman or Treasurer without interval.

- ii) By deletion of Article 57 of the Articles of Association and the substitution of the following therefor:

Save as provided for in Article 47, no Governor may serve in excess of a maximum period of six consecutive years save for those who shall have been first appointed for a first one year term who shall be eligible to serve for seven consecutive years. Any Governor who has served a period of six or seven consecutive years as the case may be shall retire from the Board automatically upon the expiry of such sixth or seventh year, but may be eligible for re-election as Governor after an interval of one year of his retirement.

BOARD OF GOVERNORS' INTERESTS

Under a sponsorship agreement signed on 28 August 2008, the Swire Group Charitable Trust ("the Swire Trust") contributed a donation amounted to HK\$13,000,000 to the Society. As part of the agreement, the Swire Trust nominated a representative, Mr. Peter Alan Kilgour, to be elected to the Society's Board of Governors. Mr. Peter Alan Kilgour is a director of Swire Pacific Limited, which is the major contributor to the Swire Trust.

Except as disclosed above, there were no contracts of significant to which the Society was a party and in which a Society's Board of Governors member had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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


**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
REPORT OF THE BOARD OF GOVERNORS**

(Continued)

AUDITOR

The financial statements for the year ended 31 March 2012 have been audited by Crowe Horwath (HK) CPA Limited ("Crowe Horwath"). Crowe Horwath will retire as the auditor of the Society at the conclusion of the forthcoming annual general meeting and will not offer themselves for re-appointment.

On behalf of the Board of Governors



Chairman
Hong Kong, 26 September 2012

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE HONG KONG PHILHARMONIC SOCIETY LIMITED**

(Incorporated in Hong Kong and limited by guarantee and not having a share capital)

We have audited the financial statements of The Hong Kong Philharmonic Society Limited (the "Society") set out on pages 6 to 24, which comprise the statement of financial position as at 31 March 2012, and the statement of income and expenditure, the statement of changes in funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Governors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Governors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE HONG KONG PHILHARMONIC SOCIETY LIMITED**
(Incorporated in Hong Kong and limited by guarantee and not having a share capital)

(Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Society's affairs as at 31 March 2012 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 26 September 2012

Lam Cheung Shing
Practising Certificate Number P03552

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 2012

	<u>Note</u>	<u>2012</u> HK\$	<u>2011</u> HK\$
Income	3	108,773,136	112,895,552
Expenditure			
Concert expenses		74,879,020	83,798,730
Marketing and audience development expenses		7,857,107	7,437,750
Sponsorship and fund raising activities		3,498,130	3,026,475
Education and outreach expenses		1,096,601	966,382
Administrative and general expenses		16,068,389	15,399,679
		<u>(103,399,247)</u>	<u>(110,629,016)</u>
Surplus for the year	4	<u>5,373,889</u>	<u>2,266,536</u>

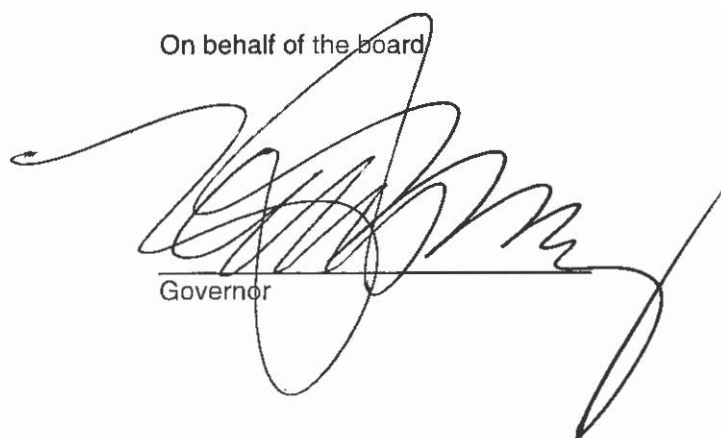
The accompanying notes form part of these financial statements.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012

