

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Quality Education Fund

Independent Audit Report

To the Permanent Secretary for Education Incorporated

I certify that I have audited the financial statements of the Quality Education Fund set out on pages 3 to 20, which comprise the statement of financial position as at 31 August 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Permanent Secretary for Education Incorporated's Responsibility for the Financial Statements

The Permanent Secretary for Education Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) and Hong Kong Financial Reporting Standards, and for such internal control as the Permanent Secretary for Education Incorporated determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 8(5) of the Permanent Secretary for Education Incorporation Ordinance and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Permanent Secretary for Education Incorporated, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Quality Education Fund as at 31 August 2011, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance.

LAU Sun-wo
Assistant Director of Audit
for Director of Audit

24 February 2012

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

QUALITY EDUCATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2011
(Expressed in thousands of Hong Kong dollars)

	Note	2011	2010
INCOME			
Interest income	3	112,285	116,726
Dividend income	4	58,710	41,178
Net realised and revaluation gains/(losses) on:			
- securities		389,068	169,899
- trading financial instruments		(134,706)	110,794
- cash and deposits with banks and other financial institutions		6,991	(7,211)
Other income	5	<u>2,912</u>	<u>1,311</u>
		<u>435,260</u>	<u>432,697</u>
EXPENDITURE			
Grants and awards	6	(89,424)	(99,207)
Operating expenses	7	<u>(36,295)</u>	<u>(30,923)</u>
		<u>(125,719)</u>	<u>(130,130)</u>
SURPLUS FOR THE YEAR		309,541	302,567
OTHER COMPREHENSIVE INCOME		<u>—</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>309,541</u>	<u>302,567</u>

The accompanying notes 1 to 16 form part of these financial statements.

QUALITY EDUCATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2011

(Expressed in thousands of Hong Kong dollars)

	Note	2011	2010
ASSETS			
Cash at bank		54,766	57,034
Investments:			
Deposits with banks and other financial institutions with original maturity within 3 months	8	572,523	343,435
Deposits with banks and other financial institutions with original maturity over 3 months	8	148,478	—
Securities	9	5,907,317	6,096,715
Trading financial instruments	10	9,641	11,149
Receivables and other assets	11	108,505	353,493
		<u>6,801,230</u>	<u>6,861,826</u>
LIABILITIES			
Trading financial instruments	10	(5,864)	(3,392)
Payables and other liabilities	12	(63,130)	(435,739)
		<u>(68,994)</u>	<u>(439,131)</u>
NET ASSETS		<u><u>6,732,236</u></u>	<u><u>6,422,695</u></u>
Representing:			
FUND BALANCE			
Accumulated surplus		<u><u>6,732,236</u></u>	<u><u>6,422,695</u></u>

The accompanying notes 1 to 16 form part of these financial statements.

Permanent Secretary for Education Incorporated
Trustee of the Quality Education Fund

(Mrs Cherry TSE)
Permanent Secretary for Education
24 February 2012

QUALITY EDUCATION FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2011
(Expressed in thousands of Hong Kong dollars)

	2011	2010
ACCUMULATED SURPLUS		
Balance at beginning of year	6,422,695	6,120,128
Total comprehensive income for the year	<u>309,541</u>	<u>302,567</u>
Balance at end of year	<u><u>6,732,236</u></u>	<u><u>6,422,695</u></u>

The accompanying notes 1 to 16 form part of these financial statements.

QUALITY EDUCATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2011

(Expressed in thousands of Hong Kong dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	309,541	302,567
Adjustments for:		
Interest income	(112,285)	(116,726)
Dividend income	(58,710)	(41,178)
Increase in deposits with banks and other financial institutions with original maturity over 3 months	(148,478)	—
Decrease/(Increase) in investments in securities	189,398	(852,159)
Change in trading financial instruments	3,980	(8,469)
Decrease/(Increase) in receivables and other assets	245,348	(195,305)
(Decrease)/Increase in payables and other liabilities	(372,610)	323,522
Elimination of foreign exchange differences in revaluation of cash and cash equivalents	7,669	1,416
Interest received	113,014	113,411
Dividends received	57,622	41,061
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	234,489	(431,860)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	400,469	833,745
Effects of exchange rate changes on cash and cash equivalents	(7,669)	(1,416)
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>627,289</u>	<u>400,469</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
	2011	2010
Deposits with banks and other financial institutions with original maturity within 3 months	572,523	343,435
Cash at bank	54,766	57,034
	<u>627,289</u>	<u>400,469</u>

The accompanying notes 1 to 16 form part of these financial statements.

