

# Financial Statements 2010



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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## **Independent auditor's report**

### **To the Members of Hong Kong Institute of Certified Public Accountants**

*(Incorporated in Hong Kong under the Professional Accountants Ordinance)*

**W**e have audited the consolidated financial statements of Hong Kong Institute of Certified Public Accountants ("the Institute") set out on pages 3 to 33, which comprise the statements of financial position of the Institute and its subsidiaries (collectively referred to as "the Group") and the Institute at 30 June 2010 and the statements of comprehensive income, the statements of changes in members' equity and the statements of cash flows of the Group and the Institute for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Council's responsibility for the financial statements**

The Council of the Institute is responsible for maintaining proper accounts and the preparation of annual financial statements pursuant to the Professional Accountants Ordinance, and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Institute. These responsibilities include 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**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 16 of the Professional Accountants Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Institute. Those standards require that we 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 the 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 Council, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and the Institute at 30 June 2010 and of the surplus and cash flows of the Group and the Institute for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Professional Accountants Ordinance.

#### **Mazars CPA Limited**

Certified Public Accountants  
42nd floor, Central Plaza  
18 Harbour Road, Wanchai, Hong Kong  
21 September 2010

#### **Yip Ngai Shing**

Practising Certificate number: P05163

## Statements of financial position

At 30 June 2010

	Note	Group		Institute	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Non-current assets</b>					
Fixed assets	4	217,037	228,945	216,787	228,662
Investments in subsidiaries	5	–	–	–	–
Deferred tax assets	6	65	64	–	–
		<b>217,102</b>	<b>229,009</b>	<b>216,787</b>	<b>228,662</b>
<b>Current assets</b>					
Inventories		631	875	582	857
Receivables	7	1,198	1,934	1,999	2,558
Deposits and prepayments		4,378	3,871	4,208	3,689
Tax recoverable		–	48	–	–
Time deposits with original maturities over three months		76,745	83,786	59,019	56,658
Cash and cash equivalents	8	105,738	91,350	71,783	72,880
		<b>188,690</b>	<b>181,864</b>	<b>137,591</b>	<b>136,642</b>
<b>Current liabilities</b>					
Subscriptions and fees received in advance	9	(64,126)	(70,259)	(62,585)	(68,551)
Payables and accruals	10	(34,104)	(52,200)	(30,499)	(53,219)
Current tax liabilities		(1,199)	(5,140)	(670)	(5,087)
		<b>(99,429)</b>	<b>(127,599)</b>	<b>(93,754)</b>	<b>(126,857)</b>
<b>Net current assets</b>		<b>89,261</b>	<b>54,265</b>	<b>43,837</b>	<b>9,785</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	6	(282)	(631)	(282)	(631)
		<b>306,081</b>	<b>282,643</b>	<b>260,342</b>	<b>237,816</b>
<b>Members' equity</b>					
General fund		195,979	182,409	156,120	143,501
Capital fund	11	110,232	100,325	104,222	94,315
Exchange reserve		(130)	(91)	–	–
		<b>306,081</b>	<b>282,643</b>	<b>260,342</b>	<b>237,816</b>

Approved by the Council on 21 September 2010

**Wilson Fung**  
President

**Winnie C.W. Cheung**  
Chief Executive & Registrar

## ■ Statements of comprehensive income

For the year ended 30 June 2010

	Note	Group		Institute	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Subscriptions and fees	12	114,077	98,076	108,928	92,821
Other revenue	13	86,399	83,358	78,577	76,137
<b>Total revenue</b>		<b>200,476</b>	181,434	<b>187,505</b>	168,958
Other income	14	14,645	22,445	15,791	23,175
Expenses	15	(197,725)	(185,588)	(187,371)	(181,043)
<b>Surplus before tax</b>	16	<b>17,396</b>	18,291	<b>15,925</b>	11,090
Income tax	17	(3,826)	(3,062)	(3,306)	(3,098)
<b>Surplus after tax</b>		<b>13,570</b>	15,229	<b>12,619</b>	7,992
Other comprehensive income	18	(39)	(7)	–	–
<b>Total comprehensive income</b>		<b>13,531</b>	15,222	<b>12,619</b>	7,992

Approved by the Council on 21 September 2010

**Wilson Fung**  
President

**Winnie C.W. Cheung**  
Chief Executive & Registrar

## ■ Statements of changes in members' equity

For the year ended 30 June 2010

	2010						
	Group				Institute		
	General fund	Capital fund	Exchange reserve	Total	General fund	Capital fund	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the reporting period	182,409	100,325	(91)	282,643	143,501	94,315	237,816
Capital levy from members and students	–	9,907	–	9,907	–	9,907	9,907
Total comprehensive income	13,570	–	(39)	13,531	12,619	–	12,619
<b>At the end of the reporting period</b>	<b>195,979</b>	<b>110,232</b>	<b>(130)</b>	<b>306,081</b>	<b>156,120</b>	<b>104,222</b>	<b>260,342</b>

  

	2009						
	Group				Institute		
	General fund	Capital fund	Exchange reserve	Total	General fund	Capital fund	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the reporting period	167,180	90,949	(84)	258,045	135,509	84,939	220,448
Capital levy from members and students	–	9,376	–	9,376	–	9,376	9,376
Total comprehensive income	15,229	–	(7)	15,222	7,992	–	7,992
At the end of the reporting period	182,409	100,325	(91)	282,643	143,501	94,315	237,816

## ■ Statements of cash flows

For the year ended 30 June 2010

	Note	Group		Institute	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Cash flows from operating activities</b>					
Surplus before tax		17,396	18,291	15,925	11,090
Adjustments for:					
Allowance for obsolete inventories		138	–	138	–
Depreciation		12,401	11,641	12,311	11,539
Impairment of fixed assets		478	–	478	–
Impairment of investments in a subsidiary		–	–	–	300
Impairment of receivables		156	227	156	4,472
Loss on disposal of fixed assets		32	49	28	3
Obsolete inventories written off		137	406	137	112
Uncollectible amounts written off		2	15	2	15
<b>Operating cash flows before working capital changes</b>		<b>30,740</b>	<b>30,629</b>	<b>29,175</b>	<b>27,531</b>
(Increase)/Decrease in inventories		(31)	215	–	(13)
Decrease/(Increase) in receivables		578	(1,351)	401	(3,563)
Increase in deposits and prepayments		(507)	(293)	(519)	(249)
Decrease/(Increase) in time deposits with original maturities over three months		7,041	(83,786)	(2,361)	(56,658)
(Decrease)/Increase in subscriptions and fees received in advance		(6,133)	4,864	(5,966)	4,967
(Decrease)/Increase in payables and accruals		(17,529)	18,344	(22,153)	22,352
<b>Cash generated from/(utilized in) operations</b>		<b>14,159</b>	<b>(31,378)</b>	<b>(1,423)</b>	<b>(5,633)</b>
Tax paid		(8,072)	(7,113)	(8,072)	(7,064)
<b>Net cash generated by/(utilized in) operating activities</b>		<b>6,087</b>	<b>(38,491)</b>	<b>(9,495)</b>	<b>(12,697)</b>
<b>Cash flows utilized in investing activities</b>					
Purchase of fixed assets		(1,568)	(7,969)	(1,509)	(7,842)
<b>Cash flows from financing activities</b>					
Capital levy received		9,907	9,376	9,907	9,376
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>14,426</b>	<b>(37,084)</b>	<b>(1,097)</b>	<b>(11,163)</b>
Cash and cash equivalents at the beginning of the reporting period		91,350	128,434	72,880	84,043
Exchange difference in respect of cash and cash equivalents		(38)	–	–	–
<b>Cash and cash equivalents at the end of the reporting period</b>	8	<b>105,738</b>	<b>91,350</b>	<b>71,783</b>	<b>72,880</b>

## Notes to the financial statements

For the year ended 30 June 2010

### 1. Principal activities and registered office

The Group refers to Hong Kong Institute of Certified Public Accountants (“the Institute”) and its subsidiaries: HKICPA (Beijing) Consulting Co., Ltd. (“HKICPA Beijing”), The HKICPA Trust Fund, The HKICPA Charitable Fund and Hong Kong Institute of Accredited Accounting Technicians Limited (“HKIAAT”) and its subsidiary, The HKIAAT Trust Fund (formerly known as “The HKIAAT Scholarship Trust Fund”) (collectively referred to as “the HKIAAT Group”).

The Institute is a body corporate incorporated in Hong Kong on 1 January 1973 under the Professional Accountants Ordinance with its registered office located at 37th floor, Wu Chung House, 213 Queen’s Road East, Wanchai, Hong Kong. Its principal activities include, *inter-alia*, the registration of certified public accountants, firms of certified public accountants and corporate practices and the issuance of practising certificates; the development and promulgation of financial reporting, auditing and assurance, and ethical standards and guidelines; the regulation of the practice of the accountancy profession; the operation and promotion of the Institute’s qualification programme and professional examinations; representing the views of the profession; providing membership and student support services and preserving the profession’s integrity and status.

HKICPA Beijing is incorporated as a foreign enterprise in mainland China. Its principal activities are the promotion of the Institute’s qualification programme and provision of services to members in mainland China.

The HKICPA Trust Fund was formed under a trust deed dated 21 January 1998. The fund was set up for the relief of poverty of members of the Institute. Its trustees are the president, the immediate past president, a vice president and a former council member of the Institute.

The HKICPA Charitable Fund was set up under a trust deed dated 2 December 2001 for general

charitable purposes. Its trustees are the president, the immediate past president and the chief executive of the Institute.

HKIAAT is incorporated in Hong Kong under the Companies Ordinance as a company limited by guarantee. Its principal activities are the award of the “Accredited Accounting Technician” qualification through conducting professional examinations, offering of premier member and student services, accreditation of relevant sub-degree qualifications and promotion of the study of accountancy among sub-degree holders and secondary school students. HKIAAT has three voting members who are the president and two vice presidents of the Institute. Under the Articles of Association of HKIAAT, the power to appoint members of the Board of HKIAAT is vested with the Institute. Accordingly, the Institute has the power to govern the financial and operating policies of HKIAAT.