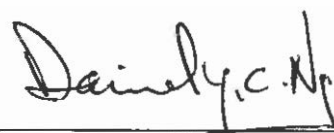
	<u>Note</u>	<u>2012</u> HK\$	<u>2011</u> HK\$
Non-current assets			
Property, plant and equipment	7	<u>1,749,086</u>	<u>1,988,541</u>
Current assets			
Accounts and other receivables	8	5,804,566	9,120,077
Amount due from the Hong Kong Philharmonic Endowment Trust	9	181,760	181,760
Cash and cash equivalents	10	<u>22,734,768</u>	<u>12,487,332</u>
		<u>28,721,094</u>	<u>21,789,169</u>
Current liabilities			
Accruals and other payables	11	7,120,274	7,301,693
Deferred income	12	<u>3,099,271</u>	<u>1,599,271</u>
		<u>10,219,545</u>	<u>8,900,964</u>
NET CURRENT ASSETS		<u>18,501,549</u>	<u>12,888,205</u>
NET ASSETS		<u>20,250,635</u>	<u>14,876,746</u>
FUNDS			
Accumulated surplus		20,173,035	14,781,245
Young audience fund	13	<u>77,600</u>	<u>95,501</u>
TOTAL FUNDS		<u>20,250,635</u>	<u>14,876,746</u>

Approved and authorised for issue by the Board of Governors on 26 September 2012.

On behalf of the board



Governor



Governor

The accompanying notes form part of these financial statements.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 31 MARCH 2012

	<u>Accumulated surplus</u>	<u>Young Audience Fund</u> (note 13)	<u>Total</u>
	HK\$	HK\$	HK\$
Balance at 1 April 2010	12,519,463	90,747	12,610,210
Transfer from the accumulated surplus	(4,754)	4,754	-
Surplus for the year	<u>2,266,536</u>	<u>-</u>	<u>2,266,536</u>
Balance at 31 March 2011 and 1 April 2011	14,781,245	95,501	14,876,746
Transfer to the accumulated surplus	17,901	(17,901)	-
Surplus for the year	<u>5,373,889</u>	<u>-</u>	<u>5,373,889</u>
Balance at 31 March 2012	<u>20,173,035</u>	<u>77,600</u>	<u>20,250,635</u>

The accompanying notes form part of these financial statements.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

	<u>Note</u>	<u>2012</u> HK\$	<u>2011</u> HK\$
Operating activities			
Surplus for the year		5,373,889	2,266,536
Adjustments for:			
Interest income		(18,992)	(20)
Depreciation		<u>1,099,469</u>	<u>1,148,760</u>
		6,454,366	3,415,276
Changes in working capital:			
Decrease in accounts and other receivables		3,315,511	1,511,873
(Decrease)/increase in accruals and other payables		(181,419)	1,234,317
Increase/(decrease) in deferred income		1,500,000	(588,154)
Decrease in amount due to the Hong Kong Philharmonic Endowment Trust		-	(1,000,000)
		<u>4,634,092</u>	<u>1,158,036</u>
Cash generated from operating activities		11,088,458	4,573,312
Investing activities			
Interest received		18,992	20
Purchase of property, plant and equipment		(860,014)	(710,878)
Net cash used in investing activities		<u>(841,022)</u>	<u>(710,858)</u>
Net increase in cash and cash equivalents		10,247,436	3,862,454
Cash and cash equivalents at beginning of the year		<u>12,487,332</u>	<u>8,624,878</u>
Cash and cash equivalents at end of the year	10	<u>22,734,768</u>	<u>12,487,332</u>

The accompanying notes form part of these financial statements.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

1. GENERAL INFORMATION

The Hong Kong Philharmonic Society Limited (the "Society") is engaged in managing and developing the Hong Kong Philharmonic Orchestra (the "Orchestra") to present public concerts and to promote the appreciation of music in Hong Kong.

The Society is incorporated in Hong Kong under the Hong Kong Companies Ordinance and is limited by guarantee. The address of its registered office is at Level 8, Administration Building, Hong Kong Cultural Centre, 10 Salisbury Road, Tsim Sha Tsui, Kowloon.

Under the provisions of the Society's Memorandum and Articles of Association, every voting member shall, in the event of the Society being wound up, contribute to the assets of the Society to the extent of HK\$10. At 31 March 2012, the Society had 28 members (2011: 27 members).

These financial statements are presented in Hong Kong dollars which is the same as the functional currency of the Society.

2. 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"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Society is set out 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 Society. Note 1(c) provides information on the initial application of these developments to the extent that they are relevant to the Society 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 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 expenditures. 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 not readily apparent from other sources. Actual results may differ from these estimates.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Basis of preparation of the financial statements (Continued)

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 18.

c) Adoption of new and revised HKFRSs

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Society. Of these, the following developments are relevant to the Society's financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

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

The amendments to HK(IFRIC) 14 have had no material impact on the Society's financial statements as they were consistent with policies already adopted by the Society.

