

“Where does  
money come  
from?”

Annual Report 2009



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



Where does  
**money**  
come from?

Our CPAs are teaching a generation of young people how to handle money – about why it's important and why it's not *too* important...



“Trees?”

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*This annual report covers the Institute's financial year (1 July 2008 – 30 June 2009) in the financial statements and reporting year (19 September 2008 – 18 September 2009) in the text unless stated otherwise.*



## ■ Introduction

The Hong Kong Institute of Certified Public Accountants has been, since 2005, sending CPAs to primary and secondary schools to teach young people money values and skills. At the Institute, we say a CPA is a “success ingredient” in a career, in the business world, and in society as a whole.

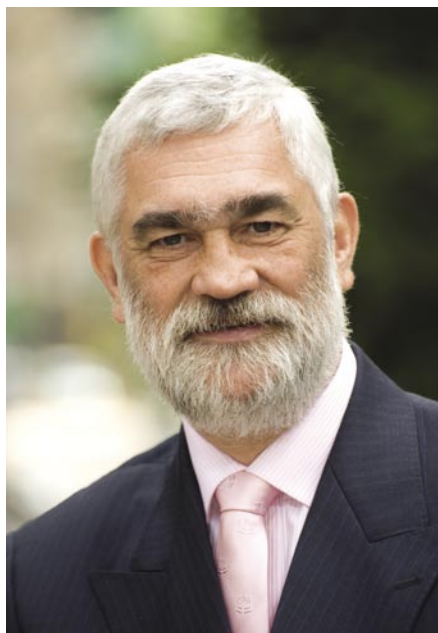
Our CPAs are teaching a generation of young people how to handle money — about why it’s important and why it’s not *too* important. For Hong Kong families, that’s a powerful message, and one we used as a centerpiece for our advertising campaign this year. This was due in part to the financial crisis, a time when the community at large needs to know that CPAs are doing their share to help.

The photo shows how we covered Hong Kong’s tram cars, one of the city’s enduring icons, with May Moon, the heroine of the storybook *May Moon and the Secrets of the CPAs*, and messages about learning good money values.

In this annual report, you’ll meet some of the children our CPAs have met and hear some of their real-life answers to questions about money.

We owe a special thanks to King’s College Old Boy’s Association Primary School No. 2 in Hong Kong, for allowing us to film part of our documentary, “The Money Secrets of Children,” and to photograph their students.





“During my term it has been important for the Institute and the profession to demonstrate a strong commitment to the public interest...”

— Paul F. Winkelmann  
President

## ■ President's report

Dear members,

This year our skills – from cash management to treasury to audit to tax to insolvency – proved invaluable to our clients and our companies. In fact, the profession, and the Institute, have emerged from 2009 in a strong position. The Institute has improved its corporate governance, taken on important public interest campaigns, expanded member participation and worked for the adoption of new standards.

During my presidency, the financial crisis did not interfere with the progress of the Institute. In dealing with the crisis, we issued technical updates for members to help them help their clients cope and for individual members, the Institute stepped in with continuing professional development designed to keep their professional skills fresh and arm them with job seeking skills.

We used our financial surplus to invest in projects that will make members' CPA designation more valuable and used the rest to give members a one-off fee rebate.

Several priorities I set for my presidency I can say I have accomplished, the most significant of which is the refashioning of the Institute into a management-led organization. The council is freed from day-to-day management of

the Institute and can now focus on strategic issues, giving better oversight to the Institute and the profession. After streamlining committees, we've liberated the management to organize more forums and member gatherings to deliver real value to a greater number of members. As an example, the professional accountants in business are regularly holding “fireside chats,” small gatherings where members can learn about various industries.

I myself have had more time to meet with members and I have hosted dozens of dinners, especially with SMPs and PAIBs, to talk about members' perspectives on issues ranging from the Institute's services to standard setting to opportunities on the mainland.

During my term it has been important for the Institute and the profession to demonstrate a strong commitment to the public interest and I have done this on several issues.

First and foremost are the efforts I've spearheaded for liability reform. With Hong Kong's standing as a fully established financial centre, and one that is open to investors throughout the world, it is imperative we gain some reform to our liability regime. A strong audit profession gives investors confidence in financial reporting.

Conversely, the failure of a big firm in Hong Kong could cause havoc in Hong Kong's markets and damage our reputation overall. Most sophisticated jurisdictions have some sort of liability reform, including the mainland, leaving Hong Kong behind and its risks high.

This year I've met with stakeholders ranging from the Consumer Council to the chambers of commerce, seeking their views and common ground. Their representatives agree with us and want Hong Kong's capital markets to grow and prosper. While we knew we would not be able to pass legislation this year, the campaign has begun to raise awareness of the necessity for reform and I shall continue the campaign next year as chair of the liability reform working group.

Raising audit quality was another public interest item on my agenda. To accomplish this, we issued a consultation about changing the way we award practising certificates. Raising audit quality is what is expected of us as professionals and we cannot let Hong Kong down in this regard. While this was not completed during my term, the discussion has started and I expect it will come to fruition soon.

On the standards front, we worked for many years with the International

Accounting Standards Board on International Financial Reporting Standards for private companies. The IASB took into consideration shortcomings we found in the consultation stage and I am of the view that the standard is a usable, sturdy standard for private companies, and does the job it is meant to do. In Hong Kong, it fills the gap between full IFRS and the Small and Medium Enterprise Financial Reporting Framework. It will be a useful option for many companies.

In April, the G20 nations met to decide on how to steer the world out of the financial crisis. We provided assistance to our partners in the Global Accounting Alliance, whose members are influential with their governments. We also liaised with our own government which, despite not being a G20 member, was given the opportunity to help China articulate its views.

Finally, I said that during my presidency I would monitor the fifth long range plan, guiding the Institute according to its goals and mission. We have brought its governance structure closer to that of a top-tier accounting body. We have given leadership in serving our membership and the community through our campaigns for liability reform and our efforts to raise audit quality. We have improved

our relationship with our government, with China and with international organizations. For communications and branding, the Institute is more visible than ever, with its voice being heard clearly and distinctly.

For this, I'd like to thank my vice presidents, Wilson Fung and Susanna Chiu, for their support, and all council members, for helping to drive through the changes we've been able to achieve this year.

I'd like to thank the Institute's management for their assistance this year, most especially Winnie Cheung, whose energy and commitment are at the heart of the Institute.

I thank all the members who took time to meet with me and give me their views. I thank all members who devoted time and energy to the work of the Institute and the profession. Together, our work has made a difference.



Paul F. Winkelmann  
President



## ■ Chief Executive's review

Dear members,

Our profession weathered this financial crisis remarkably well and your Institute emerged in solid financial shape.

At the financial year end in June 2009, we had a net asset balance of HK\$283 million and our property was worth HK\$202 million. We are loan free and had HK\$175 million cash on hand.

Our membership is the highest it has ever been with nearly 29,000 members at the end of June 2009. Our student numbers are healthy at 13,580 on the same date and we graduated a record number of QP students this year – 1,656 – at the 10 year anniversary of the qualification programme.

In 10 years, we have registered 18,000 students into the QP – starting with 99 in 1999 – and have graduated 5,200. We now take in about 3,000 prospective accountants per year. Eighty percent of accounting graduates from Hong Kong universities choose to qualify as accountants with the QP.

The pool of talented young men and women graduating from our qualification programme keeps growing, taking with them to the business world the Institute's values of

professionalism, integrity, expertise, quality and thought leadership.

This year, we invested in a brand campaign to take advantage of the bargain rates available during a recession. In order to show how CPAs are contributing to a stronger society, we showcased our "Rich Kid, Poor Kid" corporate social responsibility programme, where our accountants visit schools to teach children and teenagers money skills and values. During troubled economic times, it's important for people to know that accountants are doing their part. We reached nearly four million people through television and print, and extended the campaign by branding three tram cars with our message. The campaign created media stories estimated to reach another 1.3 million people, including an exclusive feature on NOW TV. In research we commissioned, more than half the people who viewed the ads said they had a good impression of CPAs.

On the regulation front, we have now resolved most of our backlog of complaints and investigation cases. Some cases were released due to lack of evidence, some were settled and others issued with disapproval letters or referred for disciplinary actions.

“This year we exercised careful stewardship of our finances, and shared our success with our members by returning HK\$11 million of fees while investing for the future.”

– **Winnie C.W. Cheung**  
Chief Executive



Under our new and improved complaint handling and disciplinary processes, we are progressing cases in a much more speedy and efficient manner. We have indeed turned a new corner.

Our shared regulatory regime is working well. The Financial Reporting Council now has the powers of investigation over listed companies and their auditors and we have been working closely with this body over the course of the reporting period.

Sound financial management of the group's resources meant we could return some of our surplus to our members. We have done this through a fee rebate and an injection of cash to the HKICPA Trust Fund. In addition, we are investing in several significant projects over the next two years that will benefit members and aim to raise members' skill sets.

The first project is a technical advisory and training service for members and the second is building our research and development capabilities. The third is to invest in technology and facilities to better deliver training, especially CPD and specialist qualifications. The fourth will be investments in our qualification programme to keep it at the forefront

of international qualifications for financial centres.

We will continue to invest significant resources in our international and China relations, particularly on our convergence project, which is maintaining the convergence among Hong Kong, international and China standards. The convergence project is of enormous importance as Hong Kong forms ever closer ties with the mainland and as the mainland's global economic importance increases.

Our practice review programme hit a new record, reviewing more than 100 practices this year, an all-time high for the Institute. Most practices reviewed have told us it is a positive experience for them, saying they have found new and better ways to manage their practices and reduce their risks. In turn, this is raising audit quality in the public interest.

We have invested a great deal of time into liability reform this year, which is an ongoing project. Hong Kong needs this reform because we are leaving the audit profession unprotected in the face of very high risks. We will continue this project and recognize it is a long term proposition before the laws of Hong Kong can be changed.

Last, I'd like to mention our re-configuration into a management-led organization. This has been fruitful and I trust members have seen – or will soon see – the benefits of this shift. Our management team is now putting time into actions that directly benefit members in organizing conferences, forums and small get-togethers where members can learn, hone their skills and get to know each other better.

Our management team is very solid and one highly capable of leading the Institute. I am grateful to them for their efforts this year. I am grateful to the many member volunteers whose time and effort put this Institute in the top ranks of any institute in the world. They are truly "success ingredients."

