

HKCSS SOCIAL ENTERPRISE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

HKCSS SOCIAL ENTERPRISE LIMITED

DIRECTORS' REPORT

The directors submit to the sole member of the company their report together with the audited financial statements for the year ended 31 March 2023.

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were the sales and provision of information technology products and services and related software development and consultancy project management services.

FINANCIAL STATEMENTS

The financial performance of the company for the year ended 31 March 2023 and the financial position of the company at that date are set out in the financial statements on pages 6 to 24.

The directors do not recommend the payment of a dividend in respect of the year ended 31 March 2023.

DIRECTORS

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

CHUA Hoi Wai
KWOK Lam Kwong, Larry
LIU Tat Yin, Kennedy

In accordance with article 95 of the company's articles of association, all the existing directors retire but, being eligible, offer themselves for re-election.

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

At no time during the year was the company or any of its fellow subsidiaries or its holding company a party to any arrangements 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.

PERMITTED INDEMNITY PROVISIONS

At no time during the year and up to the date of this directors' report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the company (whether made by the company or otherwise).

HKCSS SOCIAL ENTERPRISE LIMITED

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the company were entered into or existed during the year.

AUDITORS

The financial statements have been audited by Messrs. Li, Tang, Chen & Co., who retire but, being eligible, offer themselves for re-appointment.

On behalf of the Board



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CHUA Hoi Wai
Director

Hong Kong, 18 SEP 2023



**INDEPENDENT AUDITOR'S REPORT
TO THE SOLE MEMBER OF
HKCSS SOCIAL ENTERPRISE LIMITED**
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the financial statements of HKCSS Social Enterprise Limited (the “company”) set out on pages 6 to 24, which comprise the statement of financial position as at 31 March 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes on 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 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *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.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the directors’ report, but does not include 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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EMPHASIS OF MATTER

We draw attention to in note 3(b) on the financial statements concerning the basis of the financial statements by the directors. At 31 March 2023, the Company had net current liabilities of HK\$400,168 and net liabilities of HK\$382,346. The ultimate holding company of the Company has confirmed its present intention to provide continuing financial support to the Company to enable it to meet its liabilities as and when they fall due. Consequently, the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments to the assets and liabilities that would result from a failure to obtain such financial support. Our opinion is not modified in respect of this matter.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of 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.

Those charged with governance are responsible for overseeing the company's financial reporting process.

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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS
(CONT'D)**

- 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.
- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Li Tang Chen & Co.

Li, Tang, Chen & Co.
Certified Public Accountants (Practising)
17/F Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

18 SEP 2023


RCCM/JCKB

HKCSS SOCIAL ENTERPRISE LIMITED


STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

	<u>Note</u>	HK\$	<u>2023</u> HK\$	<u>2022</u> HK\$
NON-CURRENT ASSETS				
Property, plant and equipment	9		17,822	26,206
CURRENT ASSETS				
Accounts receivable	10	2,032,476		7,108,226
Deposits, prepayments and other receivables		223,063		102,442
Tax recoverable		6,414		6,414
Cash and bank balances	11	4,272,495		6,535,761
		<u>6,534,448</u>		<u>13,752,843</u>
CURRENT LIABILITIES				
Receipts in advance		391,174		3,613,730
Amount due to The Hong Kong Council of Social Service	12	109,022		1,392,413
Accounts payable		6,004,463		6,427,039
Other payables and accrued expenses		429,957		889,604
		<u>6,934,616</u>		<u>12,322,786</u>
NET CURRENT (LIABILITIES)/ASSETS			<u>(400,168)</u>	<u>1,430,057</u>
NET (LIABILITIES)/ASSETS			<u>(382,346)</u>	<u>1,456,263</u>
CAPITAL AND RESERVE				
Share capital	13		10,000	10,000
(Accumulated losses)/unappropriated profits			<u>(392,346)</u>	<u>1,446,263</u>
TOTAL (DEFICIT)/SURPLUS			<u>(382,346)</u>	<u>1,456,263</u>

The financial statements on pages 6 to 24 were approved and authorised for issue by the board of directors on **18 SEP 2023**



 LIU Tat Yin, Kennedy
 Director



 CHUA Hoi Wai
 Director

HKCSS SOCIAL ENTERPRISE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

	<u>Note</u>	<u>2023</u> HK\$	<u>2022</u> HK\$
REVENUES	6	30,938,386	38,650,607
COST OF REVENUES		<u>(22,776,757)</u>	<u>(25,856,561)</u>
GROSS PROFIT		8,161,629	12,794,046
OTHER INCOME	6	581,149	160
ADMINISTRATIVE AND OTHER OPERATING EXPENSES		<u>(10,581,387)</u>	<u>(13,591,660)</u>
LOSS BEFORE TAXATION	7	(1,838,609)	(797,454)
INCOME TAX EXPENSE	8	<u>-</u>	<u>-</u>
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(1,838,609)</u>	<u>(797,454)</u>

