

GRANTHAM SCHOLARSHIPS FUND

Report of the Grantham Scholarships Fund Committee on the administration of the Fund for the year ended 31 August 2023

The Grantham Scholarships Fund (“the Fund”) was established in 1955 under the Grantham Scholarships Fund Ordinance (Cap. 1076) (“the Ordinance”) to commemorate the governorship of Sir Alexander Grantham G.C.M.G. The objective of the Fund is to promote and encourage local education, and in particular to provide for persons resident in Hong Kong of scholarships and maintenance grants in primary schools, secondary schools, prevocational schools, technical schools and institutions of higher education in Hong Kong.

2. The Fund is managed by the Grantham Scholarships Fund Committee (“the Committee”) constituted under Section 4 of the Ordinance. The membership list of the Committee for the year under report is at Appendix I. The Trust Funds and Temples Joint Secretariat is responsible for the secretariat and accounting work of the Fund. The Director of Audit is the auditor of the Fund’s accounts.

3. During the reporting period, the total income of the Fund (before losses on investment) was HK\$10.22 million. The losses on investment were HK\$12.40 million. The total expenditure was HK\$8.24 million. The Fund recorded a deficit of HK\$10.42 million for 2022-23. As at 31 August 2023, the capital of the Fund was HK\$76.18 million and the accumulated surplus was HK\$138.40 million. The audited Financial Statements of the Fund for the year ended 31 August 2023 is at Appendix II.

4. The Fund currently gives the Grantham Maintenance Grants and ten types of awards and scholarships, including Grantham Music Awards, Grantham Outstanding Student Athletes Awards, Grantham Scholars of the Year Awards, Grantham Uniformed Youth Groups Outstanding Service Awards, Grantham Visual Arts Awards, Scholarships for Students of Hong Kong Academy for Performing Arts, Hong Kong Metropolitan University and Vocational Training Council, Todd Memorial Scholarships for Aberdeen Technical School and also Grantham Awards for Students of Special Schools.

5. In the academic year 2022-23, a total of HK\$7.41 million was disbursed for maintenance grants, awards and scholarships as follows -

	<u>No. of Awards</u>	<u>HK\$</u>
(a) Grantham Maintenance Grants	1,883	5,668,800
(b) Grantham Music Awards	40	200,000
(c) Grantham Outstanding Student Athletes Awards	91	195,000
(d) Grantham Scholars of the Year Awards	24	240,000
(e) Grantham Uniformed Youth Groups Outstanding Service Awards	20	160,000
(f) Grantham Visual Arts Awards	20	177,000
(g) Scholarships for Students of Hong Kong Academy for Performing Arts	12	240,400
(h) Scholarships for Students of Hong Kong Metropolitan University	20	200,000
(i) Scholarships for Students of Vocational Training Council	34	68,000
(j) Todd Memorial Scholarships for Aberdeen Technical School	92	85,000
(k) Grantham Awards for Students of Special Schools	346	175,465
		<hr/> <u>7,409,665</u> <hr/>



(Miss Alice MAK)

Secretary for Home and Youth Affairs

Chairman

Grantham Scholarships Fund Committee

29 November 2023

GRANTHAM SCHOLARSHIPS FUND

**Membership of the Grantham Scholarships Fund Committee
(1.9.2022–31.8.2023)**

Secretary for Home and Youth Affairs	Chairman, Ex-officio
Permanent Secretary for Education	Ex-officio
Chairman, Board of Directors, Tung Wah Group of Hospitals - Mr MA Ching-yeung, Philip Mr WAI Ho-man, Herman	Ex-officio (up to 31.3.2023) (from 1.4.2023)
Chairman, Board of Directors, Po Leung Kuk - Dr CHAN Ching-yan, Daniel, MH Mrs Winnie W.L. CHAN	Ex-officio (up to 31.3.2023) (from 1.4.2023)
Ms WONG Ching-chi, Gigi	
Mr CHAN Chi-wai, Ringo	
Mr HO Lik-ko, Nick	(up to 31.7.2023)
Miss LEUNG Wai-yin, Elaine	
Mr NG Wun-kit	(from 1.8.2023)



Grantham Scholarships Fund

Financial statements for the year ended 31 August 2023

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I certify that I have audited the financial statements of the Grantham Scholarships Fund set out on pages 4 to 18, which comprise the balance sheet as at 31 August 2023, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the financial position of the Grantham Scholarships Fund as at 31 August 2023, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with section 10(1) of the Grantham Scholarships Fund Ordinance (Cap. 1076).

