

UNITED SERVICES RECREATION CLUB LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

certified by:
company secretary
(LEE PUN YEUNG)
Lee Pun Yeung



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**UNITED SERVICES RECREATION CLUB LIMITED
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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UNITED SERVICES RECREATION CLUB LIMITED REPORT OF THE GENERAL COMMITTEE MEMBERS

The general committee members present herewith their annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL PLACE OF BUSINESS

United Services Recreation Club Limited (the "Club") was incorporated and domiciled in Hong Kong and has its registered office and principal place of operation at 1 Gascoigne Road, King's Park, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Club is the provision of recreation services and other club facilities to members.

FINANCIAL STATEMENTS

The surplus for the year ended 31 December 2011 and the state of the Club's affairs as at the date are set out in the financial statements on page 5 to 28.

TRANSFER TO RESERVES

Movements in the reserves of the Club during the year are set out in the statement of changes in funds and reserves on page 7.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 8 to the financial statements.

GENERAL COMMITTEE MEMBERS

The general committee members during the year were:

Mr. Ross Parker	(Chairman in the second year of his two year term)
Mr. Joseph Govert Enger	(Treasurer in the first year of his two year term)
Ms. Shou Fong Annie Yeung	(General committee member in the second year of her two year term)
Mr. Leslie Alan Pearce	(General committee member in the second year of his two year term)
Mr. Bryan Thomas Clifford	(General committee member in the first year of his two year term)
Mr. David William Icke	(General committee member in the first year of his two year term. Resigned on 14 March 2012)
Mr. Kwok Chun Ng	(Appointed to the Board on 14 March 2012)

**UNITED SERVICES RECREATION CLUB LIMITED
REPORT OF THE GENERAL COMMITTEE MEMBERS**

(Continued)

GENERAL COMMITTEE MEMBERS (Continued)

In accordance with Clause 8(h) of the Club's Articles of Association, half of the longest serving since last elected of the Chairman, Treasurer and four elected voting members shall retire and, being eligible, offer themselves for re-election.

GENERAL COMMITTEE MEMBERS' INTERESTS

No contracts of significance in relation to the Club's operation or business to which the Club was a party and in which a general committee member of the Club had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Club a party to any arrangement to enable the general committee members of the Club to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Club or its associated corporations.

MANAGEMENT CONTRACTS

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

AUDITOR

CCIF CPA Limited ("CCIF") retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF as auditor is to be proposed at the forthcoming annual general meeting.

On behalf of the general committee



Chairman
Hong Kong, 18 April 2012



CCIF

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
UNITED SERVICES RECREATION CLUB LIMITED**
(Incorporated in Hong Kong and limited by guarantee)

We have audited the financial statements of United Services Recreation Club Limited (the "Club") set out on pages 5 to 28, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income and expenditure, statement of changes in funds and reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

General committee members' responsibility for the financial statements

The general committee members of the Club are 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 general committee members determine 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 and 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 general committee members, 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
UNITED SERVICES RECREATION CLUB LIMITED**
(Incorporated in Hong Kong and limited by guarantee)

(Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Club as at 31 December 2011 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.

Emphasis of matter

In forming our opinion, we have considered the adequacy of disclosures made concerning the basis of preparation of the financial statements by the general committee members. Under the terms of the Defence Land Agreement signed between the United Kingdom and the People's Republic of China, the land upon which the Club is situated forms part of the estate belonging to the People's Liberation Army ("PLA") Garrison. The Club's future is dependent on the PLA Garrison's decision to lease the land to the Club continuously. The financial statements do not include any adjustments to the assets and liabilities that would result from a failure to obtain an extension to the lease. Details of the circumstances relating to this fundamental uncertainty are described in note 19(a) to the financial statements. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