HK(IFRIC) 19 has not yet had a material impact on the Society's financial statements as these changes will first be effective as and when the Society enters a relevant transaction (for example, a debt for equity swap).

The impact of other development is discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Society has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Society's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Society because the Society is not a government-related entity.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Adoption of new and revised HKFRSs (Continued)

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 "Financial instruments: Disclosures". The disclosures about the Society's financial instruments in note 14 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulate of impairment losses.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Furniture, fixtures and equipment	5 years
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Both the useful life of an asset and its residual value, if any, are reviewed annually.

The carrying amounts of property, plant and equipment are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The recoverable amount of an asset, or of the cash generating unit to which it belongs, is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

e) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Society are classified as operating leases. Payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Accounts and other receivables

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Society about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade debtors whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Society is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

h) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the statement of income and expenditure when incurred.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Other payables

Other payables are initially measured 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.

j) 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 Society and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Society will comply with the conditions attaching to them. Grants that compensate the Society for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

ii) Specific contributions from sponsors

Specific contributions from sponsors, which are earmarked for specific purposes, are recognised at their fair value when there is a reasonable assurance that the Society will comply with the conditions attaching to them and that the amount will be received. These incomes relating to costs are deferred and recognised in the statement of income and expenditure over the period necessary to match them with the costs that they are intended to compensate.

iii) Income from recordings, musical events and advertisements

Income from recordings, musical events and advertisements are recognised when the events take place. For income received for future periods, they are recorded as receipts in advance in the statement of financial position.

iv) Donations received

Donations not designated for any specific purposes are recognised as revenue upon receipt of cash. Designated donations are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

v) Sponsors' contributions

Sponsors' contributions are recognised when the right to received payments is established.

vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Society 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.

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.

l) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

m) Related parties

- a) A person, or a close member of that person's family, is related to the Society if that person:
- i) has control or joint control over the Society;
 - ii) has significant influence over the Society; or
 - iii) is a member of the key management personnel of the Society or the Society's parent.
- b) An entity is related to the Society if any of the following conditions applies:
- i) The entity and the Society 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).

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Related parties (Continued)

- b) An entity is related to the Society if any of the following conditions applies:
(Continued)
- 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 Society or an entity related to the Society.
 - 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).

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.

3. INCOME

The principal activities of the Society are managing and developing the Hong Kong Philharmonic Orchestra to present public concerts and to promote the appreciation of music of Hong Kong. The amount of each significant category of income during the year is as follows:

	<u>Note</u>	<u>2012</u> HK\$	<u>2011</u> HK\$
Government grants	(a)		
- recurrent consolidated subvention		58,800,000	58,800,000
- recurrent subvention for outbound cultural exchange activities	12	-	1,700,729
- recurrent subvention for venue partnership scheme	12	1,775,830	2,163,255
Swire's sponsorship	12, (b)	13,000,000	12,750,000
Revenue from musical events		18,119,671	19,530,125
Donations received and other sponsors' contributions		15,695,308	16,316,988
Interest income		18,992	20
Advertisements		1,112,535	1,209,915
Income from recordings		19,893	6,489
Miscellaneous income		230,907	418,031
		<u>108,773,136</u>	<u>112,895,552</u>

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

3. INCOME (Continued)

Note:

- a) The subvention for the Government of the Hong Kong Special Administrative Region is for the promotion and development of classical music in Hong Kong by implementing programme of activities proposed by the Society, which is recurrently granted by government annually.

The use of subvention for outbound cultural exchange activities is earmarked for the outbound cultural exchange activities.

Under the Venue Partnership Scheme, a special subvention was provided to support the Orchestra's education and community engagement activities in the Hong Kong Cultural Centre.

- b) Swire's sponsorship

Swire Group Charitable Trust ("Swire") is the principal patron of the Society. Sponsorship from Swire supports the growth, development and promotion of the Society. It is the Society's policy to use the Swire's sponsorship received during the year to finance the programme for the year.

