

HONG KONG AIR CADET CORPS

(registered in Hong Kong under the Societies Ordinance)

Report and financial statements
Year ended March 31, 2008



K. M. CHU & CO. 朱 鏡 文

Certified Public Accountants, Hong Kong 會計師事務所

HONG KONG AIR CADET CORPS
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2008

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K. M. CHU & CO. 朱 鏡 文 會 計 師 事 務 所

Certified Public Accountants, Hong Kong

1.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HONG KONG AIR CADET CORPS
 (registered in Hong Kong under the Societies Ordinance)

We have audited the financial statements of Hong Kong Air Cadet Corps (HKACC) on pages 2 to 14 which comprise the balance sheet as at March 31, 2008, and the income and expenditure statement, the statement of changes in funds and the cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Executives' responsibility for the financial statements

The executives are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Article 9.4 of the Constitution of the HKACC, 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 as to 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 judgment, including the assessment of the risks of material misstatements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the HKACC's preparation and true and fair presentation of the financial statements 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 HKACC's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the executives, 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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of HKACC's affairs as at March 31, 2008 and of its surplus, changes in funds and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Certified Public Accountants
 Hong Kong

- 9 SEP 2008

15/F., S.B. Commercial Building, 478 Nathan Road, Kowloon, Hong Kong.

香港九龍彌敦道 478 號森基商業大廈 15 樓

Tel 電話 : (852) 2388 0023 Fax 圖文傳真 : (852) 2782 3963 2783 8715

**HONG KONG AIR CADET CORPS
INCOME AND EXPENDITURE STATEMENT
YEAR ENDED MARCH 31, 2008**

2.

	Note	2008 HK\$	2007 HK\$
INCOME			
Subvented			
Home Affairs Bureau Subvention		857,000	857,000
Community Chest		480,600	457,700
Realisation of deferred income - office equipment	6	9,975	9,975
Membership fees		173,502	200,572
Endowment		1,297,489	374,050
Bank interest received		35,442	29,484
Profit on stock sales		157,939	57,172
Miscellaneous income		12,457	2,950
Flag day		588,085	898,763
Provision for unused annual leave written back		-	122,061
		<u>3,612,489</u>	<u>3,009,727</u>
Total income			
EXPENDITURE			
Advertising		46,472	12,800
Auditor's remuneration		15,000	15,000
Bank charges		2,310	3,108
Cleaning charges and materials		29,991	19,939
Courier		7,131	6,855
Depreciation		405,684	434,587
Electricity		50,161	45,413
Entertainment		26,758	18,074
Insurance		70,008	55,244
Management fee		9,945	10,476
Minor purchase, repairs and maintenance		45,518	51,811
Motor car expenses		49,631	23,685
Net deficits - various activities	15	327,928	731,771
Postage		7,183	6,647
Printing and stationery		119,319	65,584
Professional fee		1,550	16,150
Provident fund and MPF contribution		59,262	46,809
Registration fees for provident fund		1,200	1,200
Rent		37,250	51,502
Salaries		1,179,660	1,037,725
Squadron subsidies		56,103	67,752
Storage cost		33,430	-
Subscription fee		10,750	15,255
Sundry expenses		29,629	21,164
Telephone and internet expense		48,196	42,561
Training expenses		750	17,068
Travelling		26,363	5,328
		<u>2,697,182</u>	<u>2,823,508</u>
Total expenditure			
SURPLUS FOR THE YEAR		<u>915,307</u>	<u>186,219</u>

The notes on pages 6 to 14 form part of the financial statements.

HONG KONG AIR CADET CORPS
BALANCE SHEET - MARCH 31, 2008

3.

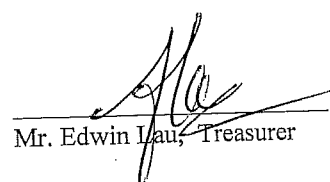
		2008	2007
	Note	HK\$	HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	5	1,098,689	1,134,667
CURRENT ASSETS			
Inventories	3 (g)	762,495	465,634
Accounts and other receivable		14,972	14,520
Deposits and prepayment		121,347	71,365
Cash and bank balances		2,995,034	2,750,403
		<u>3,893,848</u>	<u>3,301,922</u>
CURRENT LIABILITIES			
Creditors and accrued charges		218,018	281,887
Deposits received	6	71,972	25,000
Deferred income	7	9,975	19,950
Membership fees received in advance		84,228	112,530
		<u>384,193</u>	<u>439,367</u>
		<u>3,509,655</u>	<u>2,862,555</u>
NET CURRENT ASSETS		<u>4,608,344</u>	<u>3,997,222</u>
NET ASSETS		<u>4,608,344</u>	<u>3,997,222</u>
REPRESENTED BY :			
Ceremonial Flight Fund	8	9,436	9,436
Choir Fund	9	5,747	5,747
Capital Projects and Equipment Fund	10	750,000	750,000
Aviation Education Fund	11	250,000	250,000
Flying Eagle Programme Fund	12	99,426	384,126
EMB fund - Scheme for Needy Student Members	13	143,423	162,908
Accumulated surplus	14	3,350,312	2,435,005
		<u>4,608,344</u>	<u>3,997,222</u>