HKCSS SOCIAL ENTERPRISE LIMITED**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 MARCH 2023**

	<u>2023</u> HK\$	<u>2022</u> HK\$
OPERATING ACTIVITIES		
Loss before taxation	(1,835,984)	(797,454)
Adjustments for:		
Depreciation	22,784	24,978
Bank interest income	(9,549)	(160)
Operating loss before working capital changes	<u>(1,825,749)</u>	<u>(772,636)</u>
Decrease/(increase) in accounts receivable	5,059,887	(3,122,340)
(Increase)/decrease in deposits, prepayments and other receivables	(120,621)	35,580
Decrease in receipts in advance	(3,222,556)	(1,865,394)
(Decrease)/increase in amount due to The Hong Kong Council of Social Service	(1,283,391)	354,392
(Decrease)/increase in accounts payable	(422,576)	230,810
(Decrease)/increase in other payables and accrued expenses	(464,232)	585,620
Cash used in operations	<u>(2,276,238)</u>	<u>(4,553,968)</u>
Hong Kong profits tax recovered	-	29,432
Net cash used in operating activities	<u>(2,276,238)</u>	<u>(4,524,536)</u>
INVESTING ACTIVITIES		
Interest received	9,549	160
Purchase of property, plant and equipment	(14,400)	(13,700)
Net cash used in investing activities	<u>(4,851)</u>	<u>(13,540)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,281,089)	(4,538,076)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>6,535,761</u>	<u>11,073,837</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>4,254,672</u>	<u>6,535,761</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances	<u>4,254,672</u>	<u>6,535,761</u>

HKCSS SOCIAL ENTERPRISE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

	<u>Share capital</u> HK\$	Unappropriated Profits/ (accumulated losses) HK\$	<u>Total</u> HK\$
Balance at 1 April 2021	10,000	2,243,717	2,253,717
Loss and total comprehensive loss for the year	<u>-</u>	<u>(797,454)</u>	<u>(797,454)</u>
Balance at 31 March 2022 and 1 April 2022	10,000	1,446,263	1,456,263
Loss and total comprehensive loss for the year	<u>-</u>	<u>(1,838,609)</u>	<u>(1,838,609)</u>
Balance at 31 March 2023	<u>10,000</u>	<u>(392,346)</u>	<u>(382,346)</u>

HKCSS SOCIAL ENTERPRISE LIMITED

NOTES ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

1. CORPORATE INFORMATION

HKCSS Social Enterprise Limited (“the company”) is a company incorporated in Hong Kong with limited liability. The registered office of the company is located at 13/F., Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong.

The principal activities of the company are the sales and provision of information technology products and services and related software development and consultancy project management services.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the company.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued certain revised HKFRSs that are first effective for the current accounting period of the company. The directors of the company consider that those amendments have no material impact on the company’s financial statements for the current and prior years.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 18).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of preparation:

- i) The financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention.
- ii) The preparation of financial statements in conformity with HKFRSs requires management to make judgments, 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 judgments 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.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Going concern:

The financial statements have been prepared on going concern basis notwithstanding the net liabilities and accumulated losses as at 31 March 2023 because ultimate holding company of the company has confirmed its present intention to provide continuing financial support to the company to enable the company to meet its liabilities as and when they fall due.

c) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, on the straight-line basis at the following rates per annum:

Furniture, fixtures and equipment	3-5 years
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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 sale proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year in which the item is derecognised.

d) Receivables:

A receivable is recognised when the company's right to consideration is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of the consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(n)).

e) Payables:

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

f) Taxation:

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from accounting profit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The company's liability for current tax is calculated using tax rates that are enacted or substantially enacted at the end of reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

HKCSS SOCIAL ENTERPRISE LIMITED

NOTES ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Taxation: (cont'd)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income and equity, in which case the deferred tax is also dealt with in other comprehensive income and equity.

g) Revenue recognition:

Revenue is recognised when the company satisfies a performance obligation by transferring promised good or service to a customer obtains control over the good or service. When the performance obligation is satisfied, revenue is recognised at the amount of the transaction price that is allocated to that performance obligation. Further details of the company revenue recognition is as follows:

- i) Sales of goods is recognised at a point in time when the customer takes significant risks and rewards of ownership, which generally coincides with the time of delivery to customer and title has passed.
- ii) Broadband service income is recognised at a point in time when the performance of the broadband service is completed.
- iii) Core application programme, management service, training course, system and networking service, secondment service and E-flag service income are recognised when services are provided.
- iv) Bank interest income is recognised as it accrues using the effective interest method.

h) Leases:

Where the contract contains lease component(s) and non-lease component(s), the company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the company recognised a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the company are primarily laptops and office furniture. When the company enters into a lease in respect of a low-value asset, the company decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h) Leases: (cont'd)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortized cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The company presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

i) Foreign currencies:

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the statement of comprehensive income.

j) 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.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- j) Related parties: (cont'd)
- 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 a 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).
 - 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 the group of which it is a part, provided key management 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.

