



**AFS Intercultural Exchanges Limited**  
(Limited by Guarantee)

30 June 2020



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## Directors' Report

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2020.

### Principal place of business

AFS Intercultural Exchanges Limited ("the company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 8/F, Shun Feng International Centre, 182 Queen's Road East, Wanchai, Hong Kong.

### Principal activity

The company is a non-profit, volunteer based organisation which seeks to promote international understanding through exchange programs for secondary school students and teachers in more than fifty countries around the world.

### Directors

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

Deirdre Allison Huang	
Seth Morgan Peterson	
Matthew Ka Ho Wong	
Siu Yung Ho	
Frank Chi-Hong Wong	
Amy Tsz Yin Ng	
Ming Hin Chee	
Frederick Siu Chi Poon	
Cathy Ching Yi Ho	
Douglas Michael Sandler	(appointed on 4 March 2020)
Michael Hin Yau Ling	(appointed on 4 March 2020)
Michael Sherman	(appointed on 4 March 2020)
Samuel Jacob Gellman	(appointed on 4 March 2020)
Alan Ping Kay Chow	(appointed on 4 March 2020 and resigned on 30 May 2020)
Susan Chee Wan Ho	(resigned on 30 May 2020)
Som Hol Leung	(resigned on 1 July 2019)

In accordance with article 21 of the company's articles of associations, all directors shall retire and, be eligible, offers themselves for re-election.

At no time during the year was the company a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures of the company or any other body corporate.

### Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the company is currently in force and was in force throughout this year.

### **Directors' interests in transactions, arrangements or contracts**

No contract of significance to which the company was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

### **Business review**

No business review report has been prepared as the company falls within the reporting exemption for the financial year and is accordingly exempt from preparing such a report under Section 359 of the Hong Kong Companies Ordinance.

### **Auditors**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as honorary auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Seth Morgan Peterson

*Director*

Hong Kong **21 NOV 2020**



# Independent auditor's report to the members of AFS Intercultural Exchanges Limited

(Incorporated in Hong Kong and limited by guarantee)

## Opinion

We have audited the financial statements of AFS Intercultural Exchanges Limited ("the company") set out on pages 6 to 23, which comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 30 June 2020 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



# Independent auditor's report to the members of AFS Intercultural Exchanges Limited (continued)

*(Incorporated in Hong Kong and limited by guarantee)*

## **Responsibilities of the directors for the financial statements**

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

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

## **Auditor's responsibilities for the audit of the financial statements**

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, 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.

**Independent auditor's report to the members of  
AFS Intercultural Exchanges Limited (continued)**  
*(Incorporated in Hong Kong and limited by guarantee)*

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.



Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

21 NOV 2020

**Statement of comprehensive income  
 for the year ended 30 June 2020**

*(Expressed in Hong Kong dollars)*

	Note	2020	2019
<b>Revenue</b>	3		
Program income	3(a)	\$ 8,669,252	\$ 7,862,720
Funding income	3(b)	5,017,230	3,039,660
		<u>\$ 13,686,482</u>	<u>\$ 10,902,380</u>
<b>Other revenue</b>	4	161,308	118,475
<b>Other net expense</b>	4	(30,294)	(6,907)
<b>Direct program expenses</b>		(8,070,624)	(5,772,321)
<b>Staff costs</b>	5(a)	(3,927,543)	(3,658,307)
<b>Depreciation</b>	8	(265,575)	(280,918)
<b>Other operating expenses</b>		<u>(1,282,927)</u>	<u>(1,099,083)</u>
<b>Surplus and total comprehensive income for the year</b>	5	<u>\$ 270,827</u>	<u>\$ 203,319</u>

The notes on pages 10 to 23 form part of these financial statements.