The HKIAAT Trust Fund was formed under a trust deed dated 21 June 1999 for educational purposes and in particular for the provision of scholarship to persons studying for the examinations held by HKIAAT. Its trustees are the president, the immediate past president and a vice president of HKIAAT.

### 2. Principal accounting policies

#### a. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Institute, accounting principles generally accepted in Hong Kong and the requirements of the Professional Accountants Ordinance. These financial statements have been prepared under the historical cost convention. All amounts are rounded to the nearest thousand except where otherwise indicated.



## ■ Notes to the financial statements

For the year ended 30 June 2010

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The critical accounting estimates and assumptions are summarized below:

### *Depreciation*

Depreciation is assessed at the end of each reporting period. In arriving at the depreciation charges, management has applied estimates to the residual values and economic life of each class of asset. The Group's depreciation policy is applied on a straight line basis over the economic life of each class of asset.

### **b. Early adoption of applicable new/revised HKFRSs**

The Institute has issued certain new/revised HKFRSs up to 30 June 2010 that are available for early adoption for the current accounting period of the Group. Of these, the following new/revised HKFRSs are applicable to the Group's financial statements and early adopted by the Group:

HKFRS 9	"Financial Instruments"
HKAS 24 (Revised)	"Related Party Disclosures"
HKFRSs (Amendments)	"Improvements to HKFRSs 2010"

HKFRS 9 "Financial Instruments" ("HKFRS 9") introduces new requirements for the classification and measurement of financial assets. It will be effective for financial periods beginning on or after 1 January 2013. The Group has chosen 30 June 2010 as its date of initial application as this is

the first reporting period end since HKFRS 9 was issued on 19 November 2009. Under the transitional provisions, HKFRS 9 was applied to financial assets extant at the date of initial application (i.e. 30 June 2010) and comparative figures were not restated.

HKFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value on the basis of their classification.

Financial assets are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the financial asset is classified as at fair value through profit or loss ("FVTPL"). Additionally, even if the asset meets the amortized cost criteria, the Group may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current accounting period, the Group has not elected to designate any financial assets meeting the amortized cost criteria as at FVTPL.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income recognized in accordance with HKAS 18 "Revenue", are recognized in other

comprehensive income and are not subsequently reclassified to the surplus or deficit.

The Group's financial assets include receivables and cash and bank balances and were previously carried at amortized cost using the effective interest method, less impairment charges. Upon the early adoption of HKFRS 9, the Group has reviewed and assessed all of the Group's existing financial assets at the date of initial application of HKFRS 9 and concluded that all of these assets meet the required criteria for financial assets measured at amortized cost. Accordingly, the measurement of the Group's financial assets is the same before and after the adoption of HKFRS 9 and there is no financial impact to the amounts reported in the financial statements.

HKAS 24 (Revised) "Related Party Disclosures" amends the definition of a related party and provides disclosure exemption for government-related entities. It will be effective for financial periods beginning on or after 1 January 2011. Since the Group is not government-related, the disclosure exemptions have no effect to the Group. The amendment of definition also has no significant impact on the extent of disclosure of significant related party transactions.

HKFRSs (Amendments) "Improvements to HKFRSs 2010" comprises a number of minor and non-urgent amendments to a range of HKFRSs and will be effective for financial periods beginning on or after 1 January 2011 (unless otherwise specified). Of these, the following amendments are applicable to the Group's operations:

HKFRS 7 "Financial Instruments: Disclosure"  
HKAS 1 "Presentation of Financial Statements"

The amendment to HKFRS 7 "Financial Instruments: Disclosures" clarifies qualitative

disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. It will be effective for financial periods beginning on or after 1 January 2011.

The amendment to HKAS 1 "Presentation of Financial Statements" clarifies that an entity may present the analysis of other comprehensive income by item either in the statements of changes in members' equity or in the notes to the financial statements. It will be effective for financial periods beginning on or after 1 January 2011.

The Group has assessed that these amendments have no significant impact to the amounts reported or presentation and disclosures in the financial statements.

**c. Effects of new/revised HKFRSs that were issued after 30 June 2010 and up to the date of approval of the financial statements**

The Institute has not issued any new/revised HKFRSs after 30 June 2010 and up to the date of approval of the financial statements.

**d. Basis of consolidation and subsidiaries**

The consolidated financial statements include the financial statements of the Institute and entities controlled by the Institute ("its subsidiaries"). The financial statements of the subsidiaries are prepared for the same reporting period as that of the Institute using consistent accounting policies. All inter-company transactions, balances, income and expenses are eliminated on consolidation.

A subsidiary is an entity over which the Institute has control, which is defined as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In the Institute's statement of

## ■ Notes to the financial statements

For the year ended 30 June 2010

financial position, the investments in subsidiaries are stated at cost less impairment charges.

### e. Financial instruments

Financial assets and financial liabilities are recognized in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value and transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The Group's financial assets, including receivables and cash and bank balances, are subsequently measured at amortized cost using the effective interest method, less identified impairment charges (see note 2f) as they meet the following conditions:

- (i) Before 30 June 2010, the asset is a non-derivative financial asset with fixed or determinable payments that is not quoted in an active market.
- (ii) On or after 30 June 2010, the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities include payables and other monetary liabilities. All financial liabilities are subsequently measured at amortized cost using the effective interest method.

### f. Impairment of financial assets

The Group recognizes charges for impaired

receivables promptly where there is objective evidence that impairment of a receivable has occurred. The impairment of a receivable carried at amortized cost is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the receivable's original effective interest rate. Impairment charges are assessed individually for significant receivables.

The carrying amount of the receivables is reduced through the use of the receivable impairment charges account. Changes in the carrying amount of the receivable impairment charges account are recognized in the surplus or deficit. When the receivable is considered uncollectible, it is written off against the receivable impairment charges account.

If, in a subsequent period, the amount of an impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment charge is reversed by reducing the receivable impairment charges account, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The amount of any reversal is recognized in the surplus or deficit.

### g. Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets have expired; or where the Group has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

**h. Impairment of non-financial assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that assets may be impaired or an impairment charge previously recognized no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. An impairment charge is recognized in the surplus or deficit whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment charge is reversed if there has been a change in the estimates used to determine the recoverable amount and which results in an increase in the recoverable amount. A reversal of impairment charges is limited to the asset's carrying amount that would have been determined had no impairment charge been recognized in prior periods. Reversals of impairment charges are credited to the surplus or deficit in the period in which the reversals are recognized.

**i. Fixed assets**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Where the Group acquires the leasehold land for own use under a finance lease, the prepaid cost representing the fair value of the leasehold land is included in fixed assets.

Other fixed assets are stated at cost less accumulated depreciation and impairment

charges. The cost of an item of other fixed assets comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any cost directly attributable to bringing the items of other fixed assets to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of any cost of dismantling and removing the items and restoring the site on which it is located. Expenditure incurred after the item of other fixed assets have been put into operation, such as repairs and maintenance cost, is normally charged to the surplus or deficit in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future benefits expected to be obtained from the use of the item of fixed asset and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost to that asset or as a replacement. An item of other fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the surplus or deficit in the period the item is derecognized, is the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation is calculated to write off their depreciable amounts over their estimated useful lives using the straight-line method. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. The residual values and useful lives of assets and the depreciation method are reviewed at the end of each reporting period and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate. If the residual value of an asset increases

## **■ Notes to the financial statements**

*For the year ended 30 June 2010*

to an amount equal to or greater than the asset's carrying amount, no depreciation is charged.

The estimated useful lives of fixed assets are as follows:

Leasehold land held for own use under finance leases – Over the lease term

Buildings held for own use – 20 years

Leasehold improvements – 10 years or over the remaining lease terms of the relevant leases whichever is shorter

Furniture, fixtures and equipment – 3 to 10 years

Items of a capital nature costing less than HK\$1,000 are recognized as expenses in the period of acquisition.

### **j. Operating leases**

Leases where substantially all the rewards and the risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in fixed assets, and rentals receivable under the operating leases are credited to the surplus or deficit on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the surplus or deficit on the straight-line basis over the lease terms.

### **k. Inventories**

Inventories, comprising publications and souvenirs held for sale, are stated at the lower of cost determined on a weighted average basis, and net realizable value. Cost includes direct costs of purchases and incidental costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less all estimated costs to be incurred prior to sale.

### **l. Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, having been within three months of maturity at acquisition.

### **m. Capital levy**

The capital levy is an equity contribution from members and students, and is taken to the capital fund in the period of receipt.

### **n. Foreign currency translation**

#### **(i) Functional and presentation currency**

Items included in the financial statements of the Institute and its subsidiaries are measured using the currency of the primary environment in which the Institute and its subsidiaries operate (the functional currency). The consolidated financial statements are presented in Hong Kong dollars, which is the Institute's functional and presentation currency.

#### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency at the exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated into Hong Kong dollars at the rate of exchange prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All exchange differences are recognized in the surplus or deficit.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Hong Kong dollars at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, the resulting exchange differences arising are included in exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation recognized in exchange reserve and accumulated in a separate component of equity is reclassified from equity to the surplus or deficit when the gain or loss on disposal is recognized.

**o. Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Annual subscription fees are recognized on a straight-line basis over the subscription period.

First registration fees are recognized on entitlement.

Other fees, income from examinations, seminars and courses, member and student activities and accreditation income are recognized upon completion of services provided.

Interest income from bank deposits and savings accounts is recognized as it accrues using the effective interest method.

**p. Government grants**

Government grants are recognized at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with.

Government grants related to income are recognized as income over the periods necessary to match them with the related costs.

Grants related to assets are deducted from the cost of the assets in arriving at their carrying amounts to the extent of the grants received and receivable at the end of the reporting period.