Sincere regards,



Winnie C.W. Cheung  
Chief Executive

“We have a special responsibility to make sure our financial reporting is at the highest level.”

## ■ Operation and finance

Good corporate governance and solid reporting are the foundation of every successful organization. As the guardians of Hong Kong’s treasure house, we have a special responsibility to make sure our financial reporting is at the highest level, our operations smooth and transparent, and our finances open to public scrutiny.

Review and improvement of our internal polices, procedures and guidelines have taken place as our organization expands. Expansion of our offices on the 37th floor of Wu Chung House has enabled the Institute to fill a significant number of vacant positions. The Institute now occupies the whole of 27th floor and 37th floor of Wu Chung House (approximately 50,000 sq. ft.) and

our number of staff in the group has grown from 164 to 191 during the year ending 30 June 2009.

Our members’ lounge reopened in September 2008. The revamped lounge, now under our direct management, offers members and staff a refreshing alternative for breakfast and lunch catering as well as supporting member activities.

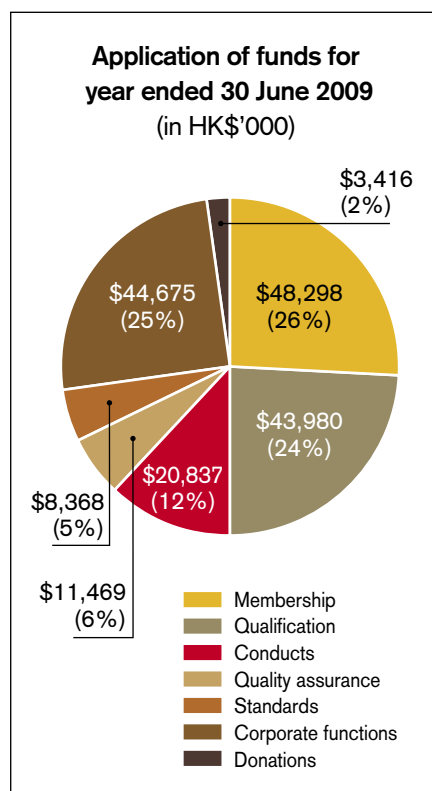
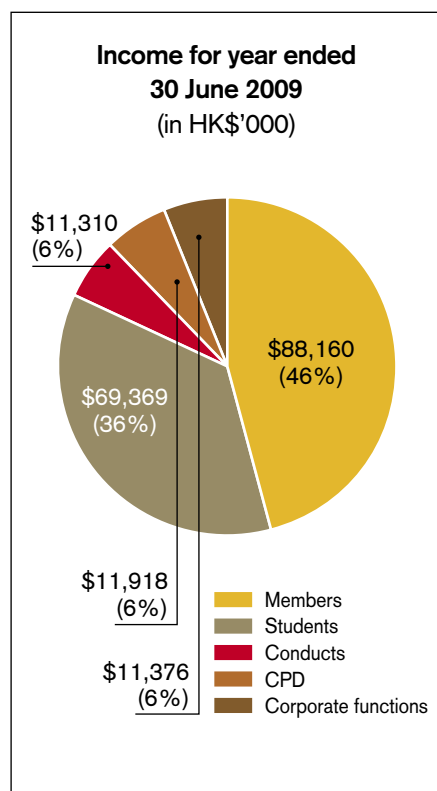
The financial results for the year ended 30 June 2009 report an increase of HK\$24 million in our net asset position.

This year we exercised careful stewardship of our finances while investing for the future.

At our financial year end in June, we had a considerable surplus of HK\$29 million for the year. The council decided to give members who had contributed to the surplus a one-off rebate of HK\$380, which came to a total of HK\$11 million. We also injected HK\$3 million into our HKICPA Trust Fund to support members in financial hardship.

The remaining after tax balance of HK\$15 million will be invested in four major projects over the next two years aimed at raising members’ skill sets.

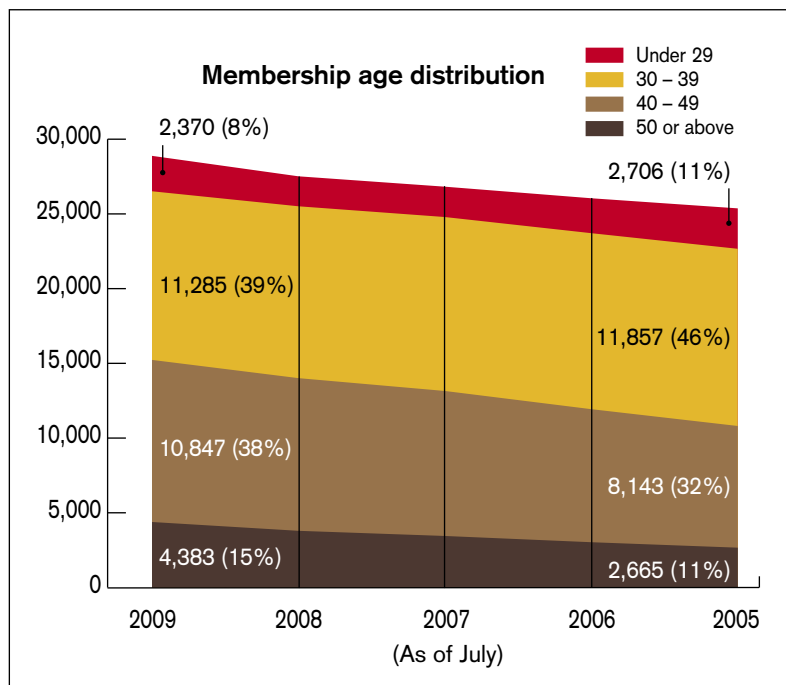
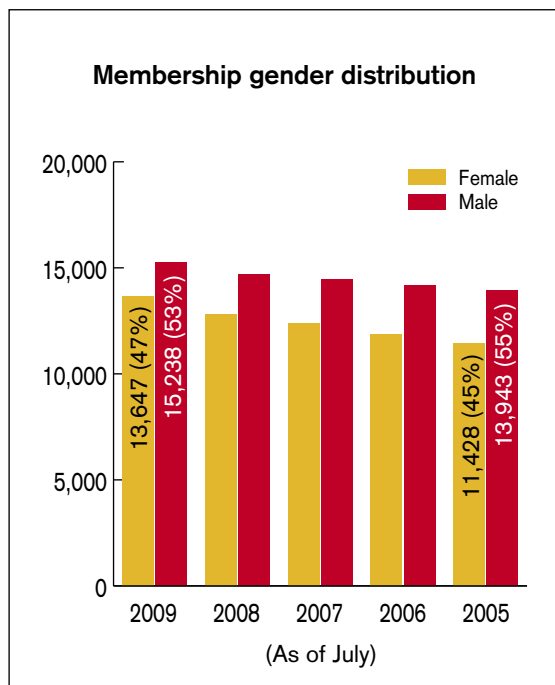
Our financial reporting is reviewed constantly to ensure all relevant standards are adopted early and properly reflected in the annual report. This year we adopted HKAS 17 early, which deals with the presentation of prepaid land lease expenses as a financial asset.



A young girl with dark hair tied back, wearing a dark blue school cardigan with red trim and a red tie, looks thoughtfully to the side. The background is a blurred school hallway.

Are you rich?

“I’m rich but  
not *that* rich.”



## ■ Qualification and membership

Membership of the Hong Kong Institute of CPAs is a prestigious passport in the international business world. Our students need to gain the ability to be “success ingredients” in their training through our rigorous qualification programme. But that’s not all – they also learn it’s a lifetime commitment to uphold the highest standards throughout their careers.

Aspiring accountants realize that being part of our membership can help them meet their career goals. This is why our membership continues to climb and stood at 28,885 in July 2009.

Number of members:	<b>28,885</b>
Number of practising members:	<b>3,705</b>
Number of firms and corporate practices:	<b>1,477</b>
Number of prospective accountants:	<b>13,580</b>
(As of July 2009)	

### Qualification

Over the past decade our QP has become the preferred programme for Hong Kong’s accounting graduates. It

is now at the forefront of international qualifications for global financial centres, enabling our students to spread their success stories across the world.

The figures speak for themselves: QP graduate numbers rose 35 percent to more than 1,600 during this reporting period, and we had 13,580 registered students in July 2009.

We marked the 10th anniversary of QP this year by completing a top to bottom review of the programme, which brought international best practice and talent development ideas to update and improve our students’ competency. The

changes resulting from the review will start from September 2010, and will help us produce even more outstanding CPAs.

We are planning to upgrade QP resources to help students, such as study materials, training for workshop facilitators and improved online learning. We are recruiting workshop facilitators, and now have close to 600.

The number of authorized employers rose from 1,066 to 1,129, while the number of authorized supervisors increased from 1,669 to 1,785.

For students who do not work under an authorized employer or supervisor, we assign them an external supervisor to oversee their training. At the end of the reporting period, 119 supervisors and 48 students had joined this scheme.

Since QP started, we have accredited accountancy programmes offered in Hong Kong by tertiary institutes, and now there are 48 such programmes. This year for the first time we extended accreditation to accountancy degree programmes offered by two mainland Chinese universities.

Signing of the fifth supplement of the Closer Economic Partnership Arrangement (CEPA) extended examination paper exemptions between Hong Kong and PRC CPA professional examinations, making it easier for accountants to broaden their qualifications and licences between mainland and Hong Kong.

We now offer QP in four mainland cities, as this year Xiamen joined Beijing, Shanghai and Guangzhou as QP centres.

To-date, about 200 Chinese CPAs joined the QP through our mutual examination paper exemption agreement with the Chinese Institute of CPAs.

### Accounting technicians

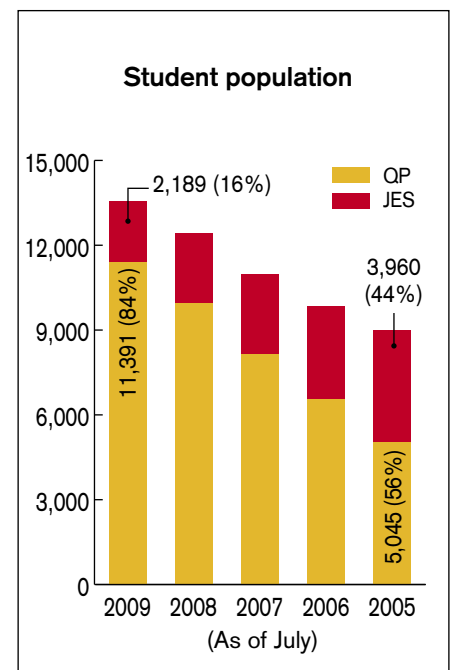
The Institute's subsidiary, the Hong Kong Institute of Accredited Accounting Technicians Limited, celebrated its 20th anniversary this year with a new approach to its qualification introduced in June 2009. This new qualification framework is set to establish HKIAAT membership as a valid and valued designation in its own right.