Approved by the Board of Executives on
On behalf of the Board

- 9 SEP 2008



Mr. Peter Chau, Chairman



Mr. Edwin Lau, Treasurer

The notes on pages 6 to 14 form part of the financial statements.

**HONG KONG AIR CADET CORPS
STATEMENT OF CHANGES IN FUNDS
YEAR ENDED MARCH 31, 2008**

	<u>2008</u>	<u>2007</u>
	HK\$	HK\$
Balance brought forward	3,997,222	3,435,400
Net surplus arising from Ceremonial Flight Fund	-	-
Net surplus arising from Choir Fund	-	-
Net (deficit)/surplus arising from Flying Eagle Programme Fund	(284,700)	212,695
Net (deficit)/surplus arising from EMB Fund	(19,485)	162,908
Net surplus for the year	<u>915,307</u>	<u>186,219</u>
Balance carried forward	<u><u>4,608,344</u></u>	<u><u>3,997,222</u></u>

**HONG KONG AIR CADET CORPS
CASH FLOWS STATEMENT
YEAR ENDED MARCH 31, 2008**

	2008 HK\$	2007 HK\$
Cash flows from operating activities		
Surplus for the year	915,307	186,219
Adjustments for :		
Depreciation	405,684	434,587
Provision for unused annual leave written back	-	(122,061)
Unused annual leave paid	-	(51,437)
Bank interest received	(35,442)	(29,484)
Operating cash flows before changes in working capital	1,285,549	417,824
Increase in inventories	(296,861)	(101,722)
Increase in accounts receivable, other receivable, deposits and prepayment	(50,434)	(15,963)
Decrease in creditors, accrued charges, deposits received and membership fees received in advance	(45,199)	(154,267)
Decrease in deferred income	(9,975)	(9,975)
Net cash from operating activities	883,080	135,897
Investing activities		
Purchase of property, plant and equipment	(369,706)	(134,628)
Interest income	35,442	29,484
Net cash used in investing activities	(334,264)	(105,144)
Financing activities		
Net capital (utilised)/received from Operation Flying Eagle Programme Fund	(284,700)	212,695
Net capital (utilised)/received from EMB fund	(19,485)	162,908
Net cash (used in)/from financing activities	(304,185)	375,603
Net increase in cash and cash equivalents	244,631	406,356
Cash and cash equivalents at beginning of year	2,750,403	2,344,047
Cash and cash equivalents at end of year	2,995,034	2,750,403
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	2,995,034	2,750,403

1. INCORPORATION

Hong Kong Air Cadet Corps (HKACC) is a not-for-profit organisation and registered under the Societies Ordinance in Hong Kong.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKAS) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principals generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRS and Interpretations that are first effective or available for early adoption for the current accounting period of the company. There have been no significant changes to the accounting policies applied in these financial statements as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial Instruments : Disclosures, the financial statements include expanded disclosures about the significance of the financial statements and the nature of risks arising from those instruments, compared with the information previously required to be disclosed HKAS 32, Financial Statements : Disclosure and Presentation. These disclosures are provided throughout these financial statements, in particular in note 16.

The HKFRS 7 does not have any material impact on the classification, recognition and measurements of the amounts in the financial statements.

The Corps has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis.

The preparation of the financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that effect 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Recognition of revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Corps and when the revenue can be measured reliably, on the following basis : -

- (i) on the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided the Corps maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (ii) on the membership fees, when the fees are received and receivable.
- (iii) on the subvention income, when the income is received and receivable.
- (iv) on the government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.
- (v) on the government grants related to assets, sets up the grant as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset.
- (vi) on the endowment income, when the income is received.
- (vii) on the other income, when the income is received and receivable.

(c) Property, plant and equipment

- (i) Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.
- (ii) Depreciation is calculated to write off their costs on the reducing balance basis over their expected useful lives to the Corps. The annual rates used for this purposes are as follows:-

General furniture, equipment and fixtures	25%
Donated furniture, equipment and fixtures	25%
Leasehold improvement	30%

(d) Impairment of assets

Internal and external sources of information reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount and which results in an increase in the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment losses are credited to the income statement in the year in which the reversals are recognised.