Where a refund is required under the terms of the agreement and a refund is probable, a liability is recognized for the expected amount of the refund. The provision represents the present value of the best estimate of the future outflow of economic benefits that will be required under the terms of the agreement.

**q. Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable surplus for the period. Taxable surplus differs from surplus as reported in the surplus or deficit because it excludes items of income or expenses that are taxable or deductible in other periods and it further excludes items that are not taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable surplus will

## Notes to the financial statements

For the year ended 30 June 2010

be available against which deductible temporary differences can be utilized.

Deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the surplus or deficit, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### r. **Employee benefits**

#### (i) **Short term employee benefits**

Salaries, annual bonuses and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) **Retirement benefits costs**

The Group operates two approved defined contribution retirement benefits schemes for employees: a Mandatory Provident Fund (“MPF”) Exempted Occupational Retirement Scheme and a MPF Scheme under the Mandatory Provident Fund Schemes Ordinance.

The contributions payable to the Group’s defined contribution retirement benefits schemes are charged to the surplus or deficit as incurred.

### (iii) **Employee leave entitlements**

Employee entitlements to annual leave are recognized when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by the employees up to the end of the reporting period.

### s. **Borrowing costs**

Borrowing costs are expensed when incurred, unless relating to the acquisition, construction and production of a qualifying asset where they are capitalized as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

### t. **Related parties**

A related party is a person or entity that is related to the Group.

- (i) A person or a close member of that person’s family is related to the Group if that person:
  - (a) has control or joint control over the Group;
  - (b) has significant influence over the Group; or
  - (c) is a member of the key management personnel of the Group or of a parent of the Group.
- (ii) An entity is related to the Group if any of the following conditions applies:
  - (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow

- subsidiary is related to the others).
- (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (c) Both entities are joint ventures of the same third party.
- (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (f) The entity is controlled or jointly controlled by a person identified in (i).
- (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### 3. Financial instruments by category

The carrying amounts of each category of financial instruments at the end of the reporting period are as follows:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Financial assets</b>				
Receivables, net of charges for impairment	1,198	1,934	1,013	1,272
Amounts due from subsidiaries, net of charges for impairment	–	–	986	1,286
Time deposits with original maturities over three months	76,745	83,786	59,019	56,658
Cash and cash equivalents	105,738	91,350	71,783	72,880
	<b>183,681</b>	177,070	<b>132,801</b>	132,096
<b>Financial liabilities</b>				
Payables	6,413	16,943	6,352	15,745
Amounts due to subsidiaries	–	–	139	4,503
Accruals	23,351	30,368	19,885	28,323
	<b>29,764</b>	47,311	<b>26,376</b>	48,571

The carrying amounts of the Group's and the Institute's financial instruments at the end of the reporting period approximate their fair value.



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### 4. Fixed assets

2010

	Leasehold land held for own use under finance leases HK\$'000	Buildings held for own use HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>Group</b>					
Net book value at 1 July 2009	167,078	34,621	16,516	10,730	228,945
Currency translation difference	–	–	–	2	2
Additions	–	–	–	1,568	1,568
Disposals	–	–	–	(32)	(32)
Cost adjustments	–	–	(272)	(295)	(567)
Impairment charges (c)	–	–	–	(478)	(478)
Depreciation	(4,398)	(2,172)	(2,393)	(3,438)	(12,401)
<b>Net book value at 30 June 2010</b>	<b>162,680</b>	<b>32,449</b>	<b>13,851</b>	<b>8,057</b>	<b>217,037</b>
At cost	184,670	43,255	23,287	23,765	274,977
Accumulated depreciation and impairment	(21,990)	(10,806)	(9,436)	(15,708)	(57,940)
	<b>162,680</b>	<b>32,449</b>	<b>13,851</b>	<b>8,057</b>	<b>217,037</b>
<b>Institute</b>					
Net book value at 1 July 2009	167,078	34,621	16,516	10,447	228,662
Additions	–	–	–	1,509	1,509
Disposals	–	–	–	(28)	(28)
Cost adjustments	–	–	(272)	(295)	(567)
Impairment charges (c)	–	–	–	(478)	(478)
Depreciation	(4,398)	(2,172)	(2,393)	(3,348)	(12,311)
<b>Net book value at 30 June 2010</b>	<b>162,680</b>	<b>32,449</b>	<b>13,851</b>	<b>7,807</b>	<b>216,787</b>
At cost	184,670	43,255	23,033	23,322	274,280
Accumulated depreciation and impairment	(21,990)	(10,806)	(9,182)	(15,515)	(57,493)
	<b>162,680</b>	<b>32,449</b>	<b>13,851</b>	<b>7,807</b>	<b>216,787</b>

#### 4. Fixed assets (continued)

2009

	Leasehold land held for own use under finance leases	Buildings held for own use	Leasehold improvements	Furniture, fixtures and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>					
Net book value at 1 July 2008	171,476	36,784	13,406	10,999	232,665
Currency translation difference	–	–	–	1	1
Additions	–	–	5,092	2,877	7,969
Disposals	–	–	–	(49)	(49)
Depreciation	(4,398)	(2,163)	(1,982)	(3,098)	(11,641)
Net book value at 30 June 2009	167,078	34,621	16,516	10,730	228,945
At cost	184,670	43,255	23,554	25,336	276,815
Accumulated depreciation and impairment	(17,592)	(8,634)	(7,038)	(14,606)	(47,870)
	167,078	34,621	16,516	10,730	228,945
<b>Institute</b>					
Net book value at 1 July 2008	171,476	36,784	13,363	10,736	232,359
Additions	–	–	5,092	2,750	7,842
Depreciation	(4,398)	(2,163)	(1,939)	(3,039)	(11,539)
Net book value at 30 June 2009	167,078	34,621	16,516	10,447	228,662
At cost	184,670	43,255	23,305	24,915	276,145
Accumulated depreciation and impairment	(17,592)	(8,634)	(6,789)	(14,468)	(47,483)
	167,078	34,621	16,516	10,447	228,662

- a. The Group's and the Institute's leasehold land and buildings held for own use, which are held on medium-term leases expiring on 30 June 2047, comprise the 37th floor and 27th floor of Wu Chung House located at 213 Queen's Road East, Wanchai, Hong Kong with a gross area of 49,722 sq. ft. acquired on 8 July 2005 and 28 February 2006 respectively.
- b. Rooms 3701 and 3708 on the 37th floor of Wu Chung House with a gross area of 7,018 sq. ft. were leased to a tenant for three years starting from 5 April 2006 pursuant to an option exercised by the tenant to renew the lease agreement previously signed between the tenant and the ex-landlord. The lease was terminated on 12 January 2009 with the Institute re-occupying the area for its own use.

## ■ Notes to the financial statements

For the year ended 30 June 2010

- c. During the current year, the management conducted a review of the Group's and the Institute's operating assets and determined that an office equipment was impaired due to technical obsolescence. With reference to the asset's recoverable amount determined on the basis of its value in use which was assessed to be nil, a full impairment charge of HK\$478,000 has been recognized accordingly.

### 5. Investments in subsidiaries

	Institute	
	2010 HK\$'000	2009 HK\$'000
At cost	300	300
Impairment charges	(300)	(300)
	–	–

The subsidiaries of the Institute are HKICPA Beijing, The HKICPA Trust Fund, The HKICPA Charitable Fund and the HKIAAT Group.

HKICPA Beijing is a wholly-owned subsidiary of the Institute incorporated as a foreign enterprise in mainland China. Its registered and paid-up capital is HK\$300,000. During the year ended 30 June 2009, an impairment charge of HK\$300,000 had been made to the investment cost of this subsidiary.

The HKICPA Trust Fund and The HKICPA Charitable Fund were set up with no capital injection by the Institute.

HKIAAT was founded by former council members on behalf of the Institute.

The HKIAAT Trust Fund was set up with no capital injection by HKIAAT.

The HKICPA Trust Fund, The HKICPA Charitable Fund and the HKIAAT Group are accounted for as subsidiaries of the Institute by virtue of the Institute's control over them.

## 6. Deferred tax assets and liabilities

- a. Details of deferred tax assets/(liabilities) recognized in the statements of financial position and the movements during the year are as follows:

	Group			Institute		
	Accelerated tax depreciation	Other temporary differences	Total	Accelerated tax depreciation	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2008	(1,596)	1,262	(334)	(1,596)	1,262	(334)
(Charged)/Credited to the surplus or deficit	(403)	170	(233)	(392)	95	(297)
At 30 June 2009	(1,999)	1,432	(567)	(1,988)	1,357	(631)
Credited/(Charged) to the surplus or deficit	400	(50)	350	400	(51)	349
<b>At 30 June 2010</b>	<b>(1,599)</b>	<b>1,382</b>	<b>(217)</b>	<b>(1,588)</b>	<b>1,306</b>	<b>(282)</b>

- b. Reconciliation to the statements of financial position:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Deferred tax assets	65	64	–	–
Deferred tax liabilities	(282)	(631)	(282)	(631)
	(217)	(567)	(282)	(631)

## 7. Receivables

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Accounts receivable	1,833	2,413	1,599	1,702
Amounts due from subsidiaries	–	–	986	5,531
	1,833	2,413	2,585	7,233
Charges for impairment (a)	(635)	(479)	(586)	(4,675)
	1,198	1,934	1,999	2,558

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

## ■ Notes to the financial statements

For the year ended 30 June 2010

- a. Movements on the charges for impairment of receivables are as follows:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At the beginning of the reporting period	479	488	4,675	421
Impairment of receivables (note 16)				
– Accounts receivable	156	227	156	227
– Amount due from HKICPA Beijing	–	–	–	4,245
	156	227	156	4,472
Impaired receivables written off	–	–	(4,245)	–
Recovery of impaired receivables (note 14)	–	(236)	–	(218)
At the end of the reporting period	635	479	586	4,675

The individually impaired receivables have been assessed by management who considers that their default in payment is highly possible. The Group and the Institute do not hold any collateral or other credit enhancements over these balances.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the receivables, which approximates to their fair value.

