

# **Grant Schools**

# **Provident Fund**

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**Annual Report**

**2015**

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## **OTHER INFORMATION**

### **Funds Section Education Bureau**

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Senior Accounting Officer  
Room 1517, 15/F Wu Chung House  
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### **Secretary**

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School Administration and Support Division  
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### **Treasurer**

Ms LEUNG Yin-fun, Fanny  
Assistant Director of Accounting Services  
The Treasury  
Room 2701, 27/F, Immigration Tower  
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Hong Kong

### **Auditor**

Mr David SUN, BBS, JP  
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<b>CONTENTS</b>	<b>PAGE</b>
Foreword	1
Board of Control	4
Investment Sub-committee	7
Chairman's Report	9
Treasurer's Report	11
Number of Contributors (2006 – 2015)	17
Dividend Declared and Investment Return (2006 – 2015)	18
Net Assets (2006 – 2015)	19
Spread of Net Assets	20
Report of the Director of Audit	21
Balance Sheet	23
Income and Expenditure Account	24
Reserve Fund	25
Statement of Changes in Net Assets Available for Benefits	26
Statement of Cash Flows	27
Notes to the Financial Statements	28



## FOREWORD

### *The Fund*

The Grant Schools Provident Fund (The Fund) is governed by the Grant Schools Provident Fund Rules under Section 85 of the Education Ordinance (Cap. 279). The Fund is a defined contribution retirement scheme established to provide for payments upon retirement, resignation, dismissal, termination of contract or death of contributors. Contributors refer to teachers in grant schools and also, with effect from 19 May 2000, teachers in Direct Subsidy Scheme (DSS) schools who contribute to the Fund.

### *Board of Control*

The complete administration and control of the Fund, subject to the Fund rules, is vested in the Board of Control, the composition of which is as follows:

Chairman :                      nominated by the Grant Schools Council

Vice-chairman :                nominated by the Grant Schools Council  
out of the 8 additional members

Permanent Secretary for Education or his representative

Director of Accounting Services or his representative

Eight additional members :

- (a) 2 nominated jointly by contributors who are members of the staff of Roman Catholic boys schools in Hong Kong,
- (b) 2 nominated jointly by contributors who are members of the staff of Roman Catholic girls schools in Hong Kong,
- (c) 2 nominated jointly by contributors who are members of the staff of the Diocesan Boys' School, the Diocesan Girls' School, St. Paul's Co-educational College, St. Paul's College and St. Mark's School,
- (d) 1 nominated jointly by contributors who are members of the staff of Ying Wa College, Ying Wa Girls' School and the Methodist College, and
- (e) 1 nominated jointly by contributors who are members of the staff of St. Stephen's Girls' College and Heep Yunn School.

### *Meetings of the Board of Control*

The Board holds an annual general meeting to receive and consider the annual financial statements of the Fund and to declare the annual dividend for contributors. It also holds other meetings during the year as and when required. Five members form a quorum. All matters arising before any meeting of the Board are determined by a majority of the members present and voting thereon.

### *Contributions and donations*

Contributors' contributions and the matching donations from the Government and DSS schools are made monthly to the Fund according to the following scale as a percentage of a contributor's basic salary, including any approved allowance:

<u>No. of years of continuous contributory service</u>	<u>Teacher's contribution</u> %	<u>Donations from the Government and DSS schools</u> %
Less than 10	5	5
10 to less than 15	5	10
15 or more	5	15

### *Benefits*

Contributors are entitled to a lump sum payment when they cease to be contributors to the Fund. Subject to certain exceptions laid down in the Fund rules, the amount of payment is determined as follows :

<u>Length of contributory service</u>	<u>Benefits</u>
10 years or more	All accumulated contributions and donations from the Government and DSS schools and dividends thereon.
5 years to less than 10 years	All accumulated contributions and dividends thereon and 10% of the donations from the Government and DSS schools and dividends thereon for each complete year of contributory service.
Less than 5 years	All accumulated contributions and dividends thereon.

### *Statement of provident fund account balance*

Each contributor is provided by the Treasurer of the Fund with a statement of provident fund account in September and March each year. These statements show the balance standing to the credit of each contributor's account at the previous 31 August and 28 February (or 29 February as appropriate) respectively. The March statement

incorporates the latest annual dividend declared by the Board for the year ended the previous 31 August. The supervisor of each school also maintains a provident fund account for each contributor in his school and these accounts are available for inspection by contributors.

#### *Payments to outgoing contributors*

Except for the peak months of August and September, payments of benefits to the outgoing contributors are made by the Fund within 23 working days from the date of receipt of the outgoing contributor's application by the Permanent Secretary for Education or the effective date of ceasing to be a teacher, whichever is later. Payments are made by the Fund within 28 working days for the two peak months. Both pledges are subject to the condition that the withdrawal application is correctly completed by the outgoing contributor.

#### *Investment Management*

The day-to-day management of the Fund is the responsibility of the Treasurer who is appointed by the Director of Accounting Services under rule 6(1) of the Grant Schools Provident Fund Rules. The investment functions are the responsibility of the Board of Control who formulates the investment strategies of the Fund within the investment framework approved by the Financial Secretary. All sum considered by the Board to be surplus to the normal cash requirements of the Fund may at the direction of the Board be invested by the Treasurer as well as external investment managers who are appointed by the Board with the approval of the Financial Secretary.

An Investment Sub-committee is formed by the Board and meets every quarter to :

- (a) review the investments made and to verify that they were made within the approved framework and strategy of the Fund,
- (b) interview investment managers regarding their performance and obtain their views on various financial markets, and
- (c) discuss and formulate investment strategies for recommendations to the Board of Control.

#### *Accounts and audit*

Apart from his other duties described in the Fund Rules, the Treasurer maintains proper accounts and records of all transactions of the Fund and prepares the annual financial statements for audit by the Director of Audit. The audited financial statements together with the auditor's report are placed before the Board at the annual general meeting.

**GRANT SCHOOLS PROVIDENT FUND  
BOARD OF CONTROL**



***Back Row***

***(From Left to Right)***

1. Mr WAI Wing-yin, Eric
2. Ms TSANG Kit-ye, Amelia
3. Ms HON Hin-yan
4. Ms LAM Yuen-fan, Fanny
5. Br Steve HOGAN

***Front Row***

***(From Left to Right)***

1. Mr CHENG Kwun-kit, Allan
2. Dr SO Ying-lun
3. Mr SIU Man-tat, Martin
4. Ms LEUNG Yin-fun, Fanny (Treasurer)

***Not in the picture***

1. Mr AU Man-hin
2. Mr LEUNG Wai-kit, Ricky
3. Ms LEE Kam-ha, Melaine



**GRANT SCHOOLS PROVIDENT FUND  
BOARD OF CONTROL**

**1.9.2014– 31.8.2015**

***Chairman***

Ms CHAN May-mui, Caroline

St. Joseph's College

***Vice-Chairman***

Dr SO Ying-lun  
(From 24.9.2014)

Wah Yan College, Hong Kong

***Members***

Mr AU Man-hin

Diocesan Girls' School

Mr CHENG Kwun-kit, Allan

Ying Wa College

Ms LAM Yuen-fan, Fanny  
(From 24.9.2014)

Heep Yunn School

Ms LEE Kam-ha, Melaine

Maryknoll Convent School

Mr LEUNG Wai-kit, Ricky

St. Mark's School

Ms TSANG Kit-yee, Amelia

St. Mary's Canossian College

Mr WAI Wing-yin, Eric  
(From 24.9.2014)

Wah Yan College, Kowloon

Ms Hanifa ISMAIL  
(Up to 21.9.2014)

Representative of Permanent Secretary for  
Education and Secretary to the Board

Ms HON Hin-yan  
(From 22.9.2014)

Representative of Permanent Secretary for  
Education and Secretary to the Board

Mr SIU Man-tat, Martin

Director of Accounting Services

**GRANT SCHOOLS PROVIDENT FUND  
BOARD OF CONTROL**

**From 1.9.2015**

***Chairman***

Dr SO Ying-lun  
(From 24.9.2015)