HONG KONG AIR CADET CORPS
NOTES TO THE FINANCIAL STATEMENTS - MARCH 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Cash equivalents

For the purpose of the cash flows statement, cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the financial statements by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are included in the income and expenditure account.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase of goods computed using the weighted average method. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of activities after the balance sheet date or to executives estimates based on prevailing market conditions.

(h) Employee benefits

- i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Corps of non-monetary benefits are accrued in the year which the associated services are rendered by employees of the Corps. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Provision is made in respect of paid leave entitlement accumulated during the year, which can be carried forward into future periods for compensated absence or payment in lieu if the employee leaves employment.
- ii) The Corps operates two approved defined contribution retirement schemes for employees : a Mandatory Provident Fund (MPF) Exempted Occupational Retirement Scheme and a MPF Scheme under the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on percentage of the employees' basic salaries and are charged to the income and expenditure account as they become payable in accordance with the rules of the Schemes.

4. TAXATION

HKACC being a not-for-profit organisation is exempted from Hong Kong profits tax by virtue of Section 88 of the Inland Revenue Ordinance.

5. PROPERTY, PLANT AND EQUIPMENT

	General furniture, equipment and fixtures HK\$	Donated furniture, equipment and fixtures HK\$	Leasehold improvement HK\$	Total HK\$
COSTS				
Balance brought forward	1,373,467	20,726	1,311,997	2,706,190
Additions	369,706	-	-	369,706
Balance carried forward	1,743,173	20,726	1,311,997	3,075,896
AGGREGATE DEPRECIATION				
Balance brought forward	831,566	19,784	720,173	1,571,523
Charge for the year	227,902	235	177,547	405,684
Balance carried forward	1,059,468	20,019	897,720	1,977,207
NET CARRYING AMOUNTS				
at March 31, 2008	683,705	707	414,277	1,098,689
at March 31, 2007	541,901	942	591,824	1,134,667

6. DEFERRED INCOME

	2008 HK\$	2007 HK\$
For purchasing office equipment : -		
Government subvention granted	19,950	29,925
Released to income and expenditure account	(9,975)	(9,975)
Balance carried forward	9,975	19,950

7. MEMBERSHIP FEES RECEIVED IN ADVANCE

The membership fees received in advance is transferred to the income and expenditure account in the year to which the membership fees are related.

HONG KONG AIR CADET CORPS
NOTES TO THE FINANCIAL STATEMENTS - MARCH 31, 2008

8. CEREMONIAL FLIGHT FUND

The fund represents donation received to acquire musical instrument and uniform for ceremonial flight purpose.

	2008	2007
	HK\$	HK\$
Movement of the fund for the year is as follows :-		
Balance brought forward	9,436	9,436
Donation received	-	-
	<u>9,436</u>	<u>9,436</u>
Utilisation during the year	-	-
Balance carried forward	<u><u>9,436</u></u>	<u><u>9,436</u></u>

9. CHOIR FUND

The fund represents donation received to acquire musical equipment and uniform for choir.

	2008	2007
	HK\$	HK\$
Movement of the fund for the year is as follows :-		
Balance brought forward	5,747	5,747
Donation received	-	-
	<u>5,747</u>	<u>5,747</u>
Utilisation during the year	-	-
Balance carried forward	<u><u>5,747</u></u>	<u><u>5,747</u></u>

10. CAPITAL PROJECTS AND EQUIPMENT FUND

The fund is earmarked to finance capital projects and equipment acquisition essential to the on going development of HKACC. The fund shall be maintained by transfers from the operational surplus of the Corps and by money generated from fund raising projects.

	2008	2007
	HK\$	HK\$
Movement of the fund for the year is as follows :-		
Balance brought forward	750,000	750,000
Utilisation during the year	-	-
Balance carried forward	<u><u>750,000</u></u>	<u><u>750,000</u></u>

11. AVIATION EDUCATION FUND

The fund is earmarked to support activities, programmes, projects in relation to aviation education, flying training and aeromodelling in HKACC. The fund shall be maintained by transfers from the operational surplus of the Corps and by money generated from fund raising projects.

	2008	2007
	HK\$	HK\$
Movement of the fund for the year is as follows :-		
Balance brought forward	250,000	250,000
Utilisation during the year	-	-
	<u>250,000</u>	<u>250,000</u>
Balance carried forward		

12. OPERATING FLYING EAGLE PROGRAMME FUND

The fund was set up from donations received under the Operation Flying Eagle Corporate Citizenship Programme founded by Specialist Flight Lieutenant Michael Fitzgerald Wong to support educational helicopter flying.