- b. The ageing analysis of receivables at the end of the reporting period that are not considered to be impaired is as follows:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Neither past due nor impaired	492	–	1,442	1,286
Less than 30 days past due	383	1,430	245	861
31 to 90 days past due	168	134	157	116
91 to 180 days past due	75	71	75	62
181 to 270 days past due	23	76	23	45
Over 270 days past due	57	223	57	188
	706	1,934	557	1,272
	1,198	1,934	1,999	2,558

Receivables that were neither past due nor impaired mainly relate to inter-company balances and affinity credit card rebate receivables that are considered fully recoverable.

Receivables that were past due but not impaired relate to a number of independent parties that have a good track record with the Group and the Institute. Based on past experience, management is of the opinion that no charge for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group and the Institute do not hold any collateral or other credit enhancements over these balances.

## 8. Cash and cash equivalents

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Bank balances				
- Time deposits with original maturities within three months	84,623	61,043	67,188	53,163
- Savings accounts	14,971	21,632	1,336	16,239
- Current accounts	6,067	8,520	3,190	3,324
Cash on hand	77	155	69	154
	<b>105,738</b>	<b>91,350</b>	<b>71,783</b>	<b>72,880</b>

## 9. Subscriptions and fees received in advance

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Subscription fees received in advance	50,944	48,897	49,403	47,190
Other fees received in advance	13,182	21,362	13,182	21,361
	<b>64,126</b>	<b>70,259</b>	<b>62,585</b>	<b>68,551</b>

The Group and the Institute charge its members and students an annual subscription fee for renewal of membership based on a calendar year (i.e. from 1 January to 31 December), which is recognized on a straight-line basis over the subscription period. Subscription fees received in advance represent the unearned subscription income for the period from 1 July to 31 December.

Other fees received in advance relate to examinations to be conducted at the end of the reporting period.

## Notes to the financial statements

For the year ended 30 June 2010

### 10. Payables and accruals

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Payables (a)	6,413	16,943	6,352	15,745
Amounts due to subsidiaries (b)	–	–	139	4,503
Accruals	23,351	30,368	19,885	28,323
Financial liabilities	29,764	47,311	26,376	48,571
Employee leave entitlements	4,340	4,889	4,123	4,648
	34,104	52,200	30,499	53,219

- a. At 30 June 2009, included in “payables” of the Group and the Institute was an amount of approximately HK\$11 million for a one-off rebate of HK\$380 to each qualifying member.
- b. Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

The maturity profile of the Group's and the Institute's financial liabilities included in “Payables and accruals” at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Within 30 days	24,685	43,995	21,918	41,600
Between 31 and 90 days	1,414	1,290	1,041	5,382
Between 91 and 180 days	3,397	332	3,324	11
Between 181 and 270 days	175	117	–	1
Over 270 days	93	1,577	93	1,577
	29,764	47,311	26,376	48,571

### 11. Capital fund

The Group has two capital funds:

- a. The capital fund of the Institute represents a capital levy from its members and students for the purpose of financing the purchase, improvement and/or expansion of the Institute's office premises. The rates of levy for the current and the preceding year were HK\$300, HK\$75 and HK\$50 from each member, retired member and student respectively. The rates of levy are decided annually by the Council.
- b. The capital fund of HKIAAT represents a capital levy from its members and students to meet future office expansion. The rates of levy are decided annually by the Board of HKIAAT. Effective from the year ended 30 June 2009, no capital levy is imposed on its members and students.

## 12. Subscriptions and fees

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Annual subscription fees</b>				
Members (a)	61,730	47,708	61,730	47,708
Practising certificates	18,036	17,902	18,036	17,902
Students	8,792	9,094	6,445	6,200
Firms	9,623	9,522	9,623	9,522
Corporate practices	4,152	3,602	4,152	3,602
Others	1,088	1,189	104	141
<b>First registration fees</b>				
Members	5,419	4,082	5,419	4,082
Practising certificates	390	426	390	426
Students	3,163	2,587	1,459	1,533
Firms	144	163	144	163
Corporate practices	269	139	269	139
Others	137	287	23	28
<b>Other fees</b>				
Member practices' changes in particulars	6	251	6	251
Advancement to fellowship	450	259	450	259
Assessment for overseas students	678	865	678	865
	<b>114,077</b>	<b>98,076</b>	<b>108,928</b>	<b>92,821</b>

- a. During the year ended 30 June 2009, the Institute approved a one-off rebate of HK\$380 to each qualifying member at 30 June 2009. The rebate amounted to approximately HK\$11 million and was charged against the annual subscription fees received from members during the year ended 30 June 2009.

## 13. Other revenue

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Income from examinations	68,220	65,283	61,377	60,262
Income from seminars and courses	15,786	13,858	15,083	12,958
Income from member and student activities	1,723	2,501	1,722	2,487
Accreditation income	670	1,716	395	430
	<b>86,399</b>	<b>83,358</b>	<b>78,577</b>	<b>76,137</b>



## ■ Notes to the financial statements

For the year ended 30 June 2010

### 14. Other income

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Qualification</b>				
Royalty income	197	144	–	–
<b>Conducts</b>				
Case settlements (a)	–	7,500	–	7,500
Disciplinary fines and costs recovery	3,331	1,274	3,331	1,274
FRC special levy (b)	3,962	2,536	3,962	2,536
<b>Corporate functions</b>				
Commission from affinity credit card programme	668	702	668	702
Commission from professional indemnity insurance master policy	376	377	376	377
Exchange differences	–	182	–	181
Government grants (c)	496	232	496	232
Income from advertisements placed in the journals	1,348	1,226	1,118	1,037
Interest income	473	1,047	354	704
Income from hardcopy surcharge	590	631	590	631
Operating lease income	129	948	129	948
Professional indemnity insurance recovery (d)	–	2,850	–	2,850
Recovery of impaired receivables (note 7a)	–	236	–	218
Sales of goods	900	1,661	815	1,011
Service fees from HKIAAT	–	–	2,308	2,272
<b>Others</b>				
Donations (e)	456	40	25	20
Events sponsorship	1,344	489	1,344	489
Miscellaneous	375	370	275	193
	<b>14,645</b>	<b>22,445</b>	<b>15,791</b>	<b>23,175</b>

#### a. Case settlements

During the year ended 30 June 2009, the Institute settled regulatory proceedings against two firms and certain individuals which resulted in the receipt of HK\$7,500,000. The Institute, having considered the alleged violations and time costs involved in the on-going proceedings, considered that it was in the best interests of the public and the profession to bring an early resolution to these regulatory proceedings.

## 14. Other income (continued)

### b. FRC special levy

The Institute representing the accounting profession is one of the four funding parties of the Financial Reporting Council (“FRC”) along with the Companies Registry Trading Fund of the government of the Hong Kong Special Administrative Region (“HKSAR”), Hong Kong Exchanges and Clearing Limited and the Securities and Futures Commission. Under the existing funding arrangements, the Institute contributes the sum of HK\$4,000,000 (2009: HK\$2,500,000) per annum as the recurrent funding of the FRC. The Institute’s share of the funding is met by a special annual levy on member practices which are auditors of listed entities. During the current year, the Institute received HK\$3,962,000 (2009: HK\$2,536,000) from such member practices and contributed HK\$4,000,000 (2009: HK\$2,500,000) to the FRC (note 16).

### c. Government grants

On 17 February 2009, the Institute signed an agreement for a project entitled “A Post Qualification Competency Assessment Framework for Hong Kong Accountants”

### e. Donations

with the government of the HKSAR under the Professional Services Development Assistance Scheme. The project objective is to develop a competency framework to provide comprehensive guidance to Certified Public Accountants (“CPA”) after their qualification, on the competency requirements of five streams for career development and specialization (including competencies to work in mainland China). The estimated project cost is HK\$1,496,000. The government of the HKSAR would contribute no more than HK\$728,000 to the project cost. During the current year, the remaining contribution of HK\$496,000 (2009: HK\$232,000) was recognized as income to match the related costs. The project was completed on 30 June 2010 and the project’s audited accounts will be submitted to the government of HKSAR.

### d. Professional indemnity insurance recovery

A claim for the recovery of legal expenses incurred in a judicial review proceeding against the Institute in prior years was made on the Institute’s professional indemnity insurance policy. During the year ended 30 June 2009, an amount of HK\$2,850,000 was received from the insurers in full and final settlement of all claims under this case.

	Group		Institute	
	2010 HK\$’000	2009 HK\$’000	2010 HK\$’000	2009 HK\$’000
Aid for Sichuan earthquake relief	–	11	–	–
Donations from members	414	–	–	–
Donations to the library	25	20	25	20
Others	17	9	–	–
	456	40	25	20

## ■ Notes to the financial statements

For the year ended 30 June 2010

### 15. Expenses

The Group is organized into nine main activity areas: membership, qualification, conducts, quality assurance, standards, corporate functions, the HKIAAT Group, The HKICPA Charitable Fund and The HKICPA Trust Fund. The nine main activities are representative of the Institute's operations and reporting of the respective activities to the Council. An analysis of the Group's and the Institute's expenses by main activities is set out below:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Expenses by main activities</b>				
Membership	48,000	46,889	48,159	48,298
Qualification	52,178	42,680	52,283	43,980
Conducts	20,514	20,837	20,514	20,837
Quality assurance	10,320	11,469	10,320	11,469
Standards	9,634	8,368	9,634	8,368
Corporate functions				
– Operation and finance	25,608	21,318	27,979	23,228
– Communications	10,791	12,957	10,791	12,957
– Constitution and governance	4,574	4,532	4,574	4,532
– China and international relations	3,067	3,958	3,067	3,958
The HKIAAT Group	12,818	12,489	–	–
The HKICPA Charitable Fund	75	62	50	416
The HKICPA Trust Fund	146	29	–	3,000
	<b>197,725</b>	<b>185,588</b>	<b>187,371</b>	<b>181,043</b>

During the year ended 30 June 2009, the Institute recorded an impairment charge of HK\$4,545,000 for the investment cost in HKICPA Beijing and amount due from HKICPA Beijing. This amount was allocated to membership and qualification in the amounts of HK\$2,727,000 and HK\$1,818,000 respectively.

