

# Self-financing Post-secondary Education Fund

Financial statements for the year ended 31 August 2015

# ***Report of the Director of Audit***



**Audit Commission**

**The Government of the Hong Kong Special Administrative Region**

## **Self-financing Post-secondary Education Fund**

### **Independent Audit Report**

#### **To the Permanent Secretary for Education Incorporated**

I certify that I have audited the financial statements of the Self-financing Post-secondary Education Fund set out on pages 3 to 20, which comprise the statement of financial position as at 31 August 2015, 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 Self-financing Post-secondary Education Fund as at 31 August 2015, 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 2016

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

**SELF-FINANCING POST-SECONDARY EDUCATION FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 AUGUST 2015**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	2015	2014
<b>INCOME</b>			
Interest income	3	40,946	36,123
Dividend income	4	48,037	49,576
Net realised and revaluation (losses)/gains on:			
— securities		(148,601)	212,587
— trading financial instruments		13,103	15,495
— deposits with banks and other financial institutions		(34,982)	(60)
		(170,480)	228,022
Other income		19	—
		<u>(81,478)</u>	<u>313,721</u>
<b>EXPENDITURE</b>			
Grants	5	(102,250)	(96,039)
Operating expenses	6	<u>(8,489)</u>	<u>(7,076)</u>
		<u>(110,739)</u>	<u>(103,115)</u>
<b>(DEFICIT)/SURPLUS FOR THE YEAR</b>		<b>(192,217)</b>	<b>210,606</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<u>—</u>	<u>—</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<b><u>(192,217)</u></b>	<b><u>210,606</u></b>

The accompanying notes 1 to 15 form part of these financial statements.

**SELF-FINANCING POST-SECONDARY EDUCATION FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 AUGUST 2015**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	2015	2014
<b>ASSETS</b>			
Cash at bank		<b>10,454</b>	13,590
Deposits with banks and other financial institutions with original maturity within three months	7	<b>632,978</b>	154,900
Deposits with banks and other financial institutions with original maturity over three months	7	<b>939,618</b>	1,328,658
Securities	8	<b>1,905,682</b>	2,189,608
Trading financial instruments	9	<b>1,039</b>	585
Receivables and other assets	10	<b>30,172</b>	16,369
		<b>3,519,943</b>	3,703,710
<b>LIABILITIES</b>			
Trading financial instruments	9	<b>(875)</b>	(292)
Payables and other liabilities	11	<b>(9,870)</b>	(2,003)
<b>NET ASSETS</b>		<b>3,509,198</b>	3,701,415
Representing:			
<b>FUND BALANCE</b>			
Accumulated surplus		<b>3,509,198</b>	3,701,415

The accompanying notes 1 to 15 form part of these financial statements.

Permanent Secretary for Education Incorporated  
Trustee of the Self-financing Post-secondary Education Fund

(Mrs Marion Lai)  
Permanent Secretary for Education  
26 February 2016

**SELF-FINANCING POST-SECONDARY EDUCATION FUND**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 AUGUST 2015**  
*(Expressed in thousands of Hong Kong dollars)*

	2015	2014
<b>ACCUMULATED SURPLUS</b>		
Balance at beginning of year	<b>3,701,415</b>	3,490,809
Total comprehensive (loss)/income for the year	<u><b>(192,217)</b></u>	<u>210,606</u>
Balance at end of year	<u><b>3,509,198</b></u>	<u>3,701,415</u>

The accompanying notes 1 to 15 form part of these financial statements.

**SELF-FINANCING POST-SECONDARY EDUCATION FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 AUGUST 2015**  
*(Expressed in thousands of Hong Kong dollars)*

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Deficit)/Surplus for the year	(192,217)	210,606
Adjustments for:		
Interest income	(40,946)	(36,123)
Dividend income	(48,037)	(49,576)
Decrease/(Increase) in deposits with banks and other financial institutions with original maturity over three months	389,040	(388,280)
Decrease/(Increase) in investments in securities	283,926	(844,335)
Change in trading financial instruments	129	(293)
(Increase)/Decrease in receivables and other assets	(3,171)	166
Increase/(Decrease) in payables and other liabilities	7,867	(2,816)
Elimination of foreign exchange differences in revaluation of cash and cash equivalents	113	(720)
Interest received	30,682	32,015
Dividends received	47,669	48,132
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>475,055</b>	<b>(1,031,224)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT BEGINNING OF YEAR</b>	<b>168,490</b>	<b>1,198,994</b>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>(113)</b>	<b>720</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>AT END OF YEAR</b>	<b>643,432</b>	<b>168,490</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Deposits with banks and other financial institutions with original maturity within three months	632,978	154,900
Cash at bank	10,454	13,590
	<b>643,432</b>	<b>168,490</b>

The accompanying notes 1 to 15 form part of these financial statements.

