

GRANTHAM SCHOLARSHIPS FUND

Report of the Grantham Scholarships Fund Committee on the Administration of the Fund for the year ended 31 August 2014

The Grantham Scholarships Fund (the Fund) was established in 1955 under the Grantham Scholarships Fund Ordinance (Cap. 1076) to commemorate the governorship of Sir Alexander Grantham G.C.M.G. The objective of the Fund is to promote and encourage local education, and in particular to provide for persons residing in Hong Kong, scholarships and maintenance grants in primary schools, secondary schools, prevocational schools, technical schools and institutions of higher education in Hong Kong.

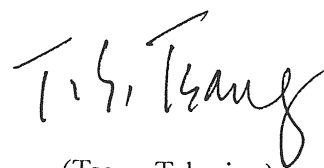
2. The Fund is managed by the Grantham Scholarships Fund Committee constituted under Section 4 of the Grantham Scholarships Fund Ordinance. A list showing the membership of the Committee for the year under review is at Appendix I. Trust Funds and Temples Joint Secretariat is responsible for the secretarial and accounting work of the Fund. The Director of Audit is the auditor of the Fund's accounts.

3. In 2013-2014 the Fund had an income of HK\$8,939,388 (HK\$16,243,622 in 2012-2013), of which, HK\$1,942,149 represented the realized gains on disposal of equities and debt securities during the year. The total expenditure of the Fund was HK\$7,593,943. The audited Financial Statements for the year 2013-2014 is at Appendix II.

4. The Fund currently awards the Grantham Maintenance Grants and six types of scholarships including the Grantham Scholars of the Year, scholarships to the Open University of Hong Kong, the Vocational Training Council, the Hong Kong Academy for Performing Arts, Uniformed Youth Groups and Todd Memorial Scholarships.

5. In the academic year 2013-2014, a total of HK\$6,615,880 was granted for scholarships and maintenance grants, a breakdown of which is as follows:-

	HK\$
(a) 1,806 Grantham Maintenance Grants awards	5,436,480
(b) 24 scholarships to the Grantham Scholars of the year	240,000
(c) 20 scholarships to the Open University of Hong Kong	200,000
(d) 127 scholarships to the Vocational Training Council	254,000
(e) 12 scholarships to the Hong Kong Academy for Performing Arts	214,400
(f) 26 Grantham Uniformed Youth Groups Outstanding Service Award	208,000
(g) 102 Todd Memorial Scholarships	63,000
	<hr/> 6,615,880 <hr/>



(Tsang Tak-sing)

Secretary for Home Affairs

Chairman

Grantham Scholarships Fund Committee
15 December 2014

GRANTHAM SCHOLARSHIPS FUND

**Membership of the Committee
(1.9.2013–31.8.2014)**

Secretary for Home Affairs	Chairman, Ex-officio
Permanent Secretary for Education	Ex-officio
Chairman, Board of Directors, Tung Wah Group of Hospitals – Dr CHAN Un-chan Mr SZE Wing-hang	Ex-officio (up to 31.3.2014) (as from 1.4.2014)
Chairman, Board of Directors, Po Leung Kuk – Dr CHENG Kam-chung, MH, OSTJ, JP Ms Angela LEONG	Ex-officio (up to 31.3.2014) (as from 1.4.2014)
Mr WONG Kwan-yu, BBS, MH	
Ms PONG Oi-lan, Scarlett, JP	
Mr MOK Chung-fai, Rex, MH	
Ms CHEUNG Marn-kay, Katherine	



Grantham Scholarships Fund

Financial Statements for the year ended 31 August 2014

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Legislative Council

I certify that I have audited the financial statements of the Grantham Scholarships Fund set out on pages 3 to 16, which comprise the balance sheet as at 31 August 2014, and the income and expenditure account, 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.

Secretary for Home Affairs Incorporated's Responsibility for the Financial Statements

The Secretary for Home Affairs Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with section 10(1) of the Grantham Scholarships Fund Ordinance (Cap. 1076) and Hong Kong Financial Reporting Standards, and for such internal control as the Secretary for Home Affairs 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 10(2) of the Grantham Scholarships Fund 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 Secretary for Home Affairs 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 Grantham Scholarships Fund as at 31 August 2014, 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 10(1) of the Grantham Scholarships Fund Ordinance.



