



# FINANCIAL STATEMENTS

2011

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
THE HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



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

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# Independent Auditor's Report

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

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

**W**e have audited the financial statements of the Hong Kong Institute of Certified Public Accountants ("the Institute") set out on pages 2 to 34, 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 2011 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 information.

### **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 that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Institute, and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 financial statements give a true and fair view of the state of affairs of the Group and the Institute at 30 June 2011 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  
20 September 2011

### **Yip Ngai Shing**

Practising Certificate number: P05163

# Statements of Financial Position

At 30 June 2011

	Note	Group		Institute	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Non-current assets</b>					
Fixed assets	4	207,286	217,037	207,109	216,787
Investments in subsidiaries	5	-	-	-	-
Deferred tax assets	6	65	65	-	-
		<u>207,351</u>	<u>217,102</u>	<u>207,109</u>	<u>216,787</u>
<b>Current assets</b>					
Inventories		799	631	786	582
Receivables	7	2,563	1,198	3,790	1,999
Deposits and prepayments		4,744	4,378	4,489	4,208
Tax recoverable		52	-	-	-
Time deposits with original maturities over three months		47,803	76,745	30,133	59,019
Cash and cash equivalents	8	164,601	105,738	132,546	71,783
		<u>220,562</u>	<u>188,690</u>	<u>171,744</u>	<u>137,591</u>
<b>Current liabilities</b>					
Subscriptions and fees received in advance	9	(60,124)	(64,126)	(58,539)	(62,585)
Payables and accruals	10	(45,539)	(34,104)	(42,630)	(30,499)
Current tax liabilities		(2,990)	(1,199)	(2,972)	(670)
		<u>(108,653)</u>	<u>(99,429)</u>	<u>(104,141)</u>	<u>(93,754)</u>
<b>Net current assets</b>		<u>111,909</u>	<u>89,261</u>	<u>67,603</u>	<u>43,837</u>
<b>Non-current liabilities</b>					
Deferred tax liabilities	6	(36)	(282)	(36)	(282)
		<u>319,224</u>	<u>306,081</u>	<u>274,676</u>	<u>260,342</u>
<b>Members' equity</b>					
General fund		198,753	195,979	160,098	156,120
Capital fund	11	120,588	110,232	114,578	104,222
Exchange reserve		(117)	(130)	-	-
		<u>319,224</u>	<u>306,081</u>	<u>274,676</u>	<u>260,342</u>

Approved by the Council on 20 September 2011

Tsai Wing Chung, Philip  
President

Winnie C.W. Cheung  
Chief Executive & Registrar

# Statements of Comprehensive Income

For the year ended 30 June 2011



	<i>Note</i>	<b>Group</b>		<b>Institute</b>	
		<b>2011</b>	2010	<b>2011</b>	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Subscriptions and fees	12	<b>116,951</b>	114,077	<b>112,917</b>	108,928
Other revenue	13	<b>89,649</b>	86,399	<b>82,732</b>	78,577
<b>Total revenue</b>		<b>206,600</b>	200,476	<b>195,649</b>	187,505
Other income	14	<b>17,907</b>	14,645	<b>19,527</b>	15,791
Expenses	15	<b>(219,655)</b>	(197,725)	<b>(209,211)</b>	(187,371)
<b>Surplus before tax</b>	16	<b>4,852</b>	17,396	<b>5,965</b>	15,925
Income tax	17	<b>(2,078)</b>	(3,826)	<b>(1,987)</b>	(3,306)
<b>Surplus after tax</b>		<b>2,774</b>	13,570	<b>3,978</b>	12,619
Other comprehensive income	18	<b>13</b>	(39)	-	-
<b>Total comprehensive income</b>		<b>2,787</b>	13,531	<b>3,978</b>	12,619

Approved by the Council on 20 September 2011

**Tsai Wing Chung, Philip**  
President

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

# Statements of Changes in Members' Equity

For the year ended 30 June 2011



	2011						
	Group			Institute			
	General fund HK\$'000	Capital fund HK\$'000	Exchange reserve HK\$'000	Total HK\$'000	General fund HK\$'000	Capital fund HK\$'000	Total HK\$'000
At the beginning of the reporting period	195,979	110,232	(130)	306,081	156,120	104,222	260,342
Surplus for the year	2,774	-	-	2,774	3,978	-	3,978
Other comprehensive income	-	-	13	13	-	-	-
Total comprehensive income	2,774	-	13	2,787	3,978	-	3,978
Capital levy from members and students	-	10,356	-	10,356	-	10,356	10,356
<b>At the end of the reporting period</b>	<b>198,753</b>	<b>120,588</b>	<b>(117)</b>	<b>319,224</b>	<b>160,098</b>	<b>114,578</b>	<b>274,676</b>
	2010						
	Group			Institute			
	General fund HK\$'000	Capital fund HK\$'000	Exchange reserve HK\$'000	Total HK\$'000	General fund HK\$'000	Capital fund HK\$'000	Total HK\$'000
At the beginning of the reporting period	182,409	100,325	(91)	282,643	143,501	94,315	237,816
Surplus for the year	13,570	-	-	13,570	12,619	-	12,619
Other comprehensive income	-	-	(39)	(39)	-	-	-
Total comprehensive income	13,570	-	(39)	13,531	12,619	-	12,619
Capital levy from members and students	-	9,907	-	9,907	-	9,907	9,907
At the end of the reporting period	195,979	110,232	(130)	306,081	156,120	104,222	260,342

