

THE RED PENCIL (SINGAPORE)

(Reg. No. : 201113675E)

(Public Company Limited by Guarantee, Incorporated in Singapore)

**DIRECTORS' STATEMENT AND FINANCIAL STATEMENTS
31 DECEMBER 2016**

Robert Tan Partners PAC

Chartered Accountants, Singapore

陳萬謙會計有限公司

THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RED PENCIL (SINGAPORE) (Reg. No. : 201113675E)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **THE RED PENCIL (SINGAPORE)** (the company), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position and financial performance of the company for the year covered by the financial statements.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). 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 Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the company's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RED PENCIL (SINGAPORE) (Reg. No. : 201113675E) (Continued)

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs 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 SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also :

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

.....Cont'd

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)
(Continued)**

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act.



Robert Tan Partners PAC
Public Accountants and
Chartered Accountants,
Singapore

28 February 2017

THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>Note</u>	<u>2016</u> \$	<u>2015</u> \$
Revenue - Donations (tax exempt)		285,798	430,215
- Donations (non-tax exempt)		115,603	43,496
- Merchandise sales		13,160	715
- Workshop		12,590	4,760
Endowment fund donations		-	(125,000)
Event expenses		-	(375)
Other operating income	3	53,157	38,660
Art materials		(8,536)	(1,335)
Art therapy services		(25,380)	(33,930)
Depreciation		(4,082)	-
Employee benefits	4	(254,622)	(204,146)
Professional fees		(6,168)	(120)
Student sponsorship		(18,000)	(6,750)
Other operating expenses		(66,280)	(47,656)
		<hr/>	<hr/>
Profit before tax		97,240	98,534
Income tax expense	5	-	-
		<hr/>	<hr/>
Profit for the year		97,240	98,534
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive income for the year		<u>97,240</u>	<u>98,534</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>Accumulated surplus</u> \$
Balance at 31 December 2014	256,308
Total comprehensive income for 2015	98,534
	<hr/>
Balance at 31 December 2015	354,842
Total comprehensive income for 2016	97,240
	<hr/>
Balance at 31 December 2016	<u>452,082</u>

The attached notes to financial statements form
an integral part of these financial statements.

THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	<u>Note</u>	<u>2016</u> \$	<u>2015</u> \$
ASSETS			
Non-current assets			
Office equipment	6	8,982	-
		<u> </u>	<u> </u>
Current assets			
Trade receivable	7	5,705	-
Other receivable		3,984	-
Deposits & prepayment		3,719	3,693
Amount due from related party, non-trade	8	78,876	36,194
Bank balances	9	1,055,674	327,549
		<u> </u>	<u> </u>
		1,147,958	367,436
		<u> </u>	<u> </u>
Total assets		<u>1,156,940</u>	<u>367,436</u>
EQUITY AND LIABILITIES			
Reserves			
Accumulated surplus		452,082	354,842
		<u> </u>	<u> </u>
Current liabilities			
Expenses payable		6,395	12,594
Grant received in advance	10	698,463	-
		<u> </u>	<u> </u>
		704,858	12,594
		<u> </u>	<u> </u>
Total equity and liabilities		<u>1,156,940</u>	<u>367,436</u>

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THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>2016</u>	<u>2015</u>
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	97,240	98,534
Adjustment for depreciation	4,082	-
	<hr/>	<hr/>
Operating profit before working capital changes	101,332	98,534
<i>Changes in working capital :</i>		
Trade & other receivables, deposits and prepayment	(9,715)	(1,248)
Expenses payable & grant received in advance	692,264	466
	<hr/>	<hr/>
<i>Net cash from operating activities</i>	783,871	97,752
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of office equipment	(13,064)	-
	<hr/>	<hr/>
<i>Net cash used in investing activities</i>	(13,064)	-
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Changes in financing activities :</i>		
Amount due from related party, non-trade	(42,682)	(36,194)
	<hr/>	<hr/>
<i>Net cash used in financing activities</i>	(42,682)	(36,194)
	<hr/>	<hr/>
NET INCREASE IN BANK BALANCES	728,125	61,558
BANK BALANCES AT BEGINNING OF YEAR	327,549	265,991
	<hr/>	<hr/>
BANK BALANCES AT END OF YEAR	1,055,674	327,549
	<hr/> <hr/>	<hr/> <hr/>

The attached notes to financial statements form
an integral part of these financial statements.

THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

NOTES TO FINANCIAL STATEMENTS - 31 DECEMBER 2016

1. GENERAL

The company is incorporated in Singapore as a Public company limited by guarantee and is registered as a charity under the Charities Act, Cap. 37. The registered office is situated at 20 Upper Circular Road, #02-01 The Riverwalk, Singapore 058416.

The financial statements are authorised for issue by the directors on the date stated on the Directors' Statement on page 3.

The principal activities of the company are to reach out to all situations where children, especially from low income families, are being stricken by diseases, traumas or disabilities and where art-therapy could help to alleviate their burden and also to provide bursaries, overseas training, research opportunities and financial support for students whose own financial means would not allow them to cover those costs.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of accounting*

The financial statements of the company have been prepared under the historical cost convention except as disclosed in the accounting policies below. The fair values of financial assets and liabilities approximate their carrying amounts recorded in the financial statements.

The financial statements of the company comply with Singapore Financial Reporting Standards (FRS). During the year, the company adopted, where applicable, the new or revised FRS and Interpretations to FRS (INT FRS) that are effective for the current accounting period. The adoption did not result in any change in accounting policies. For new FRS and INT FRS that are not yet mandatory, there is no impact on the financial statements.

(b) *Accounting estimates and judgements*

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are reviewed on an on-going basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are not expected to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

THE RED PENCIL (SINGAPORE)
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NOTES TO FINANCIAL STATEMENTS - 31 DECEMBER 2016

(c) *Revenue recognition*

Revenue from merchandise sales and auction are recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods, and the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably, and that the economic benefits associated with the transaction will flow to the company and the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Donations and interest income are recognised upon receipt.

(d) *Office equipment*

All items of office equipment of \$400 or higher are initially recorded at cost and items below \$400 are expensed as minor assets. The cost of an item is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Subsequent to recognition, office equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation begins when the assets are available for use and is calculated on the straight line basis over its estimated useful life of 3 years.

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

The carrying values of office equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment losses or reversal of previously recognised impairment losses are recognised as loss or profit in the statement of profit or loss and other comprehensive income.

An item of office equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

(e) *Trade and other receivables*

Trade and other receivables are classified and accounted for as loans and receivables and are initially recognised at invoiced values or amounts paid and, where applicable, subsequently measured at amortised cost using the effective interest method except that short-duration non-interest bearing receivables are not usually re-measured unless the effect of imputing interest would be significant. An allowance is made for uncollectible amounts when there is objective evidence that the company will not be able to collect the debt. Bad debts are written off when identified.

THE RED PENCIL (SINGAPORE)
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NOTES TO FINANCIAL STATEMENTS - 31 DECEMBER 2016

(f) ***Trade and other payables***

Trade payables are initially recognised at invoiced values or amounts estimated to be payable and are not usually re-measured as their settlement is short-term.

Other payables refer to other borrowings and are initially recognised at amounts received and subsequently measured at amortised cost using the effective interest method, where applicable. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are discharged or cancelled or expired as well as through the amortisation process.

(g) ***Grants & subsidies***

Grants and subsidies from the Government are recognised at their fair value where there is reasonable assurance that the grant/subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate.

Based on the funding principles, accruals are made for any over/underfunding payable/recoverable. When the grant or subsidy relates to a depreciable asset, the asset is presented by deducting the grant against the cost of the asset.

(h) ***Employee benefits***

Defined contribution plan

The company contributes to Central Provident Fund ("CPF"), a defined contribution plan regulated and managed by the Singapore Government. The company's obligation in regard to CPF is limited to the amount it has to contribute to it. CPF contributions are recognised as an expense in the same period as the employment that gives rise to the contributions.

(i) ***Foreign currencies***

The management has determined the currency that best reflects the economic substance of the underlying events and circumstances to be Singapore dollars (S\$) and the financial statements are presented in S\$.