## Statement of financial position at 30 June 2020

(Expressed in Hong Kong dollars)

	Note	2020	2019
<b>Non-current asset</b>			
Property, plant and equipment	8	\$ 9,380,165	\$ 9,597,483
<b>Current assets</b>			
Receivables	9	\$ 629,442	\$ 1,386,787
Deposit with bank		-	4,500,000
Cash and cash equivalents		12,168,086	11,038,833
		<u>\$ 12,797,528</u>	<u>\$ 16,925,620</u>
<b>Current liabilities</b>			
Creditors, accrued charges and provisions	10, 11	\$ (1,405,490)	\$ (1,040,127)
Deferred income and receipts in advance	12	(3,680,600)	(9,328,200)
		<u>\$ (5,086,090)</u>	<u>\$ (10,368,327)</u>
<b>Net current assets</b>		<u>\$ 7,711,438</u>	<u>\$ 6,557,293</u>
<b>Total assets less current liabilities</b>		<u>\$ 17,091,603</u>	<u>\$ 16,154,776</u>
<b>Non-current liabilities</b>			
Deferred income and receipts in advance	12	\$ (666,000)	\$ -
<b>NET ASSETS</b>		<u>\$ 16,425,603</u>	<u>\$ 16,154,776</u>
<b>RESERVE</b>			
Accumulated surplus		<u>\$ 16,425,603</u>	<u>\$ 16,154,776</u>

Approved and authorised for issue by the board of directors on **21 NOV 2020**

Seth Morgan Peterson

Directors

Siu Yung Ho

The notes on pages 10 to 23 form part of these financial statements.

**Statement of changes in equity  
for the year ended 30 June 2020**  
(Expressed in Hong Kong dollars)

	<i>Accumulated surplus</i>
<b>At 1 July 2018</b>	\$ 15,951,457
<b>Change in equity for 2019:</b>	
Surplus and total comprehensive income for the year	<u>203,319</u>
<b>At 30 June 2019 and 1 July 2019</b>	\$ 16,154,776
<b>Change in equity for 2020:</b>	
Surplus and total comprehensive income for the year	<u>270,827</u>
<b>At 30 June 2020</b>	<u><u>\$ 16,425,603</u></u>

The notes on pages 10 to 23 form part of these financial statements.

**Cash flow statement**  
**for the year ended 30 June 2020**  
(Expressed in Hong Kong dollars)

	Note	2020	2019
<b>Operating activities</b>			
Surplus for the year		\$ 270,827	\$ 203,319
Adjustments for:			
Depreciation	8	265,575	280,918
Interest income	4	(69,523)	(8,848)
<b>Operating surplus before changes in working capital</b>		<u>\$ 466,879</u>	<u>\$ 475,389</u>
Decrease/(increase) in receivables		757,345	(844,060)
Increase/(decrease) in creditors, accrued charges and provisions		365,363	(27,984)
(Decrease)/increase in deferred income and receipts in advance		<u>(4,981,600)</u>	<u>1,164,350</u>
<b>Net cash (used in)/generated from operating activities</b>		<u><u>\$ (3,392,013)</u></u>	<u><u>\$ 767,695</u></u>
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		\$ (48,257)	\$ (20,104)
Interest received		69,523	8,848
Decrease in deposits with bank		<u>4,500,000</u>	<u>-</u>
<b>Net cash generated from/(used in) investing activities</b>		<u><u>\$ 4,521,266</u></u>	<u><u>\$ (11,256)</u></u>
<b>Net increase in cash and cash equivalents</b>		<u>\$ 1,129,253</u>	<u>\$ 756,439</u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>11,038,833</u>	<u>10,282,394</u>
<b>Cash and cash equivalents at the end of the year</b>		<u><u>\$ 12,168,086</u></u>	<u><u>\$ 11,038,833</u></u>

The notes on pages 10 to 23 form part of these financial statements.

## Notes to the financial statements (Expressed in Hong Kong dollars)

### 1 Status of the company

The company is limited by guarantee. In the event that the company is wound up, each member's guaranteed contribution to the assets of the company is limited to \$100.

The principal activity of the company is to promote international understanding through exchange programs for secondary school students and teachers around the world.

### 2 Significant accounting policies

#### (a) Statement of compliance

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflecting in these financial statements.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 2 Significant accounting policies (continued)

### (c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the company.

None of the developments have had a material effect on how the company's results and financial position for the current or prior periods have been prepared or presented. The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### (d) Property, plant and equipment

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

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

- Land and buildings	Remaining lease term or 50 years
- Leasehold improvements	6 years
- Office equipment	4 years
- Furniture and fixtures	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

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

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

## 2 Significant accounting policies (continued)

### (e) Leased assets

At inception of a contract, the company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) As a lessee

##### (A) Policy applicable from 1 July 2019

At the lease commencement date, the company recognises a right-of-use asset and a lease liability. When the company enters into a lease in respect of a low-value asset, the company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(d)).

