

Subsidized Schools

Provident Fund

Annual Report

2015

OTHER INFORMATION

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CONTENTS	PAGE
Foreword	1
Board of Control	4
Investment Sub-committee	7
Chairman's Report	9
Treasurer's Report	12
Number of Contributors (2006 – 2015)	18
Dividend Declared and Investment Return (2006 – 2015)	19
Net Assets (2006 – 2015)	20
Spread of Net Assets	21
Report of the Director of Audit	22
Balance Sheet	24
Income and Expenditure Account	25
Reserve Fund	26
Statement of Changes in Net Assets Available for Benefits	27
Statement of Cash Flows	28
Notes to the Financial Statements	29

FOREWORD

The Fund

The Subsidized Schools Provident Fund (The Fund) is governed by the Subsidized 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 subsidized 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 : elected from among the 18 other members

Vice-chairman : elected from among the 18 other members

Permanent Secretary for Education or his representative

Director of Accounting Services or his representative

Eighteen other members :

- (a) 4 appointed by the Subsidized Primary Schools Council,
- (b) 4 appointed by the Hong Kong Subsidized Secondary Schools Council,
- (c) 1 appointed by the Hong Kong Special Schools Council,
- (d) 4 elected from the representatives of teachers of the subsidized primary schools,
- (e) 4 elected from the representatives of teachers of the subsidized secondary schools, and
- (f) 1 elected from the representatives of teachers of the special schools.

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. Fourteen 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 5(4) of the Subsidized 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.

**SUBSIDIZED SCHOOLS PROVIDENT FUND
BOARD OF CONTROL**



Back Row

(From Left to Right)

1. Ms HON Hin-yan
2. Mr FUNG Ka-chun, Chris
3. Mr FOK Lap-tak
4. Mr AU YEUNG Ka-keung
5. Ms TSANG Bik-har
6. Mr HO Wing-chung
7. Mr CHAN Chi-yuen, Stanley
8. Ms HO Kit-ying

Front Row

(From Left to Right)

1. Mr CHEUK Tak-kan, Paul
2. Mr CHEUNG Yung-pong
3. Mr FUNG Suk-kai
4. Mr CHOI Yu-lung, Henry
5. Mr TAM Kim-hung
6. Mr SIU Man-tat, Martin
7. Ms LEUNG Yin-fun, Fanny (Treasurer)
8. Mr KWOK Man-leung
9. Mr WONG Kwan-bo, Remy

Not in the picture

1. Mr CHEUNG Fu-wing
2. Mr LAM Yat-fung
3. Mr LEUNG Tsz-wing, Dennis
4. Mr SHAO Yan-kit
5. Mr KWONG Yiu-chung

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 27 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, 1,654 new contributors joined the Fund and 1,595 withdrew from it. These figures include 16 transfers in from and 23 transfers out to the Grant Schools Provident Fund. The total number of contributors increased by 59 or 0.16% to 36,444. The balance of the contributors' account increased by HK\$3,171.9 million or 5.42% to HK\$61,661.1 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	38%	36%
10 to 15 years	11%	14%
Above 15 years	51%	50%

Net Assets and Management Cost

As at 31 August 2015, the net assets of the Fund amounted to HK\$69,535.2 million. The cost of managing the Fund by way of supervision fee paid to Government, fees of investment managers, fees of custodians and investment transaction costs was HK\$154.1 million — equivalent to 0.22% of the Fund's net assets.

Major Activities of the Board of Control

At the annual general meeting held on 12 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 DUNG Yi-ping, Ms FUNG Pik-ye, Ms FUNG Yun-ye, Mr KING Chi-yu, Mr LEUNG Tak-yin, Mr LIU Ah-chuen, Mr TAM Wai-kuen, Ms WAI Ching-han 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)	61,661.1	58,489.2	+5.42%
Net Assets	(b)	69,535.2	71,394.7	-2.60%
Management Cost (as a percentage of net assets)		154.1 (0.22%)	135.8 (0.19%)	
Reserve Level at year end (%)				
— before the year's dividend [(b)-(a)]/(a) above		12.77	22.06	
— after the year's dividend		7.41	16.26	
Investment Return for the year (%)		-3.03	10.41	
Total Dividend Declared (%)		5.00	5.00	
Number of Contributors		36,444	36,385	+0.16%

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	99.93%	99.52%

TAM Kim-hung
Chairman
Board of Control
Subsidized Schools Provident Fund

27 February 2016

SUBSIDIZED 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\$2,134.2 million for the year as follows:

Operating surplus	1,459.1
Net realised and revaluation losses	(3,593.3)
Overall deficit	<u>(2,134.2)</u>

(ii) Investment Return

The overall deficit represented an investment return of -3.03% (2014: overall surplus of 10.41%) 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 1.13 times, providing a reserve level of 12.77% as follows:

Net Assets	(a)	69,535.2	
Less : Contributors' Account (before the year's dividend)	(b)	61,661.1	
		<hr/>	
Reserve	(c)	7,874.1	
		<hr/>	
Asset Cover	(a)/(b)	1.13 times	(2014: 1.22 times)
Reserve Level	(c)/(b)	12.77%	(2014: 22.06%)

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 -0.39%. 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\$1,620.2 million from the Reserve Fund to the Income and Expenditure Account in accordance with rule 11(3) of the Subsidized Schools Provident Fund Rules, and
- (b) declare a guaranteed dividend of HK\$3,079.3 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 5.13% (2014: 5.11%).