Basis for opinion

I conducted my audit in accordance with section 10(2) of the Grantham Scholarships Fund Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Grantham Scholarships Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Secretary for Home and Youth Affairs Incorporated is responsible for the other information. The other information comprises all the information included in the Report of

the Grantham Scholarships Fund Committee on the administration of the Grantham Scholarships Fund, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of The Secretary for Home and Youth Affairs Incorporated for the financial statements

The Secretary for Home and Youth Affairs Incorporated is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and section 10(1) of the Grantham Scholarships Fund Ordinance, and for such internal control as The Secretary for Home and Youth Affairs Incorporated determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Secretary for Home and Youth Affairs Incorporated is responsible for assessing the Grantham Scholarships Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements,

whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit 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 Grantham Scholarships Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by The Secretary for Home and Youth Affairs Incorporated;
- conclude on the appropriateness of The Secretary for Home and Youth Affairs Incorporated's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Grantham Scholarships Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Grantham Scholarships Fund to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with The Secretary for Home and Youth Affairs Incorporated regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



S. M. CHOI
Principal Auditor
for Director of Audit

29 November 2023

Audit Commission
6th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

GRANTHAM SCHOLARSHIPS FUND

**BALANCE SHEET
AS AT 31 AUGUST 2023**

	Note	2023 HK\$	2022 HK\$
NON-CURRENT ASSETS			
Financial assets measured at fair value through income and expenditure account	3	130,356,054	142,917,723
Debt securities measured at amortised cost	4	22,861,022	24,173,054
		153,217,076	167,090,777
CURRENT ASSETS			
Debt securities measured at amortised cost	4	12,557,828	39,673,591
Accounts receivable		1,093,249	904,718
Time deposits with original maturities over three months		35,321,843	15,497,757
Cash and cash equivalents	5	12,737,725	2,158,792
		61,710,645	58,234,858
CURRENT LIABILITIES			
Provision for staff gratuity	6	(4,159)	(32,970)
Provision for untaken leave		(10,537)	(12,364)
Accounts payable	7	(291,435)	(269,270)
		(306,131)	(314,604)
NET CURRENT ASSETS		61,404,514	57,920,254
NON-CURRENT LIABILITIES			
Provision for staff gratuity	6	(41,888)	(8,814)
NET ASSETS		214,579,702	225,002,217
ACCUMULATED FUND			
Capital		76,182,248	76,182,248
Accumulated surplus		138,397,454	148,819,969
		214,579,702	225,002,217

The accompanying notes 1 to 12 form part of these financial statements.



(Miss Alice MAK)
The Secretary for Home and Youth Affairs Incorporated
Trustee
Grantham Scholarships Fund
29 November 2023

GRANTHAM SCHOLARSHIPS FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2023

	Note	2023 HK\$	2022 HK\$
INCOME			
Dividend income		7,486,495	6,491,309
Interest income	8	2,716,982	2,369,754
Net realised and revaluation losses on financial assets measured at fair value through income and expenditure account		(10,368,509)	(15,327,801)
Net exchange losses		(2,036,528)	(3,640,139)
Refund of grants		15,000	46,200
Other income		184	-
		<hr/>	<hr/>
		(2,186,376)	(10,060,677)
EXPENDITURE			
Awards, scholarships and maintenance grants		(7,409,665)	(7,684,063)
Staff costs		(809,391)	(798,796)
Other operating expenses		(17,083)	(17,390)
		<hr/>	<hr/>
		(8,236,139)	(8,500,249)
DEFICIT FOR THE YEAR			
		<hr/>	<hr/>
		(10,422,515)	(18,560,926)
OTHER COMPREHENSIVE INCOME			
		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR			
		<hr/>	<hr/>
		(10,422,515)	(18,560,926)
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The accompanying notes 1 to 12 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2023

	Capital HK\$	Accumulated Surplus HK\$	Total HK\$
Balance at 1 September 2021	76,182,248	167,380,895	243,563,143
Total comprehensive loss for 2021-22	-	(18,560,926)	(18,560,926)
Balance at 31 August 2022	<u>76,182,248</u>	<u>148,819,969</u>	<u>225,002,217</u>
Total comprehensive loss for 2022-23	-	(10,422,515)	(10,422,515)
Balance at 31 August 2023	<u><u>76,182,248</u></u>	<u><u>138,397,454</u></u>	<u><u>214,579,702</u></u>