A new, blended learning degree programme, the result of collaboration between the Open University of Hong Kong and the Hong Kong Institute of CPAs, gives accredited accounting technicians the opportunity to study for a bachelor's degree in accounting.

The HKIAAT signed a reciprocal membership agreement (RMA) with AAT Australia this year, the second after our RMA with UKAAT in 2006.

The HKIAAT professional bridging examination has more than 1,034 students, out of which 545 accredited accounting technicians have become eligible for entry to the QP.

“The QP is at the forefront of international qualifications, enabling our students to spread their success stories across the world.”





“As the profession and business environment matures, our members are moving into specialized areas.”

### CPD and specialization

Our members know they need to invest in their careers by updating their professional, technical, leadership and management skills. The Institute offers training that allows them to fulfill their potential as “success ingredients” in this ever-evolving business environment.

### Continuing professional development

During the reporting period we offered 418 professional development activities, including 309 face-to-face events and 109 e-learning opportunities. These events attracted more than 43,000 enrolments.

November 2008 marked the end of the first rolling three-year CPD cycle, in which members have to fulfil certain requirements, and we supported members by holding courses to help them understand and meet these requirements.

Given the demand to maintain professional capabilities during the economic downturn, we held a series of seminars free-of-charge to keep members’ technical and soft skills fresh, and for those whose jobs were displaced by the crisis, seminars to brush up job-seeking skills. All 1,120 places on these seminars were taken. For our members who are out of work, we are providing up to 5 percent of places free-of-charge at selected CPD events. This programme runs from May to December 2009.

We have successfully obtained funding from the government’s Professional Services Development Assistance Scheme to introduce an online post-qualification competency development tool. The tool will assist members in identifying

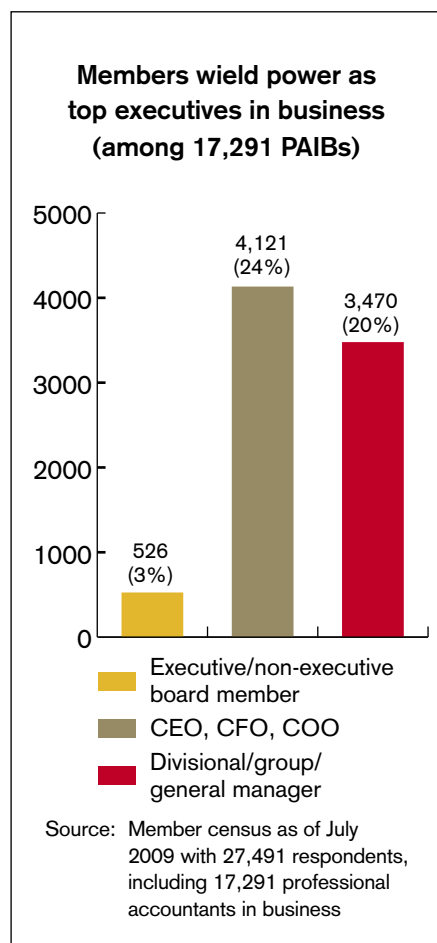
competencies and some resources for their career development.


### Specialization

Hong Kong’s accounting profession is maturing and more of our members are moving into specialized areas. Our specialist interest groups, such as in corporate finance and taxation, give members opportunities to gather and learn from experts and from each other.

Last year we established our first specialist faculty, for restructuring and insolvency practitioners. This year we developed a newsletter for faculty members called “*The IP’s Voice*.” We also reintroduced our popular preparatory I and preparatory II insolvency courses – well timed considering the economic environment. Experienced Hong Kong insolvency professionals taught both theory and practice in these courses.

For in-depth insolvency study, we restarted our diploma in insolvency programme in September 2009. This one-year part-time course is an in-depth, practical study of insolvency administration and covers liquidation, corporate rescue, restructuring and personal insolvency. Passing the programme is recognized by the Official Receiver’s Office as the equivalent of 50 hours of insolvency experience for some of its schemes. The programme is partially reimbursable by the HKSAR government’s Continuing Education Fund and is accredited by the Law Society of Hong Kong. An external, independent review of the diploma programme has been carried out with a view to it becoming our first specialist qualification.



A young girl with dark hair, wearing a pink floral headband, a white collared shirt, a red tie, and a dark blue cardigan with red trim. She is smiling broadly, showing her teeth. The background is blurred, suggesting an indoor setting like a classroom.

How much  
money do you  
need to be rich?

“One hundred bucks  
– *and* dollars.”

## Advocacy and member services

The advocacy and thought leadership given to members by the Institute helps define the business environment in which our members operate, and at the same time, allows them to advance their careers in a respected circle of influence that encompasses business, government and regulatory leaders.

This year we made a submission to the Hong Kong government for inclusion in its assistance to mainland China before the G20 meeting on the financial crisis in April. We exchanged views with our Global Accounting Alliance partners for inclusion in their own submissions to their respective governments.

We submitted our proposals on the government's 2009-10 budget to the financial secretary, and on budget day, we held a media briefing and a members' forum at which both the Secretary for Financial Services and the Treasury and the accountancy legislative councillor spoke.

“We define the atmosphere in which our members operate and at the same time allow them to advance their careers in a respected circle of influence.”

Our annual meeting with the Commissioner of Inland Revenue enables us to represent the views of the accountancy profession. We periodically meet the Hong Kong Exchanges and Clearing listing division to discuss corporate finance issues.

The economic climate has turned attention to insolvency issues and we are identifying reform areas for the legislative provisions for company winding up under the Companies Ordinance rewrite project, and are updating our draft statement on professional ethics in insolvency.

Our push for professional liability reform is steadily progressing and during the reporting period we reconstituted a dedicated working group, developed a coordinated plan with strong messages, and set it into motion in a series of meetings with stakeholders.

Among our many discussions with regulatory bodies and stakeholders, we commented on the exchange of information in double taxation agreements, changes to board of review procedures, and revisions to the IRD practice note on source of profits; the Companies Ordinance rewrite; government policy proposals on the review of the deposit protection scheme and Hong Kong Exchanges and Clearing consultations on changes to filing and checklist requirements for listing securities; and International Federation of Accountants' professional accountants in business projects. We also looked at consultations from HKEx on rights

issues and open offers and FSTB on changes to the Trustee Ordinances.

We organized regular discussion forums for Hong Kong and mainland tax, corporate finance and issues of interest to professional accountants in business, a core group of our membership.

We held joint seminars with the Narcotics Division to increase awareness of anti-money laundering requirements for accountants. We are also analyzing a brief on suspicious transaction reporting and we advised the division on basic anti-money laundering guidance for non-financial businesses and professions.

We reinstated our annual information technology conference, which proved very popular with over 400 attendees.

We held a number of events and activities to support our small- and medium-sized practices. The SMP forum on practice review findings was very popular, leading us to re-run it twice. Other well-attended events included the SMP forum on the clarity project and the 2008 SMP symposium.

Our recreational activities are aimed at fellowship, networking with our stakeholders, and at helping our members find a balanced lifestyle. We formed a sports and recreational club to bring our existing sporting and recreational activity groups under one umbrella and are publishing an e-newsletter to provide members with information on its events.

## ■ Standards and regulation

As the statutory licensing body of CPAs in Hong Kong, we are responsible for making sure our members adhere to professional standards. By demonstrating our commitment to the highest possible standards, we maintain a regime that commands public trust and confidence.

### Standard setting

We maintain full convergence with international standards on financial reporting, auditing and assurance and professional ethics. From 1 July 2008 to 30 June 2009, we issued:

- More than 10 updates to members' handbook on revised standards and interpretations, including some of the Hong Kong clarified pronouncements on auditing.
- A total of 20 detailed comment letters on international proposals.

International standard setters expect us to raise issues of concern to Hong Kong and the mainland. Our activities during the period included:

- Participating in the world standard setters' meeting in London.
- Participating in national standard setters meetings in London and South Africa.
- Supporting the Institute's representatives on the IASB standards advisory council.
- Participating as a full member of the newly established Asian-Oceania standards setters group.
- Participating at bi-annual tripartite meetings with the IASB and China's Ministry of Finance.

Locally we held joint forums on financial reporting and auditing issues with the Securities and Futures Commission, the Law Society of Hong Kong and Immigration Department on areas of mutual interest.

We support members in coping with increasingly demanding professional standards by:

- Regular technical update evenings
- Financial reporting forums
- Technical enquiry system
- Staff summaries of newly released standards
- Explanatory material published monthly in TechWatch, in our weekly e-circular and our magazine, *A Plus*
- Financial reporting and auditing alerts
- Our SMP and SME Resource Centre

### Quality assurance

We monitor the quality of audit and assurance work performed by our members on two tracks – practice review and professional standards monitoring. Taken together, these tracks reveal areas for improvement and members' concerns. We use this knowledge to develop training programmes and other support activities.

### Practice review

Our practice review programme is risk-based. Our reviewers visit audit firms where we review the firms' systems of quality control and a sample of completed audit engagements. Our priority every year is reviewing auditors of listed companies and other public interest entities.

During the period from 1 July 2008 to 30 June 2009 we started 153 site visits and our practice review committee considered 120 reports. In most cases where problems were identified, we asked the firms involved to prepare remedial action plans and the effectiveness of these plans are confirmed by follow-up reports submitted by the firms or from additional site visits.

### Professional standards monitoring

During the period we reviewed 140 sets of financial statements of listed entities and sent 111 letters of enquiry to auditors.

### Compliance

The efficiency of our disciplinary process is improving while at the same time we are improving transparency and maintaining impartiality.

### Professional conduct committee

This has been the first full year of operation for the professional conduct committee, which adjudicates minor complaints while referring serious cases to the council to determine whether to refer to disciplinary panels.

“We maintain a regime that commands public trust and confidence.”

“Our voice is respected in international standard setting circles and we are expected to raise issues of concern to Hong Kong and the mainland.”