Wah Yan College, Hong Kong

***Vice-Chairman***

Mr CHENG Kwun-kit, Allan  
(From 24.9.2015)

Ying Wa College

***Members***

Mr AU Man-hin

Diocesan Girls' School

Ms LAM Yuen-fan, Fanny

Heep Yunn School

Ms LEE Kam-ha, Melaine

Maryknoll Convent School

Mr LEUNG Wai-kit, Ricky

St. Mark's School

Ms TSANG Kit-yee, Amelia

St. Mary's Canossian College

Mr WAI Wing-yin, Eric

Wah Yan College, Kowloon

Br Steve HOGAN  
(From 24.9.2015)

La Salle College

Ms HON Hin-yan

Representative of Permanent Secretary for  
Education and Secretary to the Board

Mr SIU Man-tat, Martin

Director of Accounting Services

**GRANT SCHOOLS PROVIDENT FUND  
INVESTMENT SUB-COMMITTEE**

**1.9.2014 – 31.8.2015**

***Chairman***

Dr SO Ying-lun  
(From 20.11.2014)

Wah Yan College, Hong Kong

***Members***

Ms CHAN May-mui, Caroline

St. Joseph's College

Mr CHENG Kwun-kit, Allan  
(From 20.11.2014)

Ying Wa College

Mr LEUNG Wai-kit, Ricky

St. Mark's School

Mr WAI Wing-yin, Eric  
(From 20.11.2014)

Wah Yan College, Kowloon

Mr SIU Man-tat, Martin

Director of Accounting Services

***Treasurer***

Mr Kenneth SIU  
(up to 7.6.2015)

Assistant Director of Accounting Services

Ms LEUNG Yin-fun, Fanny  
(From 8.6.2015)

Assistant Director of Accounting Services

***Secretary***

Mr Wesley PAN  
(Up to 20.8.2015)

Treasury Accountant

Ms KAI Man-man, Stella  
(From 21.8.2015)

Treasury Accountant

**GRANT SCHOOLS PROVIDENT FUND  
INVESTMENT SUB-COMMITTEE**

**From 1.9.2015**

***Chairman***

Dr SO Ying-lun

Wah Yan College, Hong Kong

***Members***

Mr CHENG Kwun-kit, Allan

Ying Wa College

Mr LEUNG Wai-kit, Ricky

St. Mark's School

Mr WAI Wing-yin, Eric

Wah Yan College, Kowloon

Mr SIU Man-tat, Martin

Director of Accounting Services

***Treasurer***

Ms LEUNG Yin-fun, Fanny

Assistant Director of Accounting Services

***Secretary***

Ms KAI Man-man, Stella

Treasury Accountant

## CHAIRMAN'S REPORT

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

### *Dividend*

I am pleased to report that at the annual general meeting held on 25 February 2016, the Board of Control (BoC) declared a guaranteed dividend of 5% for contributors for the year ended 31 August 2015.

### *Contributors' Account*

During the year, 55 new contributors joined the Fund and 65 withdrew from it. These figures include 23 transfers in from and 16 transfers out to the Subsidized Schools Provident Fund. The total number of contributors decreased by 10 or 0.84% to 1,178. The balance of the contributors' account increased by HK\$126.4 million or 4.94% to HK\$2,685.9 million. The service profile of contributors who withdrew from the Fund during the year was as follows:

	<u>2015</u>	<u>2014</u>
Below 10 years	31%	38%
10 to 15 years	4%	11%
Above 15 years	65%	51%

### *Net Assets and Management Cost*

As at 31 August 2015, the net assets of the Fund amounted to HK\$3,068.5 million. The cost of managing the Fund by way of supervision fee paid to Government, fees of investment managers, fees of custodians, investment transaction costs and other operating expenses was HK\$7.3 million – equivalent to 0.24% of the Fund's net assets.

### *Major Activities of the Board of Control*

At the annual general meeting held on 11 February 2015, the BoC adopted the annual statement of accounts of the Fund and declared a dividend of 5% for the year ended 31 August 2014.

The BoC also approved the following matters during the year ended 31 August 2015:

- (a) the Fund's investment plan for the year;
- (b) the Fund's supervision fee budget for the year; and
- (c) seeking approval from the Financial Secretary for the novation request of an existing overseas bond investment manager.

### *Vote of Thanks*

During the year, Ms CHAN May-mui, Caroline and Ms Hanifa ISMAIL ceased to be members of the BoC. On behalf of the BoC, I thank them for their invaluable contributions to the work of the BoC in the past year.

### *Financial Highlights for the year ended 31 August 2015*

		<u>2015</u>	<u>2014</u>	<u>Changes</u>
Contributors' Account	(a)	2,685.9	2,559.5	+4.94%
Net Assets	(b)	3,068.5	3,165.8	-3.07%
Management Cost (as a percentage of net assets)		7.3 (0.24%)	7.2 (0.23%)	
Reserve Level at year end (%)				
— before the year's dividend [(b)-(a)]/(a) above		14.24	23.69	
— after the year's dividend		8.81	17.80	
Investment Return for the year (%)		-3.09	10.95	
Total Dividend Declared (%)		5.00	5.00	
Number of Contributors		1,178	1,188	-0.84%

### *Performance Indicator*

	<u>2015</u>	<u>2014</u>
Proportion of cases of withdrawal paid within 23 working days for October to July or 28 working days for peak months of August and September	100.00%	100.00%

Dr SO Ying-lun  
Chairman  
Board of Control  
Grant Schools Provident Fund

25 February 2016

## GRANT SCHOOLS PROVIDENT FUND

### TREASURER'S REPORT FOR THE YEAR ENDED 31 AUGUST 2015

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

#### 1. FINANCIAL STATEMENTS

The financial statements of the Fund have been drawn up in accordance with accounting treatments stipulated in the Fund rules and accounting principles generally accepted in Hong Kong.

#### 2. FINANCIAL RESULTS

##### (i) Overall Deficit

The Fund recorded an overall deficit of HK\$96.3 million for the year as follows:

Operating surplus	67.2
Net realised and revaluation losses	(163.5)
Overall deficit	<u>(96.3)</u>

##### (ii) Investment Return

The overall deficit represented an investment return of -3.09% (2014: overall surplus of 10.95%) of the Fund for the year.

##### (iii) Asset Cover/Reserve Level - Before the year's dividend

The financial strength of a defined-contribution scheme is measured in terms of its asset cover (or reserve level), i.e. the adequacy of its assets to meet the benefits payable to scheme members.

The Fund's net assets covered its liability (represented by the year-end balance of the contributors' account before provision for the year's dividend) by 1.14 times, providing a reserve level of 14.24% as follows:

Net Assets	(a)	3,068.5	
Less: Contributors' Account (before the year's dividend)	(b)	2,685.9	
Reserve	(c)	382.6	
Asset Cover	(a)/(b)	1.14 times	(2014 : 1.24 times)
Reserve Level	(c)/(b)	14.24%	(2014 : 23.69%)

### 3. DIVIDEND CALCULATION FOR THE YEAR

The Board has agreed to determine each year's annual dividend on the basis of the level of reserve held by the Fund at year end and the investment return actually achieved on the Fund's assets during the year by way of a dividend formula.

The dividend formula comprises two components:

$$\langle \text{----- (a) -----} \rangle \quad \langle \text{----- (b) -----} \rangle$$

$$(\text{Reserve Level} - 40\%) \div (1 + 40\%) + (\text{Fund Return} \times \text{Adjusted Reserve Level})$$

where Reserve Level refers to Pre-dividend Reserve Level and the total dividend is subject to a minimum of 5%.

- (a) - provides for releasing the excess over the target Pre-dividend Reserve Level of 40%. This component will be zero if the Reserve Level is 40% or less.
- (b) - provides for releasing a portion of investment return based on the Reserve Level. If the Reserve Level is 40% or less, then the Adjusted Reserve Level is simply the Reserve Level. If the Reserve Level is above 40%, then the Adjusted Reserve Level is 40%.

