



Language Fund

Financial statements for the year ended 31 August 2009

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 2009, 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

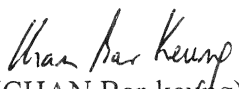
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 8(5) of the Permanent Secretary for Education Incorporation Ordinance and the Audit Commission auditing standards. Those standards require that I comply with ethical 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 2009 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

25 February 2010

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

Language Fund
Income and Expenditure Account
for the year ended 31 August 2009

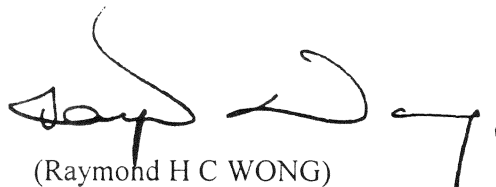
	2009 HK\$'000	2008 HK\$'000
INCOME		
Interest income from bank deposits	42,905	70,081
EXPENDITURE		
Grants	<u>(238,152)</u>	<u>(309,280)</u>
DEFICIT FOR THE YEAR	<u><u>(195,247)</u></u>	<u><u>(239,199)</u></u>

The accompanying notes 1 to 6 form part of these financial statements.

Language Fund
Balance Sheet
as at 31 August 2009

	2009 HK\$'000	2008 HK\$'000
Current assets		
Interest receivable	15,423	11,633
Bank deposits	1,580,000	1,749,000
Cash at bank	102,938	128,454
	<u>1,698,361</u>	<u>1,889,087</u>
Current liabilities		
Grants payable	<u>(25,903)</u>	<u>(21,382)</u>
NET ASSETS	<u><u>1,672,458</u></u>	<u><u>1,867,705</u></u>
 Representing:		
FUND BALANCE		
Accumulated surplus	<u><u>1,672,458</u></u>	<u><u>1,867,705</u></u>

The accompanying notes 1 to 6 form part of these financial statements.



(Raymond H C WONG)
Permanent Secretary for Education Incorporated
Trustee of the Language Fund
25 February 2010

Language Fund
Statement of Changes in Equity
for the year ended 31 August 2009

	2009 HK\$'000	2008 HK\$'000
ACCUMULATED SURPLUS		
Balance at beginning of year	1,867,705	2,106,904
Deficit for the year	(195,247)	(239,199)
Balance at end of year	<u>1,672,458</u>	<u>1,867,705</u>

The accompanying notes 1 to 6 form part of these financial statements.

Language Fund
Cash Flow Statement
for the year ended 31 August 2009

	Note	2009 HK\$'000	2008 HK\$'000
Cash flows from operating activities			
Interest received		39,115	96,247
Grants paid		(233,631)	(293,246)
Decrease in bank deposits with original maturity over three months		169,000	141,734
Net cash used in operating activities		(25,516)	(55,265)
Cash and cash equivalents at beginning of year		128,454	183,719
Cash and cash equivalents at end of year	3	102,938	128,454

The accompanying notes 1 to 6 form part of these financial statements.

Language Fund

Notes to the financial statements

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.

(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 will be equal to the transaction prices 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 a maturity of three months or less from the date of placement.

3. Cash and cash equivalents

	2009 HK\$'000	2008 HK\$'000
Cash at bank	<u>102,938</u>	<u>128,454</u>

4. Commitments

As at 31 August 2009, approved grants to be released by the Fund when the grantees comply with the conditions and not provided for in the financial statements amounted to approximately HK\$1,206 million (2008: HK\$1,429 million).

5. 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.

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:

	2009	2008
	HK\$'000	HK\$'000
Interest receivable	15,423	11,633
Bank deposits	1,580,000	1,749,000
Cash at bank	102,938	128,454
	<u>1,698,361</u>	<u>1,889,087</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
2009			
Bank deposits	456,000	1,124,000	1,580,000
2008			
Bank deposits	300,000	1,449,000	1,749,000

(f) Fair values

The Fund's financial instruments are not quoted in active markets. Their 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.

6. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2009

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 2009 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 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**

HKAS 1 (Revised)
Presentation of Financial Statements

1 January 2009

HKFRS 9
Financial Instruments

1 January 2013