



Gifted Education Fund

Financial statements for the period from
15 November 2016 (date of establishment) to 31 August 2017

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report

To the Permanent Secretary for Education Incorporated

Opinion

I certify that I have audited the financial statements of the Gifted Education Fund set out on pages 4 to 12, which comprise the statement of financial position as at 31 August 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 15 November 2016 (date of establishment) to 31 August 2017, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the financial position of the Gifted Education Fund as at 31 August 2017, and of its financial performance and cash flows for the period from 15 November 2016 to 31 August 2017 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098).

Basis for opinion

I conducted my audit in accordance with section 8(5) of the Permanent Secretary for Education Incorporation Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Gifted Education Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Permanent Secretary for Education Incorporated for the financial statements

The Permanent Secretary for Education Incorporated is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and section 8(3) of the Permanent Secretary for Education Incorporation Ordinance, 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.

In preparing the financial statements, the Permanent Secretary for Education Incorporated is responsible for assessing the Gifted Education Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

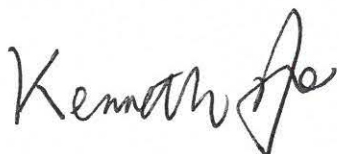
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Gifted Education Fund's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Permanent Secretary for Education Incorporated;
- conclude on the appropriateness of the Permanent Secretary for Education Incorporated's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Gifted Education Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Gifted Education Fund to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Kenneth Ho
Assistant Director of Audit
for Director of Audit

23 February 2018

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

GIFTED EDUCATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 15 NOVEMBER 2016
(DATE OF ESTABLISHMENT) TO 31 AUGUST 2017
(Expressed in thousands of Hong Kong dollars)

	Note	
INCOME		
Government grant	3	800,000
Interest income from placement with the Exchange Fund	4	10,310
		<hr/> 810,310
EXPENDITURE		
Award of grants		<hr/> 14,402
SURPLUS FOR THE PERIOD		795,908
OTHER COMPREHENSIVE INCOME		<hr/> —
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<hr/> 795,908

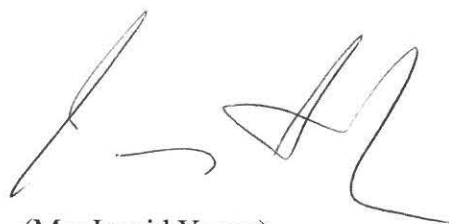
The accompanying notes 1 to 7 form part of these financial statements.

GIFTED EDUCATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2017
(Expressed in thousands of Hong Kong dollars)

	Note	
NON-CURRENT ASSETS		
Placement with the Exchange Fund	5	<u>800,000</u>
CURRENT ASSETS		
Accrued interest from placement with the Exchange Fund		<u>10,310</u>
CURRENT LIABILITIES		
Grants payable		<u>(14,402)</u>
NET CURRENT LIABILITIES		<u>(4,092)</u>
NET ASSETS		<u><u>795,908</u></u>
 Representing :		
FUND BALANCE		
Accumulated surplus		<u><u>795,908</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

Permanent Secretary for Education Incorporated
Trustee of the Gifted Education Fund



(Mrs Ingrid Yeung)
Permanent Secretary for Education
23 February 2018

GIFTED EDUCATION FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM 15 NOVEMBER 2016
(DATE OF ESTABLISHMENT) TO 31 AUGUST 2017
(Expressed in thousands of Hong Kong dollars)

ACCUMULATED SURPLUS

Balance at beginning of period	—
Total comprehensive income for the period	<u>795,908</u>
Balance at end of period	<u><u>795,908</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

GIFTED EDUCATION FUND
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 15 NOVEMBER 2016
(DATE OF ESTABLISHMENT) TO 31 AUGUST 2017
(Expressed in thousands of Hong Kong dollars)

CASH FLOWS FROM OPERATING ACTIVITIES

Government grant received	800,000
Increase in placement with the Exchange Fund	(800,000)
	<hr/>

NET CASH FROM OPERATING ACTIVITIES

—

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

—

CASH AND CASH EQUIVALENTS AT END OF PERIOD

—

The accompanying notes 1 to 7 form part of these financial statements.

GIFTED EDUCATION FUND

Notes to the financial statements

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

1. General

The Gifted Education Fund (the Fund) was established by a declaration of trust made on 15 November 2016 by the Permanent Secretary for Education Incorporated (the Trustee) to support the development of gifted 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.

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 period.

(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: loans and receivables and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets or the issue of the financial liabilities.

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(ii) Categorisation and subsequent measurement

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. This category includes placement with the Exchange Fund and accrued interest from placement with the Exchange Fund.

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

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

This category includes grants payable. They are carried at amortised cost using the effective interest method.

(iii) 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.

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

(iv) 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

Government grant is recognised as income in the period in which it is receivable. Interest income is recognised in surplus or deficit on an accrual basis, using the effective interest method.

(e) Award of grants

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

3. Government grant

During the period, the Fund received a government grant of HK\$800 million.

4. Interest income from placement with the Exchange Fund

This represents income earned from the placement with the Exchange Fund at a fixed rate determined every January (note 5).

5. Placement with the Exchange Fund

The balance of the placement with the Exchange Fund amounted to HK\$800 million, being the principal sum placed in March 2017. The term of the placement is six years from the date of placement, during which the amount of principal sum cannot be withdrawn.

Interest on the placement is payable at a fixed rate determined every January. The rate is the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 2.8% per annum for the year 2017.

6. Financial risk management

(a) Investment policy

The Fund may invest moneys of the Fund in accordance with section 5(1) of the Permanent Secretary for Education Incorporation Ordinance. It is the Fund's policy that all investments in financial instruments should be principal-protected.

(b) 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. Loans and receivables are potentially subject to credit risk.

The credit risk arising from the Fund's loans and receivables, which comprised placement with the Exchange Fund and accrued interest from placement with the Exchange Fund, is considered to be low.

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.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund manages liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Fund to ensure that all liabilities due and known

funding requirements could be met.

As at 31 August 2017, 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 five months or less.

(d) Other financial risk

The Fund is exposed to financial risk arising from change in the interest rate on the placement with the Exchange Fund which is determined every January (note 5). It was estimated that, as at 31 August 2017, a 50 basis point increase/decrease in the interest rate, with all other variables held constant, would increase/decrease the surplus for the period by HK\$1.8 million.

7. Possible impact of amendments, new standards and interpretations issued but not yet effective for the period

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 period and which have not been early adopted in the financial statements. These include the following which may be relevant to the Fund:

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

HKFRS 9, *Financial Instruments*

1 January 2018

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 financial statements.