

Grant Schools

Provident Fund



Annual Report

2013



OTHER INFORMATION

Funds Section Education Bureau

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Hong Kong

Secretary

Mr CHENG Ming-keung
Education Officer
School Administration and Support Division
Education Bureau
5/F, East Wing, Central Government Offices
2 Tim Mei Avenue
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Treasurer

Mr Kenneth SIU
Assistant Director of Accounting Services
The Treasury
Room 2701, 27/F, Immigration Tower
7 Gloucester Road
Wanchai
Hong Kong

Auditor

Mr David SUN, BBS, JP
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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. Ms LEE Kam-ha, Melaine
2. Mrs YAU LAW Yuen-chun
3. Mr CHENG Ming-keung
4. Ms NG Hing-wah

Front Row

(From Left to Right)

1. Ms CHAN May-mui, Caroline
2. Ms MA Kit-ching, Veronica, MH
3. Mrs WONG CHUI Yue-chue, Lesley, JP
4. Mr SIU Kwok-wah, Kenneth

Not in the picture

1. Mr AU Man-hin
2. Mr LEUNG Kwok-keung
3. Mr LEUNG Wai-kit, Ricky
4. Ms TSANG Kit-yee, Amelia

**GRANT SCHOOLS PROVIDENT FUND
BOARD OF CONTROL**

1.9.2012 – 31.8.2013

Chairman

Ms MA Kit-ching, Veronica, MH

Marymount Secondary School

Vice-Chairman

Ms CHAN May-mui, Caroline

St. Joseph's College

Members

Mr AU Man-hin

Diocesan Girls' School

Ms LEE Kam-ha, Melaine

Maryknoll Convent School

Mr LEUNG Kwok-keung

Methodist College

Mr LEUNG Wai-kit, Ricky

St. Mark's School

Ms NG Hing-wah

Wah Yan College, Hong Kong

Ms TSANG Kit-ye, Amelia

St. Mary's Canossian College

Mrs YAU LAW Yuen-chun

St. Stephen's Girls' College

Ms LI So-man

Representative of Permanent Secretary for
Education and Secretary to the Board

Mrs WONG CHUI Yue-chue, Lesley, JP

Director of Accounting Services

GRANT SCHOOLS PROVIDENT FUND BOARD OF CONTROL

From 1.9.2013

Chairman

Ms MA Kit-ching, Veronica, MH

Marymount Secondary School

Vice-Chairman

Ms CHAN May-mui, Caroline

St. Joseph's College

Members

Mr AU Man-hin

Diocesan Girls' School

Ms LEE Kam-ha, Melaine

Maryknoll Convent School

Mr LEUNG Kwok-keung

Methodist College

Mr LEUNG Wai-kit, Ricky

St. Mark's School

Ms NG Hing-wah

Wah Yan College, Hong Kong

Ms TSANG Kit-yee, Amelia

St. Mary's Canossian College

Mrs YAU LAW Yuen-chun

St. Stephen's Girls' College

Ms LI So-man
(Up to 24.10.2013)

Representative of Permanent Secretary for
Education and Secretary to the Board

Ms LO Wing-yin
(From 25.10.2013 to 24.11.2013)

Representative of Permanent Secretary for
Education and Secretary to the Board

Mr CHENG Ming-keung
(From 25.11.2013)

Representative of Permanent Secretary for
Education and Secretary to the Board

Mrs WONG CHUI Yue-chue, Lesley, JP
(Up to 20.1.2014)

Director of Accounting Services

Mr SIU Man-tat, Martin
(From 21.1.2014)

Director of Accounting Services

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

1.9.2012 – 31.8.2013

Chairman

Ms MA Kit-ching, Veronica, MH Marymount Secondary School

Members

Ms CHAN May-mui, Caroline St. Joseph's College

Mr LEUNG Wai-kit, Ricky St. Mark's School

Mrs WONG CHUI Yue-chue, Lesley, JP Director of Accounting Services

Treasurer

Mr Kenneth SIU Assistant Director of Accounting Services

Secretary

Mr Wesley PAN Treasury Accountant

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

From 1.9.2013

Chairman

Ms MA Kit-ching, Veronica, MH Marymount Secondary School

Members

Ms CHAN May-mui, Caroline St. Joseph's College

Mr LEUNG Wai-kit, Ricky St. Mark's School

Mrs WONG CHUI Yue-chue, Lesley, JP
(Up to 20.1.2014) Director of Accounting Services

Mr SIU Man-tat, Martin
(From 21.1.2014) Director of Accounting Services

Treasurer

Mr Kenneth SIU Assistant Director of Accounting Services

Secretary

Mr Wesley PAN 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 13 February 2014, the Board of Control (BoC) declared a guaranteed dividend of 5% for contributors for the year ended 31 August 2013.

Contributors' Account

During the year, 53 new contributors joined the Fund and 110 withdrew from it. These figures include 24 transfers in from and 21 transfers out to the Subsidized Schools Provident Fund. The total number of contributors decreased by 57 or 4.47% to 1,219. The balance of the contributors' account increased by HK\$44.1 million or 1.85% to HK\$2,432.7 million. The service profile of contributors who withdrew from the Fund during the year was as follows:

	<u>2013</u>	<u>2012</u>
Below 10 years	37%	52%
10 to 15 years	11%	10%
Above 15 years	52%	38%

Net Assets and Management Cost

As at 31 August 2013, the net assets of the Fund amounted to HK\$2,853.0 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\$7.9 million – equivalent to 0.28% of the Fund's net assets.

