

GRANTHAM SCHOLARSHIPS FUND

Report of the Grantham Scholarships Fund Committee on the administration of the Fund for the year ended 31 August 2019

The Grantham Scholarships Fund (“the Fund”) was established in 1955 under the Grantham Scholarships Fund Ordinance (Cap. 1076) (“the Ordinance”) 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 resident in Hong Kong of 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 (“the Committee”) constituted under Section 4 of the Ordinance. The membership list of the Committee for the year under report is at Appendix I. The Trust Funds and Temples Joint Secretariat is responsible for the secretariat and accounting work of the Fund. The Director of Audit is the auditor of the Fund’s accounts.

3. During the reporting period, the total income of the Fund was HK\$9.08 million and the total expenditure was HK\$27.40 million. The Fund recorded a deficit of HK\$18.32 million for 2018-19. As at 31 August 2019, the capital of the Fund was HK\$76.18 million and the accumulated surplus was HK\$170.1 million. The audited Financial Statements of the Fund for the year ended 31 August 2019 is at Appendix II.

4. The Fund currently gives the Grantham Maintenance Grants and nine types of awards and scholarships, including Grantham Music Awards, Grantham Outstanding Student Athletes Awards, Grantham Scholars of the Year Awards, Grantham Uniformed Youth Groups Outstanding Service Awards, Grantham Visual Arts Awards, Scholarships for Students of Hong Kong Academy for Performing Arts, Open University of Hong Kong and Vocational Training Council and also Todd Memorial Scholarships for Aberdeen Technical School.

5. In the academic year 2018-19, a total of HK\$5.54 million was disbursed for maintenance grants, awards and scholarships as follows -

	<u>No. of Awards</u>	<u>HK\$</u>
(a) Grantham Maintenance Grants	1,283	3,855,600
(b) Grantham Music Awards	8	152,896
(c) Grantham Outstanding Student Athletes Awards	91	203,000
(d) Grantham Scholars of the Year Awards	24	240,000
(e) Grantham Uniformed Youth Groups Outstanding Service Awards	26	208,000
(f) Grantham Visual Arts Awards	20	172,981
(g) Scholarships for Students of Hong Kong Academy for Performing Arts	12	235,200
(h) Scholarships for Students of Open University of Hong Kong	20	200,000
(i) Scholarships for Students of Vocational Training Council	99	198,000
(j) Todd Memorial Scholarships for Aberdeen Technical School	96	77,000
		<hr/> <u>5,542,677</u> <hr/>



(LAU Kong-wah)
Secretary for Home Affairs
Chairman
Grantham Scholarships Fund Committee
29 November 2019

GRANTHAM SCHOLARSHIPS FUND

**Membership of the Grantham Scholarships Fund Committee
(1.9.2018–31.8.2019)**

Secretary for Home Affairs	Chairman, Ex-officio
Permanent Secretary for Education	Ex-officio
Chairman, Board of Directors, Tung Wah Group of Hospitals - Mr Vinci WONG Dr TSOI Wing-sing, Ken	Ex-officio (up to 31.3.2019) (from 1.4.2019)
Chairman, Board of Directors, Po Leung Kuk - Dr CHOI LEE Wai-lai, Margaret Mr MA Ching-nam, CStJ, JP	Ex-officio (up to 31.3.2019) (from 1.4.2019)
Mrs CHAN WOO Mei-hou, Nancy	
Dr CHIU Cheung-ki	
Mr CHIU Ling-cheong, Anthony	
Ms WONG Ching-chi, Gigi	



Grantham Scholarships Fund

Financial statements for the year ended 31 August 2019

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I certify that I have audited the financial statements of the Grantham Scholarships Fund set out on pages 4 to 22, which comprise the balance sheet as at 31 August 2019, 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 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 Grantham Scholarships Fund as at 31 August 2019, and of its financial performance and cash flows for the year then ended 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 10(1) of the Grantham Scholarships Fund Ordinance (Cap. 1076).

Basis for opinion

I conducted my audit in accordance with section 10(2) of the Grantham Scholarships Fund 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 Grantham Scholarships 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 Secretary for Home Affairs Incorporated for the financial statements

The Secretary for Home Affairs 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 10(1) of the Grantham Scholarships Fund Ordinance, 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.

In preparing the financial statements, the Secretary for Home Affairs Incorporated is responsible for assessing the Grantham Scholarships 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 Grantham Scholarships Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary for Home Affairs Incorporated;
- conclude on the appropriateness of the Secretary for Home Affairs 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 Grantham Scholarships 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 Grantham Scholarships 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.



