



## Language Fund

Financial statements for the year ended 31 August 2008

# **Report of the Director of Audit**



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **Independent Audit Report**

### **To the Permanent Secretary for Education Incorporated**

I certify that I have audited the financial statements of the Language Fund set out on pages 3 to 12, which comprise the balance sheet as at 31 August 2008, and the income and expenditure account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Permanent Secretary for Education Incorporated's responsibility for the financial statements**

The Permanent Secretary for Education Incorporated is responsible for the preparation and the true and fair presentation of these financial statements in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) and Hong Kong Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

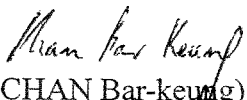
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 8(5) of the Permanent Secretary for Education Incorporation Ordinance and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 and true and fair presentation 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 Permanent Secretary for Education Incorporated, 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 give a true and fair view of the financial position of the Language Fund as at 31 August 2008 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance.

  
(CHAN Bar-keung)  
Assistant Director of Audit  
for Director of Audit

20 February 2009

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

**Language Fund**  
**Income and Expenditure Account**  
**for the year ended 31 August 2008**

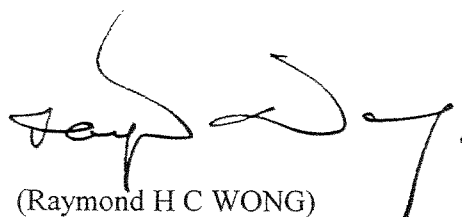
	<u>2008</u> HK\$'000	<u>2007</u> HK\$'000
<b>INCOME</b>		
Interest income from structured deposits and bank deposits	70,081	88,066
<b>EXPENDITURE</b>		
Grants	<u>(309,280)</u>	<u>(255,663)</u>
<b>DEFICIT FOR THE YEAR</b>	<u><u>(239,199)</u></u>	<u><u>(167,597)</u></u>

The accompanying Notes 1 to 7 form part of these accounts.

**Language Fund**  
**Balance Sheet**  
**as at 31 August 2008**

	<u>Note</u>	<u>2008</u> HK\$'000	<u>2007</u> HK\$'000
<b>Current assets</b>			
Interest receivable		11,633	37,799
Structured deposits	3	-	80,000
Bank deposits		1,749,000	1,810,734
Cash at bank		128,454	183,719
		1,889,087	2,112,252
<b>Current liabilities</b>			
Grants payable		(21,382)	(5,348)
<b>NET ASSETS</b>		1,867,705	2,106,904
 Representing:			
<b>FUND BALANCE</b>			
Accumulated surplus		1,867,705	2,106,904

The accompanying Notes 1 to 7 form part of these accounts.



(Raymond H C WONG)

Permanent Secretary for Education Incorporated  
Trustee of the Language Fund  
20 February 2009

**Language Fund**  
**Statement of Changes in Equity**  
**for the year ended 31 August 2008**

	<u>2008</u> HK\$'000	<u>2007</u> HK\$'000
<b>ACCUMULATED SURPLUS</b>		
Balance at beginning of year	2,106,904	2,274,501
Deficit for the year	(239,199)	(167,597)
Balance at end of year	<u>1,867,705</u>	<u>2,106,904</u>

The accompanying Notes 1 to 7 form part of these accounts.

**Language Fund**  
**Cash Flow Statement**  
**for the year ended 31 August 2008**

	<u>Note</u>	<u>2008</u> HK\$'000	<u>2007</u> HK\$'000
<b>Cash flows from operating activities</b>			
Interest received		96,247	85,518
Grants paid		(293,246)	(251,757)
Decrease in structured deposits and bank deposits with original maturity over three months		141,734	2,781
<b>Net cash used in operating activities</b>		(55,265)	(163,458)
<b>Cash and cash equivalents at beginning of year</b>		183,719	347,177
<b>Cash and cash equivalents at end of year</b>	4	128,454	183,719

The accompanying Notes 1 to 7 form part of these accounts.

## **Language Fund**

### **Notes to the Accounts**

#### **1. General**

The Language Fund was established by a declaration of trust made on 2 May 1994 by the Permanent Secretary for Education Incorporated (the Trustee). The Fund provides grants to fund projects aimed at improving Hong Kong people's proficiency in Chinese (including Putonghua) and English.