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

In the statement of financial position, the company presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

## 2 Significant accounting policies (continued)

### (B) Policy applicable prior to 1 July 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### *Classification of assets leased to the company*

Assets that are held by company under leases which transfer to the company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases, except for land held for own use under an operating lease where its fair value cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the company, or taken over from the previous lessee.

#### *Operating lease charges*

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term. Impairment losses are recognised in accordance with accounting policy set out in note 2(d).

### (f) **Receivables**

A receivable is recognised when the company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the company has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses as determined below:

The loss allowance is measured at an amount equal to lifetime expected credit losses ("ECLs"), which are those losses that are expected to occur over the expected life of the trade receivables. The loss allowance is estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

ECLs are remeasured at each reporting date with any changes recognised as an impairment gain or loss in profit or loss. The company recognises an impairment gain or loss with a corresponding adjustment to the carrying amount of trade and other receivables through a loss allowance account.

## 2 Significant accounting policies (continued)

The gross carrying amount of a trade debtor or other receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

### (g) Trade and other payables and contract liabilities

#### (i) Trade and other payables

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

#### (ii) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the company recognises the related revenue (see note 2(k)). A contract liability would also be recognised if the company has an unconditional right to receive non-refundable consideration before the company recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(f)).

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (i) Employee benefits

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

#### (j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2 Significant accounting policies (continued)

### (k) Revenue and other income

Income is classified by the company as revenue when it arises from the provision of services in the ordinary course of the company's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the company is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under effective interest method. Where the contract contains a financing component which provides a significant benefit to the company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The company takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the company's revenue and other income recognition policies are as follows:

- (i) Program income is recognised in the statement of comprehensive income at the commencement of the individual student's exchange program.
- (ii) Scholarships and donations are recognised when there is reasonable assurance they will be received and all attaching conditions would be satisfied. They are recognised in the statement of comprehensive income over the periods necessary to match the costs that they are intended to compensate. Scholarships and donations received for which the related exchange programs have not yet been undertaken are included in deferred income in the statement of financial position.
- (iii) Interest income is recognised as it accrues using the effective interest method.

### (l) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the company will comply with the conditions attaching to them. Grants that compensate the company for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the company for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

## 2 Significant accounting policies (continued)

### (m) Translation of foreign currencies

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

### (n) Related parties

- (a) A person, or a close member of that person's family, is related to the company if that person:
- (i) has control or joint control over the company;
  - (ii) has significant influence over the company; or
  - (iii) is a member of the key management personnel of the company or the company's parent.
- (b) An entity is related to the company if any of the following conditions applies:
- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the company or to the company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3 Revenue

#### (a) Program income

	2020	2019
Participant fees	\$ 7,537,600	\$ 6,802,750
Transfer credits	1,131,652	1,059,970
	<u>\$ 8,669,252</u>	<u>\$ 7,862,720</u>

Participant fees are charged to students who participate in the AFS exchange program.

Transfer credits are received from AFS Intercultural Programs, Inc. ("AFSIP"), with whom the company has entered into a partnership agreement, in return for hosting students from overseas.

#### (b) Funding income

	2020	2019
Corporate scholarships	\$ 1,638,200	\$ 1,020,600
Sponsored scholarships	2,883,616	1,514,579
Other donations	495,414	504,481
	<u>\$ 5,017,230</u>	<u>\$ 3,039,660</u>

Corporate scholarships enable companies to sponsor their employees' children to go on an AFS exchange program while sponsored scholarships allow companies to fund qualifying students on a sponsored exchange program.

Included in sponsored scholarships is an amount of \$1,517,209 (2019: \$1,514,579) from The Hong Kong Jockey Club Charities Trust.

Other donations are received for the general operation and development of the AFS exchange program.