The accompanying notes 1 to 12 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2023**

	Note	2023 HK\$	2022 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit for the year		(10,422,515)	(18,560,926)
Adjustments for :			
Dividend income		(7,486,495)	(6,491,309)
Interest income		(2,716,982)	(2,369,754)
Net realised and revaluation losses on financial assets measured at fair value through income and expenditure account		10,368,509	15,327,801
(Increase)/Decrease in accounts receivable		(2,250)	4,253
Increase/(Decrease) in provision for staff gratuity		4,263	(36,121)
Decrease in provision for untaken leave		(1,827)	(7,505)
Increase/(Decrease) in accounts payable		22,165	(18,691)
Net exchange losses		1,742,474	3,622,373
		<u>(8,492,658)</u>	<u>(8,529,879)</u>
NET CASH USED IN OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets measured at fair value through income and expenditure account		-	(6,422,776)
Acquisition of debt securities measured at amortised cost		(12,654,867)	(13,671,315)
Proceeds from disposal of financial assets measured at fair value through income and expenditure account		2,193,160	-
Proceeds from disposal of debt securities measured at amortised cost		39,644,608	4,500,000
Increase in time deposits with original maturities over three months		(19,824,086)	(16,260,250)
Dividends received		7,046,258	6,670,426
Interest received		3,017,639	2,445,252
		<u>19,422,712</u>	<u>(22,738,663)</u>
NET CASH FROM/(USED IN) INVESTING ACTIVITIES			
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		10,930,054	(31,268,542)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		2,158,792	33,595,820
Effect of exchange rate changes on cash and cash equivalents		(351,121)	(168,486)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	<u>12,737,725</u>	<u>2,158,792</u>

The accompanying notes 1 to 12 form part of these financial statements.

GRANTHAM SCHOLARSHIPS FUND

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Grantham Scholarships Fund (the Fund) provides scholarships and maintenance grants for students in primary schools, secondary schools, pre-vocational schools, technical schools and institutions of higher education in Hong Kong in accordance with sections 5 and 6 of the Grantham Scholarships Fund Ordinance (Cap. 1076).

The address of the Fund's principal place of business is 34th Floor, Wu Chung House, 213 Queen's Road East, Wan Chai, Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with section 10(1) of the Grantham Scholarships Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation of the financial statements

The financial statements have been prepared on an accrual basis and under the historical cost convention except that financial assets measured at fair value through income and expenditure account are stated at fair value as explained in the accounting policies set out in note 2(d) below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Impact of new and revised HKFRSs

The HKICPA has issued certain new or revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Fund. There have been no changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

(d) Financial assets and financial liabilities

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised on the date the Fund becomes a party to the contractual provisions of the financial instrument. They are initially stated at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities, except for those financial instruments measured at fair value through income and expenditure account for which transaction costs are recognised directly in the income and expenditure account. An explanation of how the Fund determines the fair value of financial instruments is set out in note 10. Purchases and sales of financial instruments are recognised on trade date, the date on which the Fund commits to purchase or sell the instruments.

(ii) Classification and subsequent measurement

Financial assets measured at fair value through income and expenditure account

These comprise equity securities. They are subsequently measured at fair value. Changes in fair value are recognised in the income and expenditure account in the period in which they arise.

Financial assets measured at amortised cost

These comprise debt securities, accounts receivable, time deposits and cash and cash equivalents. They are held for the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost using the effective interest method. The measurement of loss allowances for these financial assets is based on the expected credit loss model as described in note 2(d)(iv).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows by considering all contractual terms of the financial instrument but does not consider the expected credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The Fund's debt securities are classified as non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Financial liabilities measured at amortised cost

These comprise accounts payable. They are subsequently measured at amortised cost using the effective interest method.

(iii) Derecognition

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

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

(iv) Impairment of financial assets

For financial assets measured at amortised cost, the Fund measures the expected credit losses to determine the loss allowance required to be recognised. Financial assets measured at fair value through income and expenditure account are not subject to the expected credit loss assessment.