- k) Retirement benefits scheme:

The company participates in the Mandatory Provident Fund retirement benefits scheme (“the MPF Scheme”). The company’s contributions to the MPF Scheme are made based on a percentage of the employees’ relevant remuneration and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the company in an independently administered fund. The employer’s contributions vest fully with the employees when contributed into the MPF Scheme.

- l) Cash and cash equivalents:

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the company’s cash management.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

m) Impairment of non-financial assets:

Non-financial assets such as property, plants and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not exceed the recoverable amount. An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. An impairment loss is reversed if there has been favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is credited to profit or loss and is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

n) Credit losses and impairment of financial assets:

The company recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the company in accordance with the contract and the cash flows that the company expects to receive).

Loss allowances for receivables are always measured at an amount equal to lifetime ECLs based on the company's historical credit loss experience, adjusted for factors that are specific to debtors and the current and forecast general economic conditions at the reporting date.

Lifetime ECLs are losses that are expected to result from all possible default events over the expected lives of the financial assets.

4. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	At amortised costs	
	<u>2023</u>	<u>2022</u>
	HK\$	HK\$
Accounts receivable	2,032,476	7,108,226
Deposits and other receivables	160,503	102,442
Cash and bank balances	<u>4,272,495</u>	<u>6,535,761</u>
	<u>6,465,474</u>	<u>13,746,429</u>

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

4. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

Financial liabilities

	At amortised costs	
	2023 HK\$	2022 HK\$
Amount due to the Hong Kong Council of Social Service	109,022	1,392,413
Accounts payable	6,004,463	6,427,039
Other payables and accrued expenses	429,957	889,604
	<u>6,543,442</u>	<u>8,709,056</u>

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial instruments comprise accounts receivable, deposits, cash and bank balances, amount due to The Hong Kong Council of Social Service, accounts payable, other payables and accrued expenses. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The management manages and monitors these exposures to ensure appropriate measure are implemented on a timely and effective manner.

a) Credit risk

The company has designed its credit policies with an objective to minimise their exposure to credit risk. In respect of accounts receivables, individual credit evaluations are performed on all customers enquiring credit over a certain amount. These evaluations focus on the customer's past history of marking payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Further quantitative data in respect of the exposure to credit risk arising from trade receivable are disclosed in note 10 on the financial statements.

At the end of the reporting period, 11.05% (2022: 10%) and 34.32% (2022: 26.82%) of the total accounts receivables was due from the company's largest customer and the five largest customers respectively.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

b) Liquidity risk

The company's policy is to regularly monitor its liquidity requirements to ensure that the company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long-term.

The following table details the contractual maturities at the end of the reporting period of the company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the company can be required to pay:

	2023		
	<u>Carrying amount</u> HK\$	<u>Total contractual undiscounted cash flow</u> HK\$	<u>Within 1 year or on demand</u> HK\$
Amount due to The Hong Kong Council of Social Service	109,022	109,022	109,022
Accounts payable	6,004,463	6,004,463	6,004,463
Other payables and accrued expenses	429,957	429,957	429,957
	<u>6,543,442</u>	<u>6,543,442</u>	<u>6,543,442</u>
	2022		
	<u>Carrying amount</u> HK\$	<u>Total contractual undiscounted cash flow</u> HK\$	<u>Within 1 year or on demand</u> HK\$
Amount due to The Hong Kong Council of Social Service	1,392,413	1,392,413	1,392,413
Accounts payable	6,427,039	6,427,039	6,427,039
Other payables and accrued expenses	889,604	889,604	889,604
	<u>8,709,056</u>	<u>8,709,056</u>	<u>8,709,056</u>

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

c) Interest rate risk

As the company has no significant interest-bearing assets and liabilities, the company's income and operating cash flows are substantially independent of changes in market interest rates.

d) Fair value estimation

The directors considered that all financial instruments are carried at amounts not materially different from their respective fair values.

e) Capital management

The company's objectives when managing capital are:

- To safeguard the company's ability to continue as a going concern, so that it continues to provide returns for shareholders;
- To support the company's stability and growth; and
- To provide capital for the purpose of strengthening the company's risk management capability.