The dividend formula comes up with a dividend rate of -0.44%. Since the calculated annual dividend is below 5%, the dividend for this year shall be the guaranteed 5%. The dividend calculation has been audited by the Director of Audit.



4. **DECLARATION OF THE GUARANTEED DIVIDEND AND TRANSFER FROM THE RESERVE FUND**

I recommend that the Board:

- (a) transfer a sum of HK\$67.0 million from the Reserve Fund to the Income and Expenditure Account in accordance with rule 11(3) of the Grant Schools Provident Fund Rules, and
- (b) declare a guaranteed dividend of HK\$134.2 million out of the Income and Expenditure Account which will be distributed as follows: -
  - (i) a credit of 5% in respect of each contributor's account which is open for the entire financial year commencing 1 September 2014 as the guaranteed dividend in accordance with rule 12(1), and
  - (ii) a credit of pro rata dividend in respect of each contributor's account which is not open for the entire financial year commencing 1 September 2014 in accordance with rule 14.

The above appropriations have been incorporated in the financial statements.

5. **DIVIDEND YIELD**

Based on the average size of the contributors' accounts during the year, the total dividend of 5% represents a dividend yield to contributors of 5.12% (2014: 5.13%).

## 6. ASSET COVER/RESERVE LEVEL - After the year's dividend

After provision for the total dividend of 5% for the year, the asset cover of the Fund stood at 1.09 times and the level of reserve at 8.81% as follows:

Net Assets	(a)	3,068.5	
Less: Contributors' Account (after the year's dividend):			
Contributors' Account		2,685.9	
Provision for the year's dividend		134.2	
	(b)	2,820.1	
Reserve	(c)	248.4	
Asset Cover	(a)/(b)	1.09 times	(2014 : 1.18 times)
Reserve Level	(c)/(b)	8.81%	(2014 : 17.80%)

## 7. INVESTMENT OBJECTIVE AND CRITERIA

The Fund's investment objective is to maximise the recurrent and capital returns on the Fund assets and at the same time observe the principle of prudence.

The Fund is governed by an investment framework approved by the Financial Secretary. The framework sets down broad limits for various classes of investment and defines the quality or credit rating of individual types of securities permitted for investment. All investment decisions of the Fund are made within this framework.

## 8. INVESTMENT RESPONSIBILITIES

Each year the Board of Control approves an annual investment plan consistent with the Fund's investment objective. The investment performance of the Fund is then monitored through the Investment Sub-committee which meets on a quarterly basis to review investment reports prepared by the Treasurer and to interview the Fund's external investment managers.

Investment of funds is the responsibilities of the Treasurer and the Fund's external investment managers. The Treasurer has the additional responsibility of providing investment guidelines to the investment managers and, with the assistance of the custodians, ensuring that their activities are in compliance with these guidelines.

## 9. INVESTMENTS

As at 31 August 2015, the Fund's investment portfolios amounted to HK\$3,037.0 million of which HK\$2,315.4 million or 76.24% was placed under the management of external investment managers. The distribution of the investments in proportion terms was as follows:

<u>Investments</u>	<u>Managed by Treasurer</u>	<u>Managed by Investment Managers</u>	<u>Overall</u>
	%	%	%
Equity securities listed in Hong Kong	–	18.13	<b>18.13</b>
Debt securities denominated in Hong Kong dollar	0.36	10.83	<b>11.19</b>
Hong Kong dollar fixed deposits	7.56	–	<b>7.56</b>
Equity securities listed outside Hong Kong	–	29.97	<b>29.97</b>
Debt securities denominated in currencies other than Hong Kong dollar	1.28	16.98	<b>18.26</b>
Fixed deposits denominated in currencies other than Hong Kong dollar	14.53	–	<b>14.53</b>
Call deposits and balances with custodians denominated in currencies other than Hong Kong dollar	0.03	0.22	<b>0.25</b>
Trading financial instruments			
- assets	–	0.12	<b>0.12</b>
- liabilities	–	(0.01)	<b>(0.01)</b>
	<hr/> 23.76	<hr/> 76.24	<hr/> <b>100.00</b> <hr/>

The Fund's external investment managers were as follows:

First State Investments (Hong Kong) Limited  
Schroder Investment Management (Hong Kong) Limited  
State Street Global Advisors Asia Limited  
Wellington Management Company, LLP

The ten single largest securities holdings in the Fund's investment portfolios were:

Equities

HSBC Holdings Plc	54.9
Tencent Holdings Limited	39.4
AIA Group Limited	31.2
China Mobile Limited	31.1
China Construction Bank Corporation Limited	27.5
Industrial and Commercial Bank of China Limited	21.3
Apple Inc.	18.6
CK Hutchison Holdings Limited	17.2

Debt Securities

China Construction Bank Asia	3.25%	02/07/2019	39.1
US Government	0.75%	31/12/2017	16.6

10. **AUDITED FINANCIAL STATEMENTS**

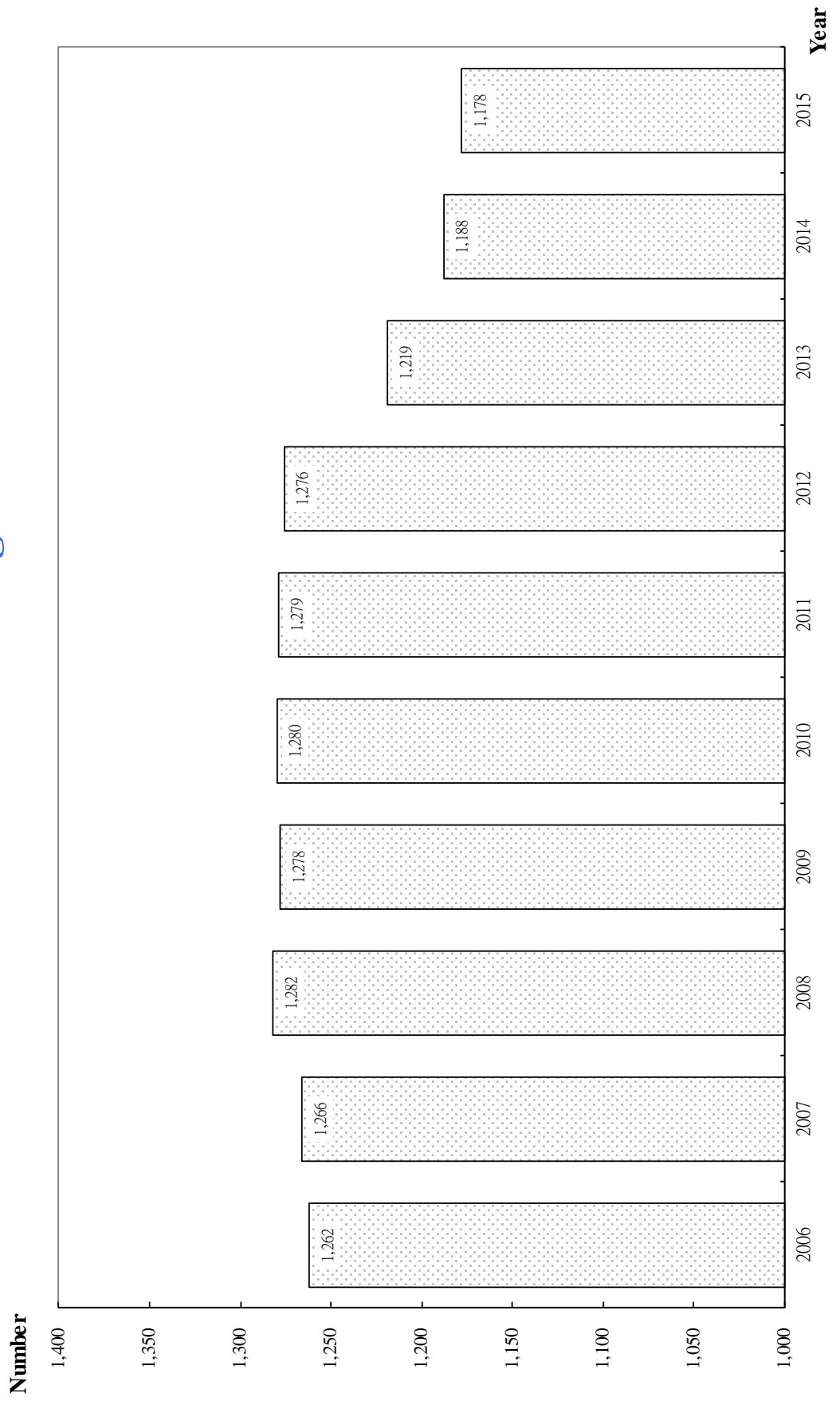
The financial statements of the Fund for the year ended 31 August 2015 have been audited by the Director of Audit. The audited financial statements together with the auditor's report will be placed before the Board at the annual general meeting to be held on 25 February 2016.