Expected credit losses are a probability-weighted estimate of credit losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following bases:

- 12-month expected credit losses (for financial instruments for which there has not been a significant increase in credit risk since initial recognition): these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime expected credit losses (for financial instruments for which there has been a significant increase in credit risk since initial recognition): these are losses that are expected to result from all possible default events over the expected life of the financial instruments.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For a financial asset with lifetime expected credit losses recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime expected credit losses to 12-month expected credit losses.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(e) Awards, scholarships and maintenance grants

Awards, scholarships and maintenance grants are recognised as expenditure when they are approved by the Grantham Scholarships Fund Committee (the Committee) and due for payment.

(f) Foreign currency translation

Hong Kong dollar is the currency of the primary economic environment in which the Fund operates. Foreign currency transactions during the year are translated into Hong Kong dollars using the spot exchange rates at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the closing exchange rates at the reporting date. Exchange gains and losses are dealt with in the income and expenditure account.

(g) Revenue recognition

Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised when the Fund's right to receive payment is established.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at banks, deposits with banks and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

(i) Employee benefits

Contract gratuities, salaries and annual leave entitlements are accrued and recognised as expenditure in the year in which associated services are rendered by the staff. Staff on-costs, including pension, Government's contribution to the Civil Service Provident Fund Scheme and housing and medical benefits provided to the seconded staff by the Government, are charged as expenditure in the year in which the services are rendered.

3. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME AND EXPENDITURE ACCOUNT

	2023	2022
	HK\$	HK\$
Equity securities, at fair value		
Listed in Hong Kong	130,356,054	142,917,723
	=====	=====

4. DEBT SECURITIES MEASURED AT AMORTISED COST

	2023 HK\$	2022 HK\$
Debt securities		
Unlisted	35,418,850	63,846,645
	=====	=====
Classified as:		
- Non-current assets	22,861,022	24,173,054
- Current assets	12,557,828	39,673,591
	-----	-----
	35,418,850	63,846,645
	=====	=====

5. CASH AND CASH EQUIVALENTS

	2023 HK\$	2022 HK\$
Time deposits with original maturities within three months	11,172,873	-
Cash at banks	1,564,852	2,158,792
	-----	-----
	12,737,725	2,158,792
	=====	=====

6. PROVISION FOR STAFF GRATUITY

	2023 HK\$	2022 HK\$
Balance at beginning of year	41,784	77,905
Provision for the year	48,291	63,012
Payment for the year	(39,427)	(63,080)
Provision written back	(4,601)	(36,053)
	-----	-----
Balance at end of year	46,047	41,784
	=====	=====
Classified as:		
- Current liabilities	4,159	32,970
- Non-current liabilities	41,888	8,814
	-----	-----
	46,047	41,784
	=====	=====

7. ACCOUNTS PAYABLE

	2023 HK\$	2022 HK\$
Grants payable	197,000	181,029
Staff costs payable to the General Chinese Charities Fund	94,435	88,241
	<u>291,435</u>	<u>269,270</u>
	=====	=====

The Fund's staff costs, which represent its share of costs of staff employed by the Trust Funds and Temples Joint Secretariat and staff seconded from the Government, are firstly paid by the General Chinese Charities Fund and then reimbursed by the Fund.

8. INTEREST INCOME

	2023 HK\$	2022 HK\$
Interest income on bank deposits	1,413,420	452,740
Interest income on debt securities	1,303,562	1,917,014
	<u>2,716,982</u>	<u>2,369,754</u>
	=====	=====

9. FINANCIAL RISK MANAGEMENT

The Fund's major financial instruments include financial assets measured at fair value through income and expenditure account, debt securities measured at amortised cost, accounts receivable, time deposits, cash and cash equivalents and accounts payable. The major risks associated with these financial instruments are set out below.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum exposure to credit risk of the financial assets of the Fund at the reporting date is equal to their carrying amounts.

To minimise the credit risk arising from time deposits and cash and cash equivalents, all deposits and bank balances are placed with reputable licensed banks in Hong Kong. To minimise the credit risk arising from debt securities, the Fund only invests in those classified under the investment grade by Moody's or Standard & Poor's. Hence, the credit risk of these financial assets is considered to be low.

The credit quality of time deposits and cash and cash equivalents, analysed by the ratings designated by Moody's, at the reporting date is shown below.

	2023	2022
	HK\$	HK\$
Time deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	1,550,190	2,143,601
A1 to A3	23,226,555	6,851,306
Baa1 to Baa3	23,282,823	8,661,642
	<u>48,059,568</u>	<u>17,656,549</u>
	=====	=====

The credit quality of debt securities, analysed by the lower of ratings designated by Moody's or Standard & Poor's, at the reporting date is shown below.