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 1.07 times and the level of reserve at 7.41% as follows:

Net Assets	(a)	69,535.2	
Less:			
Contributors' Account (after the year's dividend):			
Contributors' Account		61,661.1	
Provision for the year's dividend		3,079.3	
	(b)	64,740.4	
Reserve	(c)	4,794.8	
Asset Cover	(a)/(b)	1.07 times	(2014: 1.16 times)
Reserve Level	(c)/(b)	7.41%	(2014: 16.26%)

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\$68,815.5 million of which HK\$60,131.2 million or 87.38% 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	—	18.47	18.47
Debt securities denominated in Hong Kong dollar	—	10.97	10.97
Hong Kong dollar fixed deposits	6.77	—	6.77
Equity securities listed outside Hong Kong	—	33.33	33.33
Debt securities denominated in currencies other than Hong Kong dollar	—	24.18	24.18
Fixed deposits denominated in currencies other than Hong Kong dollar	5.84	0.08	5.92
Call deposits and balances with custodians denominated in currencies other than Hong Kong dollar	0.01	0.30	0.31
Trading financial instruments			
- assets	—	0.09	0.09
- liabilities	—	(0.04)	(0.04)
	<u>12.62</u>	<u>87.38</u>	<u>100.00</u>
	<u><u>12.62</u></u>	<u><u>87.38</u></u>	<u><u>100.00</u></u>

The Fund's external investment managers were as follows:

Baillie Gifford Overseas Limited
BOCHK Asset Management Limited
BlackRock Financial Management, Inc
First State Investments (Hong Kong) Limited
Hang Seng Investment Management Limited
HSBC Global Asset Management (Hong Kong) Limited
MFS International (U.K.) Limited
Northern Trust Global Investments 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	1,282.0
Tencent Holdings Limited	878.2
AIA Group Limited	667.1
China Mobile Limited	653.3
China Construction Bank Corporation Limited	606.4
Industrial and Commercial Bank of China Limited	499.0
Apple Inc.	435.2
CK Hutchison Holdings Limited	367.4
Bank of China Limited	311.7
Nestlé S.A.	309.4

10. **AUDITED FINANCIAL STATEMENTS**

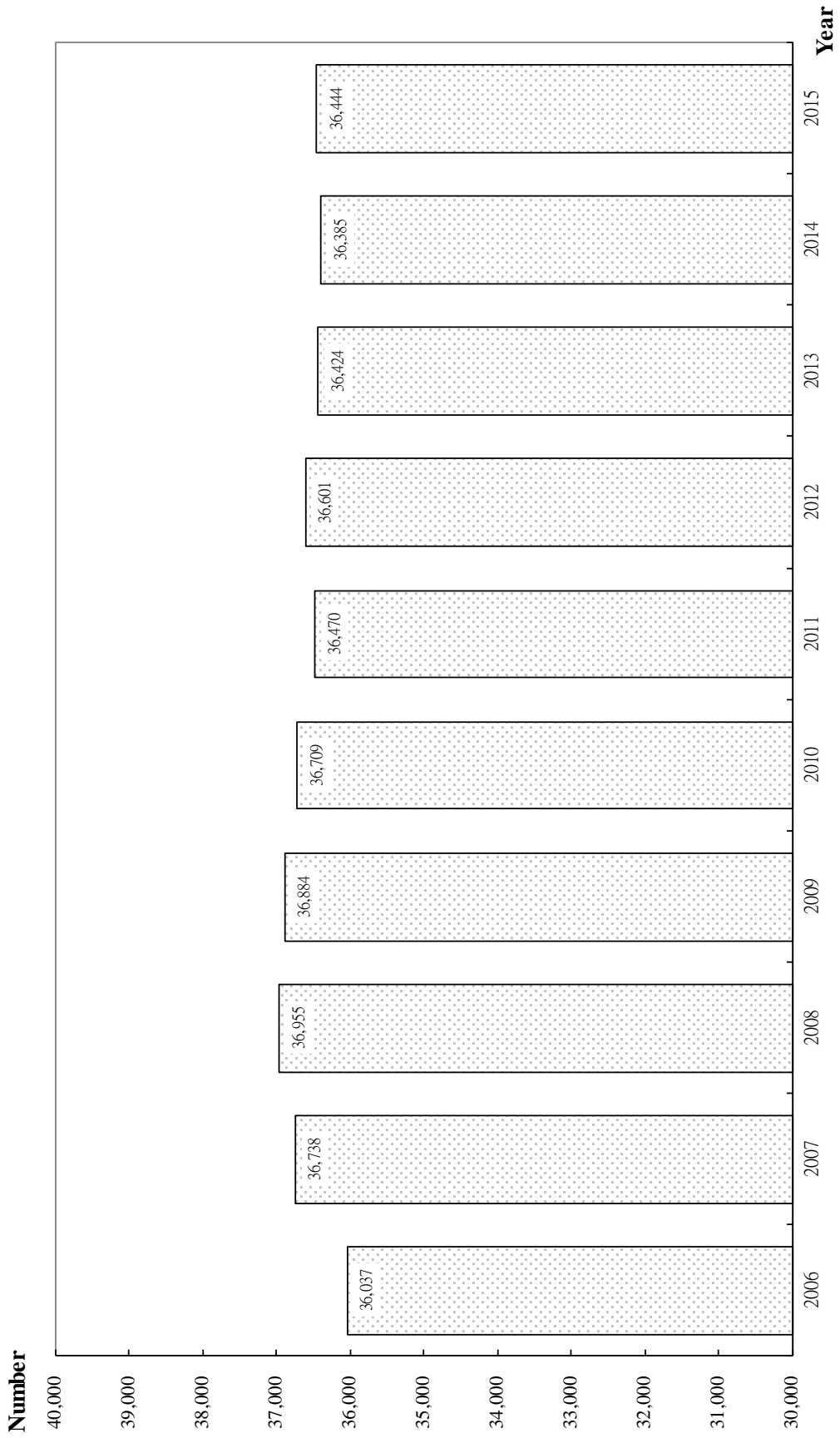
The financial statements of the Fund for the year ended 31 August 2015 have been audited by the Director of Audit. The audited financial statements together with the auditor's report will be placed before the Board at the annual general meeting to be held on 19 February 2016.