Activities of the Board of Control

At the annual general meeting held on 7 February 2013, the BoC adopted the annual statement of accounts of the Fund and declared a dividend of 5% for the year ended 31 August 2012.

The BoC also approved the following matters during the year ended 31 August 2013:

- (a) the Fund's investment plan for the year;
- (b) the Fund's supervision fee budget for the year;
- (c) appointment of an investment consultant to conduct the investment strategies review; and

- (d) appointment of Schroder Investment Management (Hong Kong) Limited as an active Hong Kong equity manager.

Financial Highlights for the year ended 31 August 2013

		<u>2013</u>	<u>2012</u>	<u>Changes</u>
Contributors' Account	(a)	2,432.7	2,388.6	+1.85%
Net Assets	(b)	2,853.0	2,753.1	+3.63%
Management Cost (as a percentage of net assets)		7.9 (0.28%)	6.1 (0.22%)	
Reserve Level at year end (%)				
— before the year's dividend [(b)-(a)]/(a) above		17.28	15.26	
— after the year's dividend		11.70	9.79	
Investment Return for the year (%)		6.57	2.10	
Total Dividend Declared (%)		5.00	5.00	
Number of Contributors		1,219	1,276	-4.47%

Performance Indicator

	<u>2013</u>	<u>2012</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%	95.83%

Veronica MA, MH
Chairman
Board of Control
Grant Schools Provident Fund

13 February 2014

GRANT SCHOOLS PROVIDENT FUND

TREASURER'S REPORT FOR THE YEAR ENDED 31 AUGUST 2013

(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. The investments of the Fund are stated at the closing market value at the last business day of the year.

2. FINANCIAL RESULTS

(i) Overall surplus

The Fund recorded an overall surplus of HK\$173.7 million for the year as follows:

Operating surplus	58.2
Net realised and revaluation gains	115.5
Overall surplus	<u>173.7</u>

(ii) Investment Return

The overall surplus represented an investment return of 6.57% (2012: 2.10%) 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 1.17 times, providing a reserve level of 17.28% as follows:

Net Assets	(a)	2,853.0	
Less: Contributors' Account (before the year's dividend)	(b)	2,432.7	
Reserve	(c)	420.3	
Asset Cover	(a)/(b)	1.17 times	(2012 : 1.15 times)
Reserve Level	(c)/(b)	17.28%	(2012 : 15.26%)

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:

$$\left\langle \frac{\text{Reserve Level} - 40\%}{1 + 40\%} \right\rangle + \left\langle \text{Fund Return} \times \text{Adjusted Reserve Level} \right\rangle$$

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 1.14%. 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\$63.3 million from the Reserve Fund to the Income and Expenditure Account in accordance with rule 11(3) of the Grant Schools Provident Fund Rules.
- (b) declare a guaranteed dividend of HK\$121.5 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 2012 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 2012 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 5.04% (2012: 5.16%).

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 1.12 times and the level of reserve at 11.70% as follows:

Net Assets	(a)	2,853.0	
Less: Contributors' Account (after the year's dividend):			
Contributors' Account		2,432.7	
Provision for the year's dividend		121.5	
	(b)	2,554.2	
Reserve	(c)	298.8	
Asset Cover	(a)/(b)	1.12 times	(2012 : 1.10 times)
Reserve Level	(c)/(b)	11.70%	(2012 : 9.79%)

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 2013, the Fund's investment portfolios amounted to HK\$2,844.8 million of which HK\$2,268.6 million or 79.74% 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	–	18.51	18.51
Debt securities denominated in Hong Kong dollar	–	16.12	16.12
Hong Kong dollar fixed deposits	3.94	–	3.94
Equity securities listed outside Hong Kong	–	26.51	26.51
Debt securities denominated in currencies other than Hong Kong dollar	2.55	17.68	20.23
Foreign currency fixed deposits	13.76	–	13.76
Foreign currency call deposits and balances with custodians	0.01	0.89	0.90
Trading financial instruments			
- assets	–	0.04	0.04
- liabilities	–	(0.01)	(0.01)
	<hr/>	<hr/>	<hr/>
	20.26	79.74	100.00
	<hr/>	<hr/>	<hr/>

The sums under the management of the Fund's external investment managers were distributed as follows:

	2013	2012
First State Investments (Hong Kong) Limited	495.1	507.7
Schroder Investment Management (Hong Kong) Limited	258.1	–
State Street Global Advisors Asia Limited	1,027.0	1,105.4
Wellington Management Company, LLP	488.4	578.0
	<hr/>	<hr/>
	2,268.6	2,191.1
	<hr/>	<hr/>

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

Equities

HSBC Holdings Plc	56.3
AIA Group Limited	25.1
China Construction Bank	24.7
China Mobile Limited	23.2
Industrial and Commercial Bank of China	20.9