	2008	2007
	HK\$	HK\$
Movement of the fund for the year is as follows :-		
Balance brought forward	384,126	171,431
Donation received	20,000	300,000
	<u>404,126</u>	<u>471,431</u>
Utilisation during the year	(304,700)	(87,305)
	<u>99,426</u>	<u>384,126</u>
Balance carried forward		

13. EDUCATION AND MANPOWER BUREAU FUND

The fund was provided by the Education and Manpower Bureau to assist the needy student members of uniformed groups in purchasing uniforms, participating in camping/outing activities or joining leadership training courses.

	2008	2007
	HK\$	HK\$
Movement of the fund for the year is as follows :-		
Balance brought forward	162,908	-
Fund allocated	-	170,000
	<u>162,908</u>	<u>170,000</u>
Utilisation during the year	(19,485)	(7,092)
	<u>143,423</u>	<u>162,908</u>
Balance carried forward		

HONG KONG AIR CADET CORPS
NOTES TO THE FINANCIAL STATEMENTS - MARCH 31, 2008

12.

14. ACCUMULATED SURPLUS

	2008	2007
	HK\$	HK\$
Balance brought forward	2,435,005	2,248,786
Net surplus for the year	<u>915,307</u>	<u>186,219</u>
Balance carried forward	<u><u>3,350,312</u></u>	<u><u>2,435,005</u></u>

15. NET DEFICITS - VARIOUS ACTIVITIES

During the year, deficits/(surplus) are resulted from the following activities :-

	2008	2007
	HK\$	HK\$
1/10 Flag raising ceremony	-	1,254
35th Anniversary ball	-	57,441
35th Anniversary commemorative album	-	52,340
Adult training	(1,805)	(598)
Advanced aviation education programme (Fixed Wing)	(78,185)	(89,744)
Advanced aviation education programme (Helicopter)	(4,227)	(46,576)
Annual dinner	23,186	3,368
Aviation summer camp in China	30,009	5,273
Beating retreat 2007	16,679	15,759
Dragonfly	33,988	-
First aid course	(200)	-
Friendship Trek	8,829	10,891
Fund walk 2007	(225,363)	(148,559)
Instructors training courses	-	(232)
International air cadet exchange	244,655	334,154
International air cadet exchange association	20,276	27,638
New Zealand visit	30,780	24,950
Officer command course	(1,055)	-
Ops mess dinner	-	3,407
Other activities and courses	(36,906)	29,521
Proficiency map reading canocraft orienteering	-	11,400
Radio control modelling project	8,434	24,706
School team establishing	-	-
Scholarship for glider aviator training programme	60,000	122,772
Special activity flight abseiling course	(26,979)	(3,819)
Spring dinner 2007	-	2,500
Summer camp	45,862	29,379
Technical operations support squadron	27,322	-
UK training team programme	84,638	109,456
Wings parade	67,990	141,256
中山交流團	-	13,834
Net deficits for the year	<u><u>327,928</u></u>	<u><u>731,771</u></u>

16. FINANCIAL INSTRUMENTS

The HKACC is exposed to various kinds of risks in its operation and financial instruments. The HKACC's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the HKACC by closely monitoring the individual exposure as follows:-

(a) Credit risk

The HKACC does not grant credits and does not expose to credit risk.

(b) Cash flow interest rate risk

There is no significant cash flow interest rate risk as the Corps does not have any floating interest bearing liabilities.

(c) Foreign currency risk

The HKACC maintains its activities in Hong Kong dollars and does not expose to foreign currency risk.

(d) Liquidity risk

The HKACC's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and cash equivalents to meet its liquidity requirements in the short and longer term.

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

	2008			
	Carrying amount HK\$	Total contractual undiscounted cash flow HK\$	Within 1 year or on demand HK\$	More than 1 year HK\$
Creditors and accrued charges	218,018	218,018	218,018	-
Deposits received	71,972	71,972	71,972	-
Deferred income	9,975	9,975	9,975	-
Membership fees received in advance	84,228	82,448	35,862	48,366
	<u>384,193</u>	<u>382,413</u>	<u>335,827</u>	<u>48,366</u>

16. FINANCIAL INSTRUMENTS

(d) Liquidity risk (cont'd)

	2007			
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year
	HK\$	HK\$	HK\$	HK\$
Creditors and accrued charges	281,887	281,887	281,887	-
Deposits received	25,000	25,000	25,000	-
Deferred income	19,950	19,950	9,975	9,975
Membership fees received in advance	112,530	112,530	28,302	84,228
	<u>439,367</u>	<u>439,367</u>	<u>345,164</u>	<u>94,203</u>

17. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED MARCH 31, 2008

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 March 31, 2008 and which have not been adopted in these financial statements.

The HKACC is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the HKACC's results of operations and financial position.