LEUNG Yin-fun, Fanny
Treasurer
Subsidized Schools Provident Fund

5 February 2016

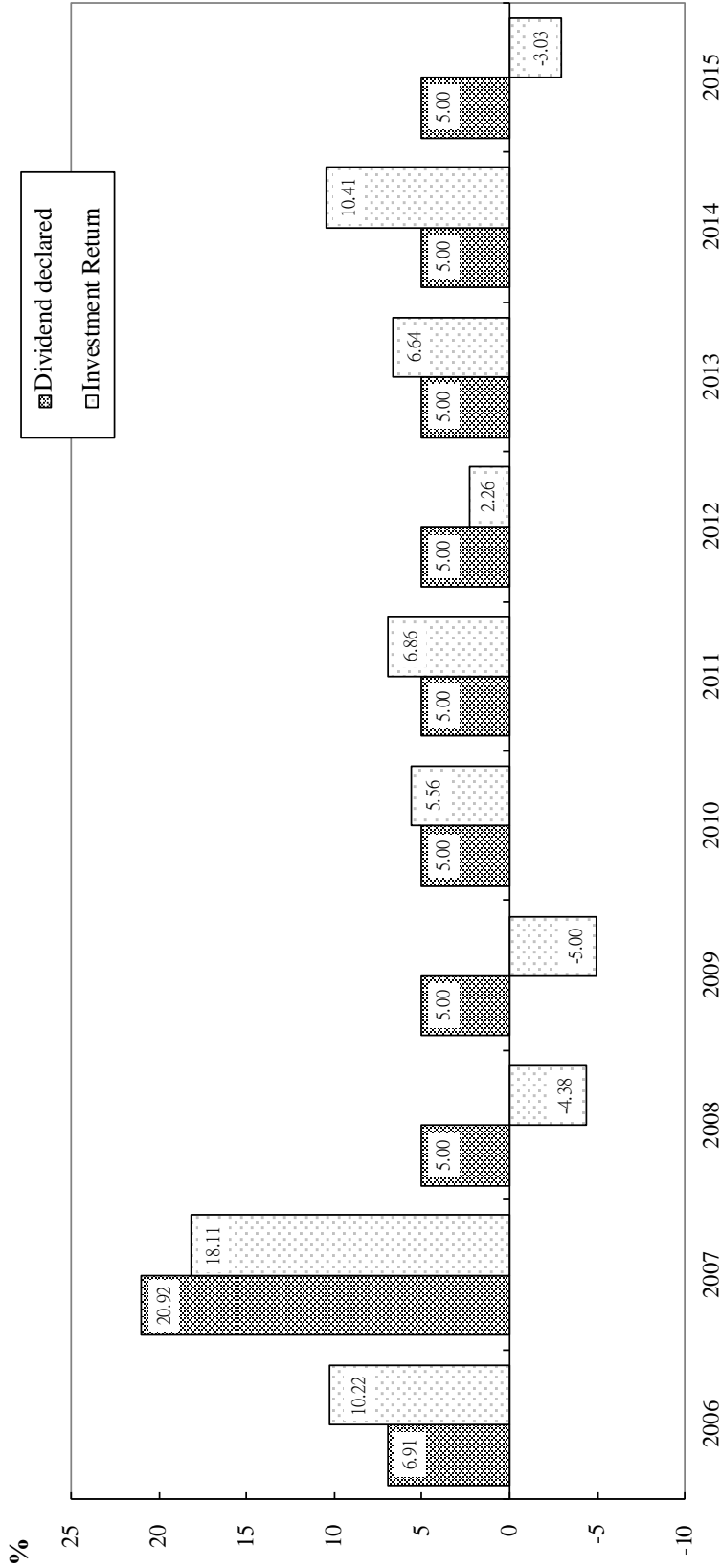
SUBSIDIZED SCHOOLS PROVIDENT FUND

Number of Contributors as at 31 August 2006 to 2015