# Statements of Cash Flows

For the year ended 30 June 2011

	Note	Group		Institute	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Cash flows from operating activities</b>					
Surplus before tax		4,852	17,396	5,965	15,925
Adjustments for:					
Allowance for obsolete inventories		-	138	-	138
Depreciation		11,545	12,401	11,448	12,311
Impairment of fixed assets		-	478	-	478
Impairment of receivables		59	156	59	156
Loss on disposal of fixed assets		36	32	36	28
Obsolete inventories written off		29	137	9	137
Uncollectible amounts written off		-	2	-	2
<b>Operating cash flows before working capital changes</b>		<b>16,521</b>	<b>30,740</b>	<b>17,517</b>	<b>29,175</b>
Increase in inventories		(197)	(31)	(213)	-
(Increase)/Decrease in receivables		(1,424)	578	(1,850)	401
Increase in deposits and prepayments		(366)	(507)	(281)	(519)
Decrease/(Increase) in time deposits with original maturities over three months		28,942	7,041	28,886	(2,361)
Decrease in subscriptions and fees received in advance		(4,002)	(6,133)	(4,046)	(5,966)
Increase/(Decrease) in payables and accruals		11,435	(17,529)	12,131	(22,153)
<b>Cash generated from/(utilized in) operations</b>		<b>50,909</b>	<b>14,159</b>	<b>52,144</b>	<b>(1,423)</b>
Tax (paid)/refunded		(595)	(8,072)	69	(8,072)
<b>Net cash generated by/(utilized in) operating activities</b>		<b>50,314</b>	<b>6,087</b>	<b>52,213</b>	<b>(9,495)</b>
<b>Cash flows from investing activities</b>					
Purchase of fixed assets		(1,828)	(1,568)	(1,809)	(1,509)
Sales proceeds from disposal of fixed assets		3	-	3	-
<b>Net cash utilized in investing activities</b>		<b>(1,825)</b>	<b>(1,568)</b>	<b>(1,806)</b>	<b>(1,509)</b>
<b>Cash flows from financing activities</b>					
Capital levy received		10,356	9,907	10,356	9,907
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>58,845</b>	<b>14,426</b>	<b>60,763</b>	<b>(1,097)</b>
Cash and cash equivalents at the beginning of the reporting period		105,738	91,350	71,783	72,880
Exchange difference in respect of cash and cash equivalents		18	(38)	-	-
<b>Cash and cash equivalents at the end of the reporting period</b>	8	<b>164,601</b>	<b>105,738</b>	<b>132,546</b>	<b>71,783</b>

# Notes to the Financial Statements

For the year ended 30 June 2011

## 1. Principal activities and registered office

The Group refers to the 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 (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. According to the trust deed, its trustees are the president, the immediate past president, a vice president and a past president of the Institute.

The HKICPA Charitable Fund was set up under a trust deed dated 2 December 2001 for general charitable purposes. According to the trust deed, 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 quality services to members and students, accrediting relevant sub-degree qualifications and promoting 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.

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. According to the trust deed, 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.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to



# Notes to the Financial Statements

For the year ended 30 June 2011

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 useful 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.

## *Impairment of receivables*

The Group assesses at the end of each reporting period whether there is objective evidence that the receivables are impaired. In the assessment process, the Group tests the receivables for impairment in accordance with the Group's accounting policies. Management's judgment and estimates are required to determine whether a receivable is impaired and the appropriate action to recover the receivable. The Group closely monitors the debtors' repayment history, and takes regular follow-up actions to recover amounts overdue. If a receivable is determined to be impaired, the impairment is recognized in the statements of comprehensive income. The Group will continue to follow up recovery for the receivables.

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

The Institute has issued certain new/revised HKFRSs up to 30 June 2011 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:

HKAS 27 (2011)	"Separate Financial Statements"
HKFRS 9	"Financial Instruments (as amended in 2010)"
HKFRS 10	"Consolidated Financial Statements"
HKFRS 12	"Disclosure of Interests in Other Entities"
HKFRS 13	"Fair Value Measurement"

HKAS 27 (2011) "Separate Financial Statements", which replaces HKAS 27 (Revised) "Consolidated and Separate Financial Statements", contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. HKAS 27 (2011) will be effective for financial periods beginning on or after 1 January 2013. The adoption of HKAS 27 (2011) has no significant impact to the amounts reported or presentation and disclosures in the financial statements.

HKFRS 9 "Financial Instruments (as amended in 2010)" has been expanded to include the requirements with respect to the derecognition of financial assets and financial liabilities (which have been taken from HKAS 39 "Financial Instruments: Recognition and Measurement" without amendment) and classification and measurement of financial liabilities. The amended HKFRS 9 will be effective for financial periods beginning on or after 1 January 2013. The early adoption of the amended HKFRS 9 did not have any financial impact to the Group as the Group did not have any financial liabilities that were affected by the changes in classification and measurement requirements and there were no changes in the derecognition of financial assets and financial liabilities.

HKFRS 10 "Consolidated Financial Statements" uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in Hong Kong (SIC) Interpretation 12 "Consolidation – Special Purpose Entities". An investor controls an investee when the investor is exposed, or has rights, to variable returns

# Notes to the Financial Statements

For the year ended 30 June 2011

from the involvement with the investee and has ability to affect those returns through its power over the investee. An investor must possess all the required elements to conclude it controls an investee. The assessment of control is based on all facts and circumstances and the conclusion is reassessed if there is an indication that there are changes to at least one of the required elements of control. HKFRS 10 will be effective for financial periods beginning on or after 1 January 2013. The adoption of HKFRS 10 has no significant impact to the amounts reported or presentation and disclosures in the financial statements as there is no change in the Group's control conclusion by having adopted HKFRS 10.

HKFRS 12 "Disclosure of Interests in Other Entities" contains, in a single standard, the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. HKFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows. HKFRS 12 will be effective for financial periods beginning on or after 1 January 2013. Upon adoption of HKFRS 12, the Group has disclosed more details of the subsidiaries in note 5 to the financial statements. The disclosure requirements under HKFRS 12 have no significant impact to the Group.

HKFRS 13 "Fair Value Measurement" defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurement. HKFRS 13 will be effective for financial periods beginning on or after 1 January 2013. The Group has assessed that HKFRS 13 has 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 2011 and up to the date of approval of the financial statements

The Institute has issued certain new/revised HKFRSs after 30 June 2011 and up to the date of approval of the financial statements. Of these, the following new/revised HKFRSs are applicable to the Group's financial statements but not early adopted by the Group:

HKAS 1 (Amendments)	"Presentation of Financial Statements"
HKAS 19 (2011)	"Employee Benefits"

HKAS 1 (Amendments) "Presentation of Financial Statements" improves the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that would never be reclassified to profit or loss. The amended HKAS 1 will be effective for financial periods beginning on or after 1 July 2012.

HKAS 19 (2011) "Employee Benefits", which replaces HKAS 19 "Employee Benefits", improves the accounting for defined benefit plans. Under the revised standard, all changes in the present value of the defined benefit obligation and the fair value of plan assets will be recognized in the financial statements immediately in the period they occur. The revised standard also changes the definitions of, among others, short-term employee benefits and other long-term employee benefits so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled. Under the amended definitions, an employee benefit, other than a termination benefit, is a short-term employee benefit when it is expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. If this is not the case, then it is another long-term employee benefit, provided it is not a post-employment benefit. HKAS 19 (2011) will be effective for financial periods beginning on or after 1 January 2013.