LEUNG Yin-fun, Fanny  
*Treasurer*  
*Grant Schools Provident Fund*

5 February 2016

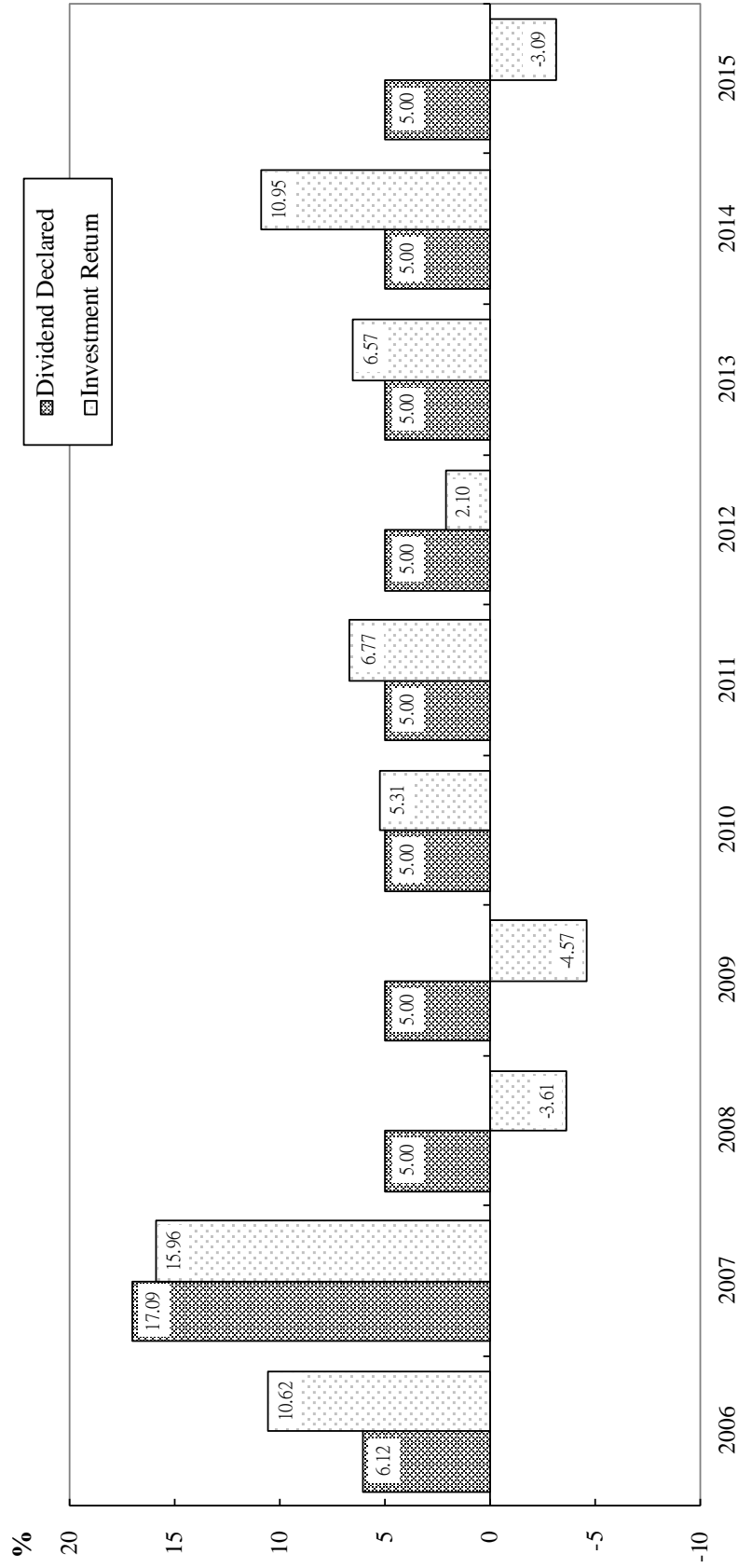
# GRANT SCHOOLS PROVIDENT FUND

## Number of Contributors as at 31 August 2006 to 2015



# GRANT SCHOOLS PROVIDENT FUND

## Dividend Declared and Investment Return

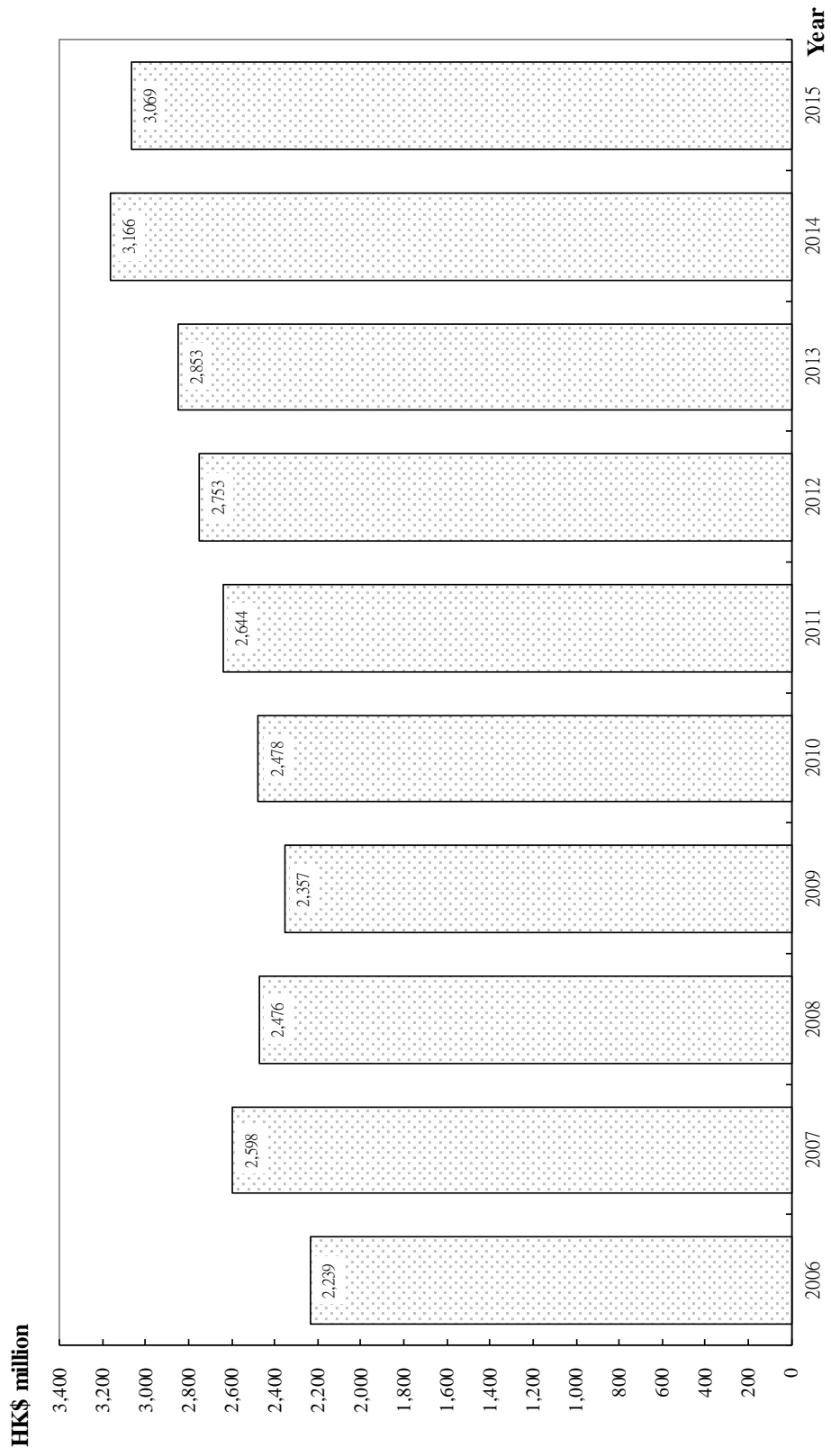


**Year Ended 31 August**

NOTE: Dividend declared is the dividend by way of a percentage of the account of each contributor as at 31 August of the relevant year as declared by the Board of Control. (With effect from 1998, pro rata dividend will be credited to each contributor's account which is not open for the entire financial year.)

