

Report of the Council Members and Audited Financial Statements

HONG KONG CHINESE ORCHESTRA LIMITED
香港中樂團有限公司
(Limited by Guarantee)

31 March 2023



HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

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HONG KONG CHINESE ORCHESTRA LIMITED
(Limited by Guarantee)

REPORT OF THE COUNCIL MEMBERS

The council members (the "Council Members") present their report and the audited financial statements of Hong Kong Chinese Orchestra Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2023.

Principal activities

With effect from 1 April 2001, the Company took over from Leisure and Cultural Services Department ("LCSD") of the Government of the Hong Kong Special Administrative Region ("the Government") the running of the Hong Kong Chinese Orchestra.

The Hong Kong Chinese Orchestra is the only professional Chinese orchestra in Hong Kong and one of the largest and most renowned of its type in the world. The Company and the Group present symphonic music based on traditional folk repertoires and full-scale contemporary compositions. The principal activities of the Company and of the Group consist of providing Chinese music programmes of different styles to blend the diverse artistic expressions and techniques of today with the traditional culture of China in interpretation of metropolitan life, as well as rendering promotion, education, research and development of traditional and modern Chinese music. There were no significant changes in the nature of the Group's principal activities during the year.

Results

The Group's surplus for the year ended 31 March 2023 and the Group's financial position at that date are set out in the financial statements on pages 10 to 45.

Council

The Council Members of the Company during the year and up to date of this report were:

Chan Wai Kai	(elected as Chairman on 24 October 2022)
Lai Hin Wing, Henry	(elected as Vice Chairman on 24 October 2022)
Chan Shum Yue, Bonnie	(elected as Vice Chairman on 24 October 2022)
Liu Kam Hing	(elected as Treasurer on 24 October 2022)
Lu Hing Yu, Bryant	(elected as Hon Secretary on 24 October 2022)
Woo King Hang	
Fan Chun Wah, Andrew	
Lee Yuen Bing, Nina	
Wong Shu Ming	
Ng Sau Kei, Wilfred	
Chan Wing Wah	(appointed on 24 October 2022)
Ling Clarence Chun Kit	(appointed on 24 October 2022)
Wong Ka Lun	(retired on 24 October 2022)

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REPORT OF THE COUNCIL MEMBERS

Council (continued)

The Council Members of the subsidiaries during the year and up to date of this report were:

Chan Shum Yue, Bonnie

Chan Wai Kai

Lai Hin Wing, Henry

Liu Kam Hing

Fan Chun Wah, Andrew

Lee Yuen Bing, Nina

Wong Shu Ming

Lu Hing Yiu, Bryant

Ng Sau Kei, Wilfred

Chan Wing Wah

(appointed on 24 October 2022)

Ling Clarence Chun Kit

(appointed on 24 October 2022)

Wong Ka Lun

(retired on 24 October 2022)

In accordance with article 50 of the Company's articles of association, the Chairman, Vice-Chairmen and Treasurer will retire from their respective offices and shall be eligible for re-election at the forthcoming annual general meeting.

Permitted indemnity provision

During the year ended 31 March 2023, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for indemnities against liabilities incurred by council members of the Company.

Council Members' interests

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Council Members to acquire benefits by means of the acquisition of debentures of the Company or any other body corporate.

Council Members' interests in transactions, arrangements or contracts

No Council Members had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party during the year.

Business review

Our business

The Group is committed to promoting Chinese music culture, with the provision of high-quality and wide-ranging Chinese music programmes as its core activities which include orchestral and ensemble concerts, educational activities, training courses, themed festivals, competitions, and research and development of musical instruments.

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REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Such principal activities are reviewed under the following categories:

Regular concerts, outreach performances, hired engagements and festivals

To bring the colourful world of Chinese music to the public, the Company organises more than one hundred regular and outreach concerts a year as well as mass activities and themed festivals. To date, it has achieved three Guinness World Records in mass performance, and laid many milestones in the development of Chinese orchestral music. Notable examples are the Hong Kong Drum Festival, launched in 2003, and The International Conducting Competition for Chinese Music in 2011, both of which have become regular and keenly anticipated events on the local and international music scene.

Overseas tours

The Company has been invited to perform at various famous venues and international festivals around the world. It has contributed tremendously to cultural diplomacy and is widely acclaimed as a cultural ambassador of Hong Kong.