CCIF CPA JEA

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 18 April 2012

Betty P.C. Tse
Practising Certificate Number P03024

UNITED SERVICES RECREATION CLUB LIMITED
STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
REVENUE			
Subscriptions		13,993,110	12,587,920
Food and beverages		12,706,531	12,496,466
Retail shop		131,110	126,460
Video shop		-	2,460
Sports		997,139	1,223,518
Accommodation		1,492,083	1,358,248
Car Park		2,890,200	2,849,800
		<u>32,210,173</u>	<u>30,644,872</u>
DIRECT COSTS			
Cost of sales - Bar and restaurant		5,411,353	5,196,747
Cost of sales - Retail shop		100,127	106,634
Sports		1,117,749	1,271,582
Accommodation		8,446	33,759
Car Park		349,760	307,172
		<u>(6,987,435)</u>	<u>(6,915,894)</u>
		25,222,738	23,728,978
Other income	4	378,495	359,543
Employee expense	5(a)	16,960,952	15,697,987
Administration expenses	5(b)	7,589,846	6,943,781
Depreciation of property, plant and equipment	8	4,201,132	2,778,588
		<u>(28,751,930)</u>	<u>(25,420,356)</u>
DEFICIT FROM OPERATIONS	5	(3,150,697)	(1,331,835)
Entrance fee income		<u>3,796,539</u>	<u>6,451,880</u>
SURPLUS BEFORE INCOME TAX		645,842	5,120,045
Income tax	6	<u>-</u>	<u>-</u>
SURPLUS FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME AND EXPENDITURE		<u>645,842</u>	<u>5,120,045</u>

The accompanying notes form part of these financial statements.

UNITED SERVICES RECREATION CLUB LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
ASSETS			
Non-current assets			
Property, plant and equipment	8	19,920,601	9,568,246
Employee retirement benefit plan assets	9	1,635,000	1,730,000
		21,555,601	11,298,246
Current assets			
Inventories	10	359,847	329,492
Members' accounts and other receivables	11	2,191,663	3,043,173
Pledged bank balance	12	-	20,000
Cash and cash equivalents	13	12,664,614	21,055,549
		15,216,124	24,448,214
LIABILITIES			
Current Liabilities			
Trade and other payables	14	<u>(3,623,832)</u>	<u>(3,244,409)</u>
Net current assets		<u>11,592,292</u>	<u>21,203,805</u>
NET ASSETS		<u>33,147,893</u>	<u>32,502,051</u>
FUNDS AND RESERVES			
Accumulated surplus		14,468,981	13,323,546
Development reserve	15	17,043,912	17,448,505
Employee retirement benefit plan reserve	16	<u>1,635,000</u>	<u>1,730,000</u>
		<u>33,147,893</u>	<u>32,502,051</u>

Approved and authorised for issue by the General Committee on 18 April 2012.



Chairman



Hon. Treasurer

The accompanying notes form part of these financial statements.

UNITED SERVICES RECREATION CLUB LIMITED
STATEMENT OF CHANGES IN FUNDS AND RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	<u>Accumulated surplus</u> HK\$	<u>Development reserve</u> HK\$	<u>Employee retirement benefit plan reserve</u> HK\$	<u>Total</u> HK\$
At 1 January 2010		11,870,793	13,775,213	1,736,000	27,382,006
Surplus for the year		5,120,045	-	-	5,120,045
Transfers from/(to) reserves					
- Entrance fees	15	(6,451,880)	6,451,880	-	-
- Depreciation	15	2,778,588	(2,778,588)	-	-
- Employee retirement benefits	16	<u>6,000</u>	<u>-</u>	<u>(6,000)</u>	<u>-</u>
At 31 December 2010 and 1 January 2011		13,323,546	17,448,505	1,730,000	32,502,051
Surplus for the year		645,842	-	-	645,842
Transfers from/(to) reserves					
- Entrance fees	15	(3,796,539)	3,796,539	-	-
- Depreciation	15	4,201,132	(4,201,132)	-	-
- Employee retirement benefits	16	<u>95,000</u>	<u>-</u>	<u>(95,000)</u>	<u>-</u>
At 31 December 2011		<u>14,468,981</u>	<u>17,043,912</u>	<u>1,635,000</u>	<u>33,147,893</u>

The accompanying notes form part of these financial statements.

UNITED SERVICES RECREATION CLUB LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
OPERATING ACTIVITIES			
Surplus before income tax		645,842	5,120,045
Adjustments for:			
Depreciation		4,201,132	2,778,588
Interest income		(14,368)	(8,334)
Entrance fees		(3,796,539)	(6,451,880)
Provision for impaired receivables		7,000	5,981
Employee retirement benefit plan assets		<u>95,000</u>	<u>6,000</u>
Surplus before working capital changes		1,138,067	1,450,400
Decrease in pledged bank balance		20,000	-
Increase in inventories		(30,355)	(16,790)
Decrease/(increase) in member's accounts and other receivables		844,510	(950,033)
Increase/(decrease) in trade and other payables		379,423	(227,983)
		<u>1,213,578</u>	<u>(1,194,806)</u>
NET CASH GENERATED FROM OPERATING ACTIVITIES		2,351,645	255,594
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(14,553,487)	(3,634,532)
Decrease in time deposits with original maturity over three months		-	-
Interest received		14,368	8,334
NET CASH USED IN FINANCING ACTIVITIES		(14,539,119)	(3,626,198)
FINANCING ACTIVITIES			
Proceeds from entrance fees		3,796,539	6,451,880
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>3,796,539</u>	<u>6,451,880</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(8,390,935)	3,081,276
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>21,055,549</u>	<u>17,974,273</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	13	<u>12,664,614</u>	<u>21,055,549</u>