#### **Case handling**

We recognize that prompt action on complaints is important in retaining public trust. During the period we eliminated the backlog of old cases brought forward from prior years. All existing cases are being dealt with in accordance with targets.

Eighty-seven complaints were resolved during the period as follows:

- Fifty-three were closed as no prima facie case was established.
- Eight could not be pursued as the subjects of the complaints were not members.
- Thirteen disapproval letters were issued.
- Twelve more serious matters were referred to the council for its consideration of whether to refer them to disciplinary panels.
- One was referred to the practice review committee for its consideration.

Of the 14 investigations open at the start of the period, five were concluded, including two which were sent to disciplinary committees for their consideration.

Thirty disciplinary proceedings were in progress at the start of the period. We started work on another 14 cases and finalized 16 during the year to 30 June 2009.

#### **Financial Reporting Council**

We have continued to work closely with the FRC in line with our memorandum of understanding.

## ■ **China and international**

Our enviable position as a link between East and West influences the spheres in which our members work and the Institute and our members take an international view in the way we mould our profession and do business.

### **China**

As the accounting professions in China and Hong Kong grow closer, one of our priorities is giving our members more opportunities in and access to the mainland market.

Our standing as an acknowledged leader is important to our colleagues in the mainland and we are making progress maintaining the important task of China’s convergence with Hong Kong and international accounting and auditing standards.

This progress is based on our reputation and the relationships we have fostered with mainland authorities and our accounting colleagues there. We regularly visit the Ministry of Finance, China Securities and Regulatory Commission and the Chinese Institute of CPAs to strengthen these ties.

The Institute has been involved in the preparatory work with mainland and Hong Kong regulators and authorities leading up to the Hong Kong stock exchange’s proposal to allow mainland companies listed in Hong Kong to use mainland accounting standards and auditors. The exchange maintains this will increase Hong Kong’s market efficiency because mainland





Who do you  
think is rich?

“My cousin Bob!”

firms will no longer need to prepare two sets of books and employ two auditing firms. The Institute's involvement is an extension of its work in respect of convergence of mainland accounting and auditing standards with those of Hong Kong.

Together with the Chinese Institute of CPAs, we co-organized two Accounting Services Cooperation Forums, part of the 2nd and 3rd Hong Kong China International Service Trade Symposium organized by the mainland's Ministry of Commerce.

We improve our members' professional skills and knowledge of mainland matters through articles and forums; this year this included seminars organized with the Hong Kong Trade Development Council.

## International

We speak loud and clearly on international affairs and exert an

influence that extends beyond the Institute's size.

We are fully represented on international accounting and related bodies and our representatives take an active and assertive part in these. This includes contributions to meetings hosted by the IASB, IFAC, INSOL and the Asia Oceania Tax Consultants' Association. We hosted an important meeting of IFAC's professional accountants in business committee in Hong Kong, and took the opportunity of committee members' presence to host a corporate governance forum which was well attended.

We also held roundtables with IASB executives on new exposure drafts such as that on IAS 39 *Financial Instruments: Classification and Measurement*.

Our members have a passport to the world's greatest capital markets through the Institute's partnership in the Global Accounting Alliance and International

Innovation Network. We work with our GAA and IIN partners to improve services for our members. During the reporting period, we co-organized with GAA, a timely and relevant Asian roundtable on accounting standards in Beijing, at which one of the leading participants was the IASB chairman.

We build strong ties with overseas colleagues through meetings and participation at forums of accountancy and independent regulators.

Other significant events we took part in during the reporting period were Asian roundtables on the global financial crisis, a conference in London on accounting for sustainability, a visit of the Hong Kong Coalition of Professional Services to Taiwan, a Hong Kong delegation to Foshan and Guangzhou led by the chief secretary, and a Hong Kong delegation to Shanghai led by the Secretary for Financial Services and the Treasury.

### Institute representatives on international, regional and other professional bodies:

- International Federation of Accountants (IFAC)  
**Albert Au** (*member of small and medium practices committee*)  
**Susanna Chiu** (*member of professional accountants in business committee*)
- International Accounting Standards Board (IASB)  
**Paul Chan** (*member of non-publicly accountable entities working group*)  
**Marvin Cheung** (*trustee of IASC foundation*)  
**P. M. Kam** (*member of standards advisory council*)  
**Peter Kilgour** (*member of working group on lease accounting*)
- Global Accounting Alliance (GAA)  
**Winnie Cheung** (*board member*)
- International Association of Restructuring, Insolvency & Bankruptcy Professionals (INSOL)  
**Bruno Arboit** (*board director*)
- International Innovation Network (IIN)  
**Georgina Chan** (*member*)
- Institute of Chartered Accountants in England & Wales (ICAEW)  
**Peter H.Y. Wong** (*council member*)

“Our members have a passport to the world's greatest capital markets through the GAA.”

A close-up portrait of a young boy with a thoughtful expression. He is wearing a dark blue school sweater with red and white stripes on the V-neck, a white collared shirt, and a red tie with a crest. The background is blurred, suggesting an indoor setting like a school hallway.

Is there  
anything you  
can't afford?

“I think I can't afford to keep a  
**Kangaroo.**”

KCOBAPS  
No. 2



“Part of our public interest remit is to show the contributions accountants make to society.”

## ■ Communications and branding

The financial crisis was the main news story of the year and the Institute did its part to add its voice to that story, broadly communicating its views to the public via media briefings and workshops on our stance on government initiatives and our members' views.

The media reporting of our point of view keeps increasing every year as the Institute is more widely viewed as the voice of the profession in Hong Kong. We do this by clearly articulating the Institute's perspective on emerging issues and the views of our members. This is also part of our public interest remit as we strive to demonstrate the contributions accountants make to financial markets.

We work to make a broad public understand difficult accounting and auditing issues and to portray our members as the “success ingredients” they are to Hong Kong's economic and social life.

We do this through our dialogue with the news media and regular communications to our members, including our regular electronic newsletter and our respected magazine, *A Plus*, which has become source of news for the mainstream media on topics relating to the profession and our members.

We frequently query our members, gathering their views and reflecting these to the public. An example this year was our survey looking into how our members were faring during the downturn. We also asked our most senior members in listed companies about their strategies for managing during the downturn and gave those views back to businesses and the public by releasing this information to the media and posting it on our website.

As an added reassurance to the public about the contributions CPAs make to society at large, we built an advertising campaign around our community service project, “Rich Kid, Poor Kid.” In television and print advertisements, we showed how our members are going to schools to teach kids eight to 18 the basics of money management.

Our annual reports have won international accolades two years in a row, with the 2007 report winning four top awards in different categories and the 2008 report gaining two, for writing. The awards are based in the U.S. but are international. Called the Mercomm ARC awards, they are heavily competed for by organizations in more than 150 countries.

## ■ New governance and operational structure

The Institute's fifth long range plan commits our organization to modernizing our operations and in this corporate governance statement, we are focusing on changes this year rather than a detailed look at our governance structure. This year, we introduced a new governance model, which consists of a supervisory arm and an executive arm, under the direction of council. The aim is improving efficiency of operations and decision making by developing a structure and culture that will enable the Institute to operate as a "management-led" organization, adopting features in line with similar modern professional and regulatory bodies. In practical terms this means re-allocating decision making and operational responsibility from council and committees to management, thereby allowing council to focus on strategy and policy. A new structure for applying members' expertise in the Institute's work has been introduced to make involvement wider, more direct and more meaningful.

### The governing council

The council sets strategy and direction and exercises oversight of the operation and governance of the Institute.

### Supervisory arm

The supervisory arm consists of the audit committee and four accountability boards to ensure management is doing its job in accordance with strategies and policies

determined by council and in the public interest. Each accountability board reviews plans, budgets and progress reports from management and advises council about performance and operations. The four boards look after these broad functions of the Institute: regulation, standards and quality, qualifications and member services.

The audit committee oversees the Institute's financial reporting, internal control and risk management. It is comprised of three former presidents of the Institute, a retired member, and a lay council member.

### Executive arm

The executive arm is headed by the chief executive, who recommends and executes strategy and policy for council with an executive committee. The executive committee is chaired by the chief executive and consists of the two executive directors in charge of the four functional areas of standards and regulation, and qualification and membership, and the heads of legal, finance, communications and corporate services. The president and vice presidents are ex-officio members. Management operates with a network of statutory, decision-making and advisory committees and panels and makes reports to the accountability boards.

### Good corporate governance

The Institute is committed to high standards of corporate governance in the

interest of members and the public and considers itself as an example to others in this area.

Council is comprised of 23 members, 14 of which are CPAs elected by the membership and two are ex-officio members from the government. The immediate past president is also a member. Council members have the opportunity to co-opt an additional two CPAs, which allows them to round out the skill sets on council. Four are lay members appointed by the government, who are prominent and strong members of the business community. They provide independent views and advice to council. All are volunteers and none receive remuneration. Council meets monthly except for the August recess and has full and timely access to relevant information. They debate matters important to the profession and the Institute and make decisions on strategy and policies and all matters brought to them by the ExCom, the accountability boards and the audit committee. The president chairs council and together with the two vice presidents and the chief executive form the leadership team of the Institute.

As part of our regulatory role, we have five statutory boards and committees. Currently, these are the registration and practising committee, the examinations board, the practice review committee, investigation panels and disciplinary panels.