# GRANT SCHOOLS PROVIDENT FUND

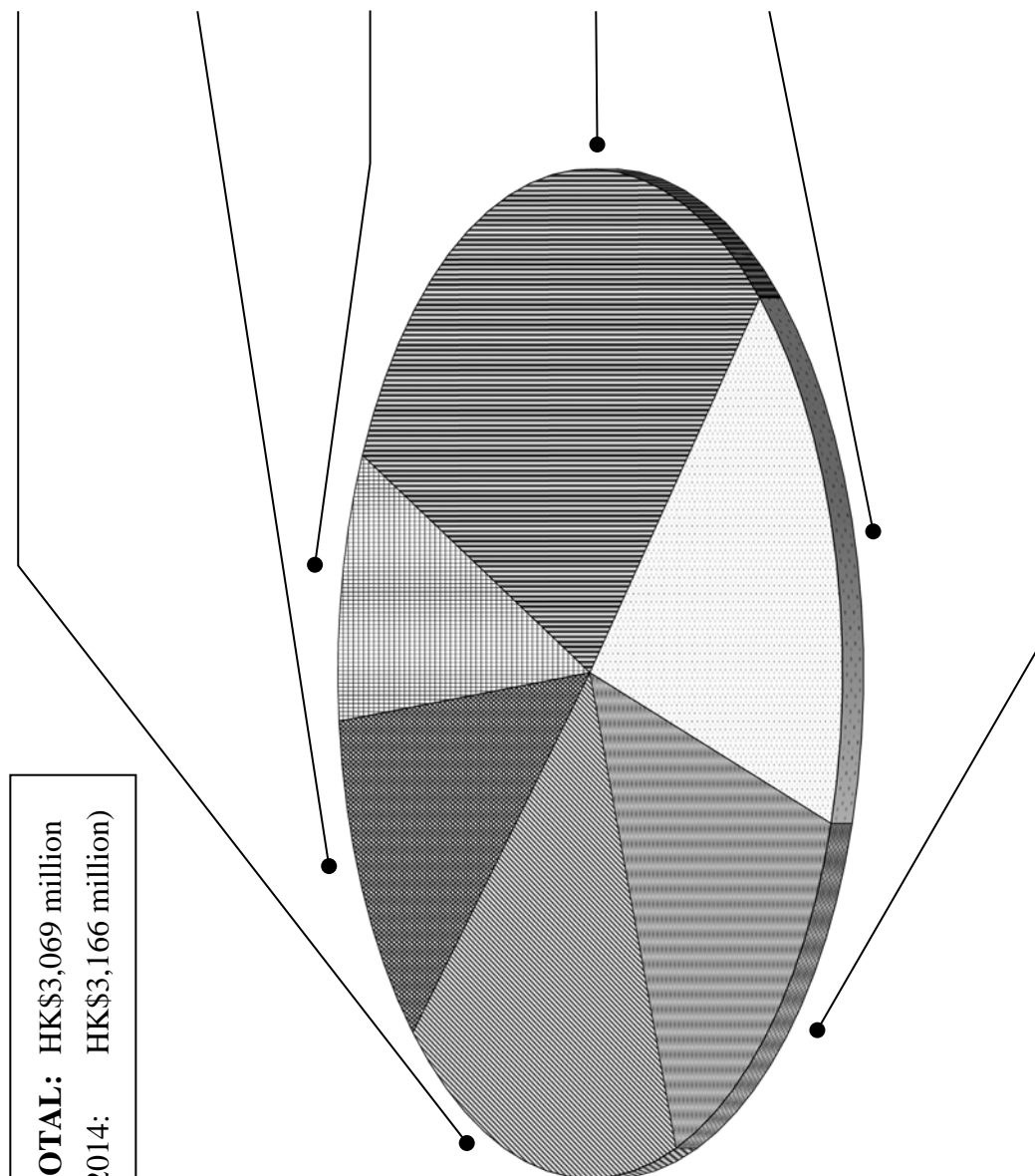
## Net Assets as at 31 August 2006 to 2015



# GRANT SCHOOLS PROVIDENT FUND

## Spread of Net Assets as at 31 August 2015

**TOTAL:** HK\$3,069 million  
(2014: HK\$3,166 million)



<b>Equity securities listed in Hong Kong</b> HK\$551 million (17.95%) (2014: 19.43%)
<b>Debt securities denominated in Hong Kong dollar</b> HK\$340 million (11.08%) (2014: 10.23%)
<b>Hong Kong dollar deposits, net trading financial instruments and net accounts receivable</b> HK\$264 million (8.60%) (2014: 8.65%)
<b>Equity securities listed outside Hong Kong</b> HK\$910 million (29.65%) (2014: 28.81%)
<b>Debt securities denominated in currencies other than Hong Kong dollar</b> HK\$555 million (18.09%) (2014: 18.22%)
<b>Deposits denominated in currencies other than Hong Kong dollar</b> HK\$449 million (14.63%) (2014: 14.66%)



# *Report of the Director of Audit*



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **Independent Audit Report**

### **To the Board of Control, Grant Schools Provident Fund**

I certify that I have audited the financial statements of the Grant Schools Provident Fund set out on pages 23 to 47, which comprise the balance sheet as at 31 August 2015, and the income and expenditure account, reserve fund, statement of changes in net assets available for benefits and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Treasurer, Grant Schools Provident Fund's Responsibility for the Financial Statements**

The Treasurer, Grant Schools Provident Fund is responsible for the preparation of these financial statements in accordance with rule 15(1) of the Grant Schools Provident Fund Rules made under section 85 of the Education Ordinance (Cap. 279) and the accounting policies set out in note 2 to the financial statements, and for such internal control as the Treasurer, Grant Schools Provident Fund 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 rule 15(2) of the Grant Schools Provident Fund Rules 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 the financial statements 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 Treasurer, Grant Schools Provident Fund, 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 of the Grant Schools Provident Fund for the year ended 31 August 2015 are prepared, in all material respects, in accordance with rule 15(1) of the Grant Schools Provident Fund Rules and the accounting policies set out in note 2 to the financial statements.

David Sun  
Director of Audit

5 February 2016

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

# GRANT SCHOOLS PROVIDENT FUND

## BALANCE SHEET

AS AT 31 AUGUST 2015

*(Expressed in thousands of Hong Kong dollars)*

		2015	2014
	Note		
<b>ASSETS</b>			
Cash at banks		27,690	16,315
Investments:			
Deposits with banks and other financial institutions	4	678,448	713,839
Securities	5	2,355,232	2,427,950
Trading financial instruments	6	3,554	475
Receivables and other assets	7	21,396	13,966
<b>LIABILITIES</b>			
Trading financial instruments	6	(278)	(141)
Payables and other liabilities	8	(17,516)	(6,603)
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		<b>3,068,526</b>	<b>3,165,801</b>
Representing:			
Contributors' account	9	2,685,856	2,559,513
Reserve fund	10	248,473	478,340
Provision for guaranteed dividend	11	134,197	127,948
		<b>3,068,526</b>	<b>3,165,801</b>

The notes on pages 28 to 47 form part of these financial statements.