Transactions in foreign currencies i.e. currencies other than S\$, are measured and recorded on initial recognition in S\$ using the exchange rates approximating those ruling at the transaction dates. At the end of each reporting period, foreign currency monetary items are reported using exchange rates approximating those ruling at the end of the reporting period. Foreign currency non-monetary items that are measured at fair value are reported using exchange rates approximating those ruling at the date when the fair value was determined.

Exchange differences arising from the settlement of monetary items or from translating monetary items at the end of the reporting period are recognised in the statement of profit or loss and other comprehensive income. Exchange differences arising from translating non-monetary items measured at fair value are recognised in the same manner as the fair value changes, i.e. either in profit or loss or other comprehensive income.

THE RED PENCIL (SINGAPORE)
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NOTES TO FINANCIAL STATEMENTS - 31 DECEMBER 2016

3. OTHER OPERATING INCOME

Other operating income include the following credits :-

	<u>2016</u>	<u>2015</u>
	\$	\$
Interest income	-	32
Exchange gain	-	3,202
Wage Credit Scheme	1,320	894
Temporary employment credit	1,185	243
The Red Pencil (International) share of staff salaries	50,652	34,289
	<u>53,157</u>	<u>38,660</u>

4. EMPLOYEE BENEFITS

	<u>2016</u>	<u>2015</u>
	\$	\$
Staff -		
Salaries	229,157	190,365
CPF	22,289	12,231
Insurance	324	1,125
Medical	2,587	326
Welfare & benefits	265	99
	<u>254,622</u>	<u>204,146</u>

The directors are the key management personnel of the company.

Annual remuneration of three highest paid staff :-

	<u>2016</u>	<u>2015</u>
Below \$100,000	3	3
Above \$100,000	-	-
	<u>3</u>	<u>3</u>

At the statement of financial position date, the organisation has 3 filled positions and 3 vacant positions.

5. INCOME TAX EXPENSE

As the company is a registered charity, its profits for the year is exempt from income tax.

THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

NOTES TO FINANCIAL STATEMENTS - 31 DECEMBER 2016

6. OFFICE EQUIPMENT

	\$
<i>Cost</i>	
Additions during 2016 & balance at 31.12.2016	13,064
<i>Accumulated depreciation</i>	
Depreciation charge for 2016 & balance at 31.12.2016	(4,082)
	<hr style="width: 100%;"/>
<i>Net carrying amount</i>	
At 31.12.2016	<u>8,982</u>

7. TRADE RECEIVABLE

Trade receivable are non-interest bearing and are generally on 30 to 60 days terms.

8. AMOUNT DUE FROM RELATED PARTY, non-trade

The related party is The Red Pencil (International), which is a director related company.

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

9. BANK BALANCES

These include the following balances denominated in foreign currencies :-

	<u>2016</u>	<u>2015</u>
	\$	\$
<i>Denominated in :</i>		
US\$	-	49,589
€	-	12,054
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

10. GRANT RECEIVED IN ADVANCE

The company received Cultural Matching Fund Grant of \$698,463.24 from National Arts Council on 3 October 2016 and the grant is expected to be utilised within 3 years from 2017.

THE RED PENCIL (SINGAPORE)
(Reg. No. : 201113675E)

NOTES TO FINANCIAL STATEMENTS - 31 DECEMBER 2016

11. CAPITAL

The company is limited by guarantee and the liability of each member is limited to \$1. As at 31 December 2016, the company had 3 (2015 : 3) members.

12. FINANCIAL RISKS AND MANAGEMENT

(i) *Interest rate risk*

The company has no exposure to interest rate risk.

(ii) *Credit risk*

The company has no significant concentration of credit risk. There are procedures in place to ensure on-going credit evaluation and active account monitoring to minimise bad debt risk.

(iii) *Foreign exchange risk*

The company has no exposure to foreign exchange risk.

(iv) *Liquidity risk*

The company monitors and maintains sufficient working capital to fund its operations.

13. CAPITAL MANAGEMENT

The company is not subject to any externally imposed capital requirements. In view of the need to ensure its ability to fulfill its objectives, the company aims to maintain reserves at no more than three years expected operating expenses.

The company's financial standings are regularly reviewed in keeping with the above mentioned objectives and to fulfill its continuing obligations.