### 4 Other revenue and net expense

	2020	2019
<b>Other revenue</b>		
Application income	\$ 50,600	\$ 58,400
Miscellaneous income	41,185	51,227
Interest income	69,523	8,848
	<u>\$ 161,308</u>	<u>\$ 118,475</u>
<b>Other net expense</b>		
Expense from year program hosting activities	\$ (30,294)	\$ (6,907)

## 5 Surplus and total comprehensive income for the year

Surplus and total comprehensive income for the year is arrived at after charging:

### (a) Staff costs

	2020	2019
Salaries, wages and other benefits	\$ 3,793,249	\$ 3,538,746
Contributions to defined contribution retirement plan	<u>134,294</u>	<u>119,561</u>
	<u>\$ 3,927,543</u>	<u>\$ 3,658,307</u>

In 2020, the company successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the HKSAR Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the company is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. For the year ended 30 June 2020, \$59,618 (2019: \$Nil) of the funding was recognised and included in the staff costs.

### (b) Other items

Auditors' remuneration	<u>\$ 207,250</u>	<u>\$ 180,250</u>
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## 6 Income tax

No provision for taxation is required in these financial statements as the company is exempt from taxation pursuant to section 88 of the Inland Revenue Ordinance.

## 7 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2020	2019
Directors' fees	\$ -	\$ -
Salaries, allowances and benefits in kind	-	-
Discretionary bonuses	-	-
Retirement scheme contributions	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

None of the directors elected by the company's members received any emoluments during the current and prior years.

## 8 Property, plant and equipment

	<i>Land and buildings</i>	<i>Leasehold improvements</i>	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Total</i>
<b>Cost:</b>					
At 1 July 2018	\$ 12,173,580	\$ 863,262	\$ 487,232	\$ 149,852	\$ 13,673,926
Additions	-	-	15,904	4,200	20,104
At 30 June 2019	<u>\$ 12,173,580</u>	<u>\$ 863,262</u>	<u>\$ 503,136</u>	<u>\$ 154,052</u>	<u>\$ 13,694,030</u>
<b>Accumulated depreciation and impairment losses:</b>					
At 1 July 2018	\$ 2,863,714	\$ 467,116	\$ 362,480	\$ 122,319	\$ 3,815,629
Charge for the year	61,814	138,769	63,085	17,250	280,918
At 30 June 2019	<u>\$ 2,925,528</u>	<u>\$ 605,885</u>	<u>\$ 425,565</u>	<u>\$ 139,569</u>	<u>\$ 4,096,547</u>
<b>Net book value:</b>					
At 30 June 2019	<u>\$ 9,248,052</u>	<u>\$ 257,377</u>	<u>\$ 77,571</u>	<u>\$ 14,483</u>	<u>\$ 9,597,483</u>

	<i>Land and buildings</i>	<i>Leasehold improvements</i>	<i>Office equipment</i>	<i>Furniture and fixtures</i>	<i>Total</i>
<b>Cost:</b>					
At 1 July 2019	\$ 12,173,580	\$ 863,262	\$ 503,136	\$ 154,052	\$ 13,694,030
Additions	-	-	48,257	-	48,257
At 30 June 2020	<u>\$ 12,173,580</u>	<u>\$ 863,262</u>	<u>\$ 551,393</u>	<u>\$ 154,052</u>	<u>\$ 13,742,287</u>
<b>Accumulated depreciation and impairment losses:</b>					
At 1 July 2019	\$ 2,925,528	\$ 605,885	\$ 425,565	\$ 139,569	\$ 4,096,547
Charge for the year	61,814	138,769	53,030	11,962	265,575
At 30 June 2020	<u>\$ 2,987,342</u>	<u>\$ 744,654</u>	<u>\$ 478,595</u>	<u>\$ 151,531</u>	<u>\$ 4,362,122</u>
<b>Net book value:</b>					
At 30 June 2020	<u>\$ 9,186,238</u>	<u>\$ 118,608</u>	<u>\$ 72,798</u>	<u>\$ 2,521</u>	<u>\$ 9,380,165</u>

**The analysis of net book value of properties is as follows:**

	2020	2019
In Hong Kong - long leases	<u>\$ 9,186,238</u>	<u>\$ 9,248,052</u>

## 8 Property, plant and equipment

### (a) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	30 June 2020	1 July 2019
Land and buildings	(i)	<u>\$ 9,186,238</u>	<u>\$ 9,248,052</u>