LEUNG Yin-fun, Fanny  
*Treasurer*

Dr SO Ying-lun  
*Chairman*  
*Board of Control*

*Grant Schools Provident Fund*

5 February 2016

## GRANT SCHOOLS PROVIDENT FUND

### INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2015

*(Expressed in thousands of Hong Kong dollars)*

	Note	2015	2014
<b>INCOME</b>			
Interest income	12	<b>35,166</b>	34,065
Dividend income	13	<b>39,330</b>	39,231
Other income	14	<u>2</u>	<u>4,312</u>
		<b>74,498</b>	<b>77,608</b>
<b>EXPENDITURE</b>			
Supervision fee	15	<b>(1,109)</b>	(1,201)
Fees for investment managers		<b>(3,599)</b>	(3,460)
Fees for custodians		<b>(2,051)</b>	(2,115)
Investment transaction costs		<b>(403)</b>	(439)
Other operating expenses		<b>(181)</b>	(14)
		<b>(7,343)</b>	<b>(7,229)</b>
<b>OPERATING SURPLUS FOR THE YEAR</b>		<b>67,155</b>	<b>70,379</b>
<b>PROPOSED APPROPRIATION FROM RESERVE FUND</b>	17	<b>67,042</b>	<b>57,569</b>
<b>PROVISION FOR GUARANTEED DIVIDEND</b>	11	<b>(134,197)</b>	<b>(127,948)</b>
<b>BALANCE AT THE END OF THE YEAR</b>		<u>—</u>	<u>—</u>

The notes on pages 28 to 47 form part of these financial statements.

## GRANT SCHOOLS PROVIDENT FUND

### RESERVE FUND FOR THE YEAR ENDED 31 AUGUST 2015

*(Expressed in thousands of Hong Kong dollars)*

	Note	2015	2014
Donations and dividends transferred from contributors' account	16	<b>677</b>	778
Net realised and revaluation (losses)/gains on:			
- securities		<b>(172,201)</b>	238,595
- trading financial instruments		<b>24,335</b>	(828)
- cash and deposits with banks and other financial institutions		<b>(15,620)</b>	(1,467)
		<b>(163,486)</b>	236,300
Proposed appropriation to income and expenditure account	17	<b>(67,042)</b>	(57,569)
Dividends under-provided in previous year		<b>(16)</b>	(4)
		<b>(229,867)</b>	179,505
Balance brought forward from previous year		<b>478,340</b>	298,835
<b>BALANCE CARRIED FORWARD</b>		<b>248,473</b>	478,340

The notes on pages 28 to 47 form part of these financial statements.

## GRANT SCHOOLS PROVIDENT FUND

### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEAR ENDED 31 AUGUST 2015

*(Expressed in thousands of Hong Kong dollars)*

	Note	2015	2014
<b>OPERATING SURPLUS FOR THE YEAR</b>		<b>67,155</b>	70,379
Net realised and revaluation (losses)/gains		<b>(163,486)</b>	236,300
Contributions from contributors	9	<b>41,369</b>	37,794
Donations from the Government and Direct Subsidy Scheme schools	9	<b>105,446</b>	96,308
Net transfers (to)/from Subsidized Schools Provident Fund	9	<b>(4,771)</b>	6,740
Withdrawals by ex-contributors	9	<b>(142,988)</b>	(134,704)
<b>CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS</b>		<b>(97,275)</b>	312,817
<b>NET ASSETS AVAILABLE FOR BENEFITS AT THE BEGINNING OF THE YEAR</b>		<b>3,165,801</b>	2,852,984
<b>NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR</b>		<b>3,068,526</b>	3,165,801

The notes on pages 28 to 47 form part of these financial statements.

## GRANT SCHOOLS PROVIDENT FUND

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2015

*(Expressed in thousands of Hong Kong dollars)*

	Note	2015	2014
Cash flows from operating activities			
Operating surplus for the year		<b>67,155</b>	70,379
Interest income	12	<b>(35,166)</b>	(34,065)
Dividend income	13	<b>(39,330)</b>	(39,231)
Net realised and revaluation (losses)/gains		<b>(163,486)</b>	236,300
Decrease/(Increase) in investments in securities		<b>72,718</b>	(113,452)
Increase in investments in fixed deposits with original maturity beyond three months		<b>(147,669)</b>	(171,612)
Change in trading financial instruments		<b>(2,942)</b>	789
(Increase)/Decrease in receivables and other assets		<b>(7,845)</b>	5,266
Increase/(Decrease) in payables and other liabilities		<b>10,913</b>	(21,068)
Elimination of foreign exchange differences in revaluation of cash and cash equivalents		<b>3,471</b>	(16)
Interest received		<b>35,774</b>	33,099
Dividends received		<b>39,137</b>	38,905
Net cash (used in)/from operating activities		<b>(167,270)</b>	5,294
Cash flows from financing activities			
Contributions from contributors		<b>41,369</b>	37,794
Donations from the Government and Direct Subsidy Scheme schools		<b>105,446</b>	96,308
Net transfers (to)/from Subsidized Schools Provident Fund		<b>(4,771)</b>	6,740
Withdrawals by ex-contributors		<b>(142,988)</b>	(134,761)
Net cash (used in)/from financing activities		<b>(944)</b>	6,081
Net (decrease)/increase in cash and cash equivalents		<b>(168,214)</b>	11,375
Cash and cash equivalents at the beginning of the year		<b>289,520</b>	278,129
Effects of exchange rate changes on cash and cash equivalents		<b>(3,471)</b>	16
<b>Cash and cash equivalents at the end of the year</b>	18	<b>117,835</b>	<b>289,520</b>

The notes on pages 28 to 47 form part of these financial statements.

## GRANT SCHOOLS PROVIDENT FUND

### NOTES TO THE FINANCIAL STATEMENTS

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

#### 1. LEGISLATION

The Grant Schools Provident Fund (the Fund) is a retirement scheme governed by the Grant Schools Provident Fund Rules (Fund Rules) made under section 85 of the Education Ordinance (Cap. 279).

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### (a) Financial reporting framework

The Fund has adopted a financial reporting framework incorporating the requirements of the Fund Rules and applicable requirements of 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 investments in securities at fair value and trading financial instruments are stated at their fair value as explained in the accounting policies set out below (see note 2(c)).

The preparation of financial statements in conformity with the financial reporting framework (note 2(a)) 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) **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, securities at fair value, loans and receivables, held-to-maturity securities and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value, which normally equals to the transaction price, plus transaction costs for loans and receivables, held-to-maturity securities and other financial liabilities that are directly attributable to the acquisition of the financial asset or the issue of the financial liability. Transaction costs on trading financial instruments and securities 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 instruments. Regular way purchases and sales of financial assets are accounted for at trade date.

(ii) **Basis of recognition of gains or losses**

The Fund has adopted the requirements of Fund Rule 11 to recognise revaluation gains or losses arising from changes in fair value and realised gains or losses on derecognition of financial instruments in the reserve fund (see note 2(c)(iii) and (v)). This is different from the accounting treatment required under HKAS 39 *Financial instruments: Recognition and measurement* where such gains or losses are recognised in the income and expenditure account.

(iii) Categorisation

*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.

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. In accordance with Fund Rules 11(1)(a)(iv) and 11(1)(b)(iii), changes in the fair value are recognised as revaluation gains or losses in the reserve fund in the period in which they arise.

*Securities at fair value*

Securities at fair value consist of equity and debt securities managed by the Fund’s external investment managers (note 19(a)). These investments are designated upon initial recognition at fair value and carried at fair value under HKAS 39. In accordance with Fund Rules 11(1)(a)(iv) and 11(1)(b)(iii), changes in the fair value are recognised in the reserve fund as revaluation gains or losses 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 banks, deposits with banks and other financial institutions, and 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)(vii)).

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.

#### *Held-to-maturity securities*

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Fund has the positive intention and ability to hold to maturity, other than (a) those that the Fund, upon initial recognition, designates as at fair value; and (b) those that meet the definition of loans and receivables.