Frederick T C WONG
Principal Auditor
for Director of Audit

15 December 2014

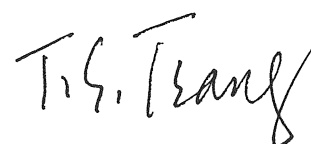
Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

GRANTHAM SCHOLARSHIPS FUND

BALANCE SHEET AS AT 31 AUGUST 2014

	Note	2014 HK\$	2013 HK\$
NON-CURRENT ASSETS			
Available-for-sale financial assets	3	125,969,976	144,106,275
CURRENT ASSETS			
Available-for-sale financial assets	3	6,948,657	6,953,465
Accounts receivable		884,367	1,061,236
Time deposits	4	65,493,033	57,568,013
Cash at banks		27,118,663	9,494,901
		100,444,720	75,077,615
CURRENT LIABILITIES			
Provision for staff gratuity	5	(93,986)	(77,963)
Provision for untaken leave		(3,368)	(9,809)
Accounts payable		(97,424)	(61,754)
		(194,778)	(149,526)
NET CURRENT ASSETS			
		100,249,942	74,928,089
		226,219,918	219,034,364
ACCUMULATED FUND			
Capital		76,182,248	76,182,248
Accumulated surplus		62,770,125	61,424,680
Investment revaluation reserve		87,267,545	81,427,436
		226,219,918	219,034,364

The accompanying notes 1 to 9 form part of these financial statements.



(Tsang Tak-sing)
Secretary for Home Affairs Incorporated
Trustee
Grantham Scholarships Fund
15 December 2014

GRANTHAM SCHOLARSHIPS FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2014

	Note	2014 HK\$	2013 HK\$
INCOME			
Dividends		5,018,821	5,463,056
Interest	6	1,961,282	1,404,152
Gains on disposal of available-for-sale financial assets		1,942,149	8,134,336
Refund of grants		17,136	9,892
Exchange gains		-	1,232,186
		<hr/> 8,939,388	<hr/> 16,243,622
EXPENDITURE			
Scholarships and maintenance grants		(6,615,880)	(6,499,219)
Staff costs		(641,859)	(585,048)
Other charges		(41,476)	(38,737)
Exchange losses		(294,728)	-
		<hr/> (7,593,943)	<hr/> (7,123,004)
SURPLUS FOR THE YEAR		<hr/> 1,345,445 =====	<hr/> 9,120,618 =====

The accompanying notes 1 to 9 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2014

	2014 HK\$	2013 HK\$
SURPLUS FOR THE YEAR	1,345,445	9,120,618
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to income or expenditure :		
Available-for-sale financial assets		
Fair value changes on revaluation	5,656,111	(814,635)
Fair value changes on disposal transferred to the income and expenditure account	183,998	(3,314,131)
	5,840,109	(4,128,766)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,185,554 =====	4,991,852 =====

The accompanying notes 1 to 9 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2014

	Capital HK\$	Accumulated Surplus HK\$	Investment Revaluation Reserve HK\$	Total HK\$
Balance at 1 September 2012	76,182,248	52,304,062	85,556,202	214,042,512
Total comprehensive income for 2012-13	-	9,120,618	(4,128,766)	4,991,852
Balance at 1 September 2013	76,182,248	61,424,680	81,427,436	219,034,364
Total comprehensive income for 2013-14	-	1,345,445	5,840,109	7,185,554
Balance at 31 August 2014	76,182,248	62,770,125	87,267,545	226,219,918

The accompanying notes 1 to 9 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2014

	2014 HK\$	2013 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	1,345,445	9,120,618
Dividend income	(5,018,821)	(5,463,056)
Interest income	(1,961,282)	(1,404,152)
Gains on disposal of available-for-sale financial assets	(1,942,149)	(8,134,336)
Decrease in accounts receivable	469	2,762
Increase in provision for staff gratuity	16,023	51,407
(Decrease)/Increase in provision for untaken leave	(6,441)	6,720
Increase/(Decrease) in accounts payable	35,670	(63,455)
Exchange losses/(gains)	294,728	(1,232,186)
NET CASH USED IN OPERATING ACTIVITIES	<u>(7,236,358)</u>	<u>(7,115,678)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	-	(26,960,776)
Sale proceeds from disposal of available-for-sale financial assets	25,883,468	50,306,036
Dividends received	5,244,973	5,047,531
Interest received	1,931,311	1,689,184
Increase of time deposit with original maturity over three months	(6,930,684)	(216,236)
NET CASH FROM INVESTING ACTIVITIES	<u>26,129,068</u>	<u>29,865,739</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,892,710	22,750,061
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	58,499,383	35,325,852
Effects of exchange rate changes on cash and cash equivalents	(158,552)	423,470
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>77,233,541</u>	<u>58,499,383</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank deposits with original maturity within three months	50,114,878	49,004,482
Cash at banks	27,118,663	9,494,901
	<u>77,233,541</u>	<u>58,499,383</u>

The accompanying notes 1 to 9 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Grantham Scholarships Fund (the Fund) provides scholarships and maintenance grants for students in primary schools, secondary schools, pre-vocational schools, technical schools and institutions of higher education in Hong Kong in accordance with sections 5 and 6 of the Grantham Scholarships Fund Ordinance (Cap. 1076).