LIANG Kar-lun, Ken
Principal Auditor
for Director of Audit

29 November 2019

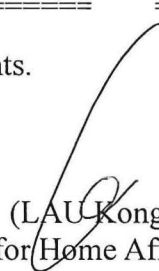
Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

GRANTHAM SCHOLARSHIPS FUND

**BALANCE SHEET
AS AT 31 AUGUST 2019**

	Note	2019 HK\$	2018 HK\$
NON-CURRENT ASSETS			
Financial assets measured at fair value through income and expenditure account	3	163,263,931	-
Debt securities measured at amortised cost	4	24,472,893	-
Available-for-sale financial assets	5	-	174,805,261
		187,736,824	174,805,261
CURRENT ASSETS			
Debt securities measured at amortised cost	4	32,878,833	-
Accounts receivable		1,592,644	1,305,177
Cash and cash equivalents	6	24,556,505	88,468,709
		59,027,982	89,773,886
CURRENT LIABILITIES			
Provision for staff gratuity	7	(44,490)	(32,359)
Provision for untaken leave		(9,018)	(4,552)
Accounts payable		(420,466)	(363,807)
		(473,974)	(400,718)
NET CURRENT ASSETS		58,554,008	89,373,168
NON-CURRENT LIABILITIES			
Provision for staff gratuity	7	(8,723)	-
NET ASSETS		246,282,109	264,178,429
ACCUMULATED FUND			
Capital		76,182,248	76,182,248
Accumulated surplus		170,099,861	79,354,539
Investment revaluation reserve		-	108,641,642
		246,282,109	264,178,429

The accompanying notes 1 to 12 form part of these financial statements.


 (Lau Kong-wah)
 Secretary for Home Affairs Incorporated
 Trustee
 Grantham Scholarships Fund

29 November 2019

GRANTHAM SCHOLARSHIPS FUND

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2019**

	Note	2019 HK\$	2018 HK\$
INCOME			
Dividend income		6,662,255	8,720,777
Interest income	8	2,386,206	2,555,806
Gains on disposal of available-for-sale financial assets		-	942,413
Refund of grants		30,000	13,600
		<hr/> 9,078,461	<hr/> 12,232,596
EXPENDITURE			
Awards, scholarships and maintenance grants		(5,542,677)	(5,883,800)
Net revaluation loss on financial assets measured at fair value through income and expenditure account		(18,485,417)	-
Staff costs		(819,880)	(831,743)
Other charges		(37,595)	(45,965)
Exchange losses		(2,513,155)	(1,927,912)
		<hr/> (27,398,724)	<hr/> (8,689,420)
(DEFICIT) / SURPLUS FOR THE YEAR		<hr/> (18,320,263) =====	<hr/> 3,543,176 =====

The accompanying notes 1 to 12 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2019**

	2019 HK\$	2018 HK\$
(DEFICIT) / SURPLUS FOR THE YEAR	(18,320,263)	3,543,176
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to surplus or deficit :		
Available-for-sale financial assets		
Fair value changes on revaluation	-	2,271,342
Reclassification adjustment for amounts released from investment revaluation reserve upon disposal	-	2,825,502
	-	5,096,844
	(18,320,263)	8,640,020
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	(18,320,263)	8,640,020

The accompanying notes 1 to 12 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2019**

	Capital HK\$	Accumulated Surplus HK\$	Investment Revaluation Reserve HK\$	Total HK\$
Balance at 1 September 2017	76,182,248	75,811,363	103,544,798	255,538,409
Total comprehensive income for 2017-18	-	3,543,176	5,096,844	8,640,020
	-----	-----	-----	-----
Balance at 31 August 2018	76,182,248	79,354,539	108,641,642	264,178,429
Adjustment on initial application of HKFRS 9 (note (2)(c)(iii))	-	109,065,585	(108,641,642)	423,943
	-----	-----	-----	-----
Balance at 1 September 2018, as adjusted	76,182,248	188,420,124	-	264,602,372
Total comprehensive loss for 2018-19	-	(18,320,263)	-	(18,320,263)
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Balance at 31 August 2019	76,182,248	170,099,861	-	246,282,109
	=====	=====	=====	=====

The accompanying notes 1 to 12 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2019**