## 16. Surplus before tax

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Surplus before tax has been arrived at after charging/(crediting):				
Employee benefits (note 19)	99,093	91,820	92,458	85,936
Depreciation	12,401	11,641	12,311	11,539
Contribution to FRC (note 14b)	4,000	2,500	4,000	2,500
Auditor's remuneration	323	295	258	232
Allowance for obsolete inventories	138	–	138	–
Cost of goods sold	623	850	574	648
Donations (a)	88	61	60	3,416
Exchange loss/(gain)	17	(182)	81	(181)
Impairment of fixed assets	478	–	478	–
Impairment of investments in a subsidiary	–	–	–	300
Impairment of receivables (note 7a)	156	227	156	4,472
Loss on disposal of fixed assets	32	49	28	3
Obsolete inventories written off	137	406	137	112
Operating lease expenses	838	829	415	417
Recovery of obsolete inventories written off	(14)	–	–	–
Recovery of impaired receivables	–	(236)	–	(218)
Uncollectible amounts written off	2	15	2	15

- a. During the current year, the Institute made no donation (2009: HK\$3,000,000) to The HKICPA Trust Fund and donated HK\$50,000 (2009: HK\$416,000) to The HKICPA Charitable Fund.

## Notes to the financial statements

For the year ended 30 June 2010

### 17. Income tax

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Current tax</b>				
Provision for Hong Kong Profits Tax for the year	3,779	2,919	3,655	2,864
Provision for mainland China income tax for the year	397	–	–	–
Over-provision in prior years	–	(90)	–	(63)
	<b>4,176</b>	<b>2,829</b>	<b>3,655</b>	<b>2,801</b>
<b>Deferred tax</b>				
Deferred tax (credit)/ charge relating to the origination and reversal of temporary differences	(350)	233	(349)	297
	<b>3,826</b>	<b>3,062</b>	<b>3,306</b>	<b>3,098</b>

Hong Kong Profits Tax is provided at 16.5% (2009: 16.5%) on the estimated taxable surplus arising in Hong Kong during the current year. The mainland China income tax has been provided at the statutory rate of 25% (2009: 25%) in accordance with the relevant tax laws in mainland China during the year.

The reconciliation between income tax expense and surplus before tax at applicable rate (i.e. the statutory tax rate for the jurisdictions in which the Institute and the majority of its subsidiaries are domiciled) is as follows:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Surplus before tax	17,396	18,291	15,925	11,090
Tax at the applicable rate of 16.5% (2009: 16.5%)	2,871	3,018	2,627	1,830
Tax effect of different tax rate for subsidiary in mainland China	231	(27)	–	–
Tax effect of expenses that are not deductible in determining taxable surplus	1,222	955	737	1,469
Tax effect of income that is not assessable in determining taxable surplus	(218)	(723)	(58)	(116)
Tax effect of utilization of tax losses previously not recognized	(280)	(122)	–	–
Tax effect of tax losses not recognized	–	146	–	–
Over-provision in prior years	–	(90)	–	(63)
Others	–	(95)	–	(22)
	<b>3,826</b>	<b>3,062</b>	<b>3,306</b>	<b>3,098</b>

At 30 June 2009, the Group had tax losses of RMB974,000 (approximately HK\$1,110,000) arising in mainland China. Tax losses arising in mainland China are available to offset against future taxable profits of the company in which the losses arose with a time limit of five years from the year the losses were incurred. Such tax losses were fully utilized in the current year.

## 18. Other comprehensive income

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Exchange loss on translating the financial statements of HKICPA Beijing	39	7	–	–

## 19. Employee benefits

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Salaries, wages and allowances	92,681	86,105	86,592	80,736
Provident fund contributions	6,412	5,715	5,866	5,200
	<b>99,093</b>	91,820	<b>92,458</b>	85,936
<b>Number of staff</b>				
At the beginning of the reporting period	190	167	168	147
At the end of the reporting period	201	190	179	168

## 20. Key management personnel's remuneration

	Group and Institute				
	2010			2009	
	Salary HK\$'000	Performance bonus HK\$'000	Retirement benefits HK\$'000	Total HK\$'000	Total HK\$'000
Chief Executive & Registrar	2,940	490	441	3,871	3,871

Key management personnel comprise members of the Council and the Chief Executive & Registrar. Council members are not remunerated.

## ■ Notes to the financial statements

For the year ended 30 June 2010

### 21. Related party transactions

#### a. Members of the Institute's Council

Members of the Council do not receive any fees or other remuneration for serving as a member of the Council.

Details of material transactions between the Group or the Institute and council members or parties related to council members are as follows:

- (i) During the current year, an amount of HK\$363,000 (2009: HK\$346,000) was paid to KPMG mainly for giving lectures, acting as workshop facilitators for the Institute's qualification programme and tax advisory service.
- (ii) During the current year, an amount of HK\$261,000 (2009: Nil) was paid to PricewaterhouseCoopers for advisory service on the Institute's management reporting system.

In both the current and prior years, certain council members are partners of PricewaterhouseCoopers and KPMG.

In addition, the Group and the Institute received income in the ordinary course of business, such as accreditation, subscriptions and fees from council members or parties related to council members. The Group and the Institute also paid honoraria to recipients, some of whom are council members or parties related to council members, for various services provided to the Group and the Institute such as giving lectures and providing venues for training courses, marking of examination scripts, monitors' fees, accreditation and re-accreditation fees, contributing articles to the Group's and the Institute's publications and reviewing of listed companies' annual reports. The total amount paid to council members or parties related to council members in this relation was not significant.

#### b. Subsidiaries of the Institute

##### (i) HKICPA Beijing

During the current year, the Institute paid service fees of HK\$2,526,480 (2009: Nil) to HKICPA Beijing for the human resources support services provided. At 30 June 2010, included in "Payables and accruals" of the Institute is an amount of HK\$139,000 due to HKICPA Beijing. At 30 June 2009, included in "Receivables" of the Institute was an amount of HK\$4,245,000 due from HKICPA Beijing which was fully impaired during the year ended 30 June 2009.

##### (ii) The HKICPA Trust Fund

During the year ended 30 June 2009, the Institute donated HK\$3,000,000 to The HKICPA Trust Fund. No donation was made during the current year. At 30 June 2009, included in "Payables and accruals" of the Institute was an amount of HK\$4,087,000 due to The HKICPA Trust Fund which had been fully settled during the current year.

##### (iii) The HKICPA Charitable Fund

During the current year, the Institute donated HK\$50,000 (2009: HK\$416,000) to The HKICPA Charitable Fund. At 30 June 2009, included in "Payables and accruals" of the Institute was an amount of HK\$416,000 due to The HKICPA Charitable Fund which had been fully settled during the current year.

##### (iv) HKIAAT

During the current year, the Institute charged service fees of HK\$2,308,000 (2009: HK\$2,272,000) to HKIAAT for management, rental and other services provided to HKIAAT at agreed terms.

A total staff employment costs of HK\$5,393,000 (2009: HK\$4,795,000) was also recharged to HKIAAT for the human resources support on a cost recovery basis.

During the current year, HKIAAT organized the professional bridging examination on behalf of the Institute. The income of HK\$1,465,000 (2009:

HK\$1,350,000) and related expenses of HK\$425,000 (2009: HK\$487,000) generated from the professional bridging examination was included in the amount due from HKIAAT. At 30 June 2010, included in "Receivables" of the Institute is an amount of HK\$986,000 (2009: HK\$1,286,000) due from HKIAAT arising from the services provided.

## 22. Financial risk management

Financial instruments mainly consist of receivables, cash and bank balances and payables and accruals. Being member-based organizations, the Group and the Institute carry as little risk from financial instruments as practicable. The Group and the Institute are exposed to various financial risks which are discussed below:

### a. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The effective interest rates of the Group's and the Institute's interest bearing financial assets are as follows:

	Group		Institute	
	2010 % p.a.	2009 % p.a.	2010 % p.a.	2009 % p.a.
Time deposits	0.36%	1.01%	0.40%	1.01%
Savings accounts	0.01%	0.04%	0.01%	0.03%

The Group's and the Institute's exposure to interest rate fluctuations is mainly limited to interest receivable on its short term time deposits at the end of the reporting period. Management considers the Group and the Institute have limited exposure to interest rate risk relating to the savings accounts as the changes in the interest rate of the savings accounts over the period until the end of the next annual reporting period are expected to be minimal. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income alone as the Group and the Institute did not borrow any loans. The Group and the Institute manage the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impact on interest income.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate over the period until the end of the next annual reporting period, with all other variables held constant, of the Group's and the Institute's surplus before tax and members' equity.



## ■ Notes to the financial statements

For the year ended 30 June 2010

### 22. Financial risk management (continued)

#### a. Interest rate risk (continued)

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Time deposits				
– with original maturities within three months	84,623	61,043	67,188	53,163
– with original maturities over three months	76,745	83,786	59,019	56,658
	<b>161,368</b>	144,829	<b>126,207</b>	109,821
<u>Impact of interest rate deviation</u>				
Increase / decrease in interest rate by 0.25% (2009: 1%)				
– Increase / decrease in surplus before tax and members' equity	403	1,448	316	1,098

#### b. Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The Group and the Institute have designed their credit policies with an objective to minimize their exposure to credit risk. The Group's and the Institute's "Receivables", other than the amounts due from subsidiaries, are very short term in nature and the associated risk is minimal. Subscriptions, fees, income from examinations, seminars, courses, rental income and other activities are collected in advance. Sale of goods is made in cash or via major credit cards. Income from advertisements placed in the journals is derived from vendors with an appropriate credit history. Further quantitative data in respect of the exposure to credit risk arising from receivables are disclosed in note 7 to the financial statements.