Art education

To nurture the growth of a new generation of music-makers and widen the audience base in Chinese music, the Company gives performances in schools and organises instrumental classes. The Hong Kong Children Chinese Orchestra and the Hong Kong Junior Chinese Orchestra were established in 2003. Educational projects have been organised in conjunction with radio and television stations as well as other institutions. The Company has been working in conjunction with the Hong Kong Academy for Performing Arts, the Music Office, the Hong Kong Arts Development Council, the Leisure and Cultural Services Department to provide opportunities for local artists, arts administrators through training, internship and commissioning of works.

Research and development

The Company has been dedicated to developing and conducting research on Chinese music, whether traditional or contemporary. It explores new frontiers in music through commissioning new works of various types and styles. Over the years, it has commissioned about 2,300 original compositions and arrangements, many of which have won awards at home and abroad.

In the constant search for excellence in Chinese music, the Group has put in long-term efforts for instrument research and development, and has developed a full range of *eco-huqins*. The expressiveness and performance of the *eco-huqin* series are an improvement over the traditional versions, as a result of which it has won many awards in China, including national awards, and elsewhere.

Records and publications

The Company has an extensive discography of over 60, which includes live recordings of its concerts and studio recordings in CD, VCD and DVD formats. Apart from collating and publishing papers presented at symposia and conferences, it has also published many books on Chinese music.

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REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Financial review

Income

The total income of the Group was HK\$121.3 million (2022: HK\$109.4 million) for the year, of which HK\$79.6 million (2022: HK\$80.8 million) were subsidies from the Culture, Sports and Tourism Bureau of the Hong Kong Government, accounted for 65.7% of its total income. In addition, the Group received HK\$11.0 million (2022: HK\$7.8 million) from the Culture, Sports and Tourism Bureau of the Hong Kong Government, accounted for 9.1% of its total income under Art Development Matching Grants Pilot Scheme.

Due to improvement in the epidemic situation and resumed of performance venues this year, 32 sessions local concerts were successfully completed. There is an increase of 4 sessions compared to the 28 sessions held in the previous year. The Group's box office income and donations & sponsorships received increased by 23.3% and 10.2% respectively. Total earned income of the Group (excluding Government subsidies and Government grants included in other revenue) for the year increased by 57.6% to HK\$26.6 million (2022: HK\$16.9 million).

Expenditure

The Group continues to exercise stringent control over its general expenditures. The total operating costs of the Group increased by 19.9% to HK\$109.0 million (2022: HK\$91.0 million) was mainly attributable to the increase in production cost in current year due to increase in number of performances in this year.

Surplus for the year

In conclusion of the analysis above, the Group recognised a surplus of HK\$12.2 million (2022: HK\$18.4 million) for the year.

Liquidity and financial resources

The Group funds its operation mainly through Government subvention, cash from operations and other self-financing activities. It has maintained a healthy liquid position for business development and adopted a prudent treasury policy. The total cash and bank deposits as at 31 March 2023 amounted to HK\$99.0 million (2022: HK\$80.7 million). The working capital (current assets less current liabilities) of the Group was HK\$81.3 million (2022: HK\$70.7 million). The Company will continue to place fixed deposits with its surplus cash with banks to maintain stable and safe investment returns.

Key performance indicators

A framework of Key Performance Indicators for a performing arts organisation should include both financial and non-financial data. Non-financial data to show intangible contribution is especially vital in this case due to the shorter history of the art form of Chinese orchestral music. The indicators involve creating innovative programmes, nurturing local young practitioners and commissioning of original compositions etc. Part of the indicators are listed below for reference:

	2023	2022
Total local performing sessions (including concerts and other performance activities, exclude online sessions)	101	97
Total overseas performing sessions *	16	8
Total online activities (including concerts and other performance activities)	82	125

* Included 10 events (2022: 8 events) conducted online due to Covid-19.

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REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Corporate relations with Government, sponsors, employees, customers and suppliers

As a non-profit-distributing organisation subvented by the Government, the Company strictly observes and follows the requirements and regulations laid down by the Government. In being accountable to the Government, sponsors and other stakeholders as to the specific use of funds, the Company seeks to disclose information through various channels such as annual reports and the Company's website, with a view to achieving a high level of transparency to offer the stakeholders and the public a clear and thorough understanding of the business.