# Notes to the Financial Statements

For the year ended 30 June 2011

The Group anticipates that application of the above new/revised HKFRSs will have no significant impact on the results and the financial position of the Group.

## 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. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the Institute’s statement of 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.

# Notes to the Financial Statements

For the year ended 30 June 2011

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

# Notes to the Financial Statements

For the year ended 30 June 2011

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 term. 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 term.

## **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. Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

## **n. 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.

## **o. 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 respectively (the functional currency). The 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

# Notes to the Financial Statements

For the year ended 30 June 2011

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, their income and expenses are translated at the average exchange rates for the period, and the resulting exchange differences 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.

## **p. 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.

## **q. 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.

## **r. 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 be available against which deductible temporary differences, tax losses and credits 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.

# Notes to the Financial Statements

For the year ended 30 June 2011

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.

## s. 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.

## 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).

# Notes to the Financial Statements

For the year ended 30 June 2011

### 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Financial assets – measured at amortized cost</b>				
Receivables, net of charges for impairment	2,563	1,198	2,368	1,013
Amounts due from subsidiaries, net of charges for impairment	-	-	1,422	986
Time deposits with original maturities over three months	47,803	76,745	30,133	59,019
Cash and cash equivalents	164,601	105,738	132,546	71,783
	<u>214,967</u>	<u>183,681</u>	<u>166,469</u>	<u>132,801</u>
<b>Financial liabilities – measured at amortized cost (note 10)</b>				
Payables	3,096	6,413	2,812	6,352
Amounts due to subsidiaries	-	-	554	139
Accruals	28,741	19,957	26,243	16,692
	<u>31,837</u>	<u>26,370</u>	<u>29,609</u>	<u>23,183</u>

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



# Notes to the Financial Statements

For the year ended 30 June 2011

## 4. Fixed assets

**2011**

	Leasehold land held for own use under finance leases <i>HK\$'000</i>	Buildings held for own use <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>					
Net book value at 1 July 2010	162,680	32,449	13,851	8,057	217,037
Currency translation difference	-	-	-	5	5
Additions	-	-	66	1,762	1,828
Disposals	-	-	-	(39)	(39)
Reclassification	-	-	(763)	763	-
Depreciation	(4,398)	(2,163)	(2,245)	(2,739)	(11,545)
<b>Net book value at 30 June 2011</b>	<b>158,282</b>	<b>30,286</b>	<b>10,909</b>	<b>7,809</b>	<b>207,286</b>
At cost	184,670	43,255	22,443	24,241	274,609
Accumulated depreciation and impairment	(26,388)	(12,969)	(11,534)	(16,432)	(67,323)
	<b>158,282</b>	<b>30,286</b>	<b>10,909</b>	<b>7,809</b>	<b>207,286</b>
<b>Institute</b>					
Net book value at 1 July 2010	162,680	32,449	13,851	7,807	216,787
Additions	-	-	66	1,743	1,809
Disposals	-	-	-	(39)	(39)
Reclassification	-	-	(763)	763	-
Depreciation	(4,398)	(2,163)	(2,245)	(2,642)	(11,448)
<b>Net book value at 30 June 2011</b>	<b>158,282</b>	<b>30,286</b>	<b>10,909</b>	<b>7,632</b>	<b>207,109</b>
At cost	184,670	43,255	22,177	23,773	273,875
Accumulated depreciation and impairment	(26,388)	(12,969)	(11,268)	(16,141)	(66,766)
	<b>158,282</b>	<b>30,286</b>	<b>10,909</b>	<b>7,632</b>	<b>207,109</b>

# Notes to the Financial Statements

For the year ended 30 June 2011

2010

<b>Group</b>	Leasehold land held for own use under finance leases <i>HK\$'000</i>	Buildings held for own use <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 (b)	-	-	-	(478)	(478)
Depreciation	(4,398)	(2,172)	(2,393)	(3,438)	(12,401)
Net book value at 30 June 2010	<u>162,680</u>	<u>32,449</u>	<u>13,851</u>	<u>8,057</u>	<u>217,037</u>
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)
	<u>162,680</u>	<u>32,449</u>	<u>13,851</u>	<u>8,057</u>	<u>217,037</u>
<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 (b)	-	-	-	(478)	(478)
Depreciation	(4,398)	(2,172)	(2,393)	(3,348)	(12,311)
Net book value at 30 June 2010	<u>162,680</u>	<u>32,449</u>	<u>13,851</u>	<u>7,807</u>	<u>216,787</u>
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)
	<u>162,680</u>	<u>32,449</u>	<u>13,851</u>	<u>7,807</u>	<u>216,787</u>

# Notes to the Financial Statements

For the year ended 30 June 2011

- (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) During the year ended 30 June 2010, 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 had been recognized accordingly.

## 5. Investments in subsidiaries

	<b>Institute</b>	
	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost	<b>300</b>	300
Impairment charges	<b>(300)</b>	(300)
	<b>-</b>	-

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Registered and paid-up capital	Equity interest held	Principal activities
HKICPA (Beijing) Consulting Co., Ltd. (a)	Mainland China	HK\$300,000	100%	Promotion of the Institute's qualification programme and provision of services to members in mainland China
The HKICPA Trust Fund (a)	Hong Kong	-	(c)	Relief of poverty of members of the Institute
The HKICPA Charitable Fund (a)	Hong Kong	-	(c)	General charitable purposes

# Notes to the Financial Statements

For the year ended 30 June 2011

Name of subsidiary	Place of incorporation/ establishment and operations	Registered and paid-up capital	Equity interest held	Principal activities
Hong Kong Institute of Accredited Accounting Technicians Limited (a)	Hong Kong	-	(c)	Award of the “Accredited Accounting Technician” qualification
The HKIAAT Trust Fund (b)	Hong Kong	-	(c)	Provision of scholarship to persons studying for the examinations held by HKIAAT

(a) Held by the Institute.

(b) Held by a subsidiary.

(c) Accounted for as a subsidiary of the Institute and is 100% consolidated by the Institute by virtue of control.