The Group's and the Institute's surplus cash has been deposited with a number of reputable and creditworthy banks. Management considers there is minimal risk associated with the bank balances.

#### c. Liquidity risk

Liquidity risk is defined as the risk that funds will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group and the Institute manage liquidity risk by maintaining adequate reserves. The Group and the Institute perform periodically cash flow forecasts to monitor future cash flows. The subscription fees and registration fees from members are growing steadily and provide a stable source of funds to the Group and the Institute. The current financial strength of the Group and the Institute pose no threat of liquidity to the Group and the Institute.

#### d. Foreign currency risk

The Group and the Institute are not exposed to any material foreign currency risk as the majority of the transactions, monetary assets and monetary liabilities are denominated in respective entities' functional currencies.

### 23. Capital management

The Group's and the Institute's objectives when managing capital are:

- to safeguard the Group's and the Institute's ability to continue as going concerns to enable their statutory obligations under the Professional Accountants Ordinance, the Companies Ordinance and the trust deeds are fulfilled;
- to develop and maintain the qualification programme and continuing professional development programme for students and members; and
- to provide capital for the purpose of strengthening the Group's and the Institute's operational efficiency.

The Group and the Institute regularly review and manage their capital to ensure adequacy for both operational and capital needs. All surpluses are

transferred to the general fund for future operational needs which are non-property related. The Group charges an annual capital levy on its members and students, which is transferred directly to the capital fund (note 11). The capital fund is maintained to ensure sufficient resources are available to finance the purchase, improvement and/or expansion of the Group's office facilities.

The Council and the Board of HKIAAT regularly review the need to increase membership subscriptions and the capital levy to ensure operational and property needs are fully covered. The Group's capital levy policy is therefore based on a need basis and the Council and the Board of HKIAAT have the discretion to alter the capital levy policy on an annual basis, if required.

For the purpose of capital disclosure, the Council regards the members' equity as capital of the Group and the Institute.

### 24. Operating lease commitments

The Group and the Institute have operating leases on two industrial and one office buildings at 30 June 2010 and 2009. The total future minimum lease payments under the non-cancellable operating leases are payable as follows:

	Group		Institute	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Within one year	333	650	227	233
Between one and five years	17	128	17	24
	<b>350</b>	778	<b>244</b>	257

## Independent auditor's report

### To the Trustees of The HKICPA Trust Fund

**W**e have audited the financial statements of The HKICPA Trust Fund (“the Trust Fund”) set out on pages 35 to 42, which comprise the statement of financial position at 30 June 2010 and the statement of comprehensive income, the statement of changes in accumulated funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Trustees' responsibility for the financial statements**

The Trustees are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants (“the Institute”). These responsibilities include 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**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with the Trust Deed, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Institute. Those standards require that we 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 the 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 Trustees, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Trust Fund at 30 June 2010 and of its surplus and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards.

#### **Mazars CPA Limited**

Certified Public Accountants  
42nd floor, Central Plaza  
18 Harbour Road, Wanchai, Hong Kong  
21 September 2010

#### **Yip Ngai Shing**

Practising Certificate number: P05163

## ■ Statement of financial position

At 30 June 2010

	<i>Note</i>	<b>2010</b> <b>HK\$</b>	2009 HK\$
<b>Current assets</b>			
Amount due from the Institute	4	–	4,087,456
Short term loans to members	5	–	–
Cash and cash equivalents	6	4,444,794	78,034
<b>Net assets</b>		<b>4,444,794</b>	4,165,490
<b>Accumulated funds</b>		<b>4,444,794</b>	4,165,490

Approved by the Trustees on 21 September 2010

**Wilson Fung**  
Trustee

**Paul F. Winkelmann**  
Trustee

**Chew Fook Aun**  
Trustee

**Wong Hong Yuen**  
Trustee

## ■ Statement of comprehensive income

For the year ended 30 June 2010

	<i>Note</i>	<b>2010</b> <b>HK\$</b>	2009 HK\$
<b>Revenue</b>			
Donations	7	425,011	3,005,746
Recovery of impaired loans to members	5	–	18,000
Interest income		63	–
		<b>425,074</b>	3,023,746
<b>Expenses</b>			
Grants to members	8	(144,750)	(28,938)
Bank charges		(1,020)	(355)
		<b>(145,770)</b>	(29,293)
<b>Surplus and total comprehensive income for the year</b>		<b>279,304</b>	2,994,453

## ■ Statement of changes in accumulated funds

For the year ended 30 June 2010

	2010 HK\$	2009 HK\$
<b>Accumulated funds</b>		
At the beginning of the reporting period	4,165,490	1,171,037
Total comprehensive income for the year	279,304	2,994,453
<b>At the end of the reporting period</b>	<b>4,444,794</b>	<b>4,165,490</b>

## ■ Statement of cash flows

For the year ended 30 June 2010

	Note	2010 HK\$	2009 HK\$
<b>Cash flows from operating activities</b>			
Surplus for the year		279,304	2,994,453
Decrease/(Increase) in amount due from the Institute		4,087,456	(2,971,062)
<b>Net cash generated by operating activities and net increase in cash and cash equivalents</b>		<b>4,366,760</b>	<b>23,391</b>
Cash and cash equivalents at the beginning of the reporting period		78,034	54,643
<b>Cash and cash equivalents at the end of the reporting period</b>	6	<b>4,444,794</b>	<b>78,034</b>

## ■ Notes to the financial statements

For the year ended 30 June 2010

### 1. Principal activities

The HKICPA Trust Fund (“the Trust Fund”) was formed under a trust deed dated 21 January 1998 together with an initial sum of HK\$345,000 donated by Hong Kong Institute of Certified Public Accountants (“the Institute”). Its trustees are the president, the immediate past president, a vice president and a former council member of the Institute. The Institute is a body corporate incorporated in Hong Kong on 1 January 1973 under the Professional Accountants Ordinance with its registered office located at 37th floor, Wu Chung House, 213 Queen’s Road East, Wanchai, Hong Kong. The Trust Fund was set up for the relief of poverty of members of the Institute. The Trust Fund is a

subsidiary of the Institute. The Trust Fund, being a charitable trust, is exempt from tax in Hong Kong under Section 88 of the Inland Revenue Ordinance.

### 2. Principal accounting policies

#### a. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Institute and accounting principles generally accepted in Hong Kong. These financial statements have been prepared under the historical cost convention.

## ■ Notes to the financial statements

For the year ended 30 June 2010

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust Fund's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### b. Early adoption of applicable new/revised HKFRSs

The Institute has issued certain new/revised HKFRSs up to 30 June 2010 that are available for early adoption for the current accounting period of the Trust Fund. Of these, the following new/revised HKFRSs are applicable to the Trust Fund's financial statements and early adopted by the Trust Fund:

HKFRS 9	"Financial Instruments"
HKAS 24 (Revised)	"Related Party Disclosures"
HKFRSs (Amendments)	"Improvements to HKFRSs 2010"

HKFRS 9 "Financial Instruments" ("HKFRS 9") introduces new requirements for the classification and measurement of financial assets. It will be effective for financial periods beginning on or after 1 January 2013. The Trust Fund has chosen 30 June 2010 as its date of initial application as this is the first reporting period end since the HKFRS 9 was issued on 19 November 2009. Under the transitional provisions, HKFRS 9 was applied to financial assets extant at the date of initial application (i.e. 30 June 2010) and comparative figures were not restated.

HKFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and

the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value on the basis of their classification.

Financial assets are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the financial asset is classified as at fair value through profit or loss ("FVTPL"). Additionally, even if the asset meets the amortized cost criteria, the Trust Fund may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current accounting period, the Trust Fund has not elected to designate any financial assets meeting the amortized cost criteria as at FVTPL.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Trust Fund as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income recognized in accordance with HKAS 18 "Revenue", are recognized in other comprehensive income and are not subsequently reclassified to the surplus or deficit.

The Trust Fund's financial assets include amount due from the Institute, short term loans to members and bank balances and were previously carried at amortized cost using the effective interest method, less impairment charges. Upon the early adoption of HKFRS 9, the Trust Fund has reviewed and assessed all of the Trust Fund's existing financial assets at the date of initial

## Notes to the financial statements

For the year ended 30 June 2010

application of HKFRS 9 and concluded that all of these assets meet the required criteria for financial assets measured at amortized cost. Accordingly, the measurement of the Trust Fund's financial assets is the same before and after the adoption of HKFRS 9 and there is no financial impact to the amounts reported in the financial statements.

HKAS 24 (Revised) "Related Party Disclosures" amends the definition of a related party and provides disclosure exemption for government-related entities. It will be effective for financial periods beginning on or after 1 January 2011. Since the Trust Fund is not government-related, the disclosure exemptions have no effect to the Trust Fund. The amendment of definition also has no significant impact on the extent of disclosure of significant related party transactions.

HKFRSs (Amendments) "Improvements to HKFRSs 2010" comprises a number of minor and non-urgent amendments to a range of HKFRSs and will be effective for financial periods beginning on or after 1 January 2011 (unless otherwise specified). Of these, the following amendments are applicable to the Trust Fund's operations:

HKFRS 7 "Financial Instruments: Disclosure"

HKAS 1 "Presentation of Financial Statements"

The amendment to HKFRS 7 "Financial Instruments: Disclosures" clarifies qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. It will be effective for financial periods beginning on or after 1 January 2011.

The amendment to HKAS 1 "Presentation of Financial Statements" clarifies that an entity

may present the analysis of other comprehensive income by item either in the statement of changes in accumulated funds or in the notes to the financial statements. It will be effective for financial periods beginning on or after 1 January 2011.

The Trust Fund has assessed that these amendments have no significant impact to the amounts reported or presentation and disclosures in the financial statements.