■ Council



**Elected members**

1. Paul F. Winkelmann (*President*)
2. Wilson Fung (*Vice President*)
3. Susanna Chiu (*Vice President*)
4. Albert S.C. Au (*Immediate Past President*)
5. Tsai Wing Chung, Philip
6. Chew Fook Aun
7. Doug Oxley
8. Cho Lung Pui Lan, Stella
9. Ronald Kung
10. Keith Pogson
11. Clement Chan
12. Ding Wai Chuen, Raphael
13. Mabel M.B. Chan
14. Jack S.L. Chow

**Government-appointed lay members**

15. John C. Poon
16. Ambrose Cheung Wing Sum
17. Catherine K.C. Leung
18. Edith Shih

**Co-opted members**

19. Betty Yuen
20. Nancy S.L. Tse

**Ex-officio members**

21. Ada Chung, Representative of the Financial Secretary, Government of the HKSAR
22. K.T. Li, Director of Accounting Services Government of the HKSAR

**Chief Executive & Registrar**

23. Winnie C.W. Cheung

■ Management team



**Chief Executive & Registrar**

1. Winnie C.W. Cheung

**Executive directors**

2. Georgina Chan **Qualification and education**
3. Chris Joy **Standards and regulation**
4. Johnny Chan **General counsel**

**Directors**

5. Mindee Hansen **Communications**
6. Philip Hilliard **Compliance**
7. Patrick Tam **Member and corporate services**
8. John Chiu **Operation and finance**
9. Alison Wilde **Professional development**
10. Peter Tisman **Specialist practices**
11. Steve Ong **Standard setting**
12. Jonathan Ng **Student education and training**

## ■ Committees and working groups

<b>Statutory boards / committees</b>	<b>Chairman / convenor</b>
Registration and practising committee	Paul F. Winkelmann
Examinations board	Doug Oxley
Practice review committee	Wilson Fung
Investigation panel (A) & panel (B)	Lee Wai Yin, Angela, J.P.
Disciplinary panel (A) & panel (B)	Anthony Chan, S.C.
<b>Non-statutory boards / committees</b>	<b>Chairman / convenor</b>
Audit committee	P.M. Kam
Professional qualifications accountability board	John C. Poon
Member services accountability board	Susanna Chiu
Standards and quality accountability board	Paul M.Y. Chow
Regulatory accountability board	Gordon W.E. Jones
Accountancy accreditation board	Tsai Wing Chung, Philip
Financial reporting standards committee	Paul F. Winkelmann
Auditing and assurance standards committee	Keith Pogson
Ethics committee	Tsai Wing Chung, Philip
Restructuring and insolvency faculty executive committee	Johnson Kong
Taxation committee	Ayesha Macpherson
Corporate finance committee	Richard Winter
Professional conduct committee	Keith Pogson
HKIAAT board	Johnson Kong
<b>Advisory working groups</b>	<b>Chairman / convenor</b>
Professional liability reform working group	Paul F. Winkelmann
Continuing professional development advisory panel	Clement Chan
Professional accountants in business advisory panel	Wilson Fung
SMP leadership panel	Mabel M.B. Chan
Five expert panels on banking, China standards, insurance, professional standards, and securities and investment funds	—

*For full composition, please visit the Institute's website [www.hkicpa.org.hk](http://www.hkicpa.org.hk)*

## ■ Vision and mission

### Vision

The Institute is recognized globally as the pre-eminent body of top-tier accountants that leads and serves businesses and the public interest of Hong Kong.

### Mission

The Institute will contribute to and influence the future of the global profession. It will contribute to the development of the profession on the mainland. The Institute will give clear, decisive and innovative leadership to Hong Kong's accountancy profession. It will support Hong Kong's role as one of the world's leading financial centres and will uphold the core values and public spirit of accountancy.

### Values

Professionalism, integrity, expertise, quality, thought leadership.

### Strategic goals

1. Our governance structure befits a top-tier accounting body.
2. Our qualification is a premier designation internationally recognized by all stakeholders.
3. Our regulatory regime commands public trust and confidence.
4. Our ideas, products and services provide clear, decisive and innovative leadership to serve the needs of our members and the wider community.
5. Our presence in the mainland and global forums enhances Hong Kong's unique role as the international gateway to China.
6. Our statutory roles, missions, values and distinctive brand of "The Success Ingredient" are effectively communicated to a broad audience.


### Our logo

The Institute's logo signifies a bold optimism and readiness to embrace change. The four distinctive wings provide balance and symbolize reaching for new heights. One of the wings of the logo is coloured the red of Hong Kong's bauhinia flag, representing our vital role as the guardian of Hong Kong's financial system.



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





Is money  
important?

“Well... I guess it’s  
not *that* important.”



## ■ Independent auditor's report

### To the Members of Hong Kong Institute of Certified Public Accountants (Incorporated in Hong Kong under the Professional Accountants Ordinance)

We have audited the consolidated financial statements of Hong Kong Institute of Certified Public Accountants ("the Institute") set out on pages 28 to 58, which comprise the statements of financial position of the Institute and its subsidiaries ("the Group") and the Institute as at 30 June 2009 and the statements of comprehensive income, the statements of changes in members' equity and the statements of cash flows of the Group and the Institute for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Council of the Institute is responsible for maintaining proper accounts and the preparation of annual financial statements pursuant to the Professional Accountants Ordinance, and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Institute. These responsibilities include designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Institute. Those standards require that we comply with ethical

requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and the true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Institute as at 30 June 2009 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.

#### **Wong Brothers & Co.**

Certified Public Accountants  
Hong Kong, 20 October 2009

## ■ Statements of financial position

	Note	Group			Institute		
		At 30 June 2009	At 30 June 2008	At 1 July 2007	At 30 June 2009	At 30 June 2008	At 1 July 2007
		HK\$'000	(restated) HK\$'000	(restated) HK\$'000	HK\$'000	(restated) HK\$'000	(restated) HK\$'000
<b>Non-current assets</b>							
Fixed assets	4	228,945	232,665	239,679	228,662	232,359	239,158
Investments in subsidiaries	5	—	—	—	—	300	300
Deferred tax assets	6	64	—	—	—	—	—
		<u>229,009</u>	<u>232,665</u>	<u>239,679</u>	<u>228,662</u>	<u>232,659</u>	<u>239,458</u>
<b>Current assets</b>							
Inventories		875	1,496	1,574	857	956	1,045
Receivables	7	1,934	833	1,387	2,558	3,485	4,540
Deposits and prepayments		3,871	3,578	2,793	3,689	3,440	2,664
Tax recoverable		48	—	—	—	—	—
Time deposits with original maturities over three months		83,786	—	—	56,658	—	—
Cash and cash equivalents	8	91,350	128,434	76,802	72,880	84,043	32,984
		<u>181,864</u>	<u>134,341</u>	<u>82,556</u>	<u>136,642</u>	<u>91,924</u>	<u>41,233</u>
<b>Current liabilities</b>							
Subscriptions and fees received in advance	9	(70,259)	(65,395)	(61,136)	(68,551)	(63,584)	(59,544)
Payables and accruals	10	(52,200)	(33,856)	(33,755)	(53,219)	(30,867)	(33,029)
Current tax liabilities		(5,140)	(9,376)	(3,688)	(5,087)	(9,350)	(3,662)
		<u>(127,599)</u>	<u>(108,627)</u>	<u>(98,579)</u>	<u>(126,857)</u>	<u>(103,801)</u>	<u>(96,235)</u>
<b>Net current assets/(liabilities)</b>		<u>54,265</u>	<u>25,714</u>	<u>(16,023)</u>	<u>9,785</u>	<u>(11,877)</u>	<u>(55,002)</u>
<b>Non-current liability</b>							
Deferred tax liabilities	6	(631)	(334)	(185)	(631)	(334)	(185)
		<u>282,643</u>	<u>258,045</u>	<u>223,471</u>	<u>237,816</u>	<u>220,448</u>	<u>184,271</u>
<b>Members' equity</b>							
General fund		182,409	167,180	142,284	143,501	135,509	108,389
Capital fund		100,325	90,949	81,157	94,315	84,939	75,882
Exchange reserve		(91)	(84)	30	—	—	—
		<u>282,643</u>	<u>258,045</u>	<u>223,471</u>	<u>237,816</u>	<u>220,448</u>	<u>184,271</u>

Approved by the Council on 20 October 2009

**Paul F. Winkelmann**  
President

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

## ■ Statements of comprehensive income

*For the year ended 30 June 2009*

	Note	Group		Institute	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Subscriptions and fees	12	98,076	104,171	92,821	99,248
Other revenue	13	83,847	74,429	76,626	68,979
Total revenue		181,923	178,600	169,447	168,227
Other income	14	21,956	20,518	22,686	17,391
Expenses	15	(185,588)	(168,183)	(181,043)	(152,459)
<b>Surplus before tax</b>	16	18,291	30,935	11,090	33,159
Income tax	17	(3,062)	(6,039)	(3,098)	(6,039)
<b>Surplus after tax</b>		15,229	24,896	7,992	27,120
Other comprehensive income	18	(7)	(114)	—	—
<b>Total comprehensive income</b>		<b>15,222</b>	<b>24,782</b>	<b>7,992</b>	<b>27,120</b>

## ■ Statements of changes in members' equity

*For the year ended 30 June 2009*

	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
<b>2009</b>							
At 1 July 2008	167,180	90,949	(84)	258,045	135,509	84,939	220,448
Capital levy from members and students	—	9,376	—	9,376	—	9,376	9,376
Total comprehensive income	15,229	—	(7)	15,222	7,992	—	7,992
<b>At 30 June 2009</b>	<b>182,409</b>	<b>100,325</b>	<b>(91)</b>	<b>282,643</b>	<b>143,501</b>	<b>94,315</b>	<b>237,816</b>

	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
<b>2008</b>							
At 1 July 2007	142,284	81,157	30	223,471	108,389	75,882	184,271
Capital levy from members and students	—	9,792	—	9,792	—	9,057	9,057
Total comprehensive income	24,896	—	(114)	24,782	27,120	—	27,120
<b>At 30 June 2008</b>	<b>167,180</b>	<b>90,949</b>	<b>(84)</b>	<b>258,045</b>	<b>135,509</b>	<b>84,939</b>	<b>220,448</b>

## ■ Statements of cash flows

For the year ended 30 June 2009

	Note	Group		Institute	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Cash flows from operating activities</b>					
Surplus before tax		18,291	30,935	11,090	33,159
Adjustments for:					
Depreciation		11,641	10,827	11,539	10,566
Loss on disposal of fixed assets		49	—	3	—
Obsolete inventories written off		406	—	112	—
Impairment of receivables		227	209	4,472	142
Impairment of investment in a subsidiary		—	—	300	—
Uncollectible amounts written off		15	—	15	—
<b>Operating cash flows before working capital changes</b>		<b>30,629</b>	<b>41,971</b>	<b>27,531</b>	<b>43,867</b>
Decrease/(increase) in inventories		215	78	(13)	89
(Increase)/decrease in receivables		(1,351)	194	(3,563)	913
Increase in deposits and prepayments		(293)	(785)	(249)	(776)
Increase in time deposits with original maturities over three months		(83,786)	—	(56,658)	—
Increase in subscriptions and fees received in advance		4,864	4,259	4,967	4,040
Increase/(decrease) in payables and accruals		18,344	101	22,352	(2,162)
<b>Cash (utilized in)/generated from operations</b>		<b>(31,378)</b>	<b>45,818</b>	<b>(5,633)</b>	<b>45,971</b>
Tax paid		(7,113)	(202)	(7,064)	(202)
<b>Net cash (utilized in)/generated by operating activities</b>		<b>(38,491)</b>	<b>45,616</b>	<b>(12,697)</b>	<b>45,769</b>
<b>Cash flows from investing activities</b>					
Purchase of fixed assets		(7,969)	(3,804)	(7,842)	(3,767)
<b>Net cash utilized in investing activities</b>		<b>(7,969)</b>	<b>(3,804)</b>	<b>(7,842)</b>	<b>(3,767)</b>
<b>Cash flows from financing activities</b>					
Capital levy received		9,376	9,792	9,376	9,057
<b>Net cash generated by financing activities</b>		<b>9,376</b>	<b>9,792</b>	<b>9,376</b>	<b>9,057</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(37,084)</b>	<b>51,604</b>	<b>(11,163)</b>	<b>51,059</b>
Cash and cash equivalents at beginning of financial year		128,434	76,802	84,043	32,984
Exchange difference in respect of cash and cash equivalents		—	28	—	—
<b>Cash and cash equivalents at end of financial year</b>	8	<b>91,350</b>	<b>128,434</b>	<b>72,880</b>	<b>84,043</b>

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### 1. Principal activities and registered office

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

The Institute is a body corporate incorporated in Hong Kong on 1 January 1973 under the Professional Accountants Ordinance Chapter 50 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. The trustees are the president, the immediate past president and a vice president of the Institute.