The accompanying notes form part of these financial statements.

**UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

1. GENERAL

United Services Recreation Club Limited (the "Club") was incorporated under the Hong Kong Companies Ordinance and is limited by guarantee. The Club is engaged in the provision of recreation services and other club facilities to members. The address of its registered office and place of operation of the Club is 1 Gascoigne Road, King's Park, Kowloon, Hong Kong.

2. STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

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

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Club. The general committee members is of the view that none of these new and amendments HKFRSs are relevant and applicable to the Club and no impact on the financial statements is expected and no additional disclosure is required.

The Club has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 20).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of the financial statements

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Club's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates significant to the financial statements are disclosed in note 19. The measurement basis used in the preparation of the financial statements is the historical cost basis.

**UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Club and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the statement of comprehensive income and expenditure during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Renovations and decorations	5 years
Furniture and fixtures	5 years
Office equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 3(d)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within expenditure in the statement of comprehensive income and expenditure.

c) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises invoiced cost.

Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

e) Financial assets

The Club classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are classified as "members' accounts and other receivables", "time deposits with original maturity over three months" and "cash and cash equivalents" in the statement of financial position.

The Club assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in note 3(f).

f) Members' accounts and other receivables

Members' accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of members' accounts and other receivables is established when there is objective evidence that the Club will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the statement of comprehensive income and expenditure within administrative expenses. When receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses.

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

h) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

i) Employee benefits

i) Pension obligations

The Club operates two retirement benefit schemes, a mandatory provident fund scheme ("MPF scheme") and a defined benefit plan in Hong Kong. The assets of both schemes are held separately from those of the Club in trustee-administered funds.

For the MPF scheme, the Club pays contributions on a mandatory basis. Both the Club and the employees are required to contribute 5% of the employees' relevant income up to a maximum of HK\$1,000 per employee per month. The Club has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The assets recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets at the end of the reporting period less the present value of the defined benefit obligation, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Hong Kong Exchange Fund Notes that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee benefits (Continued)

ii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave, maternity, paternity leave or other non-accumulating compensated services are not recognised until the time of leave.

iii) Bonus plan

The expected cost of bonus payments is recognised as a liability when the Club has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

j) Provisions

Provisions are recognised when the Club has a present legal or constructive obligation where, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

k) Revenue and other income recognition

Revenue and other income are recognised as follows:

i) Subscription income

Subscription income is recognised on an accruals basis.

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Revenue and other income recognition (Continued)

ii) Sales of food and beverages

Income from sales of food and beverage is recognised in the accounting period when consumed.

iii) Income from retail shop

Income from retail shop is recognised when the Club has delivered products to the customer, the customer has accepted the products and collectively of the related receivable is reasonably assured.

iv) Income from video shop, sports, accommodation and car park

Income from video shop, sports, accommodation and car park are recognised on an accruals basis.

v) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

vi) Sundry income

Sundry and other income are recognised on an accrual basis.

vii) Entrance fee income

Entrance fee income is recognised in full in the period of entry of new members.

l) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the Club are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Club's functional and presentation currency.