4. SURPLUS FOR THE YEAR

Surplus for the year is arrived at after charging:

	<u>2012</u> HK\$	<u>2011</u> HK\$
a) Staff costs		
Contributions to defined contribution retirement plan	1,272,405	1,294,285
Salaries, wages and other benefits	<u>72,521,887</u>	<u>76,598,939</u>
	<u>73,794,292</u>	<u>77,893,224</u>
b) Other items		
Auditor's remuneration (note)	-	-
Depreciation	1,099,469	1,148,760
Exchange loss, net	130,788	-
Operating lease charges: minimum lease payments		
- hire of other assets (including property rentals)	6,119,922	5,944,247
- hire of music equipment	387,000	394,000
	<u>6,506,922</u>	<u>6,338,247</u>

Note:

No auditor's remuneration was provided for the years ended 31 March 2012 and 2011 as the audits were on a honorary basis.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

5. TAXATION

The Society, being a registered charitable organization, is exempted from Hong Kong Profits Tax under Section 88 of the Hong Kong Inland Revenue Ordinance.

6. BOARD OF GOVERNORS MEMBERS' REMUNERATION

No remuneration of the members of Board of Governors as defined in section 161 of the Hong Kong Companies Ordinance was paid or payable for the years ended 31 March 2012 and 2011.

7. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment HK\$
Cost	
At 1 April 2010	5,437,747
Additions	<u>710,878</u>
At 31 March 2011 and 1 April 2011	6,148,625
Additions	<u>860,014</u>
At 31 March 2012	<u>7,008,639</u>
Accumulated depreciation	
At 1 April 2010	3,011,324
Charge for the year	<u>1,148,760</u>
At 31 March 2011 and 1 April 2011	4,160,084
Charge for the year	<u>1,099,469</u>
At 31 March 2012	<u>5,259,553</u>
Carrying amount	
At 31 March 2012	<u>1,749,086</u>
At 31 March 2011	<u>1,988,541</u>

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

8. ACCOUNTS AND OTHER RECEIVABLES

	<u>2012</u> HK\$	<u>2011</u> HK\$
Accounts receivables	2,335,673	4,665,573
Other receivables	<u>326,118</u>	<u>641,254</u>
Loans and receivables	2,661,791	5,306,827
Deposits and prepayments	<u>3,142,775</u>	<u>3,813,250</u>
	<u>5,804,566</u>	<u>9,120,077</u>

All of the accounts and other receivables are expected to be recovered or recognised as expense within one year.

Accounts receivables are due within 1 month from the date of billing.

The ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	<u>2012</u> HK\$	<u>2011</u> HK\$
Neither past due nor impaired	<u>1,825,490</u>	<u>4,238,600</u>
Less than 1 month past due	-	58,888
1 to 3 months past due	108,683	167,845
4 to 6 months past due	6,500	162,000
6 to 12 months past due	365,000	34,240
More than 1 year past due	<u>30,000</u>	<u>4,000</u>
	<u>510,183</u>	<u>426,973</u>
	<u>2,335,673</u>	<u>4,665,573</u>

Receivables that were neither past due nor impaired relate to a wide range of donors, sponsors and debtors for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent donors, sponsors or debtors that have a good track record with the Society. Based on past experience, the Board of Governors believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Society does not hold any collateral over these balances.

9. AMOUNT DUE FROM THE HONG KONG PHILHARMONIC ENDOWMENT TRUST

The amount is unsecured, interest-free and repayable on demand.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

10. CASH AND CASH EQUIVALENTS

	<u>2012</u> HK\$	<u>2011</u> HK\$
Cash and cash equivalents in the statement of financial position and the statement of cash flows:		
Cash at bank and in hand	<u>22,734,768</u>	<u>12,487,332</u>

11. ACCRUALS AND OTHER PAYABLES

	<u>2012</u> HK\$	<u>2011</u> HK\$
Accruals	1,250,687	1,272,015
Other payables	<u>2,636,246</u>	<u>3,139,922</u>
Financial liabilities measured at amortised cost	3,886,933	4,411,937
Receipts in advance	<u>3,233,341</u>	<u>2,889,756</u>
	<u>7,120,274</u>	<u>7,301,693</u>

12. DEFERRED INCOME

	<u>Outbound cultural exchange activities</u> HK\$	<u>Venue partnership scheme</u> HK\$	<u>Swire projects</u> HK\$	<u>Total</u> HK\$
At 1 April 2010	1,500,000	387,425	300,000	2,187,425
Government subventions	1,500,000	1,775,830	-	3,275,830
Sponsorship	-	-	12,750,000	12,750,000
Credited to the statement of income and expenditure (note 3)	<u>(1,700,729)</u>	<u>(2,163,255)</u>	<u>(12,750,000)</u>	<u>(16,613,984)</u>
At 31 March 2011 and 1 April 2011	1,299,271	-	300,000	1,599,271
Government subventions	1,500,000	1,775,830	-	3,275,830
Sponsorship	-	-	13,000,000	13,000,000
Credited to the statement of income and expenditure (note 3)	<u>-</u>	<u>(1,775,830)</u>	<u>(13,000,000)</u>	<u>(14,775,830)</u>
At 31 March 2012	<u>2,799,271</u>	<u>-</u>	<u>300,000</u>	<u>3,099,271</u>

