

# ***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 21, which comprise the statement of financial position as at 31 August 2012, 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 2012, 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

26 February 2013

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 2012**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	2012	2011
<b>INCOME</b>			
Interest income	3	106,072	112,285
Dividend income	4	71,999	58,710
Net realised and revaluation gains/(losses) on:			
— securities		25,953	389,068
— trading financial instruments		94,037	(134,706)
— cash and deposits with banks and other financial institutions		(2,244)	6,991
		117,746	261,353
Other income	5	581	2,912
		<u>296,398</u>	<u>435,260</u>
<b>EXPENDITURE</b>			
Grants and awards	6	(64,329)	(89,424)
Operating expenses	7	(40,172)	(36,295)
		<u>(104,501)</u>	<u>(125,719)</u>
<b>SURPLUS FOR THE YEAR</b>		191,897	309,541
<b>OTHER COMPREHENSIVE INCOME</b>		—	—
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>191,897</u>	<u>309,541</u>

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

**QUALITY EDUCATION FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 AUGUST 2012**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	2012	2011
<b>ASSETS</b>			
Cash at bank		10,759	54,766
Deposits with banks and other financial institutions with original maturity within three months	8	315,077	572,523
Deposits with banks and other financial institutions with original maturity over three months	8	485,288	148,478
Securities	9	6,087,328	5,907,317
Trading financial instruments	10	12,886	9,641
Receivables and other assets	11	113,973	108,505
		7,025,311	6,801,230
<b>LIABILITIES</b>			
Trading financial instruments	10	(26,580)	(5,864)
Payables and other liabilities	12	(74,598)	(63,130)
		(101,178)	(68,994)
<b>NET ASSETS</b>		<b>6,924,133</b>	<b>6,732,236</b>
Representing:			
<b>FUND BALANCE</b>			
Accumulated surplus		6,924,133	6,732,236

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  
26 February 2013

**QUALITY EDUCATION FUND**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 AUGUST 2012**  
*(Expressed in thousands of Hong Kong dollars)*

	2012	2011
<b>ACCUMULATED SURPLUS</b>		
Balance at beginning of year	6,732,236	6,422,695
Total comprehensive income for the year	<u>191,897</u>	<u>309,541</u>
Balance at end of year	<u><u>6,924,133</u></u>	<u><u>6,732,236</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 2012**  
*(Expressed in thousands of Hong Kong dollars)*

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	191,897	309,541
Adjustments for:		
Interest income	(106,072)	(112,285)
Dividend income	(71,999)	(58,710)
Increase in deposits with banks and other financial institutions with original maturity over three months	(336,810)	(148,478)
(Increase)/Decrease in investments in securities	(180,011)	189,398
Change in trading financial instruments	17,471	3,980
(Increase)/Decrease in receivables and other assets	(8,736)	245,348
Increase/(Decrease) in payables and other liabilities	11,468	(372,610)
Elimination of foreign exchange differences in revaluation of cash and cash equivalents	(965)	7,669
Interest received	109,196	113,014
Dividends received	72,143	57,622
<b>NET CASH (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>(302,418)</b>	<b>234,489</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>627,289</b>	<b>400,469</b>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>965</b>	<b>(7,669)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>325,836</b>	<b>627,289</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Deposits with banks and other financial institutions with original maturity within three months	315,077	572,523
Cash at bank	10,759	54,766
	<u>325,836</u>	<u>627,289</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 financial assets designated at fair value 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 HKFRSs 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, financial assets designated at fair value, loans and receivables, held-to-maturity securities and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair values, which normally equal to the transaction prices, plus transaction costs for loans and receivables, held-to-maturity securities 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 financial assets designated at fair value 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.



### *Financial assets designated at fair value*

Financial assets designated at fair value consist of equity and debt securities that are managed and evaluated on a fair value basis in accordance with a documented risk management and investment strategy.

Financial assets designated at fair value are carried at fair value. 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.

### *Held-to-maturity securities*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Fund has the positive intention and ability to hold to maturity, other than (a) those that the Fund, upon initial recognition, designates as at fair value; and (b) those that meet the definition of loans and receivables.

Held-to-maturity securities are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(c)(vi)).

### *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 and held-to-maturity securities 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 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**

	2012	2011
This represents interest income from:		
— held-to-maturity debt securities	1,844	—
— debt securities designated in fair value denominated in:		
— Hong Kong dollar	29,109	28,671
— other currencies	62,779	79,340
	91,888	108,011
— deposits denominated in:		
— Hong Kong dollar	1,046	719
— other currencies	11,294	3,555
	12,340	4,274
<b>Total</b>	<b>106,072</b>	<b>112,285</b>

**4. Dividend income**

	2012	2011
This represents dividend income from equity securities listed:		
— in Hong Kong	30,607	27,226
— outside Hong Kong	41,392	31,484
	71,999	58,710

**5. Other income**

	2012	2011
Securities lending income	103	2,396
Sale of materials developed from projects	393	264
Class action income	—	146
Commission recapture income	85	106
	581	2,912

**6. Grants and awards**

	2012	2011
Grants	65,029	90,754
Refund of unused grants	<u>(6,067)</u>	<u>(6,094)</u>
	58,962	84,660
Awards under the teaching excellence scheme	<u>5,367</u>	<u>4,764</u>
	<u>64,329</u>	<u>89,424</u>

**7. Operating expenses**

	2012	2011
Fees for investment managers	15,207	16,321
Publicity costs	13,713	10,180
Investment transaction costs	8,775	7,282
Fees for custodians	2,475	2,509
Others	<u>2</u>	<u>3</u>
	<u>40,172</u>	<u>36,295</u>