#### **2. Significant accounting policies**

##### **(a) Statement of compliance**

These financial statements have been prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098), accounting principles generally accepted in Hong Kong and all applicable Hong Kong Financial Reporting Standards (HKFRSs), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, 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.

The HKICPA has issued a number of new and revised HKFRSs that are first effective for the current accounting period. Adoption of these HKFRSs has no significant impact on the Fund's results of operations and financial position, while expanded disclosure has been made in the financial statements in accordance with the new HKFRS 7, "Financial instruments: Disclosures".

##### **(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of these financial statements is historical cost.

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's financial assets and financial liabilities include cash at bank, bank deposits, interest receivable and grants payable. They are measured initially at fair value, which normally equals to the transaction price plus attributable transaction costs.

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

(ii) Subsequent measurement

After initial recognition, financial assets are carried at amortised cost using the effective interest method less impairment losses, if any. Financial liabilities are carried at amortised cost using the effective interest method.

(iii) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

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

(iv) Impairment

The carrying amounts of financial assets 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 income and expenditure account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period the amount of such impairment loss 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 income and expenditure account.

(d) Revenue recognition

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

(e) Grants

Grants are recognised as expenditure when they are approved by the Trustee except in those cases when the release of grant is subject to certain conditions, such grants being recognised as expenditure when the grantees comply with the conditions.

(f) Cash equivalents

For the purpose of the cash flow statement, cash equivalents comprise short-term, highly liquid investments with original maturity of three months or less.

**3. Structured deposits**

	<u>2008</u> HK\$'000	<u>2007</u> HK\$'000
Structured deposits with interest at predetermined rates	<u>-</u>	<u>80,000</u>

All the structured deposits matured during the year.

**4. Cash and cash equivalents**

	<u>2008</u> HK\$'000	<u>2007</u> HK\$'000
Cash at bank	<u>128,454</u>	<u>183,719</u>

**5. Commitments**

As at 31 August 2008, approved grants to be released by the Fund when the grantees comply with the conditions and not provided for in the accounts amounted to approximately HK\$1,429 million (2007: HK\$1,587 million).

## 6. Financial risk management

### (a) Investment policy

The Fund places deposits with banks for investment under section 5(1) of the Permanent Secretary for Education Incorporation Ordinance. It is the Fund's policy that all investments in financial instruments should be principal-protected.

### (b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund does not have an exposure to currency risk as all of its financial instruments are denominated in Hong Kong dollar.

### (c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

At the balance sheet date, the Fund does not have significant concentrations of credit risk. The maximum exposure to credit risk at the balance sheet date without taking account of any collateral held or other credit enhancements is shown below:

	<u>2008</u>	<u>2007</u>
	HK\$'000	HK\$'000
Interest receivable	11,633	37,799
Structured deposits	-	80,000
Bank deposits	1,749,000	1,810,734
Cash at bank	128,454	183,719
	<u>1,889,087</u>	<u>2,112,252</u>

To minimise credit risks, all fixed deposits are placed with licensed banks in Hong Kong.

### (d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Fund manages liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Fund to ensure that all liabilities due and known funding requirements could be met. As the Fund has a strong liquidity position, it has a very low level of liquidity risk.

(e) 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 all the Fund's bank deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's deficit for the year and accumulated surplus.

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 an exposure to cash flow interest rate risk because all of the bank deposits bear interest at fixed rates.

The table below sets out the Fund's exposure to interest rate risk, based on the major interest bearing assets stated at carrying amounts and categorised by the earlier of contractual re-pricing dates or maturity dates.

	3 months or less HK\$'000	More than 3 months but not more than 1 year HK\$'000	Total HK\$'000
<u>2008</u>			
Bank deposits	300,000	1,449,000	1,749,000
<u>2007</u>			
Structured deposits	-	80,000	80,000
Bank deposits	321,721	1,489,013	1,810,734
	321,721	1,569,013	1,890,734

(f) 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.

**7. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2008**

Up to the date of issue of these 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 2008 and which have not been early adopted in these 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 application. 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 revised standard may result in new or amended disclosures in future financial statements:

	Effective for accounting periods beginning on or after
HKAS 1 (Revised), Presentation of financial statements	1 January 2009