The deferred income represents the amounts of government subventions and sponsorship received by the Society that have not been recognised as income as particular activities or conditions have not been completed or fulfilled.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

13. YOUNG AUDIENCE FUND

	<u>2012</u> HK\$	<u>2011</u> HK\$
Balance brought forward	95,501	90,747
Transfer (to)/from the accumulated surplus	<u>(17,901)</u>	<u>4,754</u>
Balance carried forward	<u>77,600</u>	<u>95,501</u>

The Young Audience Fund is a programme to enhance and develop musical interest and talent of the youth. The funding of this reserve is set aside from accumulated surplus.

14. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Society's major financial instruments include accounts and other receivables, accruals and other payables and cash and cash equivalents. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

The Society's credit risk is primarily attributable to receivables from sponsors, the musical tickets receivables from the Leisure and Cultural Services Department and bank balances. Board of Governors has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of receivables from sponsors and the musical tickets receivables from the Leisure and Cultural Services Department, the Board of Governors is in the opinion that the credit risk is considered to be low as the counterparties are Government and sponsors with no history of default payment and good reputation.

At the end of the reporting period, the Society has no significant concentration of credit risk.

In respect of cash at banks, the Society limited its exposure to credit risk by placing deposits with financial institutions that meet the established credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations. The Society does not provide any guarantee which would expose the Society to credit risk.

The maximum exposure credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

14. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. In the opinion of the Board of Governors, the Society does not have any significant liquidity risk.

The total contractual undiscounted cash flows of the Society's non-derivative financial liabilities are not materially different from their carrying amounts as their remaining contractual maturities were within one year.

c) Fair values

The fair values of financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

15. FUND RISK MANAGEMENT

The Society's objective when managing funds are to safeguard the Society's ability to continue as a going concern in order to support the daily operations of the Society and to maintain an optimal structure of funds to reduce the cost of funds. The Society's overall strategy remains unchanged from prior year.

The structure of funds of the Society consists of accumulated surplus and Young Audience Fund. In order to maintain or adjust the structure of funds, the Society may appeal for donations from the Hong Kong Government and the general public.

16. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<u>2012</u> HK\$	<u>2011</u> HK\$
Within 1 year	125,776	1,486,608
After 1 year but within 5 years	<u>56,679</u>	<u>182,000</u>
	<u>182,455</u>	<u>1,668,608</u>

The Society is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of 2 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

17. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Society had entered into transactions with related parties as shown below:

a) Key management personnel remuneration

All member of key management personnel of the Society are the members of the Board of Governors. No remuneration was paid or payable to them.

b) The outstanding balance with a related party at the end of the reporting period is as follows:

<u>Name of party</u>	<u>Relationship</u>	<u>Note</u>	Balance at	Balance at	Maximum outstanding	
			the end of the reporting period HK\$	beginning of the reporting period HK\$	balance during the year 2012 HK\$	2011 HK\$
The Hong Kong Philharmonic Endowment Trust	The trustees are the members of the Board of Governors of the Society	9	181,760	181,760	181,706	181,760

18. ACCOUNTING ESTIMATES

In the process of applying the Society's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

a) **Depreciation and impairment loss of property, plant and equipment**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Society reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recovered during the year. The useful lives are based on the Society's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that assets may be impaired. The Society will review the estimated future cash flows of the assets regularly in order to determine whether impairment loss is required. An impairment loss is recognised in the statement of income and expenditure whenever the carrying amount of an asset exceeds its recoverable amount.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012**

18. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

a) Depreciation and impairment loss of property, plant and equipment (Continued)

Any increase or decrease in the above impairment losses would affect the surplus in future years.

As at 31 March 2012, the carrying amount of property, plant and equipment is HK\$1,749,086 (2011: HK\$1,988,541).

b) Impairment loss on receivables

The Society evaluates whether there is any objective evidence that receivables are impaired, and determine the amount of impairment loss as a result of the inability of the donors, sponsors and debtors to make required payments. The Society bases the estimates on the ageing of the receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the donors, sponsors and debtors were to deteriorate, actual write-offs would be higher than estimated.

