



## Education 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 Education Scholarships Fund set out on pages 4 to 16, which comprise the balance sheet as at 31 August 2019, and the income and expenditure account, 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 Education 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 9(4) of the Education Scholarships Fund Ordinance (Cap. 1085).

### *Basis for opinion*

I conducted my audit in accordance with section 9(5) of the Education 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 Education 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 Permanent Secretary for Education for the financial statements*

The Permanent Secretary for Education 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 9(4) of the Education Scholarships Fund Ordinance, and for such internal control as the Permanent Secretary for Education 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 is responsible for assessing the Education 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 Education Scholarships 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;
- conclude on the appropriateness of the Permanent Secretary for Education'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 Education 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 Education 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.



Frankie Lau  
Acting Principal Auditor  
for Director of Audit

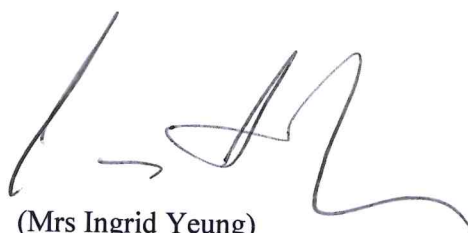
24 December 2019

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

**EDUCATION SCHOLARSHIPS FUND  
BALANCE SHEET AS AT 31 AUGUST 2019**

		2019			2018
	Note	Parts I & II	Part III	Total	Total
		HK\$	HK\$	HK\$	HK\$
<b>Current Assets</b>					
Bank interest receivable		77,724	63,890	141,614	71,271
Fixed deposits		3,485,174	2,864,826	6,350,000	6,300,000
Cash and cash equivalents	3	<u>4,164</u>	<u>19,749</u>	<u>23,913</u>	<u>24,590</u>
<b>Net Current Assets</b>		<u><u>3,567,062</u></u>	<u><u>2,948,465</u></u>	<u><u>6,515,527</u></u>	<u><u>6,395,861</u></u>
<b>Capital and Reserves</b>					
General Capital	5	3,317,673	-	3,317,673	3,317,673
Separate Capital	6	-	2,516,004	2,516,004	2,516,004
General Reserve Fund	7	249,389	-	249,389	167,035
Separate Reserve Fund	8	<u>-</u>	<u>432,461</u>	<u>432,461</u>	<u>395,149</u>
		<u><u>3,567,062</u></u>	<u><u>2,948,465</u></u>	<u><u>6,515,527</u></u>	<u><u>6,395,861</u></u>

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



(Mrs Ingrid Yeung)  
Permanent Secretary for Education  
Trustee,



(Ms Cora Wong)  
Treasurer,

Education Scholarships Fund

Date : 24 DEC 2019

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

	<b>2019</b>			<b>2018</b>
	<b>Parts I &amp; II</b>	<b>Part III</b>	<b>Total</b>	<b>Total</b>
	HK\$	HK\$	HK\$	HK\$
<b>Income</b>				
Interest	86,804	71,462	158,266	85,853
<b>Expenditure</b>				
Payment of awards	<u>(4,450)</u>	<u>(34,150)</u>	<u>(38,600)</u>	<u>(45,650)</u>
<b>Surplus for the year</b>	82,354	37,312	119,666	40,203
<b>Other comprehensive income</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u>82,354</u>	<u>37,312</u>	<u>119,666</u>	<u>40,203</u>

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

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

	<b>General Capital HK\$</b>	<b>Separate Capital HK\$</b>	<b>General Reserve Fund HK\$</b>	<b>Separate Reserve Fund HK\$</b>	<b>Total HK\$</b>
Balance at 1 September 2017	3,317,673	2,516,004	126,115	395,866	6,355,658
Total comprehensive income / (loss) for 2017-18	-	-	40,920	(717)	40,203
Balance at 31 August 2018	3,317,673	2,516,004	167,035	395,149	6,395,861
Total comprehensive income for 2018-19	-	-	82,354	37,312	119,666
Balance at 31 August 2019	<u>3,317,673</u>	<u>2,516,004</u>	<u>249,389</u>	<u>432,461</u>	<u>6,515,527</u>