QUALITY EDUCATION FUND

Notes to the financial statements

(Amount expressed in thousands of Hong Kong dollars, unless otherwise stated.)

1. General

The Quality Education Fund (the Fund) was established by a declaration of trust made on 2 January 1998 by the Permanent Secretary for Education Incorporated (the Trustee). The Fund provides grants to fund projects that aim to raise the quality of school education, and to promote quality school education in Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098), accounting principles generally accepted in Hong Kong, and all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are effective for the current accounting period. There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

The Fund has not applied any new standard that is not yet effective for the current accounting period (note 16). A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost except that investments in securities and trading financial instruments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and 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 for making judgements about the 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.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are also no key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Financial assets and financial liabilities

(i) Initial recognition

The Fund classifies its financial assets and financial liabilities into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: trading financial instruments, securities, loans and receivables, and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value, which normally equals to the transaction prices, plus transaction costs for loans and receivables and other financial liabilities that are directly attributable to the acquisition of the financial assets or the issue of the financial liabilities. Transaction costs on trading financial instruments and securities are expensed immediately.

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted for at trade date.

(ii) Categorisation and subsequent measurement

Trading financial instruments

These comprise forward currency contracts used by the Fund to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments do not qualify for hedge accounting and are categorised as "trading" under HKAS 39, *Financial Instruments: Recognition and Measurement*.

Trading financial instruments are carried at fair value, and presented as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value are included in surplus or deficit in the period in which they arise.

Securities

Securities consist of equity and debt securities. Under HKAS 39, these investments are designated upon initial recognition as financial assets at fair value, based on the fact that they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management and investment strategy.

Securities are carried at fair value under HKAS 39. Changes in the fair value are included in surplus or deficit in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Fund has no intention of trading, other than those that the Fund, upon initial recognition, designates at fair value. This category includes cash at bank, deposits with banks and other financial institutions, receivables and other assets.

Loans and receivables are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(c)(vi)).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Other financial liabilities

These are financial liabilities other than trading financial instruments. This category includes payables and other liabilities. They are carried at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the financial asset or financial liability is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

The Fund uses the weighted average method to determine realised gains and losses to be recognised in surplus or deficit on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or when it expires.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

(vi) Impairment of financial assets

The carrying amounts of loans and receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in surplus or deficit as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through surplus or deficit. A reversal of impairment losses is limited to the asset's carry amount that would have been determined had no impairment loss been recognised in prior years.

(d) Revenue recognition

(i) Interest income

Interest income is recognised in surplus or deficit on an accrual basis, using the effective interest method.

(ii) Dividend income

Dividend income from listed equity securities is recognised in surplus or deficit when the share price is quoted ex-dividend. Dividend income from unlisted equity securities is recognised in surplus or deficit when the shareholder's right to receive payment is established.

(iii) Net realised and revaluation gains/losses

Realised gains or losses on financial instruments are recognised in surplus or deficit when the financial instruments are derecognised.

Changes in fair value of trading financial instruments and financial assets and financial liabilities designated at fair value are recognised as revaluation gains or losses in surplus or deficit in the period in which they arise.

(iv) Other income

Other income is recognised in surplus or deficit on an accrual basis.

(e) Grants recognition

Grants are payable to schools, educational bodies, institutions or individuals who are permanent residents in Hong Kong. Grants are recognised as expenditure when they are approved by the Trustee except in those cases where the release of grant is subject to certain conditions, such grants are only recognised as expenditure when the conditions are met.

(f) Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars at the spot exchange rates at the transaction dates. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the closing exchange rates at the end of the reporting period. All foreign currency translation differences are recognised in surplus or deficit.

(g) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank and deposits with banks and other financial institutions with original maturity within three months.