HKICPA Beijing is a wholly-owned subsidiary of the Institute incorporated as a foreign enterprise in mainland China.

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 use of surplus funds as accumulated by The HKICPA Trust Fund, The HKICPA Charitable Fund and The HKIAAT Trust Fund is restricted to the principal activities as outlined above and the provisions in the respective trust deeds.

# Notes to the Financial Statements

For the year ended 30 June 2011

## 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 HK\$'000	Other temporary differences HK\$'000	Total HK\$'000	Accelerated tax depreciation HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1 July 2009	(1,999)	1,432	(567)	(1,988)	1,357	(631)
Credited/ (Charged) to the surplus or deficit	400	(50)	350	400	(51)	349
At 30 June 2010	(1,599)	1,382	(217)	(1,588)	1,306	(282)
Credited to the surplus or deficit	142	104	246	142	104	246
<b>At 30 June 2011</b>	<b>(1,457)</b>	<b>1,486</b>	<b>29</b>	<b>(1,446)</b>	<b>1,410</b>	<b>(36)</b>

At the end of the reporting period, the Group has unused tax losses of HK\$1,704,000 (2010: Nil), arising from HKIAAT in Hong Kong, available to offset against future taxable profits. No deferred tax asset has been recognized in relation to such losses due to the unforeseeable future profit streams. The unused tax losses can be carried forward indefinitely.

- b. Reconciliation to the statements of financial position:

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Deferred tax assets	65	65	-	-
Deferred tax liabilities	(36)	(282)	(36)	(282)
	<b>29</b>	<b>(217)</b>	<b>(36)</b>	<b>(282)</b>

# Notes to the Financial Statements

For the year ended 30 June 2011

## 7. Receivables

	Group		Institute	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Accounts receivable	2,761	1,833	2,529	1,599
Amounts due from subsidiaries	-	-	1,422	986
	2,761	1,833	3,951	2,585
Charges for impairment (a)	(198)	(635)	(161)	(586)
	<u>2,563</u>	<u>1,198</u>	<u>3,790</u>	<u>1,999</u>

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

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

	Group		Institute	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
At the beginning of the reporting period	635	479	586	4,675
Impairment of accounts receivable	59	156	59	156
Impaired receivables written off	(419)	-	(419)	(4,245)
Recovery of impaired receivables (note 14)	(77)	-	(65)	-
At the end of the reporting period	<u>198</u>	<u>635</u>	<u>161</u>	<u>586</u>

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 their fair value.

# Notes to the Financial Statements

For the year ended 30 June 2011

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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Neither past due nor impaired	1,048	492	2,441	1,442
Less than 30 days past due	986	383	921	245
31 to 90 days past due	267	168	204	157
91 to 180 days past due	126	75	88	75
181 to 270 days past due	20	23	20	23
Over 270 days past due	116	57	116	57
	1,515	706	1,349	557
	2,563	1,198	3,790	1,999

Receivables that were neither past due nor impaired mainly relate to inter-company balances and receivables from professional firms regarding their share of contribution to a professional liability reform project 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 of these independent parties 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Bank balances				
- Time deposits with original maturities within three months	111,293	84,623	93,705	67,188
- Savings accounts	45,412	14,971	32,793	1,336
- Current accounts	7,787	6,067	5,943	3,190
Cash on hand	109	77	105	69
	164,601	105,738	132,546	71,783

# Notes to the Financial Statements

For the year ended 30 June 2011

## 9. Subscriptions and fees received in advance

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Subscription fees received in advance	52,799	50,944	51,408	49,403
Other fees received in advance	7,325	13,182	7,131	13,182
	<b>60,124</b>	<b>64,126</b>	<b>58,539</b>	<b>62,585</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 mainly relate to first registration applications to be assessed and examinations to be conducted after the end of the reporting period.

## 10. Payables and accruals

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Payables	3,096	6,413	2,812	6,352
Amounts due to subsidiaries	-	-	554	139
Accruals	28,741	19,957	26,243	16,692
Financial liabilities (note 3)	31,837	26,370	29,609	23,183
Employee leave entitlements and provision for bonus	13,702	7,734	13,021	7,316
	<b>45,539</b>	<b>34,104</b>	<b>42,630</b>	<b>30,499</b>

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



# Notes to the Financial Statements

For the year ended 30 June 2011

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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Within 30 days	25,460	24,685	24,037	21,918
Between 31 and 90 days	4,752	1,213	4,098	1,041
Between 91 and 180 days	1,310	204	1,170	131
Between 181 and 270 days	216	175	211	-
Over 270 days past due	99	93	93	93
	<u>31,837</u>	<u>26,370</u>	<u>29,609</u>	<u>23,183</u>

## 11. Capital fund

The Group has two capital funds:

- 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.
- 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.

# Notes to the Financial Statements

For the year ended 30 June 2011

## 12. Subscriptions and fees

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Annual subscription fees</b>				
Members	65,044	61,730	65,044	61,730
Practising certificates	18,420	18,036	18,420	18,036
Students	8,192	8,792	6,163	6,445
Firms	9,845	9,623	9,845	9,623
Corporate practices	4,628	4,152	4,628	4,152
Others	1,040	1,088	107	104
<b>First registration fees</b>				
Members	5,564	5,419	5,564	5,419
Practising certificates	409	390	409	390
Students	2,104	3,163	1,180	1,459
Firms	141	144	141	144
Corporate practices	206	269	206	269
Others	154	137	6	23
<b>Other fees</b>				
Member practices' changes in particulars	-	6	-	6
Advancement to fellowship	267	450	267	450
Assessment for overseas students	937	678	937	678
	<b>116,951</b>	<b>114,077</b>	<b>112,917</b>	<b>108,928</b>

## 13. Other revenue

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Income from examinations	68,101	68,220	61,775	61,377
Income from seminars and courses	19,124	15,786	18,646	15,083
Income from member and student activities	1,864	1,723	1,861	1,722
Accreditation income	560	670	450	395
	<b>89,649</b>	<b>86,399</b>	<b>82,732</b>	<b>78,577</b>