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

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

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

#### 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. 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 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:



## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### (i) Depreciation

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

#### (ii) 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 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 new/revised HKFRSs up to 30 June 2009 that are available for early adoption for the current accounting period of the Group. Of these, the following are applicable to the Group's financial statements:

HKFRSs (Amendments)

“Improvements to HKFRSs 2008”

– HKAS 38 Intangible Assets – Advertising and promotional activities

HKFRSs (Amendments)

“Improvements to HKFRSs 2009”

– HKAS 17 Leases – Classification of leases of land and buildings

The amendment to HKAS 38 made under “Improvements to HKFRSs 2008” has no material impact on the Group's financial statements as the amendment was consistent with policies already adopted by the Group. The impact for HKAS 17 made under “Improvements to HKFRSs 2009” is explained below:

The amendment to HKAS 17 made under “Improvements to HKFRSs 2009” removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. An entity shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments on the basis of information existing at the inception of the lease. It shall recognize a lease newly classified as a finance lease retrospectively in accordance with HKAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” if the criteria of a finance lease is met.

On the early adoption of this amendment, the Group has made a reassessment of the existing land lease arrangement and concluded that such arrangement has substantially transferred all risks and rewards incidental to ownership of the leased land to the Group notwithstanding that at the end of the lease term, title will not be passed to the Group. As a result, prepaid land lease expense of the Group and the Institute has been reclassified to fixed assets and amortization of prepaid land lease expense has been reclassified to depreciation retrospectively. Such reclassification had no effect on the results and the financial position of the Group and the Institute.

As a result of the early adoption of this amendment by the Group which has resulted in the retrospective application of an accounting policy and reclassification of certain items in the financial statements, in accordance with HKAS 1 (Revised) "Presentation of Financial Statements", the Group has presented an additional statement of financial position and related notes as at 1 July 2007 that reflect the financial position of the

Group and the Institute at the beginning of the earliest comparative period being presented.

The following tables disclose the adjustments that have been made in accordance with the amendment to each of the line items in the statements of financial position as previously reported as at 1 July 2007 and 30 June 2008 and in the statements of comprehensive income as previously reported for the year ended 30 June 2008.

(i) Effect on statements of financial position as at 1 July 2007

	Group			Institute		
	At 1 July 2007 (as previously reported) HK\$'000	Effect of new policy (increase/ decrease) in net assets HK\$'000	At 1 July 2007 (as restated) HK\$'000	At 1 July 2007 (as previously reported) HK\$'000	Effect of new policy (increase/ decrease) in net assets HK\$'000	At 1 July 2007 (as restated) HK\$'000
<b>Non-current assets</b>						
Fixed assets	63,805	175,874	239,679	63,284	175,874	239,158
Prepaid land lease expense	171,476	(171,476)	—	171,476	(171,476)	—
Other non-current assets	—	—	—	300	—	300
	<u>235,281</u>	<u>4,398</u>	<u>239,679</u>	<u>235,060</u>	<u>4,398</u>	<u>239,458</u>
<b>Current assets</b>						
Deposits and prepayments	7,191	(4,398)	2,793	7,062	(4,398)	2,664
Other current assets	79,763	—	79,763	38,569	—	38,569
	<u>86,954</u>	<u>(4,398)</u>	<u>82,556</u>	<u>45,631</u>	<u>(4,398)</u>	<u>41,233</u>
<b>Current liabilities</b>	<u>(98,579)</u>	<u>—</u>	<u>(98,579)</u>	<u>(96,235)</u>	<u>—</u>	<u>(96,235)</u>
<b>Net current liabilities</b>	<u>(11,625)</u>	<u>(4,398)</u>	<u>(16,023)</u>	<u>(50,604)</u>	<u>(4,398)</u>	<u>(55,002)</u>
<b>Non-current liability</b>	<u>(185)</u>	<u>—</u>	<u>(185)</u>	<u>(185)</u>	<u>—</u>	<u>(185)</u>
<b>Net assets</b>	<u>223,471</u>	<u>—</u>	<u>223,471</u>	<u>184,271</u>	<u>—</u>	<u>184,271</u>
<b>Members' equity</b>	<u>223,471</u>	<u>—</u>	<u>223,471</u>	<u>184,271</u>	<u>—</u>	<u>184,271</u>

## ■ Notes to the financial statements

### For the year ended 30 June 2009

#### (ii) Effect on statements of financial position as at 30 June 2008

	Group			Institute		
	At 30 June 2008 (as previously reported) HK\$'000	Effect of new policy (increase/ decrease) in net assets HK\$'000	At 30 June 2008 (as restated) HK\$'000	At 30 June 2008 (as previously reported) HK\$'000	Effect of new policy (increase/ decrease) in net assets HK\$'000	At 30 June 2008 (as restated) HK\$'000
<b>Non-current assets</b>						
Fixed assets	61,189	171,476	232,665	60,883	171,476	232,359
Prepaid land lease expense	167,078	(167,078)	—	167,078	(167,078)	—
Other non-current assets	—	—	—	300	—	300
	<u>228,267</u>	<u>4,398</u>	<u>232,665</u>	<u>228,261</u>	<u>4,398</u>	<u>232,659</u>
<b>Current assets</b>						
Deposits and prepayments	7,976	(4,398)	3,578	7,838	(4,398)	3,440
Other current assets	130,763	—	130,763	88,484	—	88,484
	<u>138,739</u>	<u>(4,398)</u>	<u>134,341</u>	<u>96,322</u>	<u>(4,398)</u>	<u>91,924</u>
<b>Current liabilities</b>	<u>(108,627)</u>	<u>—</u>	<u>(108,627)</u>	<u>(103,801)</u>	<u>—</u>	<u>(103,801)</u>
<b>Net current assets/(liabilities)</b>	<u>30,112</u>	<u>(4,398)</u>	<u>25,714</u>	<u>(7,479)</u>	<u>(4,398)</u>	<u>(11,877)</u>
<b>Non-current liability</b>	<u>(334)</u>	<u>—</u>	<u>(334)</u>	<u>(334)</u>	<u>—</u>	<u>(334)</u>
<b>Net assets</b>	<u>258,045</u>	<u>—</u>	<u>258,045</u>	<u>220,448</u>	<u>—</u>	<u>220,448</u>
<b>Members' equity</b>	<u>258,045</u>	<u>—</u>	<u>258,045</u>	<u>220,448</u>	<u>—</u>	<u>220,448</u>

## (iii) Effect on statements of comprehensive income for the year ended 30 June 2008

	Group			Institute		
	2008 (as previously reported) HK\$'000	Effect of new policy (increase/ (decrease) in surplus after tax) HK\$'000	2008 (as restated) HK\$'000	2008 (as previously reported) HK\$'000	Effect of new policy (increase/ (decrease) in surplus after tax) HK\$'000	2008 (as restated) HK\$'000
Subscriptions and fees	104,171	—	104,171	99,248	—	99,248
Other revenue	74,429	—	74,429	68,979	—	68,979
Total revenue	178,600	—	178,600	168,227	—	168,227
Other income	20,518	—	20,518	17,391	—	17,391
Expenses						
– Depreciation	(6,429)	(4,398)	(10,827)	(6,168)	(4,398)	(10,566)
– Amortization of prepaid land lease expense	(4,398)	4,398	—	(4,398)	4,398	—
– Others	(157,356)	—	(157,356)	(141,893)	—	(141,893)
	(168,183)	—	(168,183)	(152,459)	—	(152,459)
<b>Surplus before tax</b>	30,935	—	30,935	33,159	—	33,159
Income tax	(6,039)	—	(6,039)	(6,039)	—	(6,039)
<b>Surplus after tax</b>	24,896	—	24,896	27,120	—	27,120
Other comprehensive income	(114)	—	(114)	—	—	—
<b>Total comprehensive income</b>	<b>24,782</b>	<b>—</b>	<b>24,782</b>	<b>27,120</b>	<b>—</b>	<b>27,120</b>

The following tables provide the extent to which each of the line items in the statements of financial position as at 30 June 2009 and statements of comprehensive income for the year ended 30 June 2009 is higher or lower than it would have been had the previous policy still been applied in the year.

## ■ Notes to the financial statements

### For the year ended 30 June 2009

#### (iv) Effect on statements of financial position as at 30 June 2009

	<u>Group and Institute</u> Effect of new policy (increase/(decrease) in net assets) HK\$'000
<b>Non-current assets</b>	
Fixed assets	167,078
Prepaid land lease expense	(162,680)
	<u>4,398</u>
<b>Current assets</b>	
Deposits and prepayments	(4,398)
	<u>(4,398)</u>
<b>Net current assets</b>	<u>(4,398)</u>
<b>Net assets</b>	<u>—</u>

#### (v) Effect on statements of comprehensive income for the year ended 30 June 2009

	<u>Group and Institute</u> Effect of new policy (increase/ (decrease) in surplus after tax) HK\$'000
Expenses	
– Depreciation	(4,398)
– Amortization of prepaid land lease expense	4,398
	<u>—</u>
<b>Surplus after tax</b>	<u>—</u>

#### c. Effects of new/revised HKFRSs that were issued after 30 June 2009 and up to the date of approval of the financial statements

The Institute has issued certain revised HKFRSs after 30 June 2009 and up to the date of approval of the financial statements, the Group has assessed that these revised HKFRSs are not applicable to the Group's operations.