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Foreign currency translation (Continued)

ii) Transactions and balances

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

4. OTHER INCOME

An analysis of other income is as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Bank interest income	14,368	8,334
Locker income	182,415	175,005
Penalty income	118,605	89,210
Sundry income	59,077	86,994
Coupon net income	<u>4,030</u>	<u>-</u>
	<u>378,495</u>	<u>359,543</u>

5. DEFICIT FROM OPERATIONS

Deficit from operations is arrived at after charging:

	<u>2011</u> HK\$	<u>2010</u> HK\$
a) Employee expense		
Salaries and bonuses	15,688,711	14,483,980
Life guard service charge	539,832	547,728
Pension costs		
- MPF scheme	546,201	481,349
- Defined benefit plan (note 9)	165,000	156,000
- Others	<u>21,208</u>	<u>28,930</u>
	<u>16,960,952</u>	<u>15,697,987</u>

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5. DEFICIT FROM OPERATIONS (Continued)

Deficit from operations is arrived at after charging: (Continued)

	<u>2011</u> HK\$	<u>2010</u> HK\$
b) Administrative expenses		
Utilities	1,342,230	1,383,834
Repairs and maintenance	669,345	742,315
Rent and rates	240,000	213,000
Office expenses	1,281,172	1,252,724
Insurance	391,957	366,629
Library and periodicals	73,471	61,015
Newsletter	292,460	252,296
Impairment for members' accounts (note 11)	7,000	5,981
Auditor's remuneration	68,000	67,000
Professional fees	180,000	148,400
Services to members	277,433	370,323
Laundry	307,530	246,335
Business registration and license fees	61,088	58,274
Entertainment	68,994	64,420
Function costs	816,312	116,338
Linens and uniform	74,492	54,305
Referrals expenses	244,303	287,200
Towngas	455,001	531,520
Other expenses	739,058	721,872
	<u>7,589,846</u>	<u>6,943,781</u>

6. INCOME TAX

For the years ended 31 December 2011 and 2010, since more than 50% of the Club's income came from voting members, therefore pursuant to Section 24(1) of the Inland Revenue Ordinance, the Club is not liable to Hong Kong Profits Tax.

UNITED SERVICES RECREATION CLUB LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

7. REMUNERATION OF THE GENERAL COMMITTEE MEMBERS (EQUIVALENT TO KEY MANAGEMENT COMPENSATION)

None of the general committee members received or will receive any fees or other emoluments in respect of their services to the Club during the year (2010: Nil).

8. PROPERTY, PLANT AND EQUIPMENT

	Renovations and decorations HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Cost				
At 1 January 2010	24,046,213	4,548,406	1,573,418	30,168,037
Additions	2,354,683	1,279,849	-	3,634,532
Disposal	<u>(10,958,499)</u>	<u>(1,517,329)</u>	<u>(902,685)</u>	<u>(13,378,513)</u>
At 31 December 2010 and at 1 January 2011	15,442,397	4,310,926	670,733	20,424,056
Additions	<u>13,196,806</u>	<u>1,356,681</u>	<u>-</u>	<u>14,553,487</u>
At 31 December 2011	<u>28,639,203</u>	<u>5,667,607</u>	<u>670,733</u>	<u>34,977,543</u>
Accumulated depreciation				
At 1 January 2010	16,560,143	3,322,174	1,573,418	21,455,735
Charge for the year	2,214,849	563,739	-	2,778,588
Written back	<u>(10,958,499)</u>	<u>(1,517,329)</u>	<u>(902,685)</u>	<u>(13,378,513)</u>
At 31 December 2010 and at 1 January 2011	7,816,493	2,368,584	670,733	10,855,810
Charge for the year	<u>3,366,185</u>	<u>834,947</u>	<u>-</u>	<u>4,201,132</u>
At 31 December 2011	<u>11,182,678</u>	<u>3,203,531</u>	<u>670,733</u>	<u>15,056,942</u>
Carrying amount				
At 31 December 2011	<u>17,456,525</u>	<u>2,464,076</u>	<u>-</u>	<u>19,920,601</u>
At 31 December 2010	<u>7,625,904</u>	<u>1,942,342</u>	<u>-</u>	<u>9,568,246</u>

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9. EMPLOYEE RETIREMENT BENEFIT PLAN ASSETS

	<u>2011</u> HK\$	<u>2010</u> HK\$
Plan assets balance	<u>1,635,000</u>	<u>1,730,000</u>
Pension benefits expensed in the statement of income and expenditure (note 5(a))	<u>186,208</u>	<u>184,930</u>

The assets of the defined benefit plan are held independently of the Club's assets in separate trustee administered funds. The plan is valued by HSBC Life (International) Ltd., a qualified actuary, annually using the projected unit credit method.