# Notes to the Financial Statements

For the year ended 30 June 2011

## 14. Other income

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Qualification</b>				
Royalty income	128	197	-	-
<b>Conducts</b>				
Disciplinary fines and costs recovery	2,951	2,763	2,951	2,763
FRC special levy (a)	4,210	3,962	4,210	3,962
Litigation costs recovery (b)	1,150	-	1,150	-
<b>Corporate functions</b>				
Commission from affinity credit card programme	668	668	668	668
Commission from professional indemnity insurance master policy	392	376	392	376
Government grants (c)	-	496	-	496
Income from advertisements placed in the journals	1,362	1,348	1,153	1,118
Interest income	603	473	482	354
Income from hardcopy surcharge	552	590	552	590
Operating lease income	133	129	133	129
Recovery of impaired receivables (note 7a)	77	-	65	-
Sales of goods	1,488	900	1,402	815
Service fees from HKIAAT	-	-	2,308	2,308
<b>Others</b>				
Donations (d)	46	456	25	25
Events sponsorship	1,873	1,344	1,873	1,344
Project sponsorship	1,566	568	1,566	568
Miscellaneous	708	375	597	275
	<b>17,907</b>	<b>14,645</b>	<b>19,527</b>	<b>15,791</b>

# Notes to the Financial Statements

For the year ended 30 June 2011

## a. 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\$4,200,000 (2010: HK\$4,000,000) 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\$4,210,000 (2010: HK\$3,962,000) from such member practices and contributed HK\$4,200,000 (2010: HK\$4,000,000) to the FRC (note 16).

## b. Litigation costs recovery

During the current year, an amount of HK\$1,150,000 (2010: Nil) was received from a firm and certain individuals as a whole (the “Applicants”), one of whom is a council member, for recovery of legal costs incurred in a judicial review proceeding against the Institute. Total legal costs incurred by the Institute were HK\$1,632,000. An appeal was sought by the Applicants

in respect of this judicial review on 7 September 2010. The appeal was dismissed by the Court of Appeal on 1 August 2011. An application of leave to appeal to the Court of Final Appeal was filed to the Court of Appeal by the Applicants on 26 August 2011.

## 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” 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 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 year ended 30 June 2010, the remaining contribution of HK\$496,000 was recognized as income to match with the related costs. The project was completed on 30 June 2010 and the project’s audited accounts have been submitted to the Government of the HKSAR.

# Notes to the Financial Statements

For the year ended 30 June 2011

## d. Donations

	Group		Institute	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Donations from members	7	414	-	-
Donations to the library	25	25	25	25
Others	14	17	-	-
	<b>46</b>	<b>456</b>	<b>25</b>	<b>25</b>

## 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	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Expenses by main activities</b>				
Membership	55,393	48,000	55,600	48,159
Qualification	59,545	52,178	59,681	52,283
Conducts	20,543	20,514	20,543	20,514
Quality assurance	11,458	10,320	11,458	10,320
Standards	11,763	9,634	11,763	9,634
Corporate functions				
- Finance & operations	25,830	25,608	28,189	27,979
- Communications	9,840	10,791	9,840	10,791
- Constitution and governance	5,836	4,574	5,836	4,574
- China and international relations	5,751	3,067	5,751	3,067
The HKIAAT Group	13,215	12,818	-	-
The HKICPA Charitable Fund	251	75	550	50
The HKICPA Trust Fund	230	146	-	-
	<b>219,655</b>	<b>197,725</b>	<b>209,211</b>	<b>187,371</b>

# Notes to the Financial Statements

For the year ended 30 June 2011

## 16. Surplus before tax

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Surplus before tax has been arrived at after charging/(crediting):				
Employee benefits (note 19)	108,215	99,093	101,058	92,458
Depreciation	11,545	12,401	11,448	12,311
Contribution to FRC (note 14a)	4,200	4,000	4,200	4,000
Auditor's remuneration	351	323	276	258
Allowance for obsolete inventories	-	138	-	138
Cost of goods sold	521	623	483	574
Donations (a)	261	88	561	60
Exchange loss	184	17	233	81
Impairment of fixed assets	-	478	-	478
Impairment of receivables	59	156	59	156
Loss on disposal of fixed assets (b)	36	32	36	28
Obsolete inventories written off	29	137	9	137
Operating lease expenses	852	838	414	415
Recovery of obsolete inventories written off	(3)	(14)	(3)	-
Recovery of impaired receivables	(77)	-	(65)	-
Uncollectible amounts written off	-	2	-	2

- a. During the current year, the Institute donated HK\$550,000 (2010: HK\$50,000) to The HKICPA Charitable Fund.
- b. During the current year, a memorandum of understanding was signed between the Institute and Caritas Hong Kong for a computer donation programme "Computer Provisioning Aid" for school children. The loss on disposal of fixed assets in the current year mainly represents the carrying amount of the computers donated to Caritas Hong Kong for this programme.

# Notes to the Financial Statements

For the year ended 30 June 2011

## 17. Income tax

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Current tax</b>				
Provision for Hong Kong Profits Tax for the current and prior years	1,938	3,779	1,938	3,655
Provision for mainland China income tax for the current and prior years	386	397	295	-
	2,324	4,176	2,233	3,655
<b>Deferred tax</b>				
Deferred tax credit relating to the origination and reversal of temporary differences	(246)	(350)	(246)	(349)
	2,078	3,826	1,987	3,306

Hong Kong Profits Tax is provided at 16.5% (2010: 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% (2010: 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Surplus before tax	4,852	17,396	5,965	15,925
Tax at the applicable rate of 16.5% (2010: 16.5%)	801	2,871	984	2,627
Tax effect of different tax rate for subsidiary in mainland China	34	231	-	-
Mainland China income tax	295	-	295	-
Tax effect of expenses that are not deductible in determining taxable surplus	868	1,222	761	737
Tax effect of income that is not assessable in determining taxable surplus	(222)	(218)	(79)	(58)
Tax effect of utilization of tax losses previously not recognized	-	(280)	-	-
Tax effect of tax losses not recognized	281	-	-	-
Others	21	-	26	-
	2,078	3,826	1,987	3,306

# Notes to the Financial Statements

For the year ended 30 June 2011

## 18. Other comprehensive income

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Exchange gain/(loss) on translating the financial statements of HKICPA Beijing	13	(39)	-	-

## 19. Employee benefits

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Salaries, wages, bonuses and allowances	101,315	92,681	94,796	86,592
Provident fund contributions	6,900	6,412	6,262	5,866
	<b>108,215</b>	<b>99,093</b>	<b>101,058</b>	<b>92,458</b>
<b>Number of staff</b>				
At the beginning of the reporting period	201	190	179	168
At the end of the reporting period	219	201	195	179