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020	2019
Depreciation charge of right-of-use assets:		
Land and buildings	<u>\$ 61,814</u>	<u>\$ 61,814</u>

### (i) Land and buildings

The company holds a floor of properties for office use, where its operations and general administrative activities are primarily carried out. The company is the registered owner of the property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities

## 9 Receivables

	2020	2019
Deposits	\$ 24,123	\$ 24,123
Other debtors and prepayments	<u>605,319</u>	<u>1,362,664</u>
	<u>\$ 629,442</u>	<u>\$ 1,386,787</u>

Apart from the deposits of \$24,123 at 30 June 2020 (2019: \$24,123), all of the receivables are expected to be recovered or recognised as an expense within one year.

## 10 Creditors, accrued charges and provisions

All of the creditors and accrued charges are expected to be settled within one year or are payable on demand, except for provision as noted in note 11.

## 11 Provision for long service payment

	2020	2019
At 1 July	\$ 58,700	\$ 61,700
Provision/(reversal of provision) for the year	336	(3,000)
At 30 June	\$ 59,036	\$ 58,700

Under the Hong Kong Employment Ordinance, the company is required to make long service payments to employees upon termination of their employment or retirement when the employees fulfil certain conditions and the termination meets the required circumstances. Provision is therefore made for the best estimate of the long service payments to the employees in respect of their services to date, less any amounts that would be expected to be met out of the retirement scheme and contributions to Mandatory Provident Fund.

Provision for long service payment is expected to be settled after more than one year.

## 12 Deferred income and receipts in advance

The balance represents funding income and participant fees received in advance. Apart from deferred income and receipts in advance of \$666,000 (2019: \$Nil), all of the amounts are expected to be settled or recognised as income within one year.

Included in deferred income and receipts in advance, amount of \$387,000 (2019: \$738,000) represent the receipts the company received from customers in advance of completion of provision of services, and are recognised as contract liabilities. Amount of \$738,000 (2019: \$720,000) of contract liabilities as at 1 July 2019 are recognised as revenue during the year.

## 13 Capital management

The company's primary objectives when managing capital are to safeguard the company's ability to continue as a going concern, so that it can continue to promote international understanding through exchange programs for secondary school students and teachers.

The company defines "capital" as accumulated surplus.

The company's capital structure is regularly reviewed to ensure it is able to meet its liabilities as they fall due for the foreseeable future. Adjustments are made to the capital structure in light of changes in the company's source of funding, to the extent that these do not conflict with the directors' fiduciary duties towards the company or the requirements of the Hong Kong Companies Ordinance.

There has been no change in the company's capital management practices as compared to prior year and the company is not subject to any externally imposed capital requirements during the year and at 30 June 2020.

## 14 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the company's business. The company's exposure to these risks and the financial risk management policies and practices used by the company to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the company. The company's credit risk is primarily attributable to cash and cash equivalents, deposit with bank and receivables. The company has a credit policy in place and exposures to credit risks are monitored on an ongoing basis. Cash and cash equivalents and deposit with banks are only placed in the banks and financial institutions with a sound credit rating, for which the company considers to have low credit risk.

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

### (b) Liquidity risk

The company regularly monitors its current and expected liquidity requirements. The company maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. All of the financial liabilities except as noted in note 11 are due within one year or on demand.

### (c) Interest rate risk

The company's bank deposits are short-term in nature, any future variations in interest rates do not have a significant impact on the results of the company.

### (d) Currency risk

The company is exposed to currency risk through certain expenditures that are denominated in United States dollars ("USD"). As Hong Kong dollars ("HKD") is pledged to USD, the company considers the risk of movement in exchange rates between the HKD and the USD to be insignificant.

### (e) Fair value

The carrying amounts of the company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2020 and 2019.

## 15 Material related party transactions

Under the Articles of Partnership for the AFS partners, the company had the following transactions with AFSIP and other partners:

	2020	2019
Transfer credits receivable/received	\$ 1,131,652	\$ 1,059,970
Transfer prices and other direct costs payable/paid	(4,328,194)	(3,530,321)
AFS international cost payable/paid for all programmes held during the year	<u>(825,769)</u>	<u>(583,279)</u>

Included in the "Receivables" balance at 30 June 2020 are prepayments to AFSIP and other partners amounting to \$274,357 (2019: \$264,203) (see note 9). The balances are unsecured and interest-free.