Debt Securities

CNPC	2.55%	26/10/2013	37.9
Hong Kong Government Bond	1.18%	21/09/2015	31.7
CCBC	1.80%	10/09/2014	25.1
United States Treasury Bill	0.25%	15/05/2015	23.1
Japan-95 (5-year issue)	0.60%	20/03/2016	21.1

10. AUDITED FINANCIAL STATEMENTS

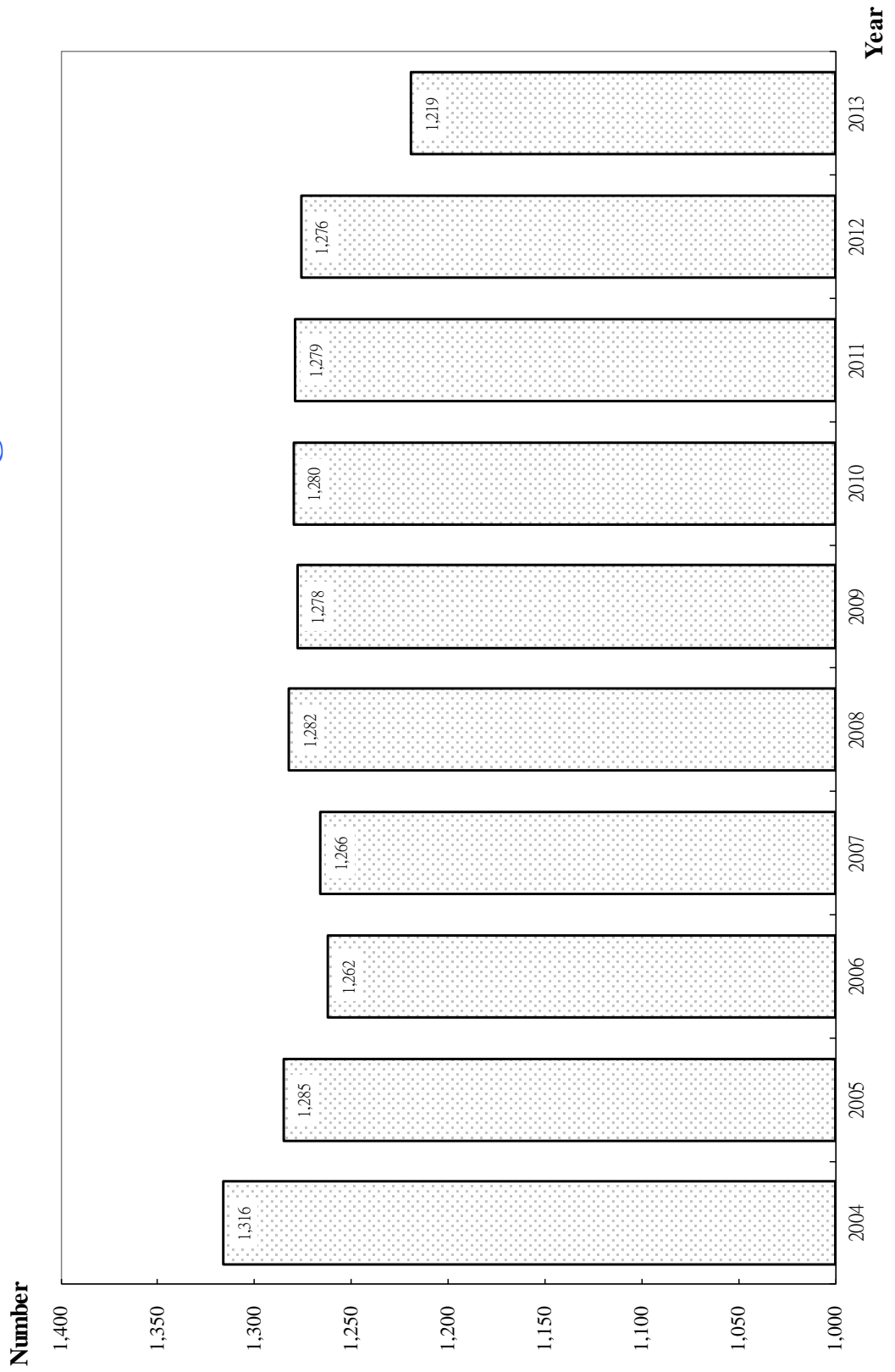
The financial statements of the Fund for the year ended 31 August 2013 have been audited by the Director of Audit. The audited financial statements together with the auditor's report will be placed before the Board at the annual general meeting to be held on 13 February 2014.