## 20. Key management personnel's remuneration

	Group and Institute			
	2011			2010
	Salary and allowances HK\$'000	Performance bonus HK\$'000	Retirement benefits HK\$'000	Total HK\$'000
Chief Executive & Registrar	3,050	749	454	4,253
				Total HK\$'000
				3,871

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

## 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.

Other than the information disclosed elsewhere in the financial statements, the Group and the Institute entered into the following material transactions with council members or parties related to council members:

- (i) During the current year, expenses of HK\$807,000 (2010: Nil) were incurred with Deloitte Touche Tohmatsu ("DTT") mainly for the development of specialist qualification in taxation. The outstanding commitment in respect of this service contract at 30 June 2011 is HK\$700,000. At 30 June 2011, included in "Receivables" is an amount of HK\$323,000 (2010:



# Notes to the Financial Statements

For the year ended 30 June 2011

HK\$1,000) due from DTT mainly for its share of contribution for the professional liability reform project and included in “Payables and accruals” is an amount of HK\$802,000 (2010: Nil) due to DTT.

- (ii) At 30 June 2011, included in “Receivables” is an amount of HK\$223,000 (2010: HK\$1,000) due from Ernst & Young (“EY”) for its share of contribution for the professional liability reform project.
- (iii) During the year ended 30 June 2010, expenses of HK\$363,000 were incurred with KPMG mainly for giving lectures, acting as workshop facilitators for the Institute’s qualification programme and tax advisory service provided. During the current year, KPMG also acted as workshop facilitators for the Institute’s qualification programme but the amount incurred was not significant. At 30 June 2011, included in “Receivables” is an amount of HK\$351,000 (2010: HK\$1,000) due from KPMG mainly for its share of contribution for the professional liability reform project and included in “Payables and accruals” is an amount of HK\$50,000 (2010: HK\$17,000) due to KPMG.
- (iv) During the year ended 30 June 2010, expenses of HK\$261,000 were incurred with PricewaterhouseCoopers (“PwC”) for advisory service provided on the Institute’s management reporting system. At 30 June 2011, included in “Receivables” is an amount of HK\$223,000 (2010: HK\$1,000) due from PwC for its share of contribution for the professional liability reform project.

In the current and prior years, certain council members are partners of DTT, EY, KPMG and PwC. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received and no expense has been recognized for bad or doubtful debts in respect of the above amounts due from the related parties.

In addition, the Group and the Institute received income in the ordinary course of business, such as sponsorship, disciplinary and litigation costs recovery,

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\$2,526,000 (2010: HK\$2,526,000) to HKICPA Beijing for the promotion of the Institute’s qualification programme and the provision of services to members in mainland China. At 30 June 2010, included in “Payables and accruals” of the Institute was an amount of HK\$139,000 due to HKICPA Beijing which had been fully settled during the current year.

### (ii) The HKICPA Charitable Fund

During the current year, the Institute donated HK\$550,000 (2010: HK\$50,000) to The HKICPA Charitable Fund. At 30 June 2011, included in “Payables and accruals” of the Institute is an amount of HK\$554,000 (2010: Nil) due to The HKICPA Charitable Fund.

### (iii) HKIAAT

During the current year, the Institute charged service fees of HK\$2,308,000 (2010: HK\$2,308,000) to HKIAAT for management, rental and other services provided to HKIAAT at agreed terms. Total staff employment costs of HK\$5,781,000 (2010: HK\$5,393,000) was also recharged to HKIAAT for the human resources support on a cost

# Notes to the Financial Statements

For the year ended 30 June 2011

recovery basis. In addition, HKIAAT organized the professional bridging examination on behalf of the Institute. Income of HK\$1,338,000 (2010: HK\$1,465,000) and related expenses of HK\$425,000 (2010: HK\$425,000) generated from the professional

bridging examination were included in the amount due from HKIAAT. At 30 June 2011, included in "Receivables" of the Institute is an amount of HK\$1,422,000 (2010: HK\$986,000) 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 fair value or future cash flows 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	
	2011 % p.a.	2010 % p.a.	2011 % p.a.	2010 % p.a.
Time deposits	0.43%	0.36%	0.47%	0.40%
Savings accounts	0.01%	0.01%	0.01%	0.01%

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 2011

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Time deposits				
- with original maturities within three months	111,293	84,623	93,705	67,188
- with original maturities over three months	47,803	76,745	30,133	59,019
	<u>159,096</u>	<u>161,368</u>	<u>123,838</u>	<u>126,207</u>
<b>Impact of interest rate deviation</b>				
Increase/Decrease in interest rate by 0.25% (2010: 0.25%)				
- Increase/Decrease in surplus before tax and members' equity	<u>398</u>	<u>403</u>	<u>310</u>	<u>316</u>

## 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 an entity 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 poses 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 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.

# Notes to the Financial Statements

For the year ended 30 June 2011

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 of the Institute 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 of the Institute 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 premises at two industrial and one office buildings at 30 June 2011 and 2010. The total future minimum lease payments under the non-cancellable operating leases are payable as follows:

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Within one year	660	333	222	227
Between one and five years	126	17	17	17
	<b>786</b>	<b>350</b>	<b>239</b>	<b>244</b>

## 25. Capital commitments

	Group		Institute	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Capital expenditure in respect of the acquisition of computer equipment contracted for but not provided in the financial statements	1,173	-	1,173	-

# Independent Auditor's Report

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## To the Trustees of The HKICPA Trust Fund

We have audited the financial statements of The HKICPA Trust Fund ("the Trust Fund") set out on pages 36 to 43, which comprise the statement of financial position at 30 June 2011 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 information.