# **SELF-FINANCING POST-SECONDARY EDUCATION FUND**

## **Notes to the financial statements**

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

### **1. General**

The Self-financing Post-secondary Education Fund (the Fund) was established by a declaration of trust made on 26 August 2011 by the Permanent Secretary for Education Incorporated (the Trustee) to support worthwhile initiatives and schemes that aim to enhance the quality of self-financing post-secondary 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). 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 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 and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus, for loans and receivables and other financial liabilities, transaction costs 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.

#### *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 Fund measures its investments in securities and trading financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability; and the Fund has access to these markets at the measurement date.

The fair value of an asset or a liability is measured with those assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs. The Fund measures fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements:

- Level 1 – fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are determined with inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. 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).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers between levels in the hierarchy should be reflected in the financial statements by re-assessing categorisation (based on the level of input that is most significant and relevant to the fair value measurement as a whole) 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 carrying 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 equity securities is recognised in surplus or deficit when the share price is quoted ex-dividend.

(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.

(e) Grants recognition

Grants are recognised as expenditure when they are approved by the Trustee.

(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.

(h) Impact of new and revised HKFRSs

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period. There have been no changes to the accounting policies applied in the financial statements for the years presented as a result of these developments. The Fund has not applied any new HKFRSs that are not yet effective for the current accounting period (note 15).

### 3. Interest income

	2015	2014
This represents interest income from:		
— debt securities designated at fair value denominated in:		
— Hong Kong dollar	948	54
— other currencies	3,860	262
	4,808	316
— deposits denominated in:		
— Hong Kong dollar	4,025	12,118
— other currencies	32,113	23,689
	36,138	35,807
	40,946	36,123

### 4. Dividend income

	2015	2014
This represents dividend income from equity securities listed:		
— in Hong Kong	27,126	29,518
— outside Hong Kong	20,911	20,058
	48,037	49,576

### 5. Grants

	2015	2014
Grants to institutions	102,250	96,039

**6. Operating expenses**

	2015	2014
Fees for investment managers	5,393	3,969
Investment transaction costs	1,121	1,116
Fees for custodian	940	727
Staff costs	993	1,260
Others	42	4
	<u>8,489</u>	<u>7,076</u>

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

	2015	2014
Fixed deposits denominated in:		
— Hong Kong dollar	600,088	299,300
— other currencies	939,618	1,165,259
Call deposits and balances with the custodian denominated in currencies other than Hong Kong dollar	<u>32,890</u>	<u>18,999</u>
	1,572,596	1,483,558
Less: Deposits with banks and other financial institutions with original maturity over three months	<u>(939,618)</u>	<u>(1,328,658)</u>
Deposits with banks and other financial institutions with original maturity within three months	<u>632,978</u>	<u>154,900</u>

## 8. Securities

	2015	2014
<i>Financial assets designated at fair value</i>		
Equity securities listed:		
— in Hong Kong	736,729	986,393
— outside Hong Kong	882,231	913,696
Debt securities denominated in:		
— Hong Kong dollar	55,263	56,529
— other currencies	231,459	232,990
	<u>1,905,682</u>	<u>2,189,608</u>

## 9. Trading financial instruments

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts, at fair value	<u>1,039</u>	<u>875</u>	<u>585</u>	<u>292</u>

All these forward currency contracts would mature within one year and had a total notional amount of HK\$136.1 million as at 31 August 2015 (2014: HK\$251.1 million). The notional amounts of these contracts indicate the volume of outstanding transactions and do not represent the amounts at risk.

## 10. Receivables and other assets

	2015	2014
Proceeds receivable from investments sold	2,115	—
Interest and dividends receivable	23,910	13,278
Other receivables	<u>4,147</u>	<u>3,091</u>
	<u>30,172</u>	<u>16,369</u>

## 11. Payables and other liabilities

	2015	2014
Unsettled purchases of investments	7,978	384
Amount due to the Government	155	160
Other payables and accruals	1,737	1,459
	<u>9,870</u>	<u>2,003</u>

## 12. Commitments

As at 31 August 2015, grants approved but not yet due for payment (note 2(e)) amounted to HK\$73.7 million (2014: HK\$65.2 million).