Kenneth SIU
Treasurer
Grant Schools Provident Fund

23 January 2014

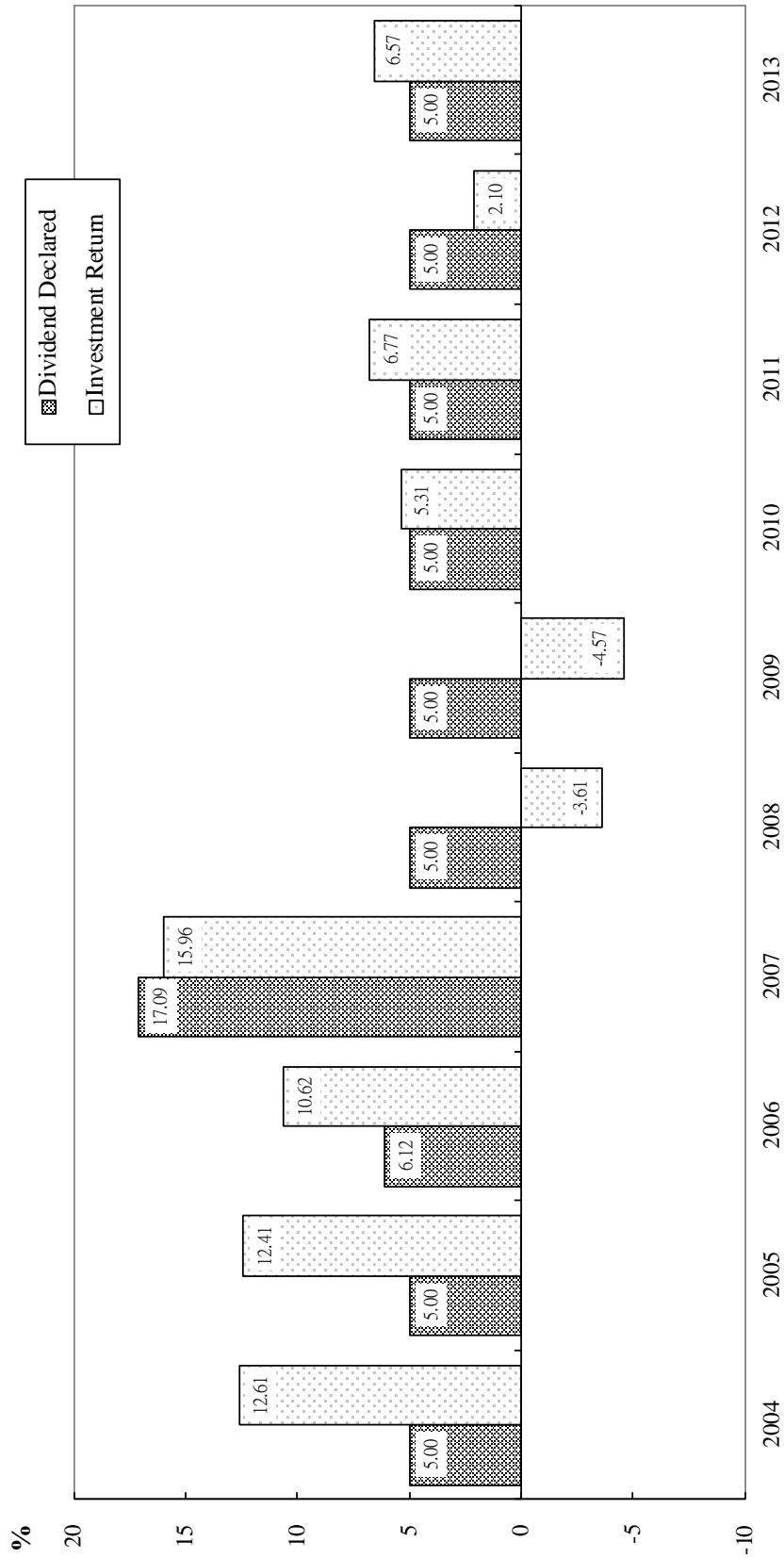
GRANT SCHOOLS PROVIDENT FUND

Number of Contributors as at 31 August 2004 to 2013



GRANT SCHOOLS PROVIDENT FUND

Dividend Declared and Investment Return

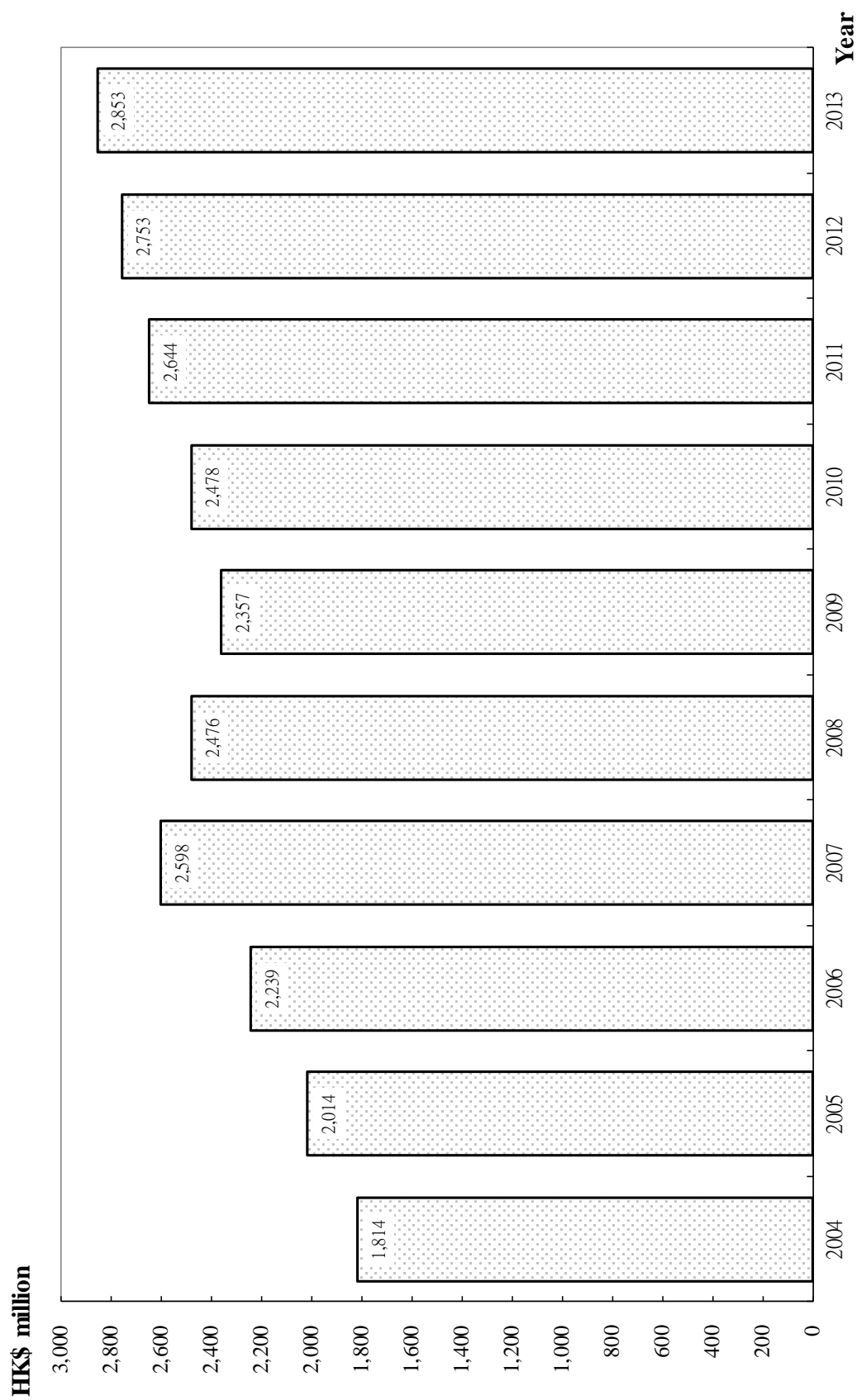


Year Ended 31 August

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 2004 to 2013

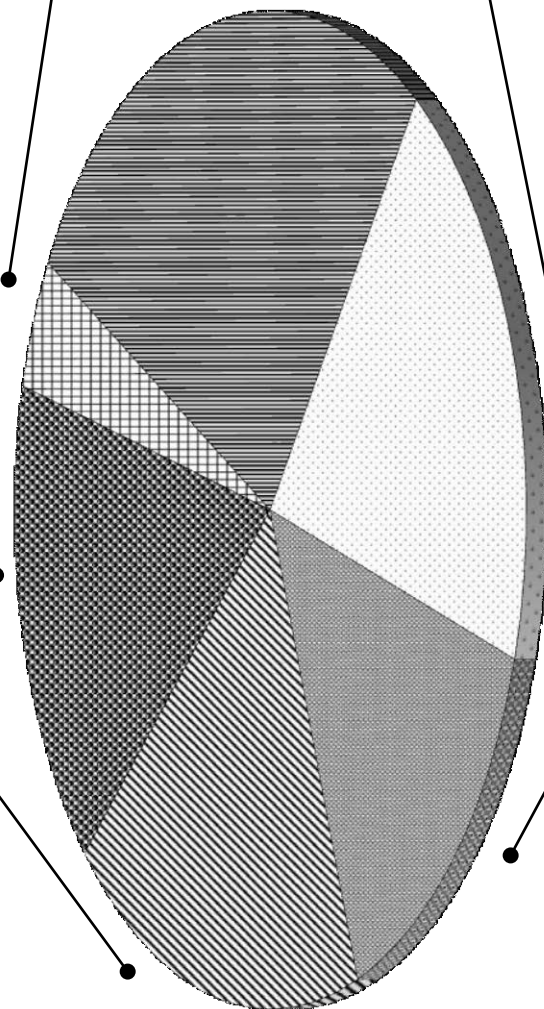


NOTE: Net assets calculated on full market value basis

GRANT SCHOOLS PROVIDENT FUND

Spread of Net Assets as at 31 August 2013

TOTAL: HK\$2,853 million
(2012: HK\$2,753 million)



<p>Equity securities listed in Hong Kong HK\$527 million (18.47%) (2012: 16.78%)</p>
<p>Debt securities denominated in Hong Kong dollar HK\$458 million (16.05%) (2012: 17.36%)</p>
<p>Hong Kong dollar deposits, net trading financial instruments and net accounts payable HK\$122 million (4.28%) (2012: 7.81%)</p>
<p>Equity securities listed outside Hong Kong HK\$754 million (26.43%) (2012: 23.25%)</p>
<p>Debt securities denominated in currencies other than Hong Kong dollar HK\$575 million (20.15%) (2012: 24.05%)</p>
<p>Foreign currency deposits HK\$417 million (14.62%) (2012: 10.75%)</p>