### Trustees' responsibility for the financial statements

The Trustees are responsible for the preparation of these financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("the Institute"), and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 2011 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  
20 September 2011

### Yip Ngai Shing

Practising Certificate number: P05163

# Statement of Financial Position

At 30 June 2011



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	<i>Note</i>	2011 <i>HK\$</i>	2010 <i>HK\$</i>
<b>Current assets</b>			
Short term loans to members	4	-	-
Cash and cash equivalents	5	<u>4,231,594</u>	<u>4,444,794</u>
<b>Net assets</b>		<u><u>4,231,594</u></u>	<u><u>4,444,794</u></u>
<b>Accumulated funds</b>		<u><u>4,231,594</u></u>	<u><u>4,444,794</u></u>

Approved by the Trustees on 20 September 2011

**Tsai Wing Chung, Philip**  
Trustee


**Wilson Fung**  
Trustee

**Susanna Chiu**  
Trustee

**Wong Hong Yuen**  
Trustee

# Statement of Comprehensive Income

For the year ended 30 June 2011



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	<i>Note</i>	<b>2011</b> <i>HK\$</i>	2010 <i>HK\$</i>
<b>Revenue</b>			
Donations	6	5,000	425,011
Recovery of impaired loans to members	4	11,500	-
Interest income		85	63
		<u>16,585</u>	<u>425,074</u>
<b>Expenses</b>			
Grants to members	7	(228,300)	(144,750)
Bank charges		(1,485)	(1,020)
		<u>(229,785)</u>	<u>(145,770)</u>
<b>(Deficit)/Surplus and total comprehensive income</b>		<u><b>(213,200)</b></u>	<u>279,304</u>

# Statement of Changes in Accumulated Funds

For the year ended 30 June 2011

	2011 HK\$	2010 HK\$
<b>Accumulated funds</b>		
At the beginning of the reporting period	4,444,794	4,165,490
Total comprehensive income	<u>(213,200)</u>	<u>279,304</u>
<b>At the end of the reporting period</b>	<u><u>4,231,594</u></u>	<u><u>4,444,794</u></u>

# Statement of Cash Flows

For the year ended 30 June 2011

	<i>Note</i>	2011 HK\$	2010 HK\$
<b>Cash flows from operating activities</b>			
(Deficit)/Surplus for the year		(213,200)	279,304
Decrease in amount due from the Institute		<u>-</u>	<u>4,087,456</u>
<b>Net cash (utilized in)/ generated by operating activities and (decrease)/ increase in cash and cash equivalents</b>		(213,200)	4,366,760
Cash and cash equivalents at the beginning of the reporting period		<u>4,444,794</u>	<u>78,034</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	5	<u><u>4,231,594</u></u>	<u><u>4,444,794</u></u>



# Notes to the Financial Statements

For the year ended 30 June 2011

## 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”). According to the trust deed, its trustees are the president, the immediate past president, a vice president and a past president 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 by means of subsidy and/or loan. 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.

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 2011 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 (as amended in 2010)”
HKFRS 13	“Fair Value Measurement”

HKFRS 9 “Financial Instruments (as amended in 2010)” has been expanded to include the requirements with respect to the derecognition of financial assets and financial liabilities (which have been taken from HKAS 39 “Financial Instruments: Recognition and Measurement” without amendment) and classification and measurement of financial liabilities. The amended HKFRS 9 will be effective for financial periods beginning on or after 1 January 2013. The early adoption of the amended HKFRS 9 did not have any financial impact to the Trust Fund as the Trust Fund did not have any financial liabilities and there were no changes in the derecognition of financial assets.

HKFRS 13 “Fair Value Measurement” defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurement. HKFRS 13 will be effective for financial periods beginning on or after 1 January 2013. The Trust Fund has assessed that HKFRS 13 has 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 2011 and up to the date of approval of the financial statements

The Institute has issued certain new/revised HKFRSs after 30 June 2011 and up to the date of approval of the financial statements. Of these, the following revised HKFRS is

# Notes to the Financial Statements

For the year ended 30 June 2011

applicable to the Trust Fund's financial statements but not early adopted by the Trust Fund:

HKAS 1 (Amendments) "Presentation of Financial Statements"

HKAS 1 (Amendments) "Presentation of Financial Statements" improves the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that would never be reclassified to profit or loss. The amended HKAS 1 will be effective for financial periods beginning on or after 1 July 2012.

The Trust Fund anticipates that application of the above revised HKFRS will have no significant impact on the results and the financial position of the Trust Fund.

## 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 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.

# Notes to the Financial Statements

For the year ended 30 June 2011

## 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 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:

	2011 HK\$	2010 HK\$
Short term loans to members	-	-
Cash and cash equivalents	4,231,594	4,444,794
	<u>4,231,594</u>	<u>4,444,794</u>

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

# Notes to the Financial Statements

For the year ended 30 June 2011

## 4. Short term loans to members

	2011 HK\$	2010 HK\$
Short term loans to members	37,170	48,670
Impairment charges of loans to members	(37,170)	(48,670)
	<u>-</u>	<u>-</u>

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

	2011 HK\$	2010 HK\$
At the beginning of the reporting period	48,670	48,670
Recovery of impaired loans to members	(11,500)	-
<b>At the end of the reporting period</b>	<u><b>37,170</b></u>	<u><b>48,670</b></u>

Since 30 June 2008, these members had been unable to make the agreed monthly repayments to the Trust Fund and a full provision had been made. During the current year, the Trust Fund recovered the impaired amount of HK\$11,500 (2010: Nil). The Trust Fund does not hold any collateral or other credit enhancements over these balances.

## 5. Cash and cash equivalents

	2011 HK\$	2010 HK\$
Bank balances		
- Savings account	4,225,167	4,437,922
- Current account	6,427	6,872
	<u><b>4,231,594</b></u>	<u><b>4,444,794</b></u>

# Notes to the Financial Statements

For the year ended 30 June 2011

## 6. Donations

	2011 HK\$	2010 HK\$
Donations from members (a)	-	421,004
Other parties	5,000	4,007
	<u>5,000</u>	<u>425,011</u>

(a) During the year ended 30 June 2010, 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.

## 7. Grants to members

During the current year, grants totaling HK\$228,300 (2010: HK\$144,750) were paid to help alleviate members facing financial hardship.

## 8. Financial risk management

Financial instruments consist of bank balances and short term loans to members. 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 fair value or future cash flows 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. 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 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 Trust Fund did not borrow any loans. The Trust Fund manages the interest rate risk by monitoring closely the

movements in interest rates in order to limit potential adverse impact on interest income.

### 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. 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 4 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.

## 9. 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

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## 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 45 to 52, which comprise the statement of financial position at 30 June 2011 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 information.