The address of the Fund's principal place of business is 34th Floor, Wu Chung House, 213 Queen's Road East, Wan Chai, Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with section 10(1) of the Grantham Scholarships Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention except that available-for-sale financial assets are stated at fair value as explained in the accounting policy set out in note 2(d) 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 reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on 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 neither key assumptions concerning the future nor other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Adoption of new HKFRS

The Fund has adopted the following new HKFRS for the first time which is applicable to the Fund and effective for the current accounting period:

- HKFRS 13 “Fair Value Measurement”

The adoption of the new HKFRS has had no significant impact on the reported results and the financial position of the Fund.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. 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 result of operations and financial position.

(d) Available-for-sale financial assets

The Fund’s available-for-sale financial assets are classified as non-current assets unless the Grantham Scholarships Fund Committee (the Committee) intends to dispose of the investments within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date on which the Fund is committed to the transactions. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At each balance sheet date, the fair value is re-measured and any unrealised holding gain or loss arising from the change in fair value is recognised in other comprehensive income and accumulated separately in the investment revaluation reserve.

When available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying amount, as well as the accumulated fair value adjustments released from the investment revaluation reserve to the income and expenditure account.

The fair values of quoted investments are based on current bid-prices.

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income and expenditure account – is removed from the investment revaluation reserve and recognised in the income and expenditure account. Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses for debt securities are recognised in the income and expenditure account. Impairment losses for equity securities are not reversed through the income and expenditure account. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

(e) Foreign currency translation

Hong Kong dollar is the currency of the primary economic environment in which the Fund operates. Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income and expenditure account.

(f) Revenue recognition

Interest income is recognised as it accrues using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Dividend income is recognised when the Fund's right to receive payment is established.

(g) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2014 HK\$	2013 HK\$
Equity Securities		
Listed in Hong Kong	125,969,976	137,138,875
Debt Securities		
Listed in Hong Kong	6,948,657	13,920,865
	<hr/>	<hr/>
Fair value at end of year	132,918,633	151,059,740
	=====	=====
Classified as :		
Non-current assets	125,969,976	144,106,275
Current assets	6,948,657	6,953,465
	<hr/>	<hr/>
	132,918,633	151,059,740
	=====	=====

4. TIME DEPOSITS

	2014 HK\$	2013 HK\$
Time deposits with original maturity within three months	50,114,878	49,004,482
Time deposit with original maturity over three months	15,378,155	8,563,531
	<hr/>	<hr/>
	65,493,033	57,568,013
	=====	=====

5. PROVISION FOR STAFF GRATUITY

	2014 HK\$	2013 HK\$
Balance at beginning of year	77,963	26,556
Provision for the year	60,230	52,165
Payment for the year	(44,207)	(758)
	<hr/>	<hr/>
Balance at end of year	93,986	77,963
	=====	=====

6. INTEREST

	2014 HK\$	2013 HK\$
Interest on bank deposits	1,712,325	729,410
Interest on debt securities	248,957	674,742
	<u>1,961,282</u>	<u>1,404,152</u>
	=====	=====

7. FINANCIAL RISK MANAGEMENT

- (a) The Fund's major financial instruments are available-for-sale financial assets, accounts receivable and bank deposits. The major risks associated with these financial instruments are set out below.

(I) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To minimise credit risks arising from bank deposits, all time deposits are placed with reputable licensed banks in Hong Kong. To minimise credit risks arising from available-for-sale financial assets, only those classified under the investment grade by Moody's or Standard & Poor's are considered. At the balance sheet date, the credit quality of investments in debt securities analysed by the lower of ratings designated by Moody's or Standard & Poor's was as follows:

	2014 HK\$	2013 HK\$
Debt securities by credit rating		
A1 to A3/A+ to A-	<u>6,948,657</u>	<u>13,920,865</u>
	<u>6,948,657</u>	<u>13,920,865</u>

For other receivables, the Fund considers that adequate provision has been made, where necessary, for amounts which are expected to be irrecoverable at the balance sheet date.