### **c. Effects of new/revised HKFRSs that were issued after 30 June 2010 and up to the date of approval of the financial statements**

The Institute has not issued any certain new/revised HKFRSs after 30 June 2010 and up to the date of approval of the financial statements.

### **d. Financial instruments**

Financial assets are recognized in the statement of financial position when the Trust Fund becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value and transaction costs that are directly attributable to the acquisition or issue of financial assets are added to the fair value of the financial assets, as appropriate, on initial recognition.

The Trust Fund's financial assets, including amount due from the Institute, short term loans to members and bank balances, are subsequently measured at amortized cost using the effective interest method, less identified impairment charges (see note 2e) as they meet the following conditions:

- (i) Before 30 June 2010, the asset is a non-derivative financial asset with fixed or determinable payments that is not quoted in an active market.

- (ii) On or after 30 June 2010, the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**e. Impairment of financial assets**

The Trust Fund recognizes charges for impaired financial assets promptly where there is objective evidence that impairment of financial assets has occurred. The impairment of financial assets carried at amortized cost is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. Impairment charges are assessed individually for significant financial assets.

The carrying amount of the financial assets is reduced through the use of the financial asset impairment charges account. Changes in the carrying amount of the financial asset impairment charges account are recognized in the surplus or deficit. When the financial asset is considered uncollectible, it is written off against the financial asset impairment charges account.

If, in a subsequent period, the amount of an impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment charge is reversed by reducing the financial asset impairment charges account, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The amount of any reversal is recognized in the surplus or deficit.

**f. Derecognition of financial assets**

Financial assets are derecognized when the rights to receive cash flows from the assets have expired; or where the Trust Fund has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

**g. Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank.

**h. Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Trust Fund and when the revenue can be measured reliably.

Donations are recognized on an accrual basis when receipt thereof is certain.

Interest income from bank savings accounts is recognized as it accrues using the effective interest method.

**i. Related parties**

A related party is a person or entity that is related to the Trust Fund.

- (i) A person or a close member of that person's family is related to the Trust Fund if that person:
  - (a) has control or joint control over the Trust Fund;
  - (b) has significant influence over the Trust Fund; or
  - (c) is a member of the key management personnel of the Trust Fund or of a parent of the Trust Fund.
- (ii) An entity is related to the Trust Fund if any of the following conditions applies:
  - (a) The entity and the Trust Fund are members of the same group (which



## Notes to the financial statements

For the year ended 30 June 2010

- means that each parent, subsidiary and fellow subsidiary is related to the others).
- (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (c) Both entities are joint ventures of the same third party.
  - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Trust Fund or an entity related to the Trust Fund. If the Trust Fund is itself such a plan, the sponsoring employers are also related to the Trust Fund.
  - (f) The entity is controlled or jointly controlled by a person identified in (i).
  - (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### 3. Financial instruments by category

The carrying amounts of financial assets measured at amortized cost at the end of the reporting period are as follows:

	2010 HK\$	2009 HK\$
Amount due from the Institute	–	4,087,456
Cash and cash equivalents	4,444,794	78,034
	<b>4,444,794</b>	<b>4,165,490</b>

The carrying amounts of the Trust Fund's financial assets at the end of the reporting period approximate their fair value.

### 4. Amount due from the Institute

The amount due from the Institute was unsecured, interest-free and repayable on demand. During the current year, the Institute settled HK\$4,087,456 to the Trust Fund.

### 5. Short term loans to members

	2010 HK\$	2009 HK\$
Short term loans to members	48,670	48,670
Impairment charges of loans to members	(48,670)	(48,670)
	–	–

Movements on the charges for impairment of loans to members are as follows:

	<b>2010</b>	2009
	<b>HK\$</b>	HK\$
At the beginning of the reporting period	<b>48,670</b>	66,670
Recovery of impaired loans to members	–	(18,000)
<b>At the end of the reporting period</b>	<b>48,670</b>	48,670

Since 30 June 2008, due to financial difficulty, these members failed to make the agreed monthly repayments to the Trust Fund and full provision was made. The Trust Fund does not hold any collateral or other credit enhancements over these balances.

## 6. Cash and cash equivalents

	<b>2010</b>	2009
	<b>HK\$</b>	HK\$
Bank balances		
– Savings account	<b>4,437,922</b>	1,500
– Current account	<b>6,872</b>	76,534
	<b>4,444,794</b>	78,034

## 7. Donations

	<b>2010</b>	2009
	<b>HK\$</b>	HK\$
Donations from members (a)	<b>421,004</b>	–
Donations from the Institute	–	3,000,000
Other parties	<b>4,007</b>	5,746
	<b>425,011</b>	3,005,746

(a) During the current year, certain members of the Institute opted to donate the one-off rebate of HK\$380 against the annual subscription fees to the Trust Fund. The donations received from these members were HK\$414,759.

## **8. Grants to members**

During the current year, grants totaling HK\$144,750 (2009: HK\$28,938) were paid to help alleviate members facing financial hardship. At 30 June 2010, further grants of HK\$200,000 were approved and will be paid in the year ending 30 June 2011.

## **9. Related party transactions**

During the current year, no donation (2009: HK\$3,000,000) was made by the Institute to the Trust Fund. At 30 June 2009, amount due from the Institute was HK\$4,087,456.

## **10. Financial risk management**

Financial instruments consist of amount due from the Institute, short term loans to members and bank balances. The Trust Fund carries as little risk from financial instruments as practicable. The Trust Fund is exposed to various financial risks which are discussed below:

### **a. Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Trust Fund's exposure to interest rate fluctuations is limited to interest receivable on its bank savings account at the end of the reporting period. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income alone as the Trust Fund has not borrowed any loans. The Trust Fund manages the interest rate risk by monitoring closely the movements in interest rates. Management considers that the Trust Fund has limited exposure to interest rate risk relating to the Trust Fund's bank balances as the changes in interest rate for these items are expected to be minimal.

### **b. Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The Trust Fund has designed its credit policy with an objective to minimize its exposure to credit risk. Donation income is mainly from the Institute which is its parent. The Trust fund also has a policy in place to evaluate credit risk when loans are granted to members and the repayment of short term loans to members are closely monitored. Further quantitative data in respect of the exposure to credit risk arising from short term loans to members are disclosed in note 5 to the financial statements.

The Trust Fund's surplus cash has been deposited with a number of reputable and creditworthy banks. Management considers there is minimal risk associated with the bank balances.

## **11. Capital management**

The Trust Fund operates by allocating its receipts and therefore is not exposed to any capital deficiency risk. In the unlikely event of capital needs, the Institute will make donations to the Trust Fund to ensure capital adequacy.

## Independent auditor's report

### To the Trustees of The HKICPA Charitable Fund

**W**e have audited the financial statements of The HKICPA Charitable Fund (“the Charitable Fund”) set out on pages 44 to 52, which comprise the statement of financial position at 30 June 2010 and the statement of comprehensive income, the statement of changes in accumulated funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Trustees' responsibility for the financial statements**

The Trustees are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants (“the Institute”). These responsibilities include 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**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with the Trust Deed, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Institute. Those standards require that we 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 the 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 Trustees, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Charitable Fund at 30 June 2010 and of its deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

#### **Mazars CPA Limited**

Certified Public Accountants  
42nd floor, Central Plaza  
18 Harbour Road, Wanchai, Hong Kong,  
21 September 2010

#### **Yip Ngai Shing**

Practising Certificate number: P05163

## ■ Statements of financial position

At 30 June 2010

	Note	2010 HK\$	2009 HK\$
<b>Current assets</b>			
Amount due from the Institute	4	–	415,898
Cash and cash equivalents	5	1,134,127	737,282
<b>Net assets</b>		1,134,127	1,153,180
<b>Accumulated funds</b>		1,134,127	1,153,180

Approved by the Trustees on 21 September 2010

**Wilson Fung**  
Trustee

**Paul F. Winkelmann**  
Trustee

**Winnie C. W. Cheung**  
Trustee

## ■ Statement of comprehensive income

For the year ended 30 June 2010

	Note	2010 HK\$	2009 HK\$
<b>Revenue</b>			
Donations	6	56,400	428,718
Interest income		272	1,486
		56,672	430,204
<b>Expenses</b>			
Charitable donations	7	(75,000)	(60,820)
Bank charges		(725)	(764)
		(75,725)	(61,584)
<b>(Deficit)/Surplus and total comprehensive income for the year</b>		<b>(19,053)</b>	368,620

## ■ Statement of changes in accumulated funds

For the year ended 30 June 2010

	2010			2009		
	General fund HK\$	Specific fund HK\$	Total HK\$	General fund HK\$	Specific fund HK\$	Total HK\$
At the beginning of the reporting period	1,153,180	–	1,153,180	739,623	44,937	784,560
Transfers	–	–	–	44,937	(44,937)	–
Total comprehensive income for the year	(19,053)	–	(19,053)	368,620	–	368,620
<b>At the end of the reporting period</b>	<b>1,134,127</b>	<b>–</b>	<b>1,134,127</b>	<b>1,153,180</b>	<b>–</b>	<b>1,153,180</b>

## ■ Statement of cash flows

For the year ended 30 June 2010

	Note	2010 HK\$	2009 HK\$
<b>Cash flows from operating activities</b>			
(Deficit)/Surplus for the year		(19,053)	368,620
Decrease in amount due from the Institute		415,898	584,102
Decrease in payables		–	(954,082)
<b>Net cash generated by/(utilized in) operating activities and net increase/(decrease) in cash and cash equivalents</b>		<b>396,845</b>	<b>(1,360)</b>
Cash and cash equivalents at the beginning of the reporting period		737,282	738,642
<b>Cash and cash equivalents at the end of the reporting period</b>	5	<b>1,134,127</b>	<b>737,282</b>

## ■ Notes to the financial statements

For the year ended 30 June 2010

### 1. Principal activities

The HKICPA Charitable Fund (“the Charitable Fund”) was set up under a trust deed dated 2 December 2001 for general charitable purposes. Its trustees are the president, the immediate past president and the chief executive of Hong Kong Institute of Certified Public Accountants (“the Institute”). The Institute is a body corporate incorporated in Hong Kong on 1 January 1973 under the Professional Accountants Ordinance with its registered office located at 37th floor, Wu Chung House, 213 Queen’s Road East, Wanchai, Hong Kong. The Charitable Fund is a subsidiary of the Institute. The Charitable Fund, being a charitable trust, is exempt from tax in Hong Kong under Section 88 of the Inland Revenue Ordinance.