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

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

		2019		2018	
	Note	Parts I & II HK\$	Part III HK\$	Total HK\$	Total HK\$
<b>Cash flows from operating activities</b>					
Surplus for the year		82,354	37,312	119,666	40,203
Adjustments for :					
Interest		(86,804)	(71,462)	(158,266)	(85,853)
Decrease in accounts payable		-	-	-	(2,000)
<b>Net cash used in operating activities</b>		<u>(4,450)</u>	<u>(34,150)</u>	<u>(38,600)</u>	<u>(47,650)</u>
<b>Cash flows from investing activities</b>					
Net increase in bank deposits					
with original maturities over 3 months		(44,274)	(5,726)	(50,000)	(30,000)
Interest received		48,006	39,917	87,923	77,124
<b>Net cash from investing activities</b>		<u>3,732</u>	<u>34,191</u>	<u>37,923</u>	<u>47,124</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		(718)	41	(677)	(526)
<b>Cash and cash equivalents at beginning of year</b>		4,882	19,708	24,590	25,116
<b>Cash and cash equivalents at end of year</b>	3	<u>4,164</u>	<u>19,749</u>	<u>23,913</u>	<u>24,590</u>

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



**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1. General**

The Education Scholarships Fund (the Fund) was established for the payment of scholarships in accordance with section 4 of the Education Scholarships Fund Ordinance (Cap. 1085). The Fund consists of three parts:

- (a) Part I refers to 29 scholarships which were donated before the vesting day (1 April 1956) in respect of which the amounts donated and the conditions of award as laid down by the donors are unknown.
- (b) Part II refers to:
  - (i) 16 scholarships which were donated before the vesting day and one scholarship which was donated after the vesting day, of which the amounts donated and the conditions of award as laid down by the donors are known; and
  - (ii) 123 scholarships transferred from Part III since 1 September 1990.
- (c) Part III refers to the Fung Ping Shan Scholarship and eleven scholarships which were donated after the vesting day.

The address of the Fund's principal place of business is 12<sup>th</sup> Floor Cheung Sha Wan Government Offices, 303 Cheung Sha Wan Road, Kowloon.

**2. Significant Accounting Policies**

(a) Statement of compliance

The financial statements have been prepared in accordance with section 9(4) of the Education 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.

**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, 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 judgments 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 judgments involved in the application of the Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(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



**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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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.

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

(i) Classification of financial assets

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 Fund's financial assets, comprising bank interest receivable, fixed deposits and cash and cash equivalents, were previously classified as loans and receivables carried at amortised cost under HKAS 39. They were reclassified to financial assets measured at amortised cost under HKFRS 9. Their carrying amounts as at 1 September 2018 were the same as those as at 31 August 2018.

(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.

(d) Financial assets

(i) Initial recognition

Financial assets are recognised on the date the Fund becomes party to the contractual provisions of the financial instruments. They are initially stated at

**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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fair value plus transaction costs that are directly attributable to the acquisition of financial assets.

(ii) Categorisation and subsequent measurement from 1 September 2018

*Financial assets measured at amortised cost*

These comprise bank interest receivable, fixed deposits 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)).

(iii) Categorisation and subsequent measurement before 1 September 2018

The Fund's financial assets included bank interest receivable, fixed deposits and cash and cash equivalents. They were subsequently measured at amortised cost using the effective interest method less impairment losses, if any (note 2(d)(vi)).

(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.

(v) Impairment of financial assets from 1 September 2018

For bank interest receivable, fixed deposits and cash and cash equivalents, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

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



**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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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 carrying amounts of financial assets measured at amortised cost were reviewed at each reporting date to determine whether there was objective evidence of impairment. If any such evidence existed, an impairment loss was recognised in the income and expenditure account 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the income and expenditure account. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment losses been recognised in prior years.

(e) Revenue recognition

Interest income is recognised as it accrues using the effective interest method.

(f) Awards

Awards are recognised as expenditure when they are approved by the Education Scholarships Fund Committee and due for payment.