## 16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 30 June 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

**Detailed statement of comprehensive income**  
**for the year ended 30 June 2020**  
(Expressed in Hong Kong dollars)

	2020	2019
<b>Revenue</b>		
<i>Program income</i>		
Participant fees	\$ 7,537,600	\$ 6,802,750
Transfer credits	<u>1,131,652</u>	<u>1,059,970</u>
	\$ 8,669,252	\$ 7,862,720
<i>Funding income</i>		
Corporate scholarships	\$ 1,638,200	\$ 1,020,600
Sponsored scholarships	2,883,616	1,514,579
Other donations	<u>495,414</u>	<u>504,481</u>
	5,017,230	3,039,660
Other revenue	161,308	118,475
Other net income/(expense)	<u>(30,294)</u>	<u>(6,907)</u>
<b>Total income</b>	<b><u>\$ 13,817,496</u></b>	<b><u>\$ 11,013,948</u></b>
<b>Expenses</b>		
<i>Direct program expenses</i>		
Year program sending expenses:		
- Transfer prices	\$ 3,634,472	\$ 3,164,474
- Program airfare	2,555,846	1,062,929
- Program services	122,949	135,924
Short program sending expenses	693,722	365,847
AFS International expenses	850,321	648,506
Year program hosting expenses:		
- School expenses	126,248	267,954
- Activities	(12,140)	148
- Orientations	68,519	88,642
- Other expenses	<u>30,687</u>	<u>37,897</u>
Balance carried forward	\$ 8,070,624	\$ 5,772,321

**Detailed statement of comprehensive income  
for the year ended 30 June 2020 (continued)**  
(Expressed in Hong Kong dollars)

	2020	2019
<b>Expenses (continued)</b>		
Balance brought forward	\$ 8,070,624	\$ 5,772,321
<i>Operating expenses</i>		
Advertising	\$ 97,775	\$ 4,643
Auditors' remuneration	207,250	180,250
Bank charges	6,761	7,345
Brochures and publications	50,935	127,593
Conferences and workshop expenses	105,483	89,164
Cultural day promotion expenses	11,928	36,753
Depreciation	265,575	280,918
Dues and subscriptions	5,180	4,980
Exchange difference	(1,895)	(366)
Fund raising expenses	6,551	6,832
Insurance expenses	83,245	98,901
Legal and professional fees	51,542	17,425
Postage	16,588	14,854
Rates and management fees	117,060	119,082
Repairs and maintenance	127,067	46,585
Salaries and benefits	3,927,543	3,658,307
Supplies and stationery	57,252	81,732
Telecommunications	33,402	28,922
Training and development	57,348	25,423
Transportation and meals	23,451	20,594
Volunteer activities	122,358	97,684
Volunteer training	27,942	52,289
Volunteer anniversary	20,991	-
Miscellaneous	54,713	38,398
	<u>5,476,045</u>	<u>5,038,308</u>
<b>Total expenses</b>	<u>\$ 13,546,669</u>	<u>\$ 10,810,629</u>
<b>Surplus and total comprehensive income for the year</b>	<u>\$ 270,827</u>	<u>\$ 203,319</u>

**Detailed statement of comprehensive income  
for the year ended 30 June 2020 (continued)**  
(Expressed in Hong Kong dollars)

**Disclosures pursuant to section 436 of the Hong Kong Companies Ordinance  
(the "HKCO")**

The above financial information relating to the years ended 30 June 2020 and 2019 does not constitute the company's specified financial statements for those years as defined in section 436 of the HKCO but is derived therefrom.

The company is not required to deliver its specified financial statements to the Registrar of Companies and has not done so.

Auditor's reports have been prepared on the specified financial statements for both years.

The auditor's reports for both years:

- were not qualified or otherwise modified;
- referred to any matter to which the auditor drew attention by way of emphasis without qualifying the reports; and
- did not contain a statement under section 406(2) or 407(2) or (3) of the HKCO.