Held-to-maturity securities are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(c)(vii)).

#### *Other financial liabilities*

These are financial liabilities other than trading financial instruments. They are carried at amortised cost using the effective interest method.

#### (iv) Fair value measurement principles

The Fund measures its investments in securities and trading financial instruments at fair value at each balance sheet date. 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 balance sheet date.

(v) 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 the reserve fund on derecognition in accordance with Fund Rules 11(1)(a)(i) and 11(1)(b)(i).

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

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet 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.

(vii) Impairment of financial assets

The carrying amounts of loans and receivables and held-to-maturity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in the reserve fund 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 the reserve fund.

(d) **Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents include cash at banks, deposits with banks and other financial institutions and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

(e) **Contributions and donations**

Contributions are received from contributors and donations are received from the Government and Direct Subsidy Scheme (DSS) schools. Contributions and donations are recognised on an accrual basis.

(f) **Revenue recognition**

(i) **Interest income**

Interest income is recognised in the income and expenditure account on an accrual basis, using the effective interest method.

(ii) **Dividend income**

Dividend income from equity securities is recognised in the income and expenditure account when the share price is quoted ex-dividend.

(iii) **Other income**

Other income is recognised in the income and expenditure account on an accrual basis.

(g) **Foreign currency translation**

Foreign currency transactions during the year are translated into Hong Kong dollars using 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 balance sheet date. In accordance with Fund Rules 11(1)(a)(iv) and 11(1)(b)(iii), all foreign currency translation differences are recognised as revaluation gains or losses in the reserve fund in the period in which they arise.

### 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs which are effective for the current accounting period. There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. The Fund has not applied any new standard that is not yet effective for the current accounting period (note 21).

### 4. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<b>2015</b>	2014
Fixed deposits denominated in:		
— Hong Kong dollar	<b>229,450</b>	249,660
— US dollar	<b>137,796</b>	183,291
— other currencies	<b>303,449</b>	257,343
Call deposits and balances with custodians denominated in currencies other than Hong Kong dollar:		
— US dollar	<b>6,924</b>	19,262
— other currencies	<b>829</b>	4,283
	<u><b>678,448</b></u>	<u>713,839</u>

## 5. SECURITIES

### (a) Details

	2015	2014
<u>Securities at fair value</u>		
Equity securities listed in Hong Kong	550,654	614,597
Equity securities listed outside Hong Kong	910,233	911,976
	<b>1,460,887</b>	1,526,573
Debt securities denominated in:		
— Hong Kong dollar	328,822	313,010
— US dollar	240,468	216,077
— other currencies	275,190	339,353
	<b>844,480</b>	868,440
Subtotal for securities at fair value	<b>2,305,367</b>	2,395,013
<u>Held-to-maturity securities at amortised cost</u>		
Debt securities maturing in more than one year denominated in:		
— Hong Kong dollar	11,019	11,024
— US dollar	38,846	21,913
Subtotal for held-to-maturity securities	<b>49,865</b>	32,937
	<b>2,355,232</b>	2,427,950

(b) Securities holdings exceeding 5% of the asset class as at 31 August

Issuer	Class	2015		2014	
		Fair value	% of class	Fair value	% of class
United States Treasury	Debt securities	62,960	7.01%	60,748	6.74%
Government of Japan	Debt securities	52,911	5.89%	61,790	6.85%
China Construction Bank Asia	Debt securities	45,287	5.04%	21,913	2.43%
Government of the Hong Kong Special Administrative Region	Debt securities	42,357	4.71%	62,691	6.95%

6. TRADING FINANCIAL INSTRUMENTS

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts, at fair value	<u>3,554</u>	<u>278</u>	<u>475</u>	<u>141</u>

All these forward currency contracts would mature within one year and had a total notional amount of HK\$426.1 million as at 31 August 2015 (2014: HK\$410.5 million). The notional amounts of these contracts indicate the volume of outstanding transactions and do not represent the amounts at risk.

7. RECEIVABLES AND OTHER ASSETS

	2015	2014
Interest and dividends receivable	13,436	13,851
Proceeds receivable from investments sold	7,943	101
Other debtors	17	14
	<u>21,396</u>	<u>13,966</u>



## 8. PAYABLES AND OTHER LIABILITIES

	<b>2015</b>	2014
Unsettled purchases of investments	<b>9,622</b>	4,007
Amount due to Subsidized Schools Provident Fund	<b>4,771</b>	—
Amount due to the Government of the Hong Kong Special Administrative Region	<b>1,109</b>	1,201
Fees for investment managers	<b>858</b>	900
Fees for custodians	<b>949</b>	361
Other creditors and accruals	<b>207</b>	134
	<u><b>17,516</b></u>	<u>6,603</u>

All these liabilities are payable within one year.

## 9. CONTRIBUTORS' ACCOUNT

	<b>2015</b>			
	<b>Contributions</b>	<b>Donations from the Government and DSS schools</b>	<b>Dividends</b>	<b>Total</b>
Additions for the year	<b>41,369</b>	<b>105,446</b>	<b>127,964</b>	<b>274,779</b>
Net transfers to Subsidized Schools Provident Fund	<b>(551)</b>	<b>(1,784)</b>	<b>(2,436)</b>	<b>(4,771)</b>
Withdrawals by ex-contributors	<b>(20,057)</b>	<b>(45,958)</b>	<b>(76,973)</b>	<b>(142,988)</b>
Transfers to reserve fund in accordance with Fund Rule 11(1)(a)(ii)	—	<b>(531)</b>	<b>(146)</b>	<b>(677)</b>
Net additions for the year	<u><b>20,761</b></u>	<u><b>57,173</b></u>	<u><b>48,409</b></u>	<u><b>126,343</b></u>
Balance brought forward from previous year	<u><b>479,003</b></u>	<u><b>988,031</b></u>	<u><b>1,092,479</b></u>	<u><b>2,559,513</b></u>
<b>Balance carried forward</b>	<u><u><b>499,764</b></u></u>	<u><u><b>1,045,204</b></u></u>	<u><u><b>1,140,888</b></u></u>	<u><u><b>2,685,856</b></u></u>

	2014			
	Contributions	Donations from the Government and DSS schools	Dividends	Total
Additions for the year	37,794	96,308	121,457	255,559
Net transfers from Subsidized Schools Provident Fund	976	2,398	3,366	6,740
Withdrawals by ex-contributors	(19,318)	(42,448)	(72,938)	(134,704)
Transfers to reserve fund in accordance with Fund Rule 11(1)(a)(ii)	—	(684)	(94)	(778)
Net additions for the year	19,452	55,574	51,791	126,817
Balance brought forward from previous year	459,551	932,457	1,040,688	2,432,696
<b>Balance carried forward</b>	<b>479,003</b>	<b>988,031</b>	<b>1,092,479</b>	<b>2,559,513</b>

Donations from DSS schools for the year amounted to HK\$32.8 million (2014: HK\$29.3 million).

An analysis of the withdrawals by ex-contributors is shown below:

	2015	2014
Retirement	87,680	77,931
Resignation	54,864	50,102
Death and ill health	—	6,366
Others (such as contract termination and schools ceasing to be grant schools or DSS schools)	444	305
	<b>142,988</b>	<b>134,704</b>

Vested contributors' benefits as at 31 August 2015 amounted to HK\$2,674.3 million (2014: HK\$2,547.7 million). This amount represents the sum which would be payable to contributors had all contributors left the Fund at that date.

## 10. RESERVE FUND

The reserve fund is maintained in accordance with Fund Rule 11.

## 11. PROVISION FOR GUARANTEED DIVIDEND

The amount represents the provision under Fund Rule 12 for the guaranteed dividend of 5% of the balance of the contributors' account which was open for the entire financial year ended 31 August 2015 and Fund Rule 14 for payment of pro rata dividends in respect of contributors' account which was not open for the entire financial year.