The company actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the company and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

As in prior years, the company monitors capital by reviewing the level of capital that is at the disposal of the company. Capital comprises all components of total deficit/equity.

The company is not subject to externally imposed capital requirements.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

6. REVENUES AND OTHER INCOME

	<u>2023</u> HK\$	<u>2022</u> HK\$
Revenues		
Sales of goods	9,523,515	8,412,439
Core application programme income	1,827,021	1,842,637
Broadband service income	12,815,786	16,781,952
Management service income	2,639,606	6,014,018
Training course income	34,255	58,920
System and networking service income	3,345,492	4,422,489
Secondment service income	650,990	1,035,641
E-flag service income	101,721	82,511
	<u>30,938,386</u>	<u>38,650,607</u>
Other income		
Bank interest income	9,549	160
Government grants from Employment Support Scheme (Note)	571,600	-
	<u>581,149</u>	<u>160</u>

Note: Included in profit or loss is HK\$571,600 (2022:HK\$ Nil) of government grants obtained from Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the company’s employees. Under the ESS, the company had to commit to spend these grants on payroll expense, and not reduce employee head count below prescribed levels for a specified period of time. The company does not have other unfulfilled obligations relating to this program.

7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	<u>2023</u> HK\$	<u>2022</u> HK\$
Salaries, allowances and other benefits (note 15)	9,017,001	10,241,825
Depreciation	22,784	24,978
Auditors’ remuneration	56,000	53,000
	<u>9,095,785</u>	<u>10,319,803</u>

HKCSS SOCIAL ENTERPRISE LIMITED

NOTES ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

8. INCOME TAX EXPENSE

- a) No provision for Hong Kong profits tax has been made as the company incurred a tax loss for the years ended 31 March 2023 and 31 March 2022.
- b) The income tax expense for the year can be reconciled to the loss before taxation per statement of comprehensive income at the statutory income tax rate as follow:

	<u>2023</u> HK\$	<u>2022</u> HK\$
Loss before taxation	<u>(1,838,609)</u>	<u>(797,454)</u>
Tax at applicable profits tax rates	(151,685)	(131,579)
Tax effect of non-taxable income	(47,945)	(26)
Tax effect of temporary differences not recognised	6	1,275
Tax effect of unrecognized tax loss	<u>199,624</u>	<u>130,330</u>
Income tax expense for the year	<u>-</u>	<u>-</u>

- c) No deferred taxation has been recognised as the effect of temporary difference is not material.
- d) At the end of the reporting period, the company had unused tax losses of HK\$4,482,562 (2022: HK\$2,062,872) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profits streams. The unused tax losses do not expire under current tax legislation.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

9. PROPERTY, PLANT AND EQUIPMENT

	<u>Office equipment</u> HK\$	<u>Furniture and fixtures</u> HK\$	<u>Computer equipment</u> HK\$	<u>Total</u> HK\$
As at 31.3.2021				
Cost	127,700	8,857	255,445	392,002
Accumulated depreciation	<u>(127,700)</u>	<u>(8,857)</u>	<u>(217,961)</u>	<u>(354,518)</u>
Net book value	<u>-</u>	<u>-</u>	<u>37,484</u>	<u>37,484</u>
Year ended 31.3.2022				
Net book value as at 1.4.2021	-	-	37,484	37,484
Additions	-	13,700	-	13,700
Depreciation for the year	<u>-</u>	<u>(2,740)</u>	<u>(22,238)</u>	<u>(24,978)</u>
Net book value as at 31.3.2022	<u>-</u>	<u>10,960</u>	<u>15,246</u>	<u>26,206</u>
As at 31.3.2022				
Cost	127,700	22,557	255,445	405,702
Accumulated depreciation	<u>(127,700)</u>	<u>(11,597)</u>	<u>(240,199)</u>	<u>(379,496)</u>
Net book value	<u>-</u>	<u>10,960</u>	<u>15,246</u>	<u>26,206</u>
Year ended 31.3.2023				
Net book value as at 1.4.2022	-	10,960	15,246	26,206
Additions	-	-	14,400	14,400
Depreciation for the year	<u>-</u>	<u>(2,740)</u>	<u>(20,044)</u>	<u>(22,784)</u>
Net book value as at 31.3.2023	<u>-</u>	<u>8,220</u>	<u>9,602</u>	<u>17,822</u>
As at 31.3.2023				
Cost	127,700	22,557	269,845	420,102
Accumulated depreciation	<u>(127,700)</u>	<u>(14,337)</u>	<u>(260,243)</u>	<u>(402,280)</u>
Net book value	<u>-</u>	<u>8,220</u>	<u>9,602</u>	<u>17,822</u>