#### 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"). All inter-company transactions, balances, income and expenses are eliminated on consolidation. A subsidiary is an entity over which the Institute has control, which is defined as the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

In the Institute's statement of 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. 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 are classified as receivables, cash and bank balances and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each date of the statements of financial position subsequent to initial recognition, they are carried at amortized cost using the effective interest method, less any identified impairment charges (see note 2f).

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. Impairment allowances are assessed individually for significant receivables.

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 allowance

account. The amount of any reversal is recognized in the statements of comprehensive income.

**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 each date of the statements of financial position 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 statements of comprehensive income 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 years. Reversals of impairment charges are credited to the statements of comprehensive income in the year in which the reversals are recognized.

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### **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 statements of comprehensive income 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 statements of comprehensive income 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 each financial year-end 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.

The estimated useful lives of fixed assets are as follows:

Leasehold land held for own use under a finance lease – 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 year 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 non-current assets, and rentals receivable

under the operating leases are credited to the statements of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the statements of comprehensive income on the straight-line basis over the lease terms.

**k. Inventories**

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

**l. Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, having been within three months of maturity at acquisition. For the purpose of the statement of cash flows, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

**m. Capital levy**

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

**n. Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements of the Institute and its subsidiaries are measured using the currency of the primary environment

in which the Institute and its subsidiaries operate (the functional currency). The consolidated financial statements are presented in Hong Kong dollars, which is the Institute's functional and presentation currency.

**(ii) Transactions and balances**

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

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 date of the statements of financial position, and their income and expenses are translated at the average exchange rates for the year, the resulting exchange differences arising are included in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation recognized in other comprehensive income and accumulated in a separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognized.

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### **o. Revenue recognition**

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

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

First registration fees are recognized on entitlement.

Income from examinations, seminars and courses is recognized upon completion of services provided.

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

#### **p. Government grants**

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

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

Grants related to assets are deducted from the cost of the assets in arriving at their carrying amounts to the extent of the grants received and receivable as at the date of the statements of financial position.

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

#### **q. Income tax**

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

The tax currently payable is based on taxable surplus for the year. Taxable surplus differs from surplus as reported in the statements of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years 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 date of the statements of financial position.

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 can be utilized.

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

The carrying amount of deferred tax assets is reviewed at each date of the statements of financial position 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 realized. Deferred tax is charged or credited in the statements of comprehensive income, except when it relates to items charged or credited directly to general or capital funds, in which case the deferred tax is also dealt with in general or capital funds.

**r. Employee benefits**

**(i) 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 statements of comprehensive income as incurred.

**(ii) 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 date of the statements of financial position.

**s. Borrowing costs**

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

**t. Related parties**

Parties are considered to be related to the Group if the Group has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.



## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### 3. Financial instruments by category

The carrying amounts of each category of financial instruments as at the date of the statements of financial position are as follows:

	Group			Institute		
	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 1 July 2007 HK\$'000	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 1 July 2007 HK\$'000
<b>Financial assets</b>						
Receivables	1,934	833	1,387	2,558	3,485	4,540
Time deposits with original maturities over three months	83,786	—	—	56,658	—	—
Cash and cash equivalents	91,350	128,434	76,802	72,880	84,043	32,984
	<b>177,070</b>	<b>129,267</b>	<b>78,189</b>	<b>132,096</b>	<b>87,528</b>	<b>37,524</b>
<b>Financial liabilities</b>						
Payables	16,943	4,282	4,855	15,745	3,690	4,119
Amounts due to subsidiaries	—	—	—	4,503	2,116	2,142
Accruals	30,368	24,722	24,300	28,323	20,403	22,168
	<b>47,311</b>	<b>29,004</b>	<b>29,155</b>	<b>48,571</b>	<b>26,209</b>	<b>28,429</b>

The fair value of the Group's and the Institute's financial instruments at the date of the statements of financial position approximates their carrying amount.

## 4. Fixed assets

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

## Notes to the financial statements

### For the year ended 30 June 2009

#### 4. Fixed assets (continued)

	Leasehold land held for own use under finance lease HK\$'000	Buildings held for own use HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total (restated) HK\$'000
<b>2008</b>					
<b>Group</b>					
Net book value at 1 July 2007 (restated)	175,874	38,938	14,170	10,697	239,679
Currency translation difference	—	—	21	(12)	9
Additions	—	—	1,118	2,686	3,804
Depreciation	(4,398)	(2,154)	(1,903)	(2,372)	(10,827)
Net book value at 30 June 2008 (restated)	<u>171,476</u>	<u>36,784</u>	<u>13,406</u>	<u>10,999</u>	<u>232,665</u>
At cost	184,670	43,255	18,462	22,507	268,894
Accumulated depreciation and impairment	<u>(13,194)</u>	<u>(6,471)</u>	<u>(5,056)</u>	<u>(11,508)</u>	<u>(36,229)</u>
	<u>171,476</u>	<u>36,784</u>	<u>13,406</u>	<u>10,999</u>	<u>232,665</u>
<b>Institute</b>					
Net book value at 1 July 2007 (restated)	175,874	38,938	13,945	10,401	239,158
Additions	—	—	1,115	2,652	3,767
Depreciation	(4,398)	(2,154)	(1,697)	(2,317)	(10,566)
Net book value at 30 June 2008 (restated)	<u>171,476</u>	<u>36,784</u>	<u>13,363</u>	<u>10,736</u>	<u>232,359</u>
At cost	184,670	43,255	18,213	22,165	268,303
Accumulated depreciation and impairment	<u>(13,194)</u>	<u>(6,471)</u>	<u>(4,850)</u>	<u>(11,429)</u>	<u>(35,944)</u>
	<u>171,476</u>	<u>36,784</u>	<u>13,363</u>	<u>10,736</u>	<u>232,359</u>

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

The total future minimum lease receivables under non-cancellable operating lease were as follows:

	Group and Institute	
	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000
Within one year	—	1,125
Between one and five years	—	—
	<u>—</u>	<u>1,125</u>

- c. As at 30 June 2008, the leasehold land and buildings held for own use on 37th floor and 27th floor of Wu Chung House with a carrying amount of HK\$208,260,000 (1 July 2007: HK\$214,812,000) were charged as a security for an unutilized bank overdraft facility of HK\$35,000,000 granted to the Institute. The Institute terminated the HK\$35,000,000 (1 July 2007: HK\$35,000,000) bank overdraft facility and the security was discharged on 22 May 2009.

## 5. Investments in subsidiaries

	Institute		
	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 1 July 2007 HK\$'000
At cost	300	300	300
Impairment charge	(300)	—	—
	<u>—</u>	<u>300</u>	<u>300</u>

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

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

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

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

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

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

## 6. Deferred tax assets and liabilities

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

	Note	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 2007		(1,512)	1,327	(185)	(1,512)	1,327	(185)
Charged to the statements of comprehensive income	17	(84)	(65)	(149)	(84)	(65)	(149)
At 30 June 2008		(1,596)	1,262	(334)	(1,596)	1,262	(334)
(Charged)/credited to the statements of comprehensive income	17	(403)	170	(233)	(392)	95	(297)
At 30 June 2009		<u>(1,999)</u>	<u>1,432</u>	<u>(567)</u>	<u>(1,988)</u>	<u>1,357</u>	<u>(631)</u>

## Notes to the financial statements

### For the year ended 30 June 2009

#### 6. Deferred tax assets and liabilities (continued)

b. Reconciliation to the statements of financial position:

	Group			Institute		
	At 30 June	At 30 June	At 1 July	At 30 June	At 30 June	At 1 July
	2009	2008	2007	2009	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets	64	—	—	—	—	—
Deferred tax liabilities	(631)	(334)	(185)	(631)	(334)	(185)
	<b>(567)</b>	<b>(334)</b>	<b>(185)</b>	<b>(631)</b>	<b>(334)</b>	<b>(185)</b>

#### 7. Receivables

	Group			Institute		
	At 30 June	At 30 June	At 1 July	At 30 June	At 30 June	At 1 July
	2009	2008	2007	2009	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accounts receivable	2,413	1,321	1,666	1,702	1,018	1,382
Amounts due from subsidiaries	—	—	—	5,531	2,888	3,437
	2,413	1,321	1,666	7,233	3,906	4,819
Impairment charge	(479)	(488)	(279)	(4,675)	(421)	(279)
	<b>1,934</b>	<b>833</b>	<b>1,387</b>	<b>2,558</b>	<b>3,485</b>	<b>4,540</b>

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

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

	Note	Group		Institute	
		At 30 June	At 30 June	At 30 June	At 30 June
		2009	2008	2009	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of financial year		488	279	421	279
Impairment of receivables	16				
– Accounts receivable		227	209	227	142
– Amount due from HKICPA Beijing		—	—	4,245	—
		227	209	4,472	142
Recovery of impaired receivables	14	(236)	—	(218)	—
<b>At end of financial year</b>		<b>479</b>	<b>488</b>	<b>4,675</b>	<b>421</b>

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 date of the statements of financial position is the fair value of the receivables, which approximates to their carrying amount.



- b. The ageing analysis of receivables at the date of the statements of financial position that are not considered to be impaired is as follows:

	Group		Institute	
	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000
Neither past due nor impaired	—	—	1,286	2,888
Less than 30 days past due	1,430	—	861	—
31 to 90 days past due	134	833	116	597
91 to 180 days past due	71	—	62	—
181 to 270 days past due	76	—	45	—
Over 270 days past due	223	—	188	—
	1,934	833	1,272	597
	<b>1,934</b>	<b>833</b>	<b>2,558</b>	<b>3,485</b>

Receivables that were neither past due nor impaired relate to inter-company balances 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 provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group and the Institute do not hold any collateral or other credit enhancements over these balances.