	Note	2019 HK\$	2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit) / Surplus for the year		(18,320,263)	3,543,176
Adjustments for :			
Dividend income		(6,662,255)	(8,720,777)
Interest income		(2,386,206)	(2,555,806)
Net revaluation loss on financial assets measured at fair value through income and expenditure account		18,485,417	-
Gains on disposal of available-for-sale financial assets		-	(942,413)
Increase in accounts receivable		(138,218)	(5,290)
Increase/(Decrease) in provision for staff gratuity		20,854	(30,199)
Increase/(Decrease) in provision for untaken leave		4,466	(811)
Increase in accounts payable		56,659	269,398
Exchange losses		2,510,280	1,927,543
NET CASH USED IN OPERATING ACTIVITIES		(6,429,266)	(6,515,179)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets measured at fair value through income and expenditure account		(30,984,087)	-
Acquisition of debt securities measured at amortised cost		(34,861,893)	-
Acquisition of available-for-sale financial assets		-	(19,974,000)
Proceeds from disposal of available-for-sale financial assets		-	23,938,066
Dividends received		6,604,661	12,877,523
Interest received		2,270,315	2,322,590
Decrease in time deposits with original maturities over three months		-	14,559,633
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		(56,971,004)	33,723,812
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(63,400,270)	27,208,633
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		88,468,709	63,187,619
Effect of exchange rate changes on cash and cash equivalents		(511,934)	(1,927,543)
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	24,556,505	88,468,709

The accompanying notes 1 to 12 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 (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention except that investments in equity securities 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.

(c) **Changes in accounting policies**

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 “Financial Instruments” from 1 September 2018.

HKFRS 9 replaces Hong Kong Accounting Standard (HKAS) 39 “Financial Instruments: Recognition and Measurement”. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to items that existed at 1 September 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items at 1 September 2018 have not been impacted by the initial application of HKFRS 9 except for the carrying amounts of investments in debt securities, investment revaluation reserve and accumulated surplus.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) **Classification of financial assets and financial liabilities**

HKFRS 9 categorises financial assets into three principal classification categories: measured at (i) amortised cost; (ii) at fair value through other comprehensive income; and (iii) at fair value through profit or loss. These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the classification categories for the Fund’s financial assets under HKAS 39 and HKFRS 9.

Financial assets	Classification under HKAS 39	Classification under HKFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Accounts receivable	Loans and receivables	Financial assets at amortised cost
Investments in debt securities	Available-for-sale financial assets	Financial assets at amortised cost
Investments in equity securities	Available-for-sale financial assets	Financial assets at fair value through income and expenditure account (Note)

Note: This is equivalent to the term “fair value through profit or loss” under HKFRS 9.

Investments in equity securities amounting to HK\$150,765,261 as at 31 August 2018 previously classified as available-for-sale financial assets carried at fair value were reclassified to financial asset measured at fair value through income and expenditure account (note 3) because they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. The related cumulative gain of HK\$109,065,585 was transferred from the investment revaluation reserve to accumulated surplus as at 1 September 2018. The carrying amounts of investments in equity securities as at 1 September 2018 were the same as those as at 31 August 2018.

Investments in debt securities amounting to HK\$24,040,000 as at 31 August 2018 previously classified as available-for-sale financial assets carried at fair value were reclassified to debt securities measured at amortised cost (note 4). The Fund intends to hold these securities to collect contractual cash flows which consist solely of payments of principal and interest. Investments in debt securities were re-measured at amortised cost and the related cumulative loss of HK\$423,943 previously recognised in the investment revaluation reserve was reversed and added back to the carrying amounts of investments in debt securities as at 1 September 2018.

Had the investments in debt securities not been reclassified to financial assets measured at amortised cost, the fair value of investments in debt securities as at 31 August 2019 would be HK\$57,803,775 and the resulting fair value gain of HK\$875,991 would have been recognised in other comprehensive income in the current accounting period.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 September 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses and impairment

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the “incurred loss” accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost. The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets as at 1 September 2018.

(iii) Impact on investments in debt securities, investment revaluation reserve and accumulated surplus on adoption of HKFRS 9

The impact on investments in debt securities, investment revaluation reserve and accumulated surplus due to the adoption of HKFRS 9 is as follows:

	HK\$
Investments in debt securities	
Balance as at 1 September 2018	24,040,000
Re-measurement of financial assets from available-for-sale to amortised cost	<u>423,943</u>
Balance as at 1 September 2018, as adjusted	<u>24,463,943</u>
Investment revaluation reserve	
Balance as at 1 September 2018	108,641,642
Reclassification of financial assets from available-for-sale to fair value through income and expenditure account	(109,065,585)
Re-measurement of financial assets from available-for-sale to amortised cost	<u>423,943</u>
Balance as at 1 September 2018, as adjusted	<u>-</u>
Accumulated surplus	
Balance as at 1 September 2018	79,354,539
Reclassification of financial assets from available-for-sale to fair value through income and expenditure account	<u>109,065,585</u>
Balance as at 1 September 2018, as adjusted	<u>188,420,124</u>

(d) Financial assets and financial liabilities

(i) Initial recognition

Financial assets and financial liabilities are recognised on the date the Fund becomes party to the contractual provisions of the financial instruments. They are initially stated at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities, except for those financial instruments measured at fair value through income and expenditure account for which transaction costs are recognised directly in income and expenditure account. An explanation of how the Fund determines the fair value of financial instruments is set out in note 10. Purchases and sales of investments are recognised using trade date accounting.