SUBSIDIZED SCHOOLS PROVIDENT FUND

Dividend Declared and Investment Return

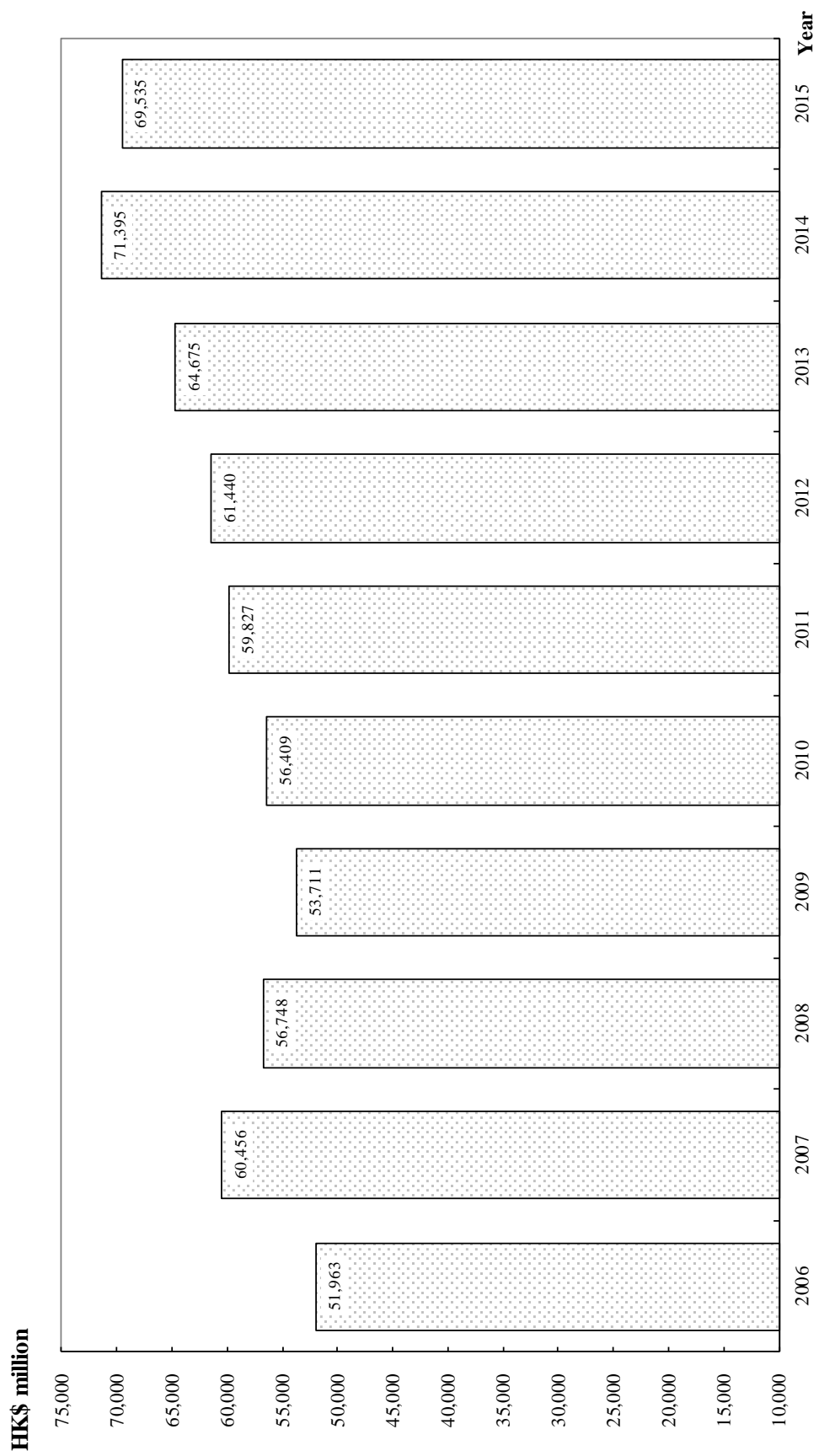


Year Ended 31 August

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.)