3. Interest income

	2011	2010
Debt securities issued:		
— in Hong Kong	28,671	36,808
— overseas	79,340	78,148
	108,011	114,956
Deposits:		
— Hong Kong dollar	719	571
— currencies other than Hong Kong dollar	3,555	1,199
	4,274	1,770
	<u>112,285</u>	<u>116,726</u>

4. Dividend income

	2011	2010
Dividend income from Hong Kong listed equities	27,226	21,872
Dividend income from overseas listed equities	31,484	19,306
	<u>58,710</u>	<u>41,178</u>

5 Other income

	2011	2010
Securities lending income	2,396	744
Sale of materials developed from projects	264	281
Class action income	146	41
Commission recapture income	106	245
	<u>2,912</u>	<u>1,311</u>

6. Grants and awards

	2011	2010
Grants	90,754	102,194
Refund of unused grants	(6,094)	(8,635)
	84,660	93,559
Awards under the teaching excellence scheme	4,764	5,648
	<u>89,424</u>	<u>99,207</u>

7. Operating expenses

	2011	2010
Fees for investment managers	16,321	14,380
Publicity costs	10,180	6,899
Investment transaction costs	7,282	7,461
Fees for custodians	2,509	2,158
Others	3	25
	<u>36,295</u>	<u>30,923</u>

8. Deposits with banks and other financial institutions

	2011	2010
Hong Kong dollar fixed deposits	118,649	125,310
Foreign currency fixed deposits	585,072	103,649
Foreign currency call deposits and balances with custodians	<u>17,280</u>	<u>114,476</u>
	<u>721,001</u>	<u>343,435</u>

9. Securities

	2011	2010
Equity securities listed:		
— in Hong Kong	1,051,337	1,021,268
— overseas	1,931,148	1,631,988
	<u>2,982,485</u>	<u>2,653,256</u>
Debt securities issued:		
— in Hong Kong:		
— listed	247,223	220,400
— unlisted	565,381	573,764
— overseas:		
— listed	1,800,356	1,565,651
— unlisted	311,872	1,083,644
	<u>2,924,832</u>	<u>3,443,459</u>
	<u>5,907,317</u>	<u>6,096,715</u>

10. Trading financial instruments

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts, at fair value	9,641	5,864	11,149	3,392

All these forward currency contracts would mature within one year and had a total notional amount of HK\$2,746.4 million as at 31 August 2011 (2010: HK\$2,779.2 million). The notional amounts of these contracts indicate the volume of outstanding transactions and do not represent the amounts at risk.

11. Receivables and other assets

	2011	2010
Proceeds receivable from investments sold	58,952	306,218
Interest and dividends receivable	40,804	40,445
Other debtors	8,749	6,830
	<u>108,505</u>	<u>353,493</u>

12. Payables and other liabilities

	2011	2010
Unsettled purchases of investments	51,555	421,563
Other creditors and accruals	11,575	14,176
	<u>63,130</u>	<u>435,739</u>

13. Commitments

As at 31 August 2011, grants approved to be released by the Fund when the grantees comply with the conditions and not provided for in the financial statements amounted to HK\$79.5 million (2010: HK\$100.6 million).

14. Financial risk management

(a) Investment management and control

The Trustee may invest moneys of the Fund in accordance with section 5 of the Permanent Secretary for Education Incorporation Ordinance. She has appointed the Director of Accounting Services to manage the investments of the Fund.

The Steering Committee, established under the Trust Deed, may advise the Trustee on policies and procedures governing the operation of the Fund and on the assessment of applications for the funding from the Fund. Members of the Steering Committee are appointed by the Secretary for Education.

The Fund's investment objective is to generate a reasonable growth in the value of the funds whilst producing recurrent income to meet regular funding requests in order to support the development of quality education in Hong Kong and to fund activities that aim to raise the quality of school education, and to promote quality school education in Hong Kong.

The investment performance of the Fund is monitored through the Investment Committee which usually meets on a quarterly basis to review investment reports prepared by the Director of Accounting Services and to interview the Fund's external investment managers. The Investment Committee also formulates guidelines on asset allocation in order to meet the investment objective. Members of the Investment Committee are appointed by the Secretary for Education.