The maximum exposure to credit risk as at the balance sheet date in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet.

(II) Market risk

The Fund is exposed to market risk due to changes in market variables such as equity prices, interest rates and exchange rates.

(i) Equity price risk

The Fund maintains a diversified portfolio of investments. The Committee monitors the performance of the portfolio and regularly reviews the investment strategy of the fund to manage the equity price risk. It is estimated that if the market prices of the respective equity securities had been 10% higher/lower (2013: 10%), the balance of the investment revaluation reserve of the Fund would have increased/decreased by about HK\$12,600,000 (2013: HK\$13,700,000). The sensitivity analysis was based on the carrying amount of equity securities held by the Fund as at the balance sheet date and on the assumption that all other variables were held constant.

(ii) Interest rate risk

Interest rate risk is 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 value of a financial instrument will fluctuate because of changes in market interest rates. Since all the Fund's deposits with banks bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and equity.

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.

It is estimated that, as at 31 August 2014, a general increase/decrease of 25 basis points (2013: 25 basis points) in interest rates, with all other variables held constant, would have the following effects:

	2014 HK\$	2013 HK\$
Increase by 25 basis points:		
Increase/(Decrease)		
Surplus of the Fund	18,000	6,000
Investment revaluation reserve of the Fund	(4,300)	(24,000)
Decrease by 25 basis points:		
Increase/(Decrease)		
Surplus of the Fund	-	-
Investment revaluation reserve of the Fund	4,300	24,000

The sensitivity analysis above was determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to interest-bearing financial instruments in existence at that date. The 25 basis points increase or decrease represents the Fund's assessment of a reasonably possible change in interest rates over the period until the next balance sheet date. The analysis was performed on the same basis for 2013.

(iii) Foreign currency risk

(a) Exposure to currency risk

The Fund maintained net financial instruments denominated in United States dollars and Renminbi at a total of USD7,168 (2013: USD7,168) and CNY48,865,076 (2013: CNY48,011,346) respectively at the balance sheet date. As Hong Kong dollar is pegged to the United States dollar within a narrow range, it is considered that the Fund had no significant exposure to foreign exchange risk relating to this currency. Since no foreign currency rate hedging is made by the Fund, the carrying amounts of the financial instruments in Renminbi represent the maximum exposure of the Fund to foreign currency risk in respect of Renminbi.

(b) Sensitivity analysis

It is estimated that at 31 August 2014, should the Renminbi strengthen/weaken by 5% (2013: 5%) against the Hong Kong dollar, with all other variables being held constant, the surplus of the Fund for the year would increase/decrease by HK\$3,082,000 (2013: HK\$3,041,000).

The sensitivity analysis above has been determined assuming that the change in foreign exchange rate had occurred at the year end and for financial instruments in existence at that date. The 5% (2013: 5%) strengthening/weakening in Renminbi represents the assessment by the Fund of a reasonably possible change in foreign exchange rate over the period until the end of next year.

(III) Liquidity risk

In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effects of fluctuations in cash flows.

(b) Fair value hierarchy of financial instruments

The following table presents the carrying values of financial instruments measured at fair value at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair Value Measurement.

	2014		2013	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Available-for-sale financial assets				
Equity				
Securities – listed	125,969,976	125,969,976	137,138,875	137,138,875
Debt				
securities – listed	6,948,657	6,948,657	13,920,865	13,920,865
	<u>132,918,633</u>	<u>132,918,633</u>	<u>151,059,740</u>	<u>151,059,740</u>

No financial instruments were classified under Level 2 or Level 3. During the year, there were no transfers between instruments in Level 1 and Level 2.

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:

Level 1 valuations: fair value measured using only unadjusted quoted prices in active markets for identical financial instruments at the measurement date.

Level 2 valuations: fair value measured using observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: fair value measured using significant unobservable inputs.

8. CAPITAL MANAGEMENT

The capital structure of the Fund consists of capital, accumulated surplus and investment revaluation reserve. The Fund's objectives when managing capital are:

- to comply with the Grantham Scholarships Fund Ordinance; and
- to maintain a strong capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund manages capital to ensure that its level is sufficient to fund future grants and expenditure, taking into account its projected cash flow requirements, future financial obligations and commitments.

9. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

All financial assets and liabilities are stated in the balance sheet at amounts equal to or not materially different from their fair values.