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 46, which comprise the balance sheet as at 31 August 2013, 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 2013 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

23 January 2014

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

GRANT SCHOOLS PROVIDENT FUND

BALANCE SHEET AS AT 31 AUGUST 2013

(Expressed in thousands of Hong Kong dollars)

	Note	2013	2012
ASSETS			
Cash at banks		17,983	10,343
Investments:			
Deposits with banks and other financial institutions	4	529,168	501,558
Securities	5	2,314,498	2,242,544
Trading financial instruments	6	1,319	243
Receivables and other assets	7	17,940	19,370
LIABILITIES			
Trading financial instruments	6	(196)	(791)
Payables and other liabilities	8	(27,728)	(20,204)
NET ASSETS AVAILABLE FOR BENEFITS		2,852,984	2,753,063
Representing:			
Contributors' account	9	2,432,696	2,388,582
Reserve fund	10	298,835	245,363
Provision for guaranteed dividend	11	121,453	119,118
		2,852,984	2,753,063

The notes on pages 28 to 46 form part of these financial statements.

Kenneth SIU Veronica MA
Treasurer *Chairman*
 Board of Control

Grant Schools Provident Fund
23 January 2014

GRANT SCHOOLS PROVIDENT FUND

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 AUGUST 2013

(Expressed in thousands of Hong Kong dollars)

	Note	2013	2012
INCOME			
Interest income	12	33,581	35,521
Dividend income	13	32,323	29,194
Other income	14	221	85
		<hr/> 66,125	<hr/> 64,800
EXPENDITURE			
Supervision fee	15	(1,176)	(1,087)
Fees for investment managers		(2,576)	(2,341)
Fees for custodians		(1,941)	(1,899)
Investment transaction costs		(521)	(735)
Other operating expenses		(1,720)	(27)
		<hr/> (7,934)	<hr/> (6,089)
OPERATING SURPLUS FOR THE YEAR		<hr/> 58,191	<hr/> 58,711
PROPOSED APPROPRIATION FROM RESERVE FUND	17	63,262	60,407
PROVISION FOR GUARANTEED DIVIDEND	11	(121,453)	(119,118)
BALANCE AT THE END OF THE YEAR		<hr/> — <hr/> <hr/>	<hr/> — <hr/> <hr/>

The notes on pages 28 to 46 form part of these financial statements.

GRANT SCHOOLS PROVIDENT FUND

RESERVE FUND FOR THE YEAR ENDED 31 AUGUST 2013

(Expressed in thousands of Hong Kong dollars)

	Note	2013	2012
Donations and dividends transferred from contributors' account	16	1,270	969
Net realised and revaluation gains/(losses) on:			
- securities		97,107	(19,684)
- trading financial instruments		11,548	17,242
- cash and deposits with banks and other financial institutions		6,823	(751)
		115,478	(3,193)
Proposed appropriation to income and expenditure account	17	(63,262)	(60,407)
Dividends under-provided in previous year		(14)	(38)
		53,472	(62,669)
Balance brought forward from previous year		245,363	308,032
BALANCE CARRIED FORWARD		298,835	245,363

The notes on pages 28 to 46 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 2013

(Expressed in thousands of Hong Kong dollars)

	Note	2013	2012
OPERATING SURPLUS FOR THE YEAR		58,191	58,711
Net realised and revaluation gains/(losses)		115,478	(3,193)
Contributions from contributors	9	37,361	37,114
Donations from the Government and Direct Subsidy Scheme schools	9	94,636	92,273
Net transfers to Subsidized Schools Provident Fund	9	(612)	(4,534)
Withdrawals by ex-contributors	9	(205,133)	(71,425)
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		99,921	108,946
NET ASSETS AVAILABLE FOR BENEFITS AT THE BEGINNING OF THE YEAR		2,753,063	2,644,117
NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR		2,852,984	2,753,063

The notes on pages 28 to 46 form part of these financial statements.

GRANT SCHOOLS PROVIDENT FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2013

(Expressed in thousands of Hong Kong dollars)

	Note	2013	2012
Cash flows from operating activities			
Operating surplus for the year		58,191	58,711
Interest income	12	(33,581)	(35,521)
Dividend income	13	(32,323)	(29,194)
Net realised and revaluation gains/(losses)		115,478	(3,193)
Increase in investments in securities		(71,954)	(44,880)
(Increase)/Decrease in investments in fixed deposits with original maturity beyond three months		(231,270)	20,880
Change in trading financial instruments		(1,671)	(875)
Decrease/(Increase) in receivables and other assets		932	(3,948)
Increase in payables and other liabilities		7,528	3,646
Elimination of foreign exchange differences in revaluation of cash and cash equivalents		(1,868)	910
Interest received		34,528	36,527
Dividends received		31,874	29,159
Net cash (used in)/from operating activities		(124,136)	32,222
Cash flows from financing activities			
Contributions from contributors		37,361	37,114
Donations from the Government and Direct Subsidy Scheme schools		94,636	92,273
Net transfers to Subsidized Schools Provident Fund		(612)	(4,534)
Withdrawals by ex-contributors		(205,137)	(71,421)
Net cash (used in)/from financing activities		(73,752)	53,432
Net (decrease)/increase in cash and cash equivalents		(197,888)	85,654
Cash and cash equivalents at the beginning of the year		474,149	389,405
Effects of exchange rate changes on cash and cash equivalents		1,868	(910)
Cash and cash equivalents at the end of the year	18	278,129	474,149

The notes on pages 28 to 46 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 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, loans and receivables, 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 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 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

Securities consist of equity and debt securities. These investments are designated upon initial recognition at fair value.