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

10. ACCOUNTS RECEIVABLE

	<u>2023</u> HK\$	<u>2022</u> HK\$
Accounts receivable	<u>2,032,476</u>	<u>7,108,226</u>

The aging analysis of accounts receivable is as follows:

	<u>2023</u> HK\$	<u>2022</u> HK\$
Neither past due nor impaired	1,321,743	3,520,605
Less than 1 month past due	547,890	1,534,100
More than 1 month but less than 3 months past due	122,959	439,343
More than 3 months but less than 1 year past due	39,884	1,610,882
More than 1 year past due	-	3,296
	<u>710,733</u>	<u>3,587,621</u>
	<u>2,032,476</u>	<u>7,108,226</u>

Accounts receivable that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default. Accounts receivable that were past due but not impaired relate to receivables from a number of independent customers that have a good track record with the company. Based on past experience and forward-looking information, management believes that no impairment allowances is necessary in respect of these balances and the balances are still considered fully recoverable as their expected credit loss rate is zero. The company does not hold any collateral over these balances.

11. CASH AND BANK BALANCES

Cash at banks earns interest at floating rates based on daily bank deposit rates.

12. AMOUNT DUE TO THE HONG KONG COUNCIL OF SOCIAL SERVICE

This account represents non-interest bearing advances which are unsecured and repayable on demand.

HKCSS SOCIAL ENTERPRISE LIMITED
NOTES ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

13. SHARE CAPITAL

	<u>2023</u> HK\$	<u>2022</u> HK\$
Issued and fully paid:		
10,000 ordinary shares with no par value	<u>10,000</u>	<u>10,000</u>

14. DIRECTORS' REMUNERATION

No directors received any fees or other remuneration for serving as a director during the current and prior years.

15. SALARIES, ALLOWANCES AND OTHER BENEFITS

	<u>2023</u> HK\$	<u>2022</u> HK\$
Salaries and allowances	8,406,237	9,548,935
Contribution to Mandatory Provident Fund	<u>610,764</u>	<u>692,890</u>
	<u>9,017,001</u>	<u>10,241,825</u>

16. RELATED PARTY TRANSACTIONS

The company had the following material transactions with related parties during the year:

- a) The company paid administration charges to its ultimate holding company, The Hong Kong Council of Social Service, amounting to HK\$832,845 (2022: HK\$1,004,686).
- b) The company received service income from its ultimate holding company, The Hong Kong Council of Social Service and a fellow subsidiary, Internet Learning Resource Centre Limited, amounting to HK\$1,185,407 (2022: HK\$2,538,997) and HK\$Nil (2022: HK\$Nil) respectively.
- c) The company sold goods and provided IT consultancy service to its ultimate holding company, The Hong Kong Council of Social Service amounting to HK\$1,050,261 (2022: HK\$846,902) respectively, in the ordinary course of business and on an arm's length basis.
- d) Expenditures included in various kinds of overheads and expenses of HK\$59,381 (2022: HK\$35,070) were paid to its ultimate holding company, The Hong Kong Council of Social Service.

HKCSS SOCIAL ENTERPRISE LIMITED

NOTES ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

16. RELATED PARTY TRANSACTIONS (CONT'D)

- e) Balance with The Hong Kong Council of Social Service is described in note (12) on the financial statements.
- f) Included in accounts receivable was an amount of HK\$Nil (2022: HK\$3,004,671) due from its ultimate holding company, The Hong Kong Council of Social Service), which represents sales of IT supplies and services.
- g) Included in accounts payable was an amount of HK\$9,503 (2022: HK\$19,423) due to its ultimate holding company, The Hong Kong Council of Social Service.
- h) The company sold IT supplies and services to employees and executive committee members of its ultimate holding company, The Hong Kong Council of Social Service. The executive committee members of The Hong Kong Council of Social Service might be directors or executive members of the member agencies of The Hong Kong Council of Social Service. The transactions were conducted on an arm's length basis
- i) The company's key management personnel included directors of the company and a general manager. No remuneration was payable to the directors.

In the opinion of the directors, the above-mentioned transactions were conducted on normal commercial terms.

17. ULTIMATE HOLDING COMPANY

The ultimate holding company of the company is The Hong Kong Council of Social Service, a company incorporated in Hong Kong under The Hong Kong Council of Social Service Incorporation Ordinance.

18. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2023 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 amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption is unlikely to have a significant impact on the company's financial performance and position.