## 13. 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 Secretary for Education on policies and procedures governing the operation and development of 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 worthwhile initiatives and schemes that aim to enhance the quality of self-financing post-secondary 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 2015, the equities were included in securities as shown in note 8. 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 2015, a 15% increase/decrease in the market bid prices of the equities, with all other variables held constant, would decrease/increase the deficit for the year by HK\$242.8 million (2014: increase/decrease the surplus for the year by HK\$190.0 million based on a 10% increase/decrease. The change in assumption used in the sensitivity analysis was due to the increased volatility in global equity markets after 31 August 2015).

(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 2015, a 100 basis points increase/decrease in interest rates, with all other variables held constant, would increase/decrease the deficit for the year by HK\$16.2 million (2014: decrease/increase the surplus for the year by HK\$15.9 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.

(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 currencies of countries 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:

	2015	2014
Hong Kong dollar	1,522,861	1,475,375
US dollar	852,879	1,049,976
Renminbi	717,285	724,877
Japanese yen	119,769	101,463
Euro	116,791	133,553
Pound sterling	69,663	86,756
Others	109,950	129,415
	<u>3,509,198</u>	<u>3,701,415</u>

It was estimated that, as at 31 August 2015, with all other variables held constant:

- a 0.5% increase/decrease in the exchange rate of US dollar against Hong Kong dollar would decrease/increase the deficit for the year by HK\$4.3 million (2014: increase/decrease the surplus for the year by HK\$5.2 million);
- a 5% increase/decrease in the exchange rate of Renminbi against Hong Kong dollar would decrease/increase the deficit for the year by HK\$35.9 million (2014: increase/decrease the surplus for the year by HK\$36.2 million); and
- a 5% increase/decrease in the exchange rates of other currencies against Hong Kong dollar would decrease/increase the deficit for the year by HK\$20.8 million (2014: decrease the surplus for the year by HK\$67.7 million based on a 15% decrease in the exchange rates. The change in assumption used in the sensitivity analysis was due to less volatile fluctuation expected of these currencies against Hong Kong dollar).

(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, and monitors credit risk on a continuous basis. Hence the Fund does not have significant exposure to or concentration of credit risk.

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

	2015	2014
Cash at bank and deposits with banks and other financial institutions, by credit rating:		
Aa3 to Aa1	428,232	553,831
A3 to A1	<u>1,154,818</u>	<u>943,317</u>
	<u>1,583,050</u>	<u>1,497,148</u>
	2015	2014
Debt securities, by credit rating:		
Aaa	100,814	78,718
Aa3 to Aa1	64,775	109,643
A3 to A1	102,374	88,705
Baa3 to Baa1	<u>18,759</u>	<u>12,453</u>
	<u>286,722</u>	<u>289,519</u>

The maximum exposure to credit risk of the financial assets of the Fund is equal to their carrying amounts at the end of the reporting period.

(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 2015, 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 (2014: three months or less).

## 14. Fair values of financial instruments

The fair value of financial instruments classified under Level 1 is based on the quoted market prices of these financial instruments at the end of the reporting period, without any deduction for estimated future selling costs.

In the absence of such quoted prices, the fair value of financial instruments classified under Level 2 is estimated using present value or other valuation techniques which maximise the use of observable data, using inputs based on market conditions existing at the end of the reporting period.

### (a) Financial instruments measured at fair value on a recurring basis

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

<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Assets			
Financial assets designated at fair value	<b>1,800,464</b>	<b>105,218</b>	<b>1,905,682</b>
Trading financial instruments	—	<b>1,039</b>	<b>1,039</b>
	<u><b>1,800,464</b></u>	<u><b>106,257</b></u>	<u><b>1,906,721</b></u>
Liabilities			
Trading financial instruments	—	<b>875</b>	<b>875</b>
	<u>—</u>	<u><b>875</b></u>	<u><b>875</b></u>
<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Assets			
Financial assets designated at fair value	2,070,152	119,456	2,189,608
Trading financial instruments	—	585	585
	<u>2,070,152</u>	<u>120,041</u>	<u>2,190,193</u>
Liabilities			
Trading financial instruments	—	292	292
	<u>—</u>	<u>292</u>	<u>292</u>

No financial assets or liabilities were classified under Level 3. There were no transfers between Level 1 and Level 2 during the year.

(b) Financial instruments not measured at fair value on a recurring basis:

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

**15. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2015**

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 2015 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 development may result in new or amended disclosures in future financial statements:

Effective for  
accounting periods  
beginning on or after

HKFRS 9, *Financial Instruments*

1 January 2018