**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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(g) Cash and cash equivalents

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

**3. Cash and Cash Equivalents**

	<b>2019</b>		<b>2018</b>	
<b>Parts I &amp; II</b>	<b>Part III</b>	<b>Total</b>	<b>Total</b>	
HK\$	HK\$	HK\$	HK\$	HK\$
Cash at banks	<u>4,164</u>	<u>19,749</u>	<u>23,913</u>	<u>24,590</u>

**4. Financial Risk Management**

The Fund's major financial instruments include bank deposits and interest receivable. 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 of the financial assets of the Fund is equal to their carrying amounts at the reporting date.

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

**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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

	<b>Parts I &amp; II</b>	<b>2019 Part III</b>	<b>Total</b>	<b>2018 Total</b>
	HK\$	HK\$	HK\$	HK\$
Bank deposits and cash at banks, by credit rating				
Aa1 to Aa3	1,742,587	1,432,423	3,175,010	3,150,010
A1 to A3	1,746,751	1,452,152	3,198,903	3,174,580
	<u>3,489,338</u>	<u>2,884,575</u>	<u>6,373,913</u>	<u>6,324,590</u>

The Fund has estimated that 12-month expected credit losses on these financial assets are immaterial and considered that no loss allowance is required.

(b) Market risk

The Fund is exposed to market risk due to changes in interest rates. Interest rate risk is the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

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

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

(c) Liquidity risk

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



**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**5. General Capital**

General Capital is the moneys and assets from which the income is available for payment of the scholarships under Parts I and II.

**6. Separate Capital**

Separate Capital is the moneys and assets from which the income is available for payment of the scholarships under Part III.

**7. General Reserve Fund**

General Reserve Fund is for scholarships under Parts I and II.

**8. Separate Reserve Fund**

Separate Reserve Fund is for scholarships under Part III.

**9. Capital Management**

The capital structure of the Fund consists of the General Capital, the Separate Capital, the General Reserve Fund and the Separate Reserve Fund. The Fund's objectives when managing capital are:

- (a) to comply with the Education Scholarships Fund Ordinance; and
- (b) 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 awards, taking into account its projected cash flow requirements, future financial obligations and commitments.



**EDUCATION SCHOLARSHIPS FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**10. Cost of Administration**

The cost of administering the Fund has been borne by the Government of the Hong Kong Special Administrative Region in accordance with section 21 of the Education Scholarships Fund Ordinance.

**11. Fair Values of Financial Assets**

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

**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.

**Trustee's Report**  
**on the Administration of the Education Scholarships Fund**  
**for the year ended 31 August 2019**

The Permanent Secretary for Education, Trustee of the Education Scholarships Fund, has pleasure in presenting this report and the statement of the accounts of the Fund for the year ended 31 August 2019.

2. During the year, net current assets of the Fund increased by \$119,666 to \$6,515,527 as at 31 August 2019. Of this figure, \$6,350,000 (97%) was in fixed deposits.

3. Income from deposits, amounting to \$158,266, represented an increase of 84% as compared with \$85,853 for last year. The increase in income was attributed to relatively higher interest rates during the year. The table below summarizes the income from deposits covering the scholarships referred to in Parts I & II and Part III of the Register for these two years : -

Source	Register	Income	
		Year ended 31 August 2019	Year ended 31 August 2018
Interest from deposits	Parts I & II	HK\$ 86,804	HK\$ 46,830
	Part III	<u>71,462</u>	<u>39,023</u>
	Total :	<u>158,266</u>	<u>85,853</u>

4. As at 31 August 2019, the total number of scholarships under the Fund's administration stood at 181 (169 in Parts I & II of the Register and 12 in Part III of the Register).

5. During the year, 6 awards amounting to \$4,450 were given to students under Parts I & II and 45 awards amounting to \$34,150 were given under Part III of the Register.

6. The financial statements for the year ended 31 August 2019 have been audited by the Director of Audit.



(Mrs Ingrid Yeung)

Permanent Secretary for Education  
Trustee of the Education Scholarships Fund

Date : 24 DEC 2019