Securities are 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.

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 fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer

for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the financial asset or financial liability is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data 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 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 certain new and revised HKFRSs that 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

	2013	2012
Hong Kong dollar fixed deposits	112,040	205,755
Foreign currency fixed deposits	391,542	197,658
Foreign currency call deposits and balances with custodians	25,586	98,145
	<u>529,168</u>	<u>501,558</u>

5. SECURITIES

(a) Details

	2013	2012
Equity securities listed in Hong Kong	526,574	462,005
Equity securities listed outside Hong Kong	754,056	639,848
	1,280,630	1,101,853
Debt securities denominated in:		
— Hong Kong dollar	458,495	478,272
— currencies other than Hong Kong dollar	575,373	662,419
	1,033,868	1,140,691
	<u>2,314,498</u>	<u>2,242,544</u>

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

Issuer	Class	2013		2012	
		Fair value	% of class	Fair value	% of class
Government of the Hong Kong Special Administrative Region	Debt securities	102,148	9.88%	167,689	14.70%
United States Treasury	Debt securities	83,344	8.06%	54,108	4.74%
Government of Japan	Debt securities	65,726	6.36%	123,764	10.85%

6. TRADING FINANCIAL INSTRUMENTS

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts, at fair value	<u>1,319</u>	<u>196</u>	<u>243</u>	<u>791</u>

All these forward currency contracts would mature within one year and had a total notional amount of HK\$407.6 million as at 31 August 2013 (2012: HK\$619.8 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

	2013	2012
Proceeds receivable from investments sold	5,367	6,298
Interest and dividends receivable	12,559	13,057
Other debtors	14	15
	<u>17,940</u>	<u>19,370</u>

8. PAYABLES AND OTHER LIABILITIES

	2013	2012
Unsettled purchases of investments	23,235	16,069
Amount due to the Government of the Hong Kong Special Administrative Region	1,176	1,087
Fees for investment managers	855	908
Fees for custodians	612	657
Amount due to ex-contributors	57	61
Other creditors and accruals	1,793	1,422
	<u>27,728</u>	<u>20,204</u>

All these liabilities are payable within one year.

9. CONTRIBUTORS' ACCOUNT

	2013			
	Contributions	Donations from the Government and DSS schools	Dividends	Total
Additions for the year	37,361	94,636	119,132	251,129
Net transfers to Subsidized Schools Provident Fund	(11)	(401)	(200)	(612)
Withdrawals by ex-contributors	(30,331)	(64,772)	(110,030)	(205,133)
Transfers to reserve fund in accordance with Fund Rule 11(1)(a)(ii)	—	(1,096)	(174)	(1,270)
Net additions for the year	<u>7,019</u>	<u>28,367</u>	<u>8,728</u>	<u>44,114</u>
Balance brought forward from previous year	<u>452,532</u>	<u>904,090</u>	<u>1,031,960</u>	<u>2,388,582</u>
Balance carried forward	<u><u>459,551</u></u>	<u><u>932,457</u></u>	<u><u>1,040,688</u></u>	<u><u>2,432,696</u></u>

2012

	Contributions	Donations from the Government and DSS schools	Dividends	Total
Additions for the year	37,114	92,273	111,215	240,602
Net transfers to Subsidized Schools Provident Fund	(521)	(1,402)	(2,611)	(4,534)
Withdrawals by ex-contributors	(11,778)	(22,016)	(37,631)	(71,425)
Transfers to reserve fund in accordance with Fund Rule 11(1)(a)(ii)	—	(850)	(119)	(969)
Net additions for the year	24,815	68,005	70,854	163,674
Balance brought forward from previous year	427,717	836,085	961,106	2,224,908
Balance carried forward	452,532	904,090	1,031,960	2,388,582

Donations from DSS schools for the year amounted to HK\$29.3 million (2012: HK\$24.5 million).

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

	2013	2012
Retirement	142,747	41,478
Resignation	60,957	29,922
Death and ill health	—	1
Others (such as contract termination and schools ceasing to be grant schools or DSS schools)	1,429	24
	205,133	71,425

Vested contributors' benefits as at 31 August 2013 amounted to HK\$2,420.3 million (2012: HK\$2,375.7 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 2013 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 2013 (2012: 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

	2013	2012
Debt securities denominated in:		
— Hong Kong dollar	11,658	13,471
— currencies other than Hong Kong dollar	14,425	16,518
	26,083	29,989
Deposits denominated in:		
— Hong Kong dollar	618	2,045
— currencies other than Hong Kong dollar	6,880	3,487
	<u>7,498</u>	<u>5,532</u>
	<u>33,581</u>	<u>35,521</u>

13. DIVIDEND INCOME

	2013	2012
Equity securities listed:		
— in Hong Kong	15,392	15,350
— outside Hong Kong	16,931	13,844
	<u>32,323</u>	<u>29,194</u>

14. OTHER INCOME

	2013	2012
Class action income	221	2
Securities lending income	—	83
	<u>221</u>	<u>85</u>

15. SUPERVISION FEE

This represents the provision for the supervision fee for the year ended 31 August 2013 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\$63.3 million (2012: HK\$60.4 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\$121.5 million (2012: HK\$119.1 million).