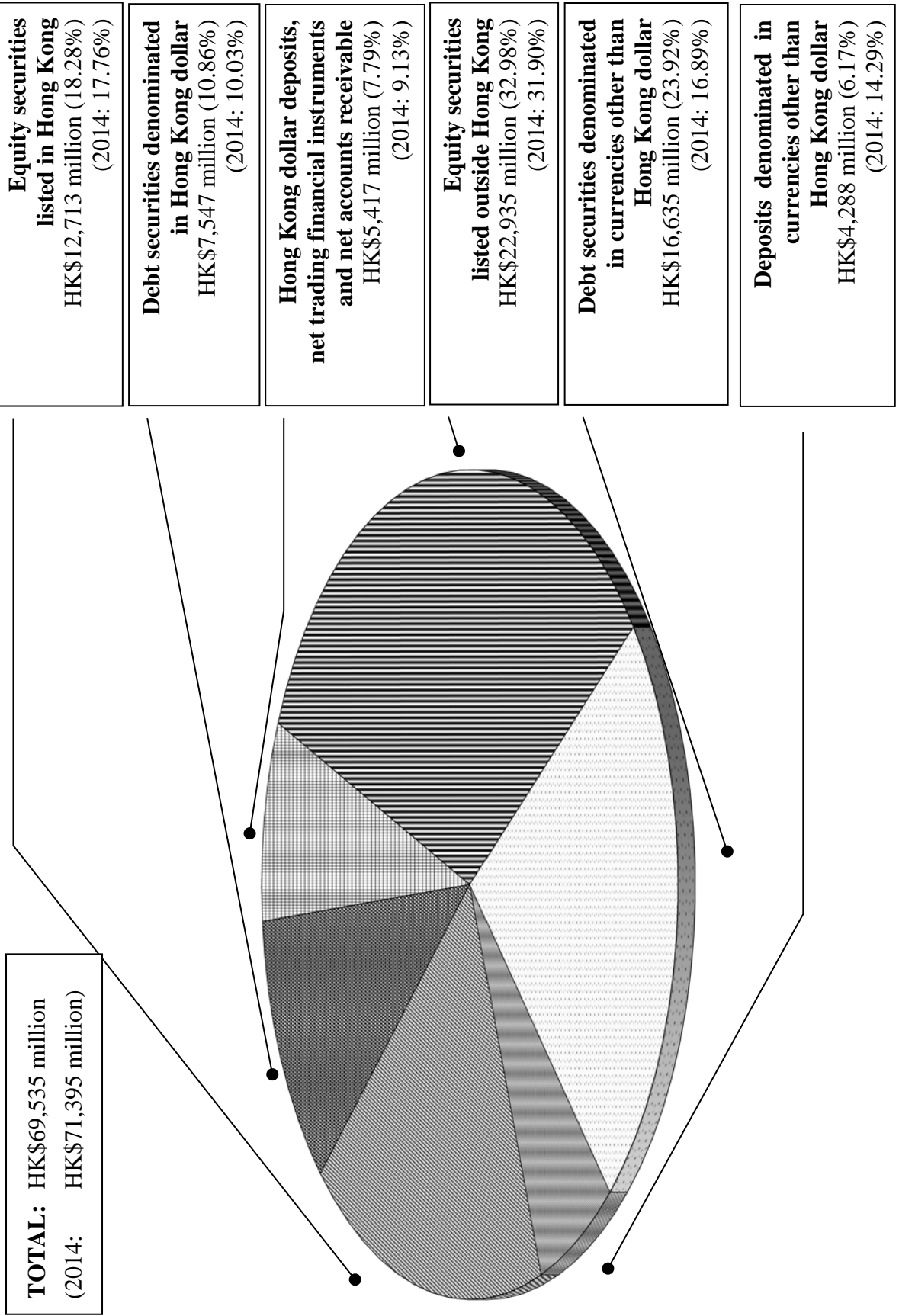
SUBSIDIZED SCHOOLS PROVIDENT FUND

Net Assets as at 31 August 2006 to 2015



SUBSIDIZED SCHOOLS PROVIDENT FUND

Spread of Net Assets as at 31 August 2015



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, Subsidized Schools Provident Fund

I certify that I have audited the financial statements of the Subsidized Schools Provident Fund set out on pages 24 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, Subsidized Schools Provident Fund's Responsibility for the Financial Statements

The Treasurer, Subsidized Schools Provident Fund is responsible for the preparation of these financial statements in accordance with rule 16(1) of the Subsidized 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, Subsidized 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 16(2) of the Subsidized 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, Subsidized 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 Subsidized Schools Provident Fund for the year ended 31 August 2015 are prepared, in all material respects, in accordance with rule 16(1) of the Subsidized 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

SUBSIDIZED SCHOOLS PROVIDENT FUND

BALANCE SHEET AS AT 31 AUGUST 2015

(Expressed in millions of Hong Kong dollars)

	Note	2015	2014
ASSETS			
Cash at banks		482.3	218.6
Investments:			
Deposits with banks and other financial institutions	4	8,949.1	16,266.7
Securities	5	59,830.0	54,674.6
Trading financial instruments	6	62.2	35.3
Receivables and other assets	7	494.2	394.1
LIABILITIES			
Trading financial instruments	6	(25.8)	(6.1)
Payables and other liabilities	8	(256.8)	(188.5)
NET ASSETS AVAILABLE FOR BENEFITS		<u>69,535.2</u>	<u>71,394.7</u>
Representing:			
Contributors' account	9	61,661.1	58,489.2
Reserve fund	10	4,794.8	9,987.6
Provision for guaranteed dividend	11	3,079.3	2,917.9
		<u>69,535.2</u>	<u>71,394.7</u>

The notes on pages 29 to 47 form part of these financial statements.