(ii) Categorisation and subsequent measurement from 1 September 2018

Financial instruments measured at fair value through income and expenditure account

These comprise investments in equity securities. They are held within a business model in which they are managed and their performance is evaluated on a fair value basis. They are subsequently measured at fair value. Changes in fair value are recognised in the income and expenditure account in the period in which they arise.

Financial assets measured at amortised cost

These comprise investments in debt securities, accounts receivable and cash and cash equivalents. They are held for the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost, net of loss allowance, if any (note 2(d)(v)).

Financial liabilities measured at amortised cost

These comprise accounts payable. They are subsequently measured at amortised cost.

(iii) Categorisation and subsequent measurement before 1 September 2018

The Fund's financial assets and financial liabilities included available-for-sale financial assets, accounts receivable, cash and cash equivalents and accounts payable.

Available-for-sale financial assets were initially recognised at fair value plus transaction costs. At each reporting date, the fair value was re-measured and any unrealised holding gain or loss arising from the change in fair value was recognised in other comprehensive income and accumulated separately in the investment revaluation reserve. When available-for-sale financial assets were sold, gains or losses on disposal included 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.

Other financial assets were subsequently measured at amortised cost using the effective interest method, less impairment losses, if any (note 2(d)(vi)). Financial liabilities were subsequently measured at amortised cost using the effective interest method.

(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.

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

(v) Impairment of financial assets from 1 September 2018

For investments in debt securities, accounts receivable and cash and cash equivalents, the Fund measures the expected credit losses to determine the loss allowance required to be recognised. Financial assets measured at fair value through income and expenditure account are not subject to the expected credit loss assessment.

Expected credit losses are a probability-weighted estimate of credit losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following bases:

- 12-month expected credit losses (for financial instruments for which there has not been a significant increase in credit risk since initial recognition): these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime expected credit losses (for financial instruments for which there has been a significant increase in credit risk since initial recognition): these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vi) Impairment of financial assets before 1 September 2018

The Fund assessed at each reporting date whether there was objective evidence that a financial asset was impaired.

For available-for-sale financial assets, 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 – was removed from the investment revaluation reserve and recognised in the income and expenditure account. Impairment losses in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses for debt securities were recognised in the income and expenditure account. Impairment losses for equity securities were not reversed through the income and expenditure account. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

For other financial assets, the impairment loss was recognised in the income and expenditure account.

(e) Awards, scholarships and maintenance grants

Awards, scholarships and maintenance grants are recognised as expenditure when they are approved by the Committee and due for payment.

(f) 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 reporting date. Exchange gains and losses are dealt with in the income and expenditure account.

(g) Revenue recognition

Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised when the Fund's right to receive payment is established.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at banks and time deposits with original maturities of three months or less from the date of placement.

3. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME AND EXPENDITURE ACCOUNT

	2019 HK\$	2018 HK\$
Equity securities		
Listed in Hong Kong	163,263,931	-
	=====	=====

4. DEBT SECURITIES MEASURED AT AMORTISED COST

	2019 HK\$	2018 HK\$
Debt securities		
Unlisted	57,351,726	-
	=====	=====
Classified as:		
- Non-current assets	24,472,893	-
- Current assets	32,878,833	-
	-----	-----
	57,351,726	-
	=====	=====

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2019 HK\$	2018 HK\$
Equity securities - at fair value		
Listed in Hong Kong	-	150,765,261
Debt securities - at fair value		
Bonds - Unlisted	-	24,040,000
	-----	-----
	-	174,805,261
	=====	=====

6. CASH AND CASH EQUIVALENTS

	2019 HK\$	2018 HK\$
Time deposits with original maturities within three months	20,747,534	67,964,087
Cash at banks	3,808,971	20,504,622
	<u>24,556,505</u>	<u>88,468,709</u>
	=====	=====

7. PROVISION FOR STAFF GRATUITY

	2019 HK\$	2018 HK\$
Balance at beginning of year	32,359	62,558
Provision for the year	44,192	57,985
Payment for the year	(13,796)	(74,477)
Provision written back	(9,542)	(13,707)
	<u>53,213</u>	<u>32,359</u>
	=====	=====
Classified as:		
- Current liabilities	44,490	32,359
- Non-current liabilities	8,723	-
	<u>53,213</u>	<u>32,359</u>
	=====	=====