The amounts recognised in the statement of financial position are determined as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Present value of defined benefit obligation	(4,099,000)	(3,069,000)
Fair value of plan assets	<u>3,970,000</u>	<u>3,982,000</u>
	(129,000)	913,000
Unrecognised actuarial losses	<u>1,764,000</u>	<u>817,000</u>
Asset in the statement of financial position	<u>1,635,000</u>	<u>1,730,000</u>

The movement in the defined benefit obligation over the year is as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Beginning of year	3,069,000	2,903,000
Interest cost	87,000	74,000
Current service cost	176,000	156,000
Benefit paid	(166,000)	(97,000)
Actuarial loss	<u>933,000</u>	<u>33,000</u>
End of year	<u>4,099,000</u>	<u>3,069,000</u>

The movement in the fair value of plan assets of the year is as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Beginning of year	3,982,000	3,839,000
Expected return on plan assets	138,000	116,000
Employer and employee contributions	68,000	145,000
Benefits paid	(166,000)	(97,000)
Actuarial loss	<u>(52,000)</u>	<u>(21,000)</u>
End of year	<u>3,970,000</u>	<u>3,982,000</u>

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9. EMPLOYEE RETIREMENT BENEFIT PLAN ASSETS (Continued)

The amounts recognised in the statement of comprehensive income and expenditure are as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Current service cost	176,000	156,000
Interest cost	87,000	74,000
Expected return on plan assets	(138,000)	(116,000)
Net actuarial loss recognised during the year	38,000	37,000
Administrative cost and group life premium deducted from contribution	<u>2,000</u>	<u>5,000</u>
Total, included in employee benefit expense (note 5(a))	<u>165,000</u>	<u>156,000</u>

The actual return on plan assets amounted to HK\$86,000 (2010: HK\$90,000).

The plan assets at the end of the reporting period are held in the form as follows:

	<u>2011</u>	<u>2010</u>
Equities	-	-
Bonds	98.1%	91.9%
Money instruments - Cash and others	<u>1.9%</u>	<u>8.1%</u>
Total	<u>100%</u>	<u>100%</u>

The principal actuarial assumptions used are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	1.5% per annum	2.9% per annum
Future salary increases	4.5% per annum	2.5% per annum
Expected return on plan assets	2.5% per annum	2.5% per annum

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10. INVENTORIES

	<u>2011</u> HK\$	<u>2010</u> HK\$
Bar stock	125,729	134,893
Catering stock	183,724	158,471
Club shop stock	<u>50,394</u>	<u>36,128</u>
	<u>359,847</u>	<u>329,492</u>

The cost of inventories recognised as an expense and included in cost of sales amounted to HK\$5,511,480 (2010: HK\$5,303,381).

11. MEMBERS' ACCOUNTS AND OTHER RECEIVABLES

	<u>2011</u> HK\$	<u>2010</u> HK\$
Members' accounts	2,012,689	1,716,526
Less: Impairment	<u>(97,000)</u>	<u>(100,000)</u>
Members' accounts - net	1,915,689	1,616,526
Other receivables and deposits	150,510	1,358,656
Prepayments	<u>125,464</u>	<u>67,991</u>
	<u>2,191,663</u>	<u>3,043,173</u>

The carrying amounts of members' accounts and other receivables approximate their fair values as at 31 December 2011 and 2010 and are denominated in Hong Kong dollars.

Members' accounts that are less than one month past due are not considered impaired. As at 31 December 2011, members' accounts of HK\$35,642 (2010: HK\$33,985) were past due but not impaired. These relate to a number of independent members for whom there is no recent history of default. The ageing analysis of these members' accounts that are neither individually nor collectively considered to be impaired are as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Past due by:		
31 - 60 days	17,510	17,611
61 - 90 days	1,781	6,321
121 - 180 days	<u>16,351</u>	<u>10,053</u>
	<u>35,642</u>	<u>33,985</u>

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11. MEMBERS' ACCOUNTS AND OTHER RECEIVABLES (Continued)

As at 31 December 2011, members' accounts of HK\$97,000 (2010: HK\$100,000) were impaired. The ageing of these receivables is as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Past due by:		
1 - 30 days	21,480	24,051
31 - 60 days	10,919	12,132
61 - 90 days	10,924	16,426
Over 90 days	<u>53,677</u>	<u>47,391</u>
	<u>97,000</u>	<u>100,000</u>

Movements of the impairment of account are as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
As 1 January	100,000	118,824
Additions	7,000	5,981
Amount written off during the year	<u>(10,000)</u>	<u>(24,805)</u>
At 31 December	<u>97,000</u>	<u>100,000</u>

The impaired receivables were outstanding for over 30 days as at the end of the reporting period and no subsequent settlement has been received up to the report date. Accordingly, specific allowances for doubtful debts of HK\$7,000 (2010: HK\$5,981) were recognised.