LEUNG Yin-fun, Fanny
Treasurer

TAM Kim-hung
Chairman
Board of Control

Subsidized Schools Provident Fund

5 February 2016

SUBSIDIZED SCHOOLS PROVIDENT FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2015

(Expressed in millions of Hong Kong dollars)

	Note	2015	2014
INCOME			
Interest income	12	755.8	825.6
Dividend income	13	857.4	824.8
Other income	14	—	93.7
		1,613.2	1,744.1
EXPENDITURE			
Supervision fee	15	(18.0)	(17.1)
Fees for investment managers		(106.0)	(92.8)
Fees for custodians		(13.7)	(13.1)
Investment transaction costs		(15.7)	(12.6)
Other operating expenses		(0.7)	(0.2)
		(154.1)	(135.8)
OPERATING SURPLUS FOR THE YEAR		1,459.1	1,608.3
PROPOSED APPROPRIATION FROM RESERVE FUND	18	1,620.2	1,309.6
PROVISION FOR GUARANTEED DIVIDEND	11	(3,079.3)	(2,917.9)
BALANCE AT THE END OF THE YEAR		—	—

The notes on pages 29 to 47 form part of these financial statements.

SUBSIDIZED SCHOOLS PROVIDENT FUND

RESERVE FUND FOR THE YEAR ENDED 31 AUGUST 2015

(Expressed in millions of Hong Kong dollars)

	Note	2015	2014
Unclaimed contributors' account balance	16	0.9	1.1
Donations and dividends transferred from contributors' account	17	19.2	23.4
Net realised and revaluation (losses)/gains on:			
- securities		(3,827.3)	5,062.4
- trading financial instruments		560.4	(12.8)
- cash and deposits with banks and other financial institutions		(326.4)	(30.6)
		(3,593.3)	5,019.0
Proposed appropriation to income and expenditure account	18	(1,620.2)	(1,309.6)
Dividends over/(under)-provided in previous year		0.6	(2.6)
		(5,192.8)	3,731.3
Balance brought forward from previous year		9,987.6	6,256.3
BALANCE CARRIED FORWARD		4,794.8	9,987.6

The notes on pages 29 to 47 form part of these financial statements.

SUBSIDIZED SCHOOLS PROVIDENT FUND

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

(Expressed in millions of Hong Kong dollars)

		2015	2014
	Note		
OPERATING SURPLUS FOR THE YEAR		1,459.1	1,608.3
Net realised and revaluation (losses)/gains		(3,593.3)	5,019.0
Contributions from contributors	9	1,088.3	991.2
Donations from the Government and Direct Subsidy Scheme schools	9	2,561.4	2,318.0
Net transfers from/(to) Grant Schools Provident Fund	9	4.8	(6.7)
Withdrawals by ex-contributors	9	(3,380.7)	(3,210.8)
Unclaimed contributors' account balance	16	0.9	1.1
		<hr/>	<hr/>
CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		(1,859.5)	6,720.1
NET ASSETS AVAILABLE FOR BENEFITS AT THE BEGINNING OF THE YEAR		71,394.7	64,674.6
		<hr/>	<hr/>
NET ASSETS AVAILABLE FOR BENEFITS AT THE END OF THE YEAR		69,535.2	71,394.7
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 29 to 47 form part of these financial statements.

SUBSIDIZED SCHOOLS PROVIDENT FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2015

(Expressed in millions of Hong Kong dollars)

	Note	2015	2014
Cash flows from operating activities			
Operating surplus for the year		1,459.1	1,608.3
Interest income	12	(755.8)	(825.6)
Dividend income	13	(857.4)	(824.8)
Net realised and revaluation (losses)/gains		(3,593.3)	5,019.0
Increase in investments in securities		(5,155.4)	(5,061.2)
Decrease/(Increase) in investments in fixed deposits with original maturity beyond three months		2,359.3	(512.5)
Change in trading financial instruments		(7.2)	5.0
(Increase)/Decrease in receivables and other assets		(107.9)	85.9
Increase/(Decrease) in payables and other liabilities		71.1	(316.4)
Elimination of foreign exchange differences in revaluation of cash and cash equivalents		38.4	4.0
Interest received		767.0	810.4
Dividends received		854.0	815.3
Net cash (used in)/from operating activities		(4,928.1)	807.4
Cash flows from financing activities			
Contributions from contributors		1,088.3	991.2
Donations from the Government and Direct Subsidy Scheme schools		2,561.4	2,318.0
Net transfers from/(to) Grant Schools Provident Fund		4.8	(6.7)
Withdrawals by ex-contributors		(3,382.6)	(3,213.6)
Net cash from financing activities		271.9	88.9
Net (decrease)/increase in cash and cash equivalents		(4,656.2)	896.3
Cash and cash equivalents at the beginning of the year		9,670.8	8,778.5
Effects of exchange rate changes on cash and cash equivalents		(38.4)	(4.0)
Cash and cash equivalents at the end of the year	19	4,976.2	9,670.8

The notes on pages 29 to 47 form part of these financial statements.