The Group regards its employees as valuable assets and for this purpose, provides its staff with various channels in day-to-day operations to express their views and opinions related to work. The Council Chairman or Council Members meet with employees from time to time to listen to their opinions. An effective staff appraisal system is in place, which links compensation with team spirit, discipline, market trends, and Company and individual performance. For years, the Group has been supporting its staff's professional development by enrolling them in training courses, seminars or performances of other art groups so as to enhance their technical and practical knowledge.

In its continuous pursuit of improvement and enhancement of programmes, the Group proactively seeks feedback and views from the audience by inviting them to complete post-performance questionnaires. These are collated and evaluated to ensure that the Company will meet the highest professional and artistic standards.

The Group strives to maintain a fair and collaborative relationship with suppliers, and no major supplier has had an undue influence on its operations arising out of the nature of their business with the Group.

Corporate cultural, education and social responsibilities

The Company aims to enhance the quality of life of the public by presenting programmes that are well-balanced, diversified and abreast of the times. It reciprocates the support and encouragement of the community with innovative programming and artistic excellence that would please and delight the audience.

To assume an ambassadorial role for Chinese music culture, the Company has been actively promoting Chinese music by performing and giving educational workshops overseas. At its home base, its educational initiatives for the young include the establishment of the Hong Kong Junior Chinese Orchestra, instrumental training classes, touring concerts to schools and workshops, etc.

The Company launched the "*Music for Love*" scheme in 2005 with the purpose of allowing all members of the community to attend the Company's performances for free. Since then, many primary and secondary school students and underprivileged groups and families have had the opportunity to enjoy the beauty of Chinese music.

The Company is the first performing arts group to be awarded the "Ten Plus Caring Company" logo by the Hong Kong Council of Social Service in recognition of its continuous efforts in implementing corporate responsibility and contribution to social environment. Since 2005, the Company has been receiving this award for a continuous of 18 years.

Compliance with laws and regulations

The Group has an internal control system in place to monitor on-going compliance with relevant laws and regulations. During the year, there was no instance of non-compliance with any relevant laws and regulations that the Group was aware of which might cause a significant impact.

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REPORT OF THE COUNCIL MEMBERS

Business review (continued)

Environmental policies and performances

The Group supports the protection of the environment by researching and developing the Eco-*Huqin* series, its uniqueness being its use of bio-degradable materials in place of python skin as used in traditional huqins. The value of the Eco-*Huqin* series is well recognised and acknowledged.

It is also the Group's ongoing concern to save energy, reduce waste and protect the environment during its day-to-day operations. A number of measures have been implemented for such purposes.

Principal risks and uncertainties

The general outlook of the Group is positive, but the following uncertainties may be worth considering and may cause concern.

Subvention by the Government

The major source of revenue of the Company is Government subvention. A change in the Government policy on subsidy will affect the operations of the Company.

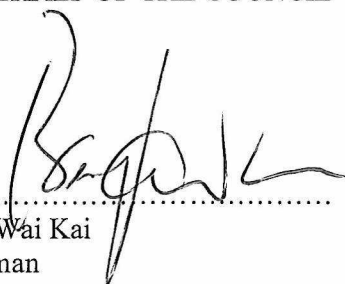
Future development of the Group's business

The Group will continue to strive for artistic excellence, broaden its range of services to the community, and make Chinese orchestral music accessible to all by producing a good mix of innovative programmes. By working together, it hopes to create a more close-knit society, with music as an excellent bond.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE COUNCIL



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Chan Wai Kai
Chairman

Hong Kong
11 September 2023



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Independent auditor's report
To the members of Hong Kong Chinese Orchestra Limited
(Incorporated in Hong Kong with limited liability by guarantee)

Opinion

We have audited the consolidated financial statements of Hong Kong Chinese Orchestra Limited (the "Company") and its subsidiaries (the "Group") set out on pages 10 to 45, which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of income and expenditure, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2023, and of its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and auditor's report thereon

The council members of the Company (the "Council Members") are responsible for the other information. The other information comprises the information included in the report of the Council Members.

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

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

Independent auditor's report (continued)
To the members of Hong Kong Chinese Orchestra Limited
(Incorporated in Hong Kong with limited liability by guarantee)

Responsibilities of the Council Members for the consolidated financial statements

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

In preparing the consolidated financial statements, the Council Members are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council Members either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council Members.

Independent auditor's report (continued)
To the members of Hong Kong Chinese Orchestra Limited
(Incorporated in Hong Kong with limited liability by guarantee)

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

- Conclude on the appropriateness of the Council Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of Council Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Certified Public Accountants
Hong Kong
11 September 2023