The creation and release of impaired receivables are included in administration expenses in the statement of comprehensive income and expenditure.

The other classes within members' accounts and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Club does not hold any collateral as security.

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12. PLEDGED BANK BALANCE

For the financial year ended 31 December 2010, the bank balance was pledged to secure the bank guarantee amounting to HK\$20,000 in favour of the Hong Kong Government Water Supplies Department. In 2011, the club directly paid the guarantee to the Hong Kong Government Water Supplies Department instead of the bank guarantee. As at 31 December 2011, the pledged bank balance is nil.

13. CASH AND CASH EQUIVALENTS

	<u>2011</u> HK\$	<u>2010</u> HK\$
Cash at banks and in hand	8,064,659	12,582,783
Short-term bank deposits	<u>4,599,955</u>	<u>8,472,766</u>
Cash and cash equivalents	<u>12,664,614</u>	<u>21,055,549</u>
Maximum exposure to credit risk	<u>12,639,614</u>	<u>21,040,549</u>

The effective interest rate on short-term bank deposits is 0.05% (2010: 0.05%) per annum.

The carrying amounts of cash and bank balances are denominated in the following currencies:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Hong Kong dollars	9,186,074	13,704,092
United States dollars	3,471,466	7,344,385
Sterling	<u>7,074</u>	<u>7,072</u>
	<u>12,664,614</u>	<u>21,055,549</u>

14. TRADE AND OTHER PAYABLES

	<u>2011</u> HK\$	<u>2010</u> HK\$
Trade payables	1,149,531	823,567
Accruals and other payables	2,122,350	2,142,578
Provision for payment in lieu of employee unused annual leave	<u>351,951</u>	<u>278,264</u>
	<u>3,623,832</u>	<u>3,244,409</u>

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15. DEVELOPMENT RESERVE

	<u>2011</u> HK\$	<u>2010</u> HK\$
At 1 January	17,448,505	13,775,213
Transfer from entrance fees	3,796,539	6,451,880
Transfer from depreciation	(4,201,132)	(2,778,588)
	<u>(404,593)</u>	<u>3,673,292</u>
At 31 December	<u>17,043,912</u>	<u>17,448,505</u>

The development reserve is intended to finance the acquisition of property, plant and equipment. It is funded from entrance fees. For property, plant and equipment acquired, the corresponding reserves are released to the statement of comprehensive income and expenditure as a reserve movement, over the life of the assets.

16. EMPLOYEE RETIREMENT BENEFIT PLAN RESERVE

	<u>2011</u> HK\$	<u>2010</u> HK\$
At 1 January	1,730,000	1,736,000
Change in value of plan assets pension benefits	(95,000)	(6,000)
At 31 December	<u>1,635,000</u>	<u>1,730,000</u>

The employee retirement benefit plan reserve represents surplus of fair value of plan assets over the present value of defined benefits obligations, together with adjustments for unrecognised actuarial gains or losses and past service costs. It is restricted to the present value of economic benefits on the defined benefit pension plan available to the Club at the end of the reporting period.

17. FINANCIAL AND CAPITAL RISK MANAGEMENT

a) Financial risk factors

The Club's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow interest rate risk. The Club's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Club's financial performance.

17. FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

a) Financial risk factors (Continued)

i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Club's functional currency. The Club has minimal exposure to foreign currency exchange rate risk as it operates principally in Hong Kong and transactions are mainly denominated in Hong Kong dollars. Accordingly, no sensitivity analysis is performed.

ii) Credit risk

Credit risk arises from members' accounts and other receivables and cash and bank balances.

As the Club's members' accounts consist of a large number of members, the relevant concentration of credit risk is low. In addition, in order to minimise the credit risk resulting from counterparty default, the management of the Club has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover debts. The Club also reviews the recoverable amount of each individual member account at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the general committee members are of the opinion that the relevant credit risk has been significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputable and creditworthy banks.

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

iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. The Club's liquidity risk is further mitigated through the availability of financing from adequate amount of subscription income and entrance fee income so as to enable the Club to meet its liabilities as and when they fall due and to continue operating for the foreseeable future.