The investment management and control of the Fund are set out in a documented risk management and investment strategy and are reviewed on a regular basis by the Investment Committee.

(b) Market risk

Market risk is the risk that changes in market variables such as equity prices, interest rates and currency exchange rates may affect the fair value or cash flows of a financial instrument.

(i) Equity price risk

Equity price risk is the risk of loss arising from changes in equity prices. The Fund's equities are subject to the equity price risk inherent in all equity securities i.e. the value of holdings may fall as well as rise. As at 31 August 2011, the equities were included in securities as shown in note 9. The risk is primarily addressed through diversification of investment portfolio in accordance with a documented risk management and investment strategy, and the Fund monitors the risk on a continuous basis.

It was estimated that, as at 31 August 2011, a 10% (2010:10%) increase/decrease in the market bid prices of the equities, with all other variables held constant, would increase/decrease the revaluation gains for the year by HK\$298.3 million (2010: HK\$265.3 million).

(ii) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Since a substantial portion of the Fund's debt securities and all of its deposits with banks and other financial institutions bear interest at fixed rates, their fair values will fall when market interest rates increase. Investments in debt securities are made in accordance with a documented risk management and investment strategy, and the Fund monitors the fair value interest rate risk on a continuous basis.

It was estimated that, as at 31 August 2011, a 100 basis points increase/50 basis points decrease (2010: 100 basis points increase/50 basis points decrease) in interest rates, with all other variables held constant, would decrease/increase the revaluation gains on the debt securities for the

year by HK\$115.0 million / HK\$57.5 million (2010: HK\$182.6 million / HK\$91.3 million). As regards deposits with banks and other financial institutions, since they are all stated at amortised cost, their carrying amounts will not be affected by changes in market interest rates.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund does not have a significant exposure to cash flow interest rate risk because only a small portion of its debt securities bear interest at rates determined by reference to market interest rates.

The Fund's exposure to interest rate risk, based on the major interest bearing assets stated at carrying amounts at the end of the reporting period and categorised by the earlier of contractual repricing dates or maturity dates, is shown below:

	Repricing period				Total
	3 months or less	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	Over 5 years	
2011					
Deposits with banks and other financial institutions	572,523	148,478	—	—	721,001
Debt securities	211,244	131,159	1,115,012	1,467,417	2,924,832
	<u>783,767</u>	<u>279,637</u>	<u>1,115,012</u>	<u>1,467,417</u>	<u>3,645,833</u>
2010					
Deposits with banks and other financial institutions	343,435	—	—	—	343,435
Debt securities	216,892	186,434	1,371,081	1,669,052	3,443,459
	<u>560,327</u>	<u>186,434</u>	<u>1,371,081</u>	<u>1,669,052</u>	<u>3,786,894</u>

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates. The Fund's non-Hong Kong dollar investments are exposed to currency risk. The Fund only makes investments denominated in Hong Kong dollar, US dollar and currency of a country whose foreign currency long-term debt has a high credit rating. The Fund monitors the currency risk on a continuous basis in accordance with a documented risk management and investment strategy.

The net exposure to each currency at the end of the reporting period arising from recognised assets and liabilities after taking into account the effect of forward currency contracts is shown below:

	2011	2010
Hong Kong dollar	3,014,758	3,255,097
US dollar	1,291,781	1,841,707
Euro	871,603	547,740
Japanese yen	430,252	342,169
Renminbi	354,159	–
Pound sterling	270,449	204,306
Others	499,234	231,676
	<u>6,732,236</u>	<u>6,422,695</u>

It was estimated that, as at 31 August 2011, a 0.5% (2010: 0.5%) increase/decrease in the exchange rate of the US dollar against the Hong Kong dollar, with all other variables held constant, would increase/decrease the exchange gains as included in revaluation gains for the year by HK\$6.5 million (2010: HK\$9.2 million).

It was estimated that, as at 31 August 2011, a 5% (2010: 5%) increase/decrease in the exchange rates of the other foreign currencies against the Hong Kong dollar, with all other variables held constant, would increase/decrease the exchange gains as included in revaluation gains for the year by HK\$121.3 million (2010: HK\$66.3 million).