### 2. Principal accounting policies

#### a. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Institute and accounting principles generally accepted in Hong Kong. These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Charitable Fund’s accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

#### b. Early adoption of applicable new/revised HKFRSs

The Institute has issued certain new / revised HKFRSs up to 30 June 2010 that are available for early adoption for the current accounting period of the Charitable Fund. Of these, the following new / revised HKFRSs are applicable to the Charitable Fund’s financial statements and early adopted by the Charitable Fund:

HKFRS 9	“Financial Instruments”
HKAS 24 (Revised)	“Related Party Disclosures”
HKFRSs (Amendments)	“Improvements to HKFRSs 2010”

HKFRS 9 “Financial Instruments” (“HKFRS 9”) introduces new requirements for the classification and measurement of financial assets. It will be effective for financial periods beginning on or after 1 January 2013. The Charitable Fund has chosen 30 June 2010 as its date of initial application as this is the first reporting period end since HKFRS 9 was issued on 19 November 2009. Under the transitional provisions, HKFRS 9 was applied to financial assets extant at the date of initial application (i.e. 30 June 2010) and comparative figures were not restated.

HKFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value on the basis of their classification.

Financial assets are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the financial asset is classified as at fair value through profit or loss (“FVTPL”). Additionally, even if the asset meets the amortized cost criteria, the Charitable Fund may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current accounting period, the Charitable Fund has not elected to designate any financial assets meeting the amortized cost criteria as at FVTPL.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Charitable Fund as at fair value through other comprehensive income (“FVTOCI”). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income recognized in accordance with HKAS 18 “Revenue”, are recognized in other comprehensive income and are not subsequently reclassified to the surplus or deficit.

The Charitable Fund’s financial assets include amount due from the Institute and bank balances and were previously carried at amortized cost using the effective interest method, less impairment charges. Upon the early adoption of HKFRS 9, the Charitable Fund has reviewed and assessed all of the Charitable Fund’s existing

financial assets at the date of initial application of HKFRS 9 and concluded that all of these assets meet the required criteria for financial assets measured at amortized cost. Accordingly, the measurement of the Charitable Fund’s financial assets is the same before and after the adoption of HKFRS 9 and there is no financial impact to the amounts reported in the financial statements.

HKAS 24 (Revised) “Related Party Disclosures” amends the definition of a related party and provides disclosure exemption for government-related entities. It will be effective for financial periods beginning on or after 1 January 2011. Since the Charitable Fund is not government-related, the disclosure exemptions have no effect to the Charitable Fund. The amendment of definition also has no significant impact on the extent of disclosure of significant related party transactions.

HKFRSs (Amendments) “Improvements to HKFRSs 2010” comprises a number of minor and non-urgent amendments to a range of HKFRSs and will be effective for financial periods beginning on or after 1 January 2011 (unless otherwise specified). Of these, the following amendments are applicable to the Charitable Fund’s operations:

HKFRS 7 “Financial Instruments: Disclosure”

HKAS 1 “Presentation of Financial Statements”

The amendment to HKFRS 7 “Financial Instruments: Disclosures” clarifies qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. It will be effective for financial periods beginning on or after 1 January 2011.



## ■ Notes to the financial statements

For the year ended 30 June 2010

The amendment to HKAS 1 “Presentation of Financial Statements” clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in accumulated funds or in the notes to the financial statements. It will be effective for financial periods beginning on or after 1 January 2011.

The Charitable Fund has assessed that these amendments have no significant impact to the amounts reported or presentation and disclosures in the financial statements.

### c. Effects of new/revised HKFRSs that were issued after 30 June 2010 and up to the date of approval of the financial statements

The Institute has not issued any new/revised HKFRSs after 30 June 2010 and up to the date of approval of the financial statements.

### d. Financial instruments

Financial assets are recognized in the statement of financial position when the Charitable Fund becomes a party to the contractual provisions of the instrument. Financial assets are initially measured at fair value and transaction costs that are directly attributable to the acquisition or issue of financial assets are added to the fair value of the financial assets, as appropriate, on initial recognition.

The Charitable Fund’s financial assets, including amount due from the Institute and bank balances, are subsequently measured at amortized cost using the effective interest method, less identified impairment charges (see note 2e) as they meet the following conditions:

- (i) Before 30 June 2010, the asset is a non-derivative financial asset with fixed or determinable payments that is not quoted in an active market.
- (ii) On or after 30 June 2010, the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### e. Impairment of financial assets

The Charitable Fund recognizes charges for impaired financial assets promptly where there is objective evidence that impairment of financial assets has occurred. The impairment of financial assets carried at amortized cost is measured as the difference between the financial assets’ carrying amount and the present value of estimated future cash flows discounted at the financial assets’ original effective interest rate. Impairment charges are assessed individually for significant financial assets.

The carrying amount of the financial assets is reduced through the use of the financial asset impairment charges account. Changes in the carrying amount of the financial asset impairment charges account are recognized in the surplus or deficit. When the financial asset is considered uncollectible, it is written off against the financial asset impairment charges account.

If, in a subsequent period, the amount of an impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment charge is reversed by reducing the financial asset impairment charges account, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The amount of any reversal is recognized in the surplus or deficit.

**f. Derecognition of financial assets**

Financial assets are derecognized when the rights to receive cash flows from the assets have expired; or where the Charitable Fund has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

**g. Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank.

**h. Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Charitable Fund and when the revenue can be measured reliably.

Donations are recognized on an accrual basis when receipt thereof is certain.

Interest income from bank savings accounts is recognized as it accrues using the effective interest method.

**i. Related parties**

A related party is a person or entity that is related to the Charitable Fund.

- (i) A person or a close member of that person's family is related to the Charitable Fund if that person:
  - (a) has control or joint control over the Charitable Fund;
  - (b) has significant influence over the Charitable Fund; or

- (c) is a member of the key management personnel of the Charitable Fund or of a parent of Charitable Fund.

- (ii) An entity is related to the Charitable Fund if any of the following conditions applies:

- (a) The entity and the Charitable Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

- (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (c) Both entities are joint ventures of the same third party.

- (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Charitable Fund or an entity related to the Charitable Fund. If the Charitable Fund is itself such a plan, the sponsoring employers are also related to the Charitable Fund.

- (f) The entity is controlled or jointly controlled by a person identified in (i).

- (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## ■ Notes to the financial statements

For the year ended 30 June 2010

### 3. Financial instruments by category

The carrying amounts of financial assets measured at amortized cost at the end of the reporting period are as follows:

	2010	2009
	HK\$	HK\$
Amount due from the Institute	–	415,898
Cash and cash equivalents	1,134,127	737,282
	<b>1,134,127</b>	<b>1,153,180</b>

The carrying amounts of the Charitable Fund's financial assets at the end of the reporting period approximate their fair value.

### 4. Amount due from the Institute

The amount due from the Institute was unsecured, interest-free and repayable on demand. During the current year, the Institute settled HK\$415,898 to the Charitable Fund.

### 5. Cash and cash equivalents

	2010	2009
	HK\$	HK\$
<b>Bank balances</b>		
– Savings accounts	1,126,861	729,695
– Current accounts	7,266	7,587
	<b>1,134,127</b>	<b>737,282</b>

## 6. Donations

	2010	2009
	HK\$	HK\$
Aid for Sichuan earthquake relief	–	10,820
Donation from the Institute	50,000	415,898
Other parties	6,400	2,000
	<b>56,400</b>	<b>428,718</b>

## 7. Charitable donations

	2010	2009
	HK\$	HK\$
Hong Kong Red Cross China Relief Fund	30,000	–
Playright Children's Play Association	–	50,000
SCMP Charities Ltd – SCMP Homes for Hope	–	10,820
Walk Up Jardine House 2010	45,000	–
	<b>75,000</b>	<b>60,820</b>

Subsequent to the end of the reporting period, the Charitable Fund donated HK\$100,000 to support the “Guangdong Poverty Relief Day”.

## Notes to the financial statements

For the year ended 30 June 2010

### 8. Related party transactions

During the current year, the Charitable Fund received a donation of HK\$50,000 (2009: HK\$415,898) from the Institute. At 30 June 2009, amount due from the Institute was HK\$415,898.

### 9. Financial risk management

Financial instruments consist of amount due from the Institute and bank balances. The Charitable Fund carries as little risk from financial instruments as practicable. The Charitable Fund is exposed to various financial risks which are discussed below:

#### a. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Charitable Fund's exposure to interest rate fluctuations is limited to interest receivable on its bank savings accounts at the end of the reporting period. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income alone as the Charitable Fund has not borrowed any loans. The Charitable Fund manages the interest rate risk by monitoring closely the movements in interest rates. Management considers that the

Charitable Fund has limited exposure to interest rate risk relating to the Charitable Fund's bank balances as the changes in interest rate for these items are expected to be minimal.

#### b. Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The Charitable Fund raises donations for general charitable purposes and donations are either collected in advance for subsequent allocation to respective charitable organizations or from the Institute.

The Charitable Fund's surplus cash has been deposited with a number of reputable and creditworthy banks. Management considers there is minimal risk associated with the bank balances.

### 10. Capital management

The Charitable Fund operates by allocating its receipts and therefore is not exposed to any capital deficiency risk. In the unlikely event of capital needs, the Institute will make donations to the Charitable Fund to ensure capital adequacy.



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