8. INTEREST INCOME

	2019 HK\$	2018 HK\$
Interest income on bank deposits	1,356,904	2,184,830
Interest income on debt securities	1,029,302	370,976
	<u>2,386,206</u>	<u>2,555,806</u>
	=====	=====

9. FINANCIAL RISK MANAGEMENT

The Fund's major financial instruments are financial assets measured at fair value through income and expenditure account, debt securities measured at amortised cost, accounts receivable, cash and cash equivalents and accounts payable. The major risks associated with these financial instruments are set out below.

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

To minimise the credit risk arising from cash and cash equivalents, all deposits are placed with reputable licensed banks in Hong Kong. Hence, the credit risk associated with cash and cash equivalents is considered to be low.

The credit quality of cash and cash equivalents, analysed by the ratings designated by Moody's, at the reporting date is shown below:

	2019 HK\$	2018 HK\$
Cash and cash equivalents, by credit rating		
Aa1 to Aa3 / AA+ to AA-	3,614,326	28,517,063
A1 to A3 / A+ to A-	20,942,179	59,951,646
	<u>24,556,505</u>	<u>88,468,709</u>
	=====	=====

To minimise the credit risk arising from investments in debt securities, the Fund only invests in those classified under the investment grade by Moody's or Standard & Poor's. At the reporting 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:

	2019 HK\$	2018 HK\$
Debt securities, by credit rating		
A1 to A3 / A+ to A-	57,351,726	24,040,000
	<u>57,351,726</u>	<u>24,040,000</u>
	=====	=====

For accounts receivable, the Fund believes that there is no material credit risk inherent in the Fund's outstanding balance because the counterparties have no history of default in the past.

As such, the credit risk on these financial instruments is assessed as not having increased significantly since initial recognition and the Fund determines the loss allowance required to be recognised based on 12-month expected credit losses. The Fund has estimated that 12-month expected credit losses on these financial assets are immaterial and considers that no loss allowance is required.

(b) 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 (2018: 10%), the deficit of the Fund would have decreased/increased by about HK\$16,330,000 (2018: other comprehensive income and the balance of the investment revaluation reserve of the Fund would have increased/decreased by about HK\$15,080,000). The sensitivity analysis was based on the carrying amount of equity securities held by the Fund as at the reporting 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 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 deficit 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. The Fund is not exposed to material cash flow interest rate risk because interest income from financial instruments bearing interest at a floating rate is not significant.

(iii) Currency risk

- Exposure to currency risk

The Fund maintained net financial instruments denominated in United States dollars and Renminbi totaling USD18,168 (2018: USD7,168) and CNY49,358,285 (2018: CNY48,122,654) respectively at the reporting 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.

- Sensitivity analysis

It is estimated that at 31 August 2019, should the Renminbi strengthen/weaken by 5% (2018: 5%) against the Hong Kong dollar, with all other variables being held constant, the deficit of the Fund for the year would decrease/increase by HK\$2,705,000 (2018: surplus of the Fund would increase/decrease by HK\$2,760,000).

(c) **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.

As at 31 August 2019, 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 one year or less (2018: seven months or less).

10. FAIR VALUE MEASUREMENT

(a) Fair value hierarchy of financial instruments

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

	2019			2018		
	Level 1 HK\$	Level 2 HK\$	Total HK\$	Level 1 HK\$	Level 2 HK\$	Total HK\$
Financial assets measured at fair value through income and expenditure account						
Equity securities						
– listed	163,263,931	-	163,263,931	-	-	-
Available-for-sale financial assets						
Equity securities						
– listed	-	-	-	150,765,261	-	150,765,261
Debt securities						
Bonds - unlisted	-	-	-	-	24,040,000	24,040,000
	<u>163,263,931</u>	<u>-</u>	<u>163,263,931</u>	<u>150,765,261</u>	<u>24,040,000</u>	<u>174,805,261</u>

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

The three levels of the fair value hierarchy are:

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

Level 2: 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; and

Level 3: fair value measured using significant unobservable inputs.

(b) Valuation techniques and key inputs

The fair value of financial instruments classified under Level 1 is based on quoted market prices of these financial instruments at the reporting date. The fair value of unlisted bonds classified under Level 2 was determined using quotation from the custodian bank.

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

11. CAPITAL MANAGEMENT

The capital structure of the Fund consists of capital and accumulated surplus. 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.

12. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2019

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 2019 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.