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

	2013	2012
Fixed deposits with original maturity within three months	234,560	365,661
Cash at banks and call deposits and balances with custodians	43,569	108,488
TOTAL	<u>278,129</u>	<u>474,149</u>
Reconciliation with the balance sheet:		
Amounts shown in the balance sheet		
Cash at banks	17,983	10,343
Deposits with banks and other financial institutions	529,168	501,558
	547,151	511,901
Less: Amounts with original maturity beyond three months	(269,022)	(37,752)
Cash and cash equivalents in the statement of cash flows	<u>278,129</u>	<u>474,149</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 who 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 2013, 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 2013, a 10% increase/decrease in the market bid prices of the equities, with all other variables held constant, would increase/decrease the revaluation gains recognised in the reserve fund for the year by HK\$128.1 million (2012: HK\$110.2 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 2013, a 100 basis points increase/decrease in interest rates, with all other variables held constant, would decrease/increase the revaluation gains on the debt securities recognised in the reserve fund for the year by HK\$52.3 million (2012: HK\$64.5 million). As regards deposits with banks and other financial institutions, since they are all stated at amortised cost, their carrying amounts will not be affected by changes in market interest rates.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund does not have a significant exposure to cash flow interest rate risk because only a small portion of its debt securities bear interest at rates determined by reference to market interest rates.

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates. The Fund's 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:

	2013	2012
Hong Kong dollar	1,281,795	1,426,662
US dollar	797,600	652,096
Renminbi	267,168	201,476
Euro	183,205	168,271
Japanese yen	117,892	116,724
Pound sterling	84,280	76,928
Others	121,044	110,906
	<u>2,852,984</u>	<u>2,753,063</u>

It was estimated that, as at 31 August 2013, a 0.5% increase/decrease in the exchange rate of US dollar against Hong Kong dollar, with all other variables held constant, would increase/decrease the exchange gains as included in revaluation gains recognised in the reserve fund for the year by HK\$4.0 million (2012: HK\$3.3 million).

It was estimated that, as at 31 August 2013, a 5% increase/decrease in the exchange rates of other currencies against Hong Kong dollar, with all other variables held constant, would increase/decrease the exchange gains as included in revaluation gains recognised in the reserve fund for the year by HK\$38.7 million (2012: HK\$33.7 million).

(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:

	2013	2012
Cash at banks	17,983	10,343
Deposits with banks and other financial institutions	529,168	501,558
Debt securities	1,033,868	1,140,691
Trading financial instruments	1,319	243
Receivables and other assets	17,940	19,370
	<u>1,600,278</u>	<u>1,672,205</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:

	2013	2012
Cash at banks and deposits with banks and other financial institutions, by credit rating		
Aa3 to Aa1	288,797	423,448
A3 to A1	258,354	88,453
	<u>547,151</u>	<u>511,901</u>
Debt securities, by credit rating		
Aaa	369,568	393,439
Aa3 to Aa1	295,808	404,978
A3 to A1	349,314	327,769
Baa3 to Baa1	19,178	14,505
	<u>1,033,868</u>	<u>1,140,691</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**

(a) **Fair values**

The fair values of financial instruments quoted in active markets are their quoted prices at the balance sheet date. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

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

(b) 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 2013

	Level 1	Level 2	Total
Assets			
Securities at fair value	1,775,527	538,971	2,314,498
Trading financial instruments	—	1,319	1,319
	1,775,527	540,290	2,315,817
Liabilities			
Trading financial instruments	—	196	196

As at 31 August 2012

	Level 1	Level 2	Total
Assets			
Securities at fair value	1,596,004	646,540	2,242,544
Trading financial instruments	—	243	243
	<u>1,596,004</u>	<u>646,783</u>	<u>2,242,787</u>
Liabilities			
Trading financial instruments	—	791	791
	<u>—</u>	<u>791</u>	<u>791</u>

No financial assets or liabilities were classified under Level 3.

The three levels of the fair value hierarchy are:

Level 1: fair values of financial instruments are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values of financial instruments are determined involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (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).

21. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 AUGUST 2013

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 2013 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 developments may result in new or amended disclosures in future financial statements:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, <i>Financial Instruments: Disclosures</i> – Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 13, <i>Fair Value Measurement</i>	1 January 2013
Amendments to HKAS 32, <i>Financial Instruments: Presentation</i> – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 9, <i>Financial Instruments</i> *	—

* The mandatory effective date for HKFRS 9, *Financial Instruments*, will be determined when the outstanding phases of HKFRS 9 are finalised.