(c) Credit risk

Credit risk is the risk that an issuer or a counterparty will cause a financial loss to the Fund by failing to discharge an obligation. Investments in debt securities, trading financial instruments, and loans and receivables are potentially subject to credit risk. The Fund selects issuer or counterparty with good credit standing, strong financial strength and sizeable capital. The Fund also limits the individual exposure, in accordance with a documented risk management and investment strategy. Hence the Fund does not have significant exposures to credit risk and monitoring is done on a continuous basis.

The Fund does not have significant concentrations of credit risk. The Fund's maximum exposure to credit risk at the end of the reporting period without taking account of collateral held or other credit enhancements, if any, is shown below:

	2011	2010
Cash at bank	54,766	57,034
Deposits with banks and other financial institutions	721,001	343,435
Debt securities	2,924,832	3,443,459
Trading financial instruments	9,641	11,149
Receivables and other assets	108,505	353,493
	<u>3,818,745</u>	<u>4,208,570</u>

The credit quality of cash at bank and deposits with banks and other financial institutions and debt securities, analysed by the ratings designated by Moody's or their equivalents, at the end of the reporting period is shown below:

	2011	2010
Cash at bank and deposits with banks and other financial institutions, by credit rating:		
Aaa	26,230	114,504
Aa3 to Aa1	457,545	93,386
A3 to A1	291,992	192,579
	<u>775,767</u>	<u>400,469</u>
	2011	2010
Debt securities, by credit rating:		
Aaa	1,311,724	2,238,495
Aa3 to Aa1	834,989	630,238
A3 to A1	645,078	497,674
Baa3 to Baa1	119,301	64,356
Ba3 to Ba1	6,133	6,265
Below Ba3	7,607	6,431
	<u>2,924,832</u>	<u>3,443,459</u>

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund monitors the liquidity requirements on a continuous basis and maintains a level of short-term deposits and cash to pay grants and operating expenses as necessary. Hence the Fund does not have significant exposures to liquidity risk.

As at 31 August 2011, the remaining contractual maturities of all financial liabilities, based on contractual undiscounted cash flows and the earliest date on which the Fund can be required to pay, were three months or less (2010: three months or less).

15. Fair values of financial instruments

(a) Fair values

The fair values of financial instruments quoted in active markets are their quoted prices at the end of the reporting period. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the end of the reporting period.

All financial instruments are stated in the statement of financial position at amounts equal to or not materially different from their fair values.

- (b) The carrying value of financial instruments measured at fair value as at 31 August 2011 according to three levels of fair value hierarchy as shown below:

2011	Level 1	Level 2	Total
Assets			
Securities at fair value	3,795,089	2,112,228	5,907,317
Trading financial instruments	—	9,641	9,641
	<u>3,795,089</u>	<u>2,121,869</u>	<u>5,916,958</u>
Liabilities			
Trading financial instruments	—	5,864	5,864
	<u>—</u>	<u>5,864</u>	<u>5,864</u>
2010	Level 1	Level 2	Total
Assets			
Securities at fair value	3,447,420	2,649,295	6,096,715
Trading financial instruments	—	11,149	11,149
	<u>3,447,420</u>	<u>2,660,444</u>	<u>6,107,864</u>
Liabilities			
Trading financial instruments	—	3,392	3,392
	<u>—</u>	<u>3,392</u>	<u>3,392</u>

No financial assets or liabilities were classified under Level 3.

The three levels of the fair value hierarchy are:

- Level 1: fair values of financial instruments are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair values of financial instruments are determined involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: fair values of financial instruments are determined with inputs that are not based on observable market data (unobservable inputs).

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2011

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 August 2011 and which have not been early adopted in the financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial

adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

The following developments may result in new or amended disclosures in future financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, <i>Financial Instruments: Disclosures</i> — Disclosures – Transfers of Financial Assets	1 July 2011
Amendments to HKAS 1 (Revised), <i>Presentation of Financial Statements</i> — Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to HKFRS 7, <i>Financial Instruments: Disclosures</i> — Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 13, <i>Fair Value Measurements</i>	1 January 2013
Amendments to HKAS 32, <i>Financial Instruments: Presentation</i> — Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 9, <i>Financial Instruments</i>	1 January 2015