SUBSIDIZED SCHOOLS PROVIDENT FUND

NOTES TO THE FINANCIAL STATEMENTS

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

1. LEGISLATION

The Subsidized Schools Provident Fund (the Fund) is a retirement scheme governed by the Subsidized 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, 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 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 21(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.

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 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 23).

4. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015	2014
Fixed deposits denominated in:		
— Hong Kong dollar	4,660.8	6,065.6
— US dollar	2,437.9	3,122.3
— other currencies	1,634.3	6,521.7
Call deposits and balances with custodians denominated in currencies other than Hong Kong dollar:		
— US dollar	179.4	485.9
— other currencies	36.7	71.2
	<u>8,949.1</u>	<u>16,266.7</u>

5. SECURITIES

(a) Details

	2015	2014
<u>Securities at fair value</u>		
Equity securities listed in Hong Kong	12,712.8	12,681.6
Equity securities listed outside Hong Kong	22,934.6	22,778.3
	35,647.4	35,459.9
Debt securities denominated in:		
— Hong Kong dollar	7,547.1	7,159.2
— US dollar	5,713.7	4,871.9
— other currencies	10,921.8	7,183.6
	24,182.6	19,214.7
	59,830.0	54,674.6

(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	1,418.8	5.87%	1,235.2	6.43%
Government of the Hong Kong Special Administrative Region	Debt securities	738.3	3.04%	1,100.2	5.73%

6. TRADING FINANCIAL INSTRUMENTS

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts, at fair value	<u>62.2</u>	<u>25.8</u>	<u>35.3</u>	<u>6.1</u>

All these forward currency contracts would mature within one year and had a total notional amount of HK\$17,363.7 million as at 31 August 2015 (2014: HK\$18,493.4 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	301.7	309.5
Proceeds receivable from investments sold	187.7	84.6
Amount due from Grant Schools Provident Fund	4.8	—
	<u>494.2</u>	<u>394.1</u>

8. PAYABLES AND OTHER LIABILITIES

	2015	2014
Unsettled purchases of investments	201.9	136.4
Fees for investment managers	26.0	25.5
Amount due to the Government of the Hong Kong Special Administrative Region	18.0	17.1
Amount due to ex-contributors	4.5	7.3
Fees for custodians	6.2	2.1
Other creditors and accruals	0.2	0.1
	<u>256.8</u>	<u>188.5</u>

All these liabilities are payable within one year.

9. CONTRIBUTORS' ACCOUNT

	2015			
	Contributions	Donations from the Government and DSS schools	Dividends	Total
Additions for the year	1,088.3	2,561.4	2,917.3	6,567.0
Net transfers from Grant Schools Provident Fund	0.6	1.8	2.4	4.8
Withdrawals by ex-contributors	(469.5)	(1,035.4)	(1,875.8)	(3,380.7)
Transfers to reserve fund in accordance with Fund Rule 11(1)(a)(ii)	—	(16.6)	(2.6)	(19.2)
Net additions for the year	<u>619.4</u>	<u>1,511.2</u>	<u>1,041.3</u>	<u>3,171.9</u>
Balance brought forward from previous year	<u>11,369.5</u>	<u>22,290.9</u>	<u>24,828.8</u>	<u>58,489.2</u>
Balance carried forward	<u><u>11,988.9</u></u>	<u><u>23,802.1</u></u>	<u><u>25,870.1</u></u>	<u><u>61,661.1</u></u>
	2014			
	Contributions	Donations from the Government and DSS schools	Dividends	Total
Additions for the year	991.2	2,318.0	2,779.6	6,088.8
Net transfers to Grant Schools Provident Fund	(0.9)	(2.4)	(3.4)	(6.7)
Withdrawals by ex-contributors	(461.8)	(989.2)	(1,759.8)	(3,210.8)
Transfers to reserve fund in accordance with Fund Rule 11(1)(a)(ii)	—	(18.8)	(4.6)	(23.4)
Net additions for the year	<u>528.5</u>	<u>1,307.6</u>	<u>1,011.8</u>	<u>2,847.9</u>
Balance brought forward from previous year	<u>10,841.0</u>	<u>20,983.3</u>	<u>23,817.0</u>	<u>55,641.3</u>
Balance carried forward	<u><u>11,369.5</u></u>	<u><u>22,290.9</u></u>	<u><u>24,828.8</u></u>	<u><u>58,489.2</u></u>

There were no donations from DSS schools for the year (2014: HK\$0.3 million).