	2023	2022
	HK\$	HK\$
Debt securities, by credit rating		
Aa1 to Aa3 / AA+ to AA-	21,922,660	12,796,709
A1 to A3 / A+ to A-	13,496,190	51,049,936
	<u>35,418,850</u>	<u>63,846,645</u>
	=====	=====

While the financial assets measured at amortised cost are subject to the impairment requirements, the Fund has estimated that their expected credit losses are minimal and considers that no loss allowance is required.

(b) Market risk

Market risk is the risk that changes in market variables such as equity prices, interest rates and currency exchange rates may affect the fair value or cash flows of a financial instrument.

(i) Equity price risk

Equity price risk is the risk of loss arising from changes in equity prices. The Fund maintains a diversified portfolio of investments. The Committee monitors the performance of the portfolio and regularly reviews the investment strategy to manage the equity price risk. It was estimated that, as at 31 August 2023, if the market prices of the respective equity securities had been 10% (2022: 10%) higher/lower, with all other variables held constant, the deficit of the Fund for the year would decrease/increase and the accumulated surplus would increase/decrease by HK\$13,040,000 (2022: HK\$14,290,000).

(ii) Interest rate risk

Interest rate risk is the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's debt securities and time deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus/deficit and accumulated surplus.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to cash flow interest rate risk is small because interest income from financial instruments bearing interest at a floating rate is not significant.

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates. The Fund's financial instruments denominated in currencies other than Hong Kong dollar are exposed to currency risk.

- Exposure to currency risk

The Fund maintained financial instruments denominated in Renminbi totalling CNY35,064,313 (2022: CNY53,718,377) at the reporting date. Since no foreign currency rate hedging is made by the Fund, the carrying amounts of the financial instruments in Renminbi represent the maximum exposure of the Fund to currency exchange risk in respect of Renminbi.

- Sensitivity analysis

It was estimated that, as at 31 August 2023, should the Renminbi strengthen/weaken by 5% (2022: 5%) against the Hong Kong dollar, with all other variables held constant, the deficit of the Fund for the year would decrease/increase and the accumulated surplus would increase/decrease by HK\$1,888,000 (2022: HK\$3,050,000). The 5% (2022: 5%) strengthening/weakening in Renminbi represents the assessment by the Fund of a reasonably possible change in the exchange rate of Renminbi over the period until the next reporting date.

The above sensitivity analysis is based on the assumption that the change in currency exchange rate had occurred at the reporting date and for financial instruments in existence at that date.

(c) Liquidity risk

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

In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effects of fluctuations in cash flows. Hence, the Fund does not have significant exposures to liquidity risk.

As at 31 August 2023, the remaining contractual maturities of all financial liabilities, based on contractual undiscounted cash flows and the earliest date on which the Fund can be required to pay, were one year or less (2022: one year or less).

10. FAIR VALUE MEASUREMENT

(a) Fair value hierarchy of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the reporting date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 “Fair Value Measurement”.

	2023		2022	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Financial assets measured at fair value through income and expenditure account				
Equity securities, at fair value				
– listed in Hong Kong	130,356,054	130,356,054	142,917,723	142,917,723

No financial instruments were classified under Level 2 and Level 3. There were no transfers between levels during the reporting years.

The three levels of the fair value hierarchy are:

Level 1: fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values are determined with inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair values are determined with inputs that are not based on observable market data (unobservable inputs).

(b) Valuation techniques and key inputs

The fair value of financial instruments classified under Level 1 is based on the quoted market prices of these financial instruments at the reporting date, without any deduction for estimated future selling costs.

All other financial assets and financial liabilities are stated in the balance sheet at amounts equal to or not materially different from their fair values.

11. CAPITAL MANAGEMENT

The capital structure of the Fund consists of capital and accumulated surplus. The Fund's objectives when managing capital are:

- to comply with the Grantham Scholarships Fund Ordinance; and
- to maintain a strong capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund manages capital to ensure that its level is sufficient to fund future grants and expenditure, taking into account its projected cash flow requirements, future financial obligations and commitments.

12. COST OF ADMINISTRATION OF THE FUND

The cost of administration of the Fund, other than salaries and fees paid under section 11(2) of the Grantham Scholarships Fund Ordinance, shall be a charge on the general revenue of the Government of the Hong Kong Special Administrative Region in accordance with section 12(1) of the Ordinance.