



## Language Fund

Financial statements for the year ended 31 August 2010

# ***Report of the Director of Audit***



**Audit Commission**

**The Government of the Hong Kong Special Administrative Region**

## **Language Fund**

### **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 13, which comprise the statement of financial position as at 31 August 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2010 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.



(LAU Sun-wo)  
Assistant Director of Audit  
for Director of Audit

23 February 2011

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

**LANGUAGE FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 AUGUST 2010**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	2010	2009
<b>INCOME</b>			
Government grants	4	500,000	-
Interest income		<u>17,261</u>	<u>42,905</u>
		517,261	42,905
<b>EXPENDITURE</b>			
Award of grants		<u>(208,986)</u>	<u>(238,152)</u>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		308,275	(195,247)
<b>OTHER COMPREHENSIVE INCOME</b>		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<u><u>308,275</u></u>	<u><u>(195,247)</u></u>

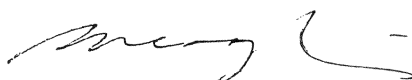
The accompanying notes 1 to 7 form part of these financial statements.

**LANGUAGE FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 AUGUST 2010**

*(Expressed in thousands of Hong Kong dollars)*

	2010	2009
<b>CURRENT ASSETS</b>		
Interest receivable	7,375	15,423
Bank deposits	1,736,602	1,580,000
Cash at bank	237,589	102,938
	<u>1,981,566</u>	<u>1,698,361</u>
<b>CURRENT LIABILITIES</b>		
Grants payable	<u>(833)</u>	<u>(25,903)</u>
<b>NET ASSETS</b>	<u><u>1,980,733</u></u>	<u><u>1,672,458</u></u>
 Representing:		
<b>FUND BALANCE</b>		
Accumulated surplus	<u><u>1,980,733</u></u>	<u><u>1,672,458</u></u>

The accompanying notes 1 to 7 form part of these financial statements.



(Mrs Cherry Tse)  
Permanent Secretary for Education Incorporated  
Trustee of the Language Fund  
23 February 2011

**LANGUAGE FUND**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 AUGUST 2010**  
*(Expressed in thousands of Hong Kong dollars)*

	2010	2009
<b>ACCUMULATED SURPLUS</b>		
Balance at beginning of year	1,672,458	1,867,705
Total comprehensive income/(loss) for the year	308,275	(195,247)
Balance at end of year	<u>1,980,733</u>	<u>1,672,458</u>

The accompanying notes 1 to 7 form part of these financial statements.

**LANGUAGE FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 AUGUST 2010**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Government grants received	4	500,000	-
Interest received		25,309	39,115
Award of grants paid		(234,056)	(233,631)
(Increase)/Decrease in bank deposits with original maturities over three months		(156,602)	169,000
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>		134,651	(25,516)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		102,938	128,454
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		237,589	102,938

**ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS**

	2010	2009
Cash at bank	237,589	102,938

The accompanying notes 1 to 7 form part of these financial statements.

## LANGUAGE FUND

### Notes to the financial statements

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

#### 1. General

The Language Fund (the 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), 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.

The preparation of financial statements 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 end of the reporting period, 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 prices, plus transaction costs that are directly attributable to the acquisition of the financial asset or the issue of the financial liability.

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Regular purchases and sale of financial assets are accounted for at trade date.

(ii) Subsequent measurement

After initial recognition, financial assets are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(c)(v)). 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, is cancelled or expires.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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.

(v) Impairment of financial assets

The carrying amounts of financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in the statement of comprehensive income 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 statement of comprehensive income.

(d) Revenue recognition

Government grants are recognised as income in the period in which they are receivable. Interest income is recognised on an accrual basis, using the effective interest method.

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.

(e) Award of 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 and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank, bank deposits 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.

### **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. However, as a result of adopting HKAS 1 (Revised), there are changes to the presentation of these financial statements.

The Fund has not applied any new standard that is not yet effective for the current accounting period (note 7).

#### *HKAS 1 (Revised) Presentation of Financial Statements*

The revised standard introduces the statement of comprehensive income and presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Fund has elected to present one statement. The standard also introduces terminology changes to titles for the financial statements. The Fund has changed the “Income and Expenditure Account” to the “Statement of Comprehensive Income”, the “Balance Sheet” to the “Statement of Financial Position” and the “Cash Flow Statement” to the “Statement of Cash Flows”.

### **4. Government grants**

During the year, the Fund obtained a government grant of HK\$500 million (2009: nil) as approved by the Finance Committee of the Legislative Council.

### **5. Commitments**

As at 31 August 2010, 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\$1,263 million (2009: HK\$1,206 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 due to changes in currency 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 an issuer or a counterparty will cause a financial loss to the Fund by failing to discharge an obligation.

The Fund does not have significant concentrations of credit risk. The Fund's maximum exposure to credit risk at the end of the reporting period without taking account of collateral held or other credit enhancements, if any, is shown below:

	2010	2009
Interest receivable	7,375	15,423
Bank deposits	1,736,602	1,580,000
Cash at bank	237,589	102,938
	<u>1,981,566</u>	<u>1,698,361</u>

To minimise credit risks, all fixed deposits are placed with licensed banks in Hong Kong. The credit quality of cash at bank and bank deposits, analysed by the ratings designated by Moody's or their equivalents, at the end of the reporting period is shown below:

	2010	2009
Cash at bank and bank deposits, by credit rating:		
Aa3 to Aa1	775,098	744,938
A3 to A1	901,093	938,000
Below A3	298,000	-
	<u>1,974,191</u>	<u>1,682,938</u>

(d) Liquidity risk

Liquidity risk is the risk that the Fund 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 does not have significant exposures to 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 the Fund's bank deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus 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 a significant exposure to cash flow interest rate risk because it has no significant floating-rate financial instruments.

The Fund's exposure to interest rate risk, based on the major interest bearing assets stated at carrying amounts at the end of the reporting period and categorised by the earlier of contractual repricing dates or maturity dates, is shown below:

	Repricing period		Total
	3 months or less	More than 3 months but not more than 1 year	
2010			
Bank deposits	258,000	1,478,602	1,736,602
2009			
Bank deposits	456,000	1,124,000	1,580,000

**7. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2010**

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 2010 and which have not been early adopted in the financial statements.

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

The following development may result in new or amended disclosures in future financial statements:

**Effective for accounting  
periods beginning on or after**

HKFRS 9 *Financial Instruments*

1 January 2013