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17. FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

a) Financial risk factors (Continued)

iii) Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of the reporting period of the company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the company can be required to pay:

	2011		
	Carrying amount HK\$	Total contractual undiscounted cash flow HK\$	Within 1 year or on demand HK\$
Trade payables	1,149,531	1,149,531	1,149,531
Accruals and other payables	<u>2,122,350</u>	<u>2,122,350</u>	<u>2,122,350</u>
	<u>3,271,881</u>	<u>3,271,881</u>	<u>3,271,881</u>
	2010		
	Carrying amount HK\$	Total contractual undiscounted cash flow HK\$	Within 1 year or on demand HK\$
Trade payables	823,567	823,567	823,567
Accruals and other payables	<u>2,142,578</u>	<u>2,142,578</u>	<u>2,142,578</u>
	<u>2,966,145</u>	<u>2,966,145</u>	<u>2,966,145</u>

iv) Cash flow interest rate risk

Apart from the bank balances which carry interest at market rates, the Club has no other significant interest-bearing assets and liabilities. The interest income derived therefrom is relatively insignificant to the Club's operations; therefore, its income and operating cash flows are substantially independent of changes in market interest rates. The general committee members are of the opinion that the Club does not have significant cash flow interest rate risk and no sensitivity analysis is performed.

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17. FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

b) Estimation of fair values

The carrying values less impairment provision of receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Club for similar financial instruments, unless the effect of discounting is insignificant.

c) Capital management

The Club's objectives when managing the fund and reserves are to safeguard the Club's ability to continue as a going concern in order to support the daily operation of the Club. The Club's overall strategy remains unchanged from prior years.

18. COMMITMENTS

- a) Capital commitment outstanding at 31 December 2011 not provided for in the financial statements was as follow:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Contracted for	2,891,077	770,624
Authorised but not contracted for	<u>3,726,848</u>	<u>-</u>
	<u>6,617,925</u>	<u>770,624</u>

- b) At 31 December 2011, the Club had commitments for future minimum lease payments under non-cancellable operating leases for equipments which fall due as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Within one year	990	18,720
In the second to fifth years inclusive	<u>-</u>	<u>11,880</u>
	<u>990</u>	<u>30,600</u>

The Club leases an item of equipment under operating leases. The leases typically run for a period of 2 years. There is no option to renew the lease. None of the leases includes contingent rentals.

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19. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Club makes estimates and assumptions concerning the future. Estimate and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Club makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Except as stated below, there are no estimates or assumptions used on these financial statements that the general committee members expect will have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

a) Going concern

Under the terms of the Defence Land Agreement signed between the United Kingdom and the People's Republic of China, the land upon which the Club is situated forms part of the estate belonging to the People's Liberation Army ("PLA") Garrison. The Club's future is dependent on the PLA Garrison's decision to lease the land, including the clubhouse, to the Club continuously. Despite the absence of any formal agreement between the Club and the PLA Garrison, the general committee members are of the opinion that the lease as well as the current operations of the Club will continue for the foreseeable future. Consequently, the general committee members have prepared the financial statements on a going concern basis.

b) Depreciation

Plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Club reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods are adjusted if there are significant changes from previous estimates.

c) Allowance for impairment of doubtful debts

Allowance for impairment of doubtful debts are assessed and provided based on the general committee members' regular review of aging analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual member. Any increase or decrease in the allowance for impairment of doubtful debts would affect profit or loss in future years.

d) Defined benefit pension plan

The Club participates in a defined benefit plan the valuation of which is determined by an independent qualified actuary. These valuations require assumptions to be made in respect of future income levels, expected mortality, inflation, the long-term rate of return on the scheme assets, and discount rate to convert future cash flows into a present value. These assumption are reviewed annually. The amounts recorded are sensitive to changes in these assumptions.

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20. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

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 December 2011 and which have not been adopted in these financial statements.

The general committee members anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Club.

Amendments to HKFRS 7	Disclosures - Transfers of Financial Assets ¹ Disclosures - Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax - Recovery of Underlying Assets ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁵
HK (IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

- ¹ Effective for annual periods beginning on or after 1 July 2011.
² Effective for annual periods beginning on or after 1 January 2013.
³ Effective for annual periods beginning on or after 1 January 2015.
⁴ Effective for annual periods beginning on or after 1 January 2012.
⁵ Effective for annual periods beginning on or after 1 July 2012.
⁶ Effective for annual periods beginning on or after 1 January 2014.