### Trustees' responsibility for the financial statements

The Trustees are responsible for the preparation of these financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("the Institute"), and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 2011 and of its surplus 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  
20 September 2011

### Yip Ngai Shing

Practising Certificate number: P05163

# Statement of Financial Position

At 30 June 2011



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	<i>Note</i>	2011 <i>HK\$</i>	2010 <i>HK\$</i>
<b>Current assets</b>			
Amount due from the Institute	4	554,400	-
Cash and cash equivalents	5	<u>894,865</u>	<u>1,134,127</u>
<b>Net assets</b>		<u><u>1,449,265</u></u>	<u><u>1,134,127</u></u>
<b>Accumulated funds</b>		<u><u>1,449,265</u></u>	<u><u>1,134,127</u></u>

Approved by the Trustees on 20 September 2011

**Tsai Wing Chung, Philip**  
Trustee

**Wilson Fung**  
Trustee

**Winnie C. W. Cheung**  
Trustee

# Statement of Comprehensive Income

For the year ended 30 June 2011

	<i>Note</i>	<b>2011</b> <i>HK\$</i>	2010 <i>HK\$</i>
<b>Revenue</b>			
Donations	6	<b>566,200</b>	56,400
Interest income		<b>194</b>	272
		<hr/> <b>566,394</b>	<hr/> 56,672
<b>Expenses</b>			
Charitable donations	7	<b>(250,000)</b>	(75,000)
Bank charges		<b>(1,256)</b>	(725)
		<hr/> <b>(251,256)</b>	<hr/> (75,725)
<b>Surplus/(Deficit) and total comprehensive income</b>		<hr/> <b>315,138</b>	<hr/> (19,053)



# Statement of Changes in Accumulated Funds

For the year ended 30 June 2011

	2011 HK\$	2010 HK\$
<b>Accumulated funds</b>		
At the beginning of the reporting period	1,134,127	1,153,180
Total comprehensive income	<u>315,138</u>	<u>(19,053)</u>
<b>At the end of the reporting period</b>	<u><u>1,449,265</u></u>	<u><u>1,134,127</u></u>

# Statement of Cash Flows

For the year ended 30 June 2011

	<i>Note</i>	2011 HK\$	2010 HK\$
<b>Cash flows from operating activities</b>			
Surplus/(Deficit) for the year		315,138	(19,053)
(Increase)/Decrease in amount due from the Institute		<u>(554,400)</u>	<u>415,898</u>
<b>Net cash (utilized in)/ generated by operating activities and net (decrease)/ increase in cash and cash equivalents</b>		(239,262)	396,845
Cash and cash equivalents at the beginning of the reporting period		<u>1,134,127</u>	<u>737,282</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	5	<u><u>894,865</u></u>	<u><u>1,134,127</u></u>

# Notes to the Financial Statements

For the year ended 30 June 2011

## 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. According to the trust deed, its trustees are the president, the immediate past president and the chief executive of the 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 2011 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 (as amended in 2010)”
HKFRS 13	“Fair Value Measurement”

HKFRS 9 “Financial Instruments (as amended in 2010)” has been expanded to include the requirements with respect to the derecognition of financial assets and financial liabilities (which have been taken from HKAS 39 “Financial Instruments: Recognition and Measurement” without amendment) and classification and measurement of financial liabilities. The amended HKFRS 9 will be effective for financial periods beginning on or after 1 January 2013. The early adoption of the amended HKFRS 9 did not have any financial impact to the Charitable Fund as the Charitable Fund did not have any financial liabilities and there were no changes in the derecognition of financial assets.

HKFRS 13 “Fair Value Measurement” defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurement. HKFRS 13 will be effective for financial periods beginning on or after 1 January 2013. The Charitable Fund has assessed that HKFRS 13 has 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 2011 and up to the date of approval of the financial statements

The Institute has issued certain new/revised HKFRSs after 30 June 2011 and up to the date of approval of the financial statements. Of these, the following revised HKFRS is applicable to the Charitable Fund’s financial statements but not early adopted by the Charitable Fund:

HKAS 1 (Amendments)	“Presentation of Financial Statements”
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HKAS 1 (Amendments) “Presentation of Financial

# Notes to the Financial Statements

For the year ended 30 June 2011

Statements” improves the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that would never be reclassified to profit or loss. The amended HKAS 1 will be effective for financial periods beginning on or after 1 July 2012.

The Charitable Fund anticipates that application of the above revised HKFRS will have no significant impact on the results and the financial position of the Charitable Fund.

## 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.

# Notes to the Financial Statements

For the year ended 30 June 2011

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 the 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).

## 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:

	2011 HK\$	2010 HK\$
Amount due from the Institute	554,400	-
Cash and cash equivalents	894,865	1,134,127
	<u>1,449,265</u>	<u>1,134,127</u>

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

# Notes to the Financial Statements

For the year ended 30 June 2011

## 4. Amount due from the Institute

The amount due from the Institute is unsecured, interest-free and repayable on demand.

## 5. Cash and cash equivalents

	2011 HK\$	2010 HK\$
Bank balances		
- Savings accounts	887,099	1,126,861
- Current accounts	7,766	7,266
	<u>894,865</u>	<u>1,134,127</u>

## 6. Donations

	2011 HK\$	2010 HK\$
Donation from the Institute	550,000	50,000
Other parties	16,200	6,400
	<u>566,200</u>	<u>56,400</u>

## 7. Charitable donations

	2011 HK\$	2010 HK\$
Caritas Hong Kong (a)	150,000	-
Guangdong Poverty Relief Day	100,000	-
Hong Kong Red Cross China Relief Fund	-	30,000
Walk Up Jardine House 2010	-	45,000
	<u>250,000</u>	<u>75,000</u>

(a) During the current year, a memorandum of understanding was signed between the Institute and Caritas Hong Kong for a computer donation programme "Computer Provisioning Aid" for school children. The amount paid in the current year represents the donation to Caritas Hong Kong for this programme.

# Notes to the Financial Statements

For the year ended 30 June 2011

## 8. Related party transactions

During the current year, the Charitable Fund received a donation of HK\$550,000 (2010: HK\$50,000) from the Institute. At 30 June 2011, the amount due from the Institute is HK\$554,400 (2010: Nil) which has been settled after the end of the reporting period.

## 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 fair value or future cash flows 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. 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 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 Charitable Fund did not borrow any loans. The Charitable Fund manages the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impact on interest income.

### 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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