Fund Rule 12 provides that, where in any year the guaranteed dividend of 5% cannot be met by the Fund, the Financial Secretary may direct that an interest-free Government loan be paid to the Fund out of the general revenue to cover the balance of the guaranteed dividend which cannot be met. No such Government loan had been paid to the Fund for the year ended 31 August 2015 (2014: Nil) as the shortfall between the guaranteed dividend and the operating surplus was met by a transfer from the reserve fund (see note 17).

## 12. INTEREST INCOME

	<b>2015</b>	2014
Debt securities at fair value	<b>19,075</b>	21,613
Held-to-maturity securities	<b>1,363</b>	53
Deposits denominated in:		
— Hong Kong dollar	<b>1,917</b>	1,926
— US dollar	<b>1,845</b>	2,697
— other currencies	<b>10,966</b>	7,776
	<b>14,728</b>	12,399
	<b>35,166</b>	34,065

13. DIVIDEND INCOME

	2015	2014
Equity securities listed:		
— in Hong Kong	18,734	18,742
— outside Hong Kong	20,596	20,489
	<u>39,330</u>	<u>39,231</u>

14. OTHER INCOME

	2015	2014
Tax refund	—	4,297
Others	2	15
	<u>2</u>	<u>4,312</u>

15. SUPERVISION FEE

This represents the provision for the supervision fee for the year ended 31 August 2015 payable to the Government of the Hong Kong Special Administrative Region under Fund Rule 6(2) in respect of the costs incurred in administering the Fund.

16. DONATIONS AND DIVIDENDS TRANSFERRED FROM CONTRIBUTORS' ACCOUNT

Under Fund Rule 13, whenever a contributor with less than 10 years continuous contributory service ceases to be employed as a teacher in a grant school or DSS school (as the case may be), his account shall be closed and the payment due to him shall include a percentage of all Government donations and DSS school donations (if any) and all dividends that have been declared on such donations. Donations and dividends not payable to him are transferred to the reserve fund in accordance with Fund Rule 11(1)(a)(ii).

17. **PROPOSED APPROPRIATION FROM RESERVE FUND / TO INCOME AND EXPENDITURE ACCOUNT**

In accordance with Fund Rule 11(3) and subject to the approval of the Board of Control, it is proposed to transfer a sum of HK\$67.0 million (2014: HK\$57.6 million) from the reserve fund to the income and expenditure account. The transfer is to cover the shortfall of the operating surplus in meeting the provision of the 5% guaranteed dividend of HK\$134.2 million (2014: HK\$127.9 million).

18. **ANALYSIS OF CASH AND CASH EQUIVALENTS**

	<b>2015</b>	2014
Fixed deposits with original maturity within three months	<b>82,392</b>	249,660
Cash at banks and call deposits and balances with custodians	<b>35,443</b>	39,860
<b>TOTAL</b>	<b><u>117,835</u></b>	<u>289,520</u>
Reconciliation with the balance sheet:		
<b>Amounts shown in the balance sheet</b>		
Cash at banks	<b>27,690</b>	16,315
Deposits with banks and other financial institutions	<b>678,448</b>	713,839
	<b>706,138</b>	730,154
Less: Amounts with original maturity beyond three months	<b>(588,303)</b>	(440,634)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b><u>117,835</u></b>	<u>289,520</u>

## 19. FINANCIAL RISK MANAGEMENT

### (a) Investment management and control

The day-to-day management of the Fund is the responsibility of the Treasurer who is appointed by the Director of Accounting Services under Fund Rule 6(1). The investment functions are the responsibility of the Board of Control which formulates the investment strategies of the Fund within the investment framework approved by the Financial Secretary. All sums considered by the Board to be surplus to the normal cash requirements of the Fund may at the direction of the Board be invested by the Treasurer as well as external investment managers who are appointed by the Board with the approval of the Financial Secretary.

The Fund's investment objective is to maximise the recurrent and capital returns on the Fund assets and at the same time observe the principle of prudence.

Each year the Board approves an annual investment plan consistent with the Fund's investment objective. The investment performance of the Fund is then monitored through the Investment Sub-committee which meets on a quarterly basis to review investment reports prepared by the Treasurer and to interview the Fund's external investment managers.

The investment management and control of the Fund are set out in a documented risk management and investment strategy and reviewed on a regular basis by the Board.

### (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 5. 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 10% increase/decrease in the market bid prices of the equities, with all other variables held constant, would decrease/increase the revaluation losses recognised in the reserve fund for the year by HK\$146.1 million (2014: increase/decrease the revaluation gains by HK\$152.7 million).

(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 revaluation losses on the debt securities at fair value recognised in the reserve fund for the year by HK\$49.5 million (2014: decrease/increase the revaluation gains by HK\$49.6 million). As regards held-to-maturity securities, 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 overseas 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 balance sheet date arising from recognised assets and liabilities after taking into account the effect of forward currency contracts is shown below:

	<b>2015</b>	2014
Hong Kong dollar	<b>1,348,015</b>	1,377,902
US dollar	<b>897,274</b>	927,718
Renminbi	<b>306,394</b>	294,129
Euro	<b>192,783</b>	212,528
Japanese yen	<b>124,297</b>	124,933
Pound sterling	<b>79,223</b>	85,325
Others	<b>120,540</b>	143,266
	<b><u>3,068,526</u></b>	<b><u>3,165,801</u></b>

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 net revaluation losses recognised in the reserve fund for the year by HK\$4.5 million (2014: increase/decrease the net revaluation gains by HK\$4.6 million);
- a 5% increase/decrease in the exchange rate of Renminbi against Hong Kong dollar would decrease/increase the net revaluation losses recognised in the reserve fund for the year by HK\$15.3 million (2014: increase/decrease the net revaluation gains by HK\$14.7 million); and
- a 5% increase/decrease in the exchange rates of other currencies against Hong Kong dollar would decrease/increase the net revaluation losses recognised in the reserve fund for the year by HK\$25.8 million (2014: decrease the net revaluation gains by HK\$84.9 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. Hence the Fund does not have significant exposures to or concentration of credit risk.

The Fund monitors credit risk on a continuous basis. The maximum exposure to credit risk at the balance sheet date without taking account of collateral held or other credit enhancements, if any, is shown below:

	<b>2015</b>	2014
Cash at banks	<b>27,690</b>	16,315
Deposits with banks and other financial institutions	<b>678,448</b>	713,839
Debt securities	<b>894,345</b>	901,377
Trading financial instruments	<b>3,554</b>	475
Receivables and other assets	<b>21,396</b>	13,966
	<b><u>1,625,433</u></b>	<u>1,645,972</u>

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

	<b>2015</b>	2014
Cash at banks and deposits with banks and other financial institutions, by credit rating		
Aa3 to Aa1	<b>282,560</b>	336,830
A3 to A1	<b>423,578</b>	393,324
	<b><u>706,138</u></b>	<u>730,154</u>

	2015	2014
Debt securities, by credit rating		
Aaa	219,559	276,181
Aa3 to Aa1	247,636	270,657
A3 to A1	392,287	311,369
Baa3 to Baa1	34,863	43,170
	<u>894,345</u>	<u>901,377</u>

(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 withdrawals by ex-contributors as necessary. Hence the Fund does not have significant exposures to liquidity risk.

20. **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 balance sheet date, 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 balance sheet date.

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

The carrying value of financial instruments measured at fair value at the balance sheet date according to the fair value hierarchy is shown below:

**As at 31 August 2015**

	Level 1	Level 2	Total
Assets			
Securities at fair value	1,822,373	482,994	2,305,367
Trading financial instruments	—	3,554	3,554
	<u>1,822,373</u>	<u>486,548</u>	<u>2,308,921</u>

Liabilities			
Trading financial instruments	—	278	278
	=====	=====	=====
As at 31 August 2014			
	Level 1	Level 2	Total
Assets			
Securities at fair value	1,870,299	524,714	2,395,013
Trading financial instruments	—	475	475
	=====	=====	=====
	1,870,299	525,189	2,395,488
	=====	=====	=====
Liabilities			
Trading financial instruments	—	141	141
	=====	=====	=====

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

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

21. 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