**8. Deposits with banks and other financial institutions**

	2012	2011
Hong Kong dollar fixed deposits	115,465	118,649
Foreign currency fixed deposits	591,473	585,072
Foreign currency call deposits and balances with custodians	<u>93,427</u>	<u>17,280</u>
	800,365	721,001
Less: Deposits with banks and other financial institutions with original maturity over three months	<u>(485,288)</u>	<u>(148,478)</u>
Deposits with banks and other financial institutions with original maturity within three months	<u>315,077</u>	<u>572,523</u>

## 9. Securities

	2012	2011
<i>Held-to-maturity securities at amortised cost</i>		
Debt securities denominated in currencies other than Hong Kong dollar		
— maturing within one year	53,722	—
— maturing after one year	49,433	—
<i>Financial assets designated at fair value</i>		
Equity securities listed:		
— in Hong Kong	991,944	1,051,337
— outside Hong Kong	2,031,688	1,931,148
Debt securities denominated in:		
— Hong Kong dollar	845,343	812,604
— other currencies	2,115,198	2,112,228
<b>Total</b>	<b>6,087,328</b>	<b>5,907,317</b>

## 10. Trading financial instruments

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts, at fair value	<u>12,886</u>	<u>26,580</u>	<u>9,641</u>	<u>5,864</u>

All these forward currency contracts would mature within one year and had a total notional amount of HK\$3,939.1 million as at 31 August 2012 (2011: HK\$2,746.4 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

	2012	2011
Proceeds receivable from investments sold	61,529	58,952
Interest and dividends receivable	37,536	40,804
Other debtors	14,908	8,749
	<u>113,973</u>	<u>108,505</u>

## 12. Payables and other liabilities

	2012	2011
Unsettled purchases of investments	57,652	51,555
Other creditors and accruals	16,946	11,575
	<u>74,598</u>	<u>63,130</u>

## 13. Commitments

As at 31 August 2012, grants approved but not yet due for payment (see note 2(e)) amounted to HK\$67.7 million (2011: HK\$79.5 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 declaration of trust, 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 meets regularly 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 2012, 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 2012, a 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\$302.4 million (2011: HK\$298.3 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 2012, a 100 basis points increase/decrease in interest rates, with all other variables held constant, would decrease/increase the revaluation gains on the debt securities designated at fair value for the year by HK\$161.1 million (2011: HK\$115.0 million). As regards deposits with banks and other financial institutions and held-to-maturity securities, 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.

(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, Renminbi and currency of a country whose foreign currency



long-term debt has a high credit rating. The Fund's exposure to currency risk is handled in accordance with a documented risk management and investment strategy, and the Fund monitors the risk on a continuous basis.

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:

	2012	2011
Hong Kong dollar	2,959,280	3,014,758
US dollar	2,110,749	1,291,781
Euro	650,916	871,603
Japanese yen	391,357	430,252
Renminbi	361,312	354,159
Pound sterling	177,845	270,449
Others	272,674	499,234
	<u>6,924,133</u>	<u>6,732,236</u>

It was estimated that, as at 31 August 2012, a 0.5% increase/decrease in the exchange rate of US dollar against 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\$10.6 million (2011: HK\$6.5 million).

It was estimated that, as at 31 August 2012, a 5% increase/decrease in the exchange rates of other currencies against 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\$92.7 million (2011: HK\$121.3 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 exposure to or concentration of credit risk.

The Fund monitors credit risk on a continuous basis. The 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:

	2012	2011
Cash at bank	10,759	54,766
Deposits with banks and other financial institutions	800,365	721,001
Debt securities	3,063,696	2,924,832
Trading financial instruments	12,886	9,641
Receivables and other assets	113,973	108,505
	<u>4,001,679</u>	<u>3,818,745</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:

	2012	2011
Cash at bank and deposits with banks and other financial institutions, by credit rating:		
Aaa	—	26,230
Aa3 to Aa1	495,893	457,545
A3 to A1	315,231	291,992
	<u>811,124</u>	<u>775,767</u>
	2012	2011
Debt securities, by credit rating:		
Aaa	1,445,202	1,311,724
Aa3 to Aa1	689,013	834,989
A3 to A1	637,906	645,078
Baa3 to Baa1	243,363	119,301
Ba3 to Ba1	18,820	6,133
Below Ba3	29,392	7,607
	<u>3,063,696</u>	<u>2,924,832</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 exposure to liquidity risk.

As at 31 August 2012, 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 (2011: 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.

### (b) The carrying amount and fair value of held-to-maturity securities at the end of the reporting period are shown below:

<b>2012</b>	<b>Carrying amount</b>	<b>Fair value</b>
Assets		
Held-to-maturity debt securities	<u>103,155</u>	<u>103,158</u>
<b>2011</b>	<b>Carrying amount</b>	<b>Fair value</b>
Assets		
Held-to-maturity debt securities	<u>—</u>	<u>—</u>

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

### (c) The carrying amount of financial instruments measured at fair value at the end of the reporting period according to the fair value hierarchy is shown below:

<b>2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Assets			
Financial assets designated at fair value	3,868,975	2,115,198	5,984,173
Trading financial instruments	<u>—</u>	<u>12,886</u>	<u>12,886</u>
	<u>3,868,975</u>	<u>2,128,084</u>	<u>5,997,059</u>
Liabilities			
Trading financial instruments	<u>—</u>	<u>26,580</u>	<u>26,580</u>

2011	Level 1	Level 2	Total
<b>Assets</b>			
Financial assets designated 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>
<b>Liabilities</b>			
Trading financial instruments	—	5,864	5,864
	<u>—</u>	<u>5,864</u>	<u>5,864</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 2012**

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 2012 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 HKAS 1 (Revised),  
*Presentation of Financial Statements*

— Presentation of Items of Other Comprehensive  
Income

1 July 2012

**Effective for  
accounting periods  
beginning on or after**

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