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

	2015	2014
Retirement	1,813.1	1,478.0
Resignation	1,363.6	1,462.4
Death and ill health	63.3	27.2
Others (such as contract termination and schools ceasing to be subsidized schools or DSS schools)	140.7	243.2
	<u>3,380.7</u>	<u>3,210.8</u>

Vested contributors' benefits as at 31 August 2015 amounted to HK\$61,194.0 million (2014: HK\$58,027.5 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 18).

12. INTEREST INCOME

	2015	2014
Debt securities at fair value	580.7	505.7
Deposits denominated in:		
— Hong Kong dollar	46.5	54.4
— US dollar	38.1	62.8
— other currencies	90.5	202.7
	<u>175.1</u>	<u>319.9</u>
	<u>755.8</u>	<u>825.6</u>

13. DIVIDEND INCOME

	2015	2014
Equity securities listed:		
— in Hong Kong	409.5	400.6
— outside Hong Kong	447.9	424.2
	<u>857.4</u>	<u>824.8</u>

14. OTHER INCOME

	2015	2014
Class action income	—	0.2
Tax refund	—	93.5
	<u>—</u>	<u>93.7</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 5(5) in respect of the costs incurred in administering the Fund.

16. UNCLAIMED CONTRIBUTORS' ACCOUNT BALANCE

This represents unclaimed contributors' account balances which are transferred to the reserve fund in accordance with Fund Rule 14(2).

17. 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 subsidized 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).

18. 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\$1,620.2 million (2014: HK\$1,309.6 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\$3,079.3 million (2014: HK\$2,917.9 million).

19. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2015	2014
Fixed deposits with original maturity within three months	4,277.8	8,895.1
Cash at banks and call deposits and balances with custodians	698.4	775.7
TOTAL	<u>4,976.2</u>	<u>9,670.8</u>

Reconciliation with the balance sheet:

Amounts shown in the balance sheet

Cash at banks	482.3	218.6
Deposits with banks and other financial institutions	8,949.1	16,266.7
	9,431.4	16,485.3
Less: Amounts with original maturity beyond three months	(4,455.2)	(6,814.5)
Cash and cash equivalents in the statement of cash flows	<u>4,976.2</u>	<u>9,670.8</u>

20. CONTINGENT LIABILITIES

As at 31 August 2015 the Fund was a defendant in a legal claim lodged in the United States. The amount of the claim was US\$115,600.

21. 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 5(4). 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\$3,564.7 million (2014: increase/decrease the revaluation gains by HK\$3,546.0 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\$1,268.2 million (2014: decrease/increase the revaluation gains by HK\$1,126.0 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:

	2015	2014
Hong Kong dollar	32,455.2	33,008.0
US dollar	18,194.4	18,749.4
Euro	4,512.4	4,923.3
Renminbi	6,764.2	6,658.8
Japanese yen	2,962.9	2,934.3
Pound sterling	1,887.9	2,001.3
Others	2,758.2	3,119.6
	<u>69,535.2</u>	<u>71,394.7</u>

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\$91.0 million (2014: increase/decrease the net revaluation gains by HK\$93.7 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\$338.2 million (2014: increase/decrease the net revaluation gains by HK\$332.9 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\$606.1 million (2014: decrease the net revaluation gains by HK\$1,946.8 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:

	2015	2014
Cash at banks	482.3	218.6
Deposits with banks and other financial institutions	8,949.1	16,266.7
Debt securities	24,182.6	19,214.7
Trading financial instruments	62.2	35.3
Receivables and other assets	494.2	394.1
	<u>34,170.4</u>	<u>36,129.4</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:

	2015	2014
Cash at banks and deposits with banks and other financial institutions, by credit rating		
Aa3 to Aa1	3,830.8	5,664.1
A3 to A1	5,600.6	10,821.2
	<u>9,431.4</u>	<u>16,485.3</u>
Debt securities, by credit rating		
Aaa	4,684.0	6,105.5
Aa3 to Aa1	7,724.2	5,983.2
A3 to A1	10,568.4	5,797.6
Baa3 to Baa1	1,135.3	1,198.2
Ba1	70.7	130.2
	<u>24,182.6</u>	<u>19,214.7</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.

22. 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	48,701.5	11,128.5	59,830.0
Trading financial instruments	—	62.2	62.2
	<u>48,701.5</u>	<u>11,190.7</u>	<u>59,892.2</u>
Liabilities			
Trading financial instruments	0.1	25.7	25.8
	<u>0.1</u>	<u>25.7</u>	<u>25.8</u>

As at 31 August 2014

	Level 1	Level 2	Total
Assets			
Securities at fair value	43,285.9	11,388.7	54,674.6
Trading financial instruments	—	35.3	35.3
	<u>43,285.9</u>	<u>11,424.0</u>	<u>54,709.9</u>
Liabilities			
Trading financial instruments	—	6.1	6.1
	<u>—</u>	<u>6.1</u>	<u>6.1</u>

(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.

23. 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:

HKFRS 9, *Financial Instruments*

Effective for accounting
periods beginning on
or after

1 January 2018