Any increase or decrease in the above impairment losses would affect the surplus in future years.

As at 31 March 2012, the carrying amount of accounts and other receivables is HK\$5,804,566 (2011: HK\$9,120,077).

19. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new and revised standards and interpretations which are not yet effective for the year ended 31 March 2012 and which have not been adopted in these financial statements.

The Society is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Society's results of operations and financial position.

ATTACHED HAS BEEN PREPARED FOR MANAGEMENT PURPOSES ONLY AND DOES NOT
FROM PART OF THE AUDITED FINANCIAL STATEMENTS

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
STATEMENT OF INCOME AND EXPENDITURE – VENUE PARTNERSHIP SCHEME AND
OUTBOUND CULTURAL EXCHANGE
FOR THE YEAR ENDED 31 MARCH 2012**

	<u>Venue Partnership Scheme</u> HK\$	<u>Outbound Cultural Exchange</u> HK\$
Income		
Government subvention	1,775,830	-
Expenditure		
Concert expenses	1,421,290	-
Marketing and audience development expenses	<u>354,540</u>	<u>-</u>
	<u>1,775,830</u>	<u>-</u>
Surplus for the year	<u>-</u>	<u>-</u>

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
CONCERT EXPENSES
FOR THE YEAR ENDED 31 MARCH 2012

	<u>2012</u> HK\$	<u>2011</u> HK\$
Salaries and allowances of musicians	42,471,725	42,911,473
Pension costs for musicians	946,214	968,277
Benefits for musicians (medical and employee compensation)	618,788	631,951
Musical instruments insurance	175,466	202,387
Insurance (lorry and others)	62,859	70,154
Passages (airfares for overseas players)	889,074	766,916
Hotel accommodation for new overseas players	125,978	50,557
Auditioning and recruitment	222,465	1,051,218
Broadcasting	438,359	249,244
Salaries, allowances and benefits for		
- music director/artistic director/principal conductor/resident conductor	2,915,256	7,336,395
- guest artists	13,156,218	13,907,709
Fees of augmentation/freelance players	1,742,662	1,975,921
Hire of halls	5,510,725	5,788,558
Transportation of players	31,856	47,855
Transportation of instruments	66,418	69,739
Transportation of artists	105,830	93,300
Hire/repairs/maintenance of instruments	214,455	281,940
Music hire and arrangement	432,016	555,963
Sundries for orchestra	264,021	321,704
Musical instruments and scores	132,819	94,338
Stage design and setting fee	2,708,943	2,271,002
Sound	759,312	1,219,128
Fee paid to CASH	3,000	-
Musical instruments depreciation	884,561	885,936
Touring expenses	-	2,047,065
	<u>74,879,020</u>	<u>83,798,730</u>

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED
MARKETING AND AUDIENCE DEVELOPMENT EXPENSES
FOR THE YEAR ENDED 31 MARCH 2012**

	<u>2012</u> HK\$	<u>2011</u> HK\$
Posters and pamphlets	1,021,958	938,466
Programmes	904,187	999,508
Press advertisements	2,456,440	2,499,519
Photography	225,336	199,175
Other expenses	46,931	63,555
Subscription costs	850,903	611,230
Web development and maintenance	485,497	368,531
Public relations and audience development	487,105	337,025
Direct mailing	203,096	208,358
Ticketing cost	810,392	823,201
Ticket commission	<u>365,262</u>	<u>389,182</u>
	<u>7,857,107</u>	<u>7,437,750</u>

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

THE HONG KONG PHILHARMONIC SOCIETY LIMITED
ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEAR ENDED 31 MARCH 2012

	<u>2012</u> HK\$	<u>2011</u> HK\$
Salaries of office staff	12,963,636	11,625,889
Pension costs for office staff	326,191	326,008
Benefits (medical insurance) for office staff	282,230	236,852
Operating lease rentals for office premises and workshop	1,192,232	1,192,356
Postage, stationery, fax and telephone	379,786	305,148
Utilities and sundry expenses	308,988	222,586
Repairs and maintenance	67,651	139,451
Local travelling	19,589	19,551
Overseas travelling	28,665	10,279
Professional fees	31,430	338,442
Recruitment of staff	65,862	671,571
Entertainment	56,433	48,722
Exchange loss	130,788	-
Depreciation	214,908	262,824
	<u>16,068,389</u>	<u>15,399,679</u>