## 8. Cash and cash equivalents

	Group			Institute		
	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 1 July 2007 HK\$'000	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 1 July 2007 HK\$'000
Bank balances						
– Time deposits with original maturities within three months	61,043	101,514	53,868	53,163	64,802	18,128
– Savings accounts	21,632	18,487	15,408	16,239	12,955	9,942
– Current accounts	8,520	8,240	7,406	3,324	6,111	4,805
Cash on hand	155	193	120	154	175	109
	<b>91,350</b>	<b>128,434</b>	<b>76,802</b>	<b>72,880</b>	<b>84,043</b>	<b>32,984</b>

## Notes to the financial statements

### For the year ended 30 June 2009

#### 9. Subscriptions and fees received in advance

	Group			Institute		
	At 30 June 2009	At 30 June 2008	At 1 July 2007	At 30 June 2009	At 30 June 2008	At 1 July 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subscription fees received in advance	48,897	47,363	45,353	47,190	45,599	43,829
Other fees received in advance	21,362	18,032	15,783	21,361	17,985	15,715
	<b>70,259</b>	<b>65,395</b>	<b>61,136</b>	<b>68,551</b>	<b>63,584</b>	<b>59,544</b>

The Group charges 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. Subscriptions received in advance represent the unearned subscription income for the period from 1 July to 31 December.

Other fees received in advance relate to examinations and examination revision courses yet to be conducted at the date of the statements of financial position.

#### 10. Payables and accruals

	Group			Institute		
	At 30 June 2009	At 30 June 2008	At 1 July 2007	At 30 June 2009	At 30 June 2008	At 1 July 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Payables	16,943	4,282	4,855	15,745	3,690	4,119
Amounts due to subsidiaries	—	—	—	4,503	2,116	2,142
Accruals	30,368	24,722	24,300	28,323	20,403	22,168
Financial liabilities	47,311	29,004	29,155	48,571	26,209	28,429
Employee leave entitlements	4,889	4,852	4,600	4,648	4,658	4,600
	<b>52,200</b>	<b>33,856</b>	<b>33,755</b>	<b>53,219</b>	<b>30,867</b>	<b>33,029</b>

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

The maturity profile of the Group's and the Institute's financial liabilities as at the dates of statements of financial position, based on the contracted undiscounted payments, is as follows:

	Group		Institute	
	At 30 June 2009	At 30 June 2008	At 30 June 2009	At 30 June 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	43,995	13,982	41,600	13,308
Between 31 and 90 days	1,290	4,223	5,382	3,754
Between 91 and 180 days	332	1,900	11	786
Between 181 and 270 days	117	8,053	1	7,515
Over 270 days	1,577	846	1,577	846
	<b>47,311</b>	<b>29,004</b>	<b>48,571</b>	<b>26,209</b>

**11. Capital fund**

The Group has two capital funds:

- a. The capital fund of the Institute represents a capital levy from its members and students for the purpose of financing the purchase, improvement and/or expansion of the Institute's office premises. The rates of levy for the current and the preceding year were HK\$300, HK\$75 and HK\$50 from each member, retired member and student respectively. The rates of levy are decided annually by the Council.
- b. The capital fund of HKIAAT represents a capital levy from its members and students to meet future office expansion. Effective as from current year, no capital levy is imposed while in the preceding year the rates of levy were HK\$100 and HK\$80 for each member and student respectively. The rates of levy are decided annually by the Board of HKIAAT.

**12. Subscriptions and fees**

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Annual subscription fees</b>				
Members (a)	47,784	55,940	47,784	55,940
Practising certificates	17,902	17,556	17,902	17,556
Students	10,142	9,759	6,200	5,985
Firms	9,522	8,945	9,522	8,945
Corporate practices	3,602	3,458	3,602	3,458
Others	65	95	65	95
<b>First registration fees</b>				
Members	4,110	3,931	4,110	3,931
Practising certificates	426	419	426	419
Students	2,846	2,481	1,533	1,332
Firms	163	106	163	106
Corporate practices	139	158	139	158
<b>Other fees</b>				
Member practices' changes in particulars	251	266	251	266
Advancement to fellowship	259	282	259	282
Assessment for overseas students	865	775	865	775
	<b>98,076</b>	<b>104,171</b>	<b>92,821</b>	<b>99,248</b>

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

## ■ Notes to the financial statements

*For the year ended 30 June 2009*

### 13. Other revenue

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Income from examinations	65,283	57,146	60,262	51,800
Income from seminars and courses	13,858	14,128	12,958	14,089
Income from member and student activities	2,990	2,597	2,976	2,580
Accreditation income	1,716	558	430	510
	<b>83,847</b>	<b>74,429</b>	<b>76,626</b>	<b>68,979</b>

### 14. Other income

	Note	Group		Institute	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Qualification</b>					
Royalty income		144	37	—	—
<b>Conducts</b>					
Case settlements (a)		7,500	—	7,500	—
Disciplinary fines and costs recovery		1,274	364	1,274	364
FRC special levy (b)		2,536	2,623	2,536	2,623
<b>Corporate functions</b>					
Professional indemnity insurance recovery (c)		2,850	—	2,850	—
Sales of goods		1,661	6,273	1,011	4,703
Income from advertisements placed in the journals		1,226	1,461	1,037	1,161
Interest income		1,047	1,918	704	927
Operating lease income		948	1,848	948	1,834
Commission from affinity credit card programme		702	853	702	853
Income from hardcopy surcharge		631	681	631	681
Commission from PII master policy		377	320	377	320
Recovery of impaired receivables	7	236	—	218	—
Government grants (d)		232	764	232	764
Exchange differences		182	166	181	(15)
Service fees from HKIAAT		—	—	2,272	2,272
<b>Others</b>					
Donations (e)		40	2,228	20	72
Miscellaneous		370	982	193	832
		<b>21,956</b>	<b>20,518</b>	<b>22,686</b>	<b>17,391</b>

- a. Case settlements  
During the year the Institute settled regulatory proceedings against two firms and certain individuals which resulted in the receipt of HK\$7,500,000. The Institute, having considered the alleged violations and time costs involved in the on-going proceedings, considers that it is in the best interests of the public and the profession to bring an early resolution to these regulatory proceedings.
- b. FRC special levy  
The Institute representing the accounting profession is one of the four funding parties of the Financial Reporting Council ( "FRC" ) along with the government of the HKSAR's Companies Registry Trading Fund, Hong Kong Exchanges and Clearing Limited and the Securities and Futures Commission. Under the existing funding arrangements, the Institute contributes the sum of HK\$2,500,000 per annum as the recurrent funding of the FRC for the first three years. 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 year, the Institute received HK\$2,536,000 (2008: HK\$2,623,000) from such member practices and contributed HK\$2,500,000 (2008: HK\$2,500,000) to the FRC (note 16).
- c. Professional indemnity insurance recovery  
A claim for the recovery of legal expenses incurred in a judicial review proceeding against the Institute in the prior year was made on the Institute's professional indemnity insurance policy. An amount of HK\$2,850,000 (2008: Nil) was received from the insurers in full and final settlement of all claims under this case.
- d. 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 Hong Kong Special Administrative Region ("HKSAR") under the Professional Services Development Assistance Scheme. The project objective is to develop a competency framework to provide comprehensive guidance to Certified Public Accountants (CPA) after their qualification, on the competency requirements of five streams for career development and specialization (including competencies to work in mainland China). The estimated project cost is HK\$1,496,000. The government of the HKSAR would contribute no more than HK\$728,000 to the project cost. During the year, HK\$232,000 was recognized as income to match the related costs. The project's anticipated completion date is 31 January 2010.
- e. Donations

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Donations to the library	20	72	20	72
Aid for Sichuan earthquake relief	11	2,154	—	—
Others	9	2	—	—
	<b>40</b>	<b>2,228</b>	<b>20</b>	<b>72</b>

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### 15. Expenses

The Group is organized into nine main activity areas: membership, qualification, conducts, quality assurance, standards, corporate functions, 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 council. An analysis of the Group's expenses by main activities is set out below:

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Expenses by main activities</b>				
Membership	46,889	40,871	48,298	39,720
Qualification	42,680	37,430	43,980	37,043
Conducts	20,837	17,908	20,837	17,908
Quality assurance	11,469	9,649	11,469	9,649
Standards	8,368	5,528	8,368	5,528
Corporate functions				
– Operation and finance	21,318	21,782	23,228	24,054
– Communications	12,957	9,380	12,957	9,380
– Constitution and governance	4,532	4,486	4,532	4,486
– China and international relations	3,958	4,691	3,958	4,691
HKIAAT Group	12,489	13,846	–	–
The HKICPA Charitable Fund	62	2,520	416	–
The HKICPA Trust Fund	29	92	3,000	–
	<b>185,588</b>	<b>168,183</b>	<b>181,043</b>	<b>152,459</b>

During the year, the Institute recorded an impairment charge of HK\$4,545,000 (2008: Nil) for the investment cost in HKICPA Beijing and amount due from HKICPA Beijing. This amount is allocated to membership and qualification in the amounts of HK\$2,727,000 and HK\$1,818,000 respectively.



## 16. Surplus before tax

	Note	Group		Institute	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Surplus before tax has been arrived at after charging/(crediting):					
Employee benefits	19	91,820	79,877	85,936	74,188
Depreciation		11,641	10,827	11,539	10,566
Contribution to FRC	14b	2,500	2,500	2,500	2,500
Auditor's remuneration		295	226	232	164
Cost of goods sold		850	1,222	648	568
Operating lease expenses		829	753	417	377
Obsolete inventories written off		406	—	112	—
Impairment of receivables	7a	227	209	4,472	142
Impairment of investment in a subsidiary		—	—	300	—
Donations (a)		61	2,504	3,416	—
Loss on disposal of fixed assets		49	—	3	—
Uncollectible amounts written off		15	—	15	—
Interest expense on bank overdrafts		—	1	—	1
Recovery of impaired receivables		(236)	—	(218)	—

a. During the year, the Institute donated HK\$3,000,000 (2008: Nil) to The HKICPA Trust Fund. HK\$416,000 (2008: Nil) was donated to The HKICPA Charitable Fund during the year.

## 17. Income tax

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
<b>Current tax</b>				
Provision for Hong Kong Profits Tax for the year	2,919	5,905	2,864	5,905
Over-provision in prior years	(90)	(15)	(63)	(15)
	<u>2,829</u>	<u>5,890</u>	<u>2,801</u>	<u>5,890</u>
<b>Deferred tax</b>				
Effect of decrease in tax rates on opening deferred tax	—	(10)	—	(10)
Deferred tax charge relating to the origination and reversal of temporary differences	233	159	297	159
	<u>233</u>	<u>149</u>	<u>297</u>	<u>149</u>
	<b>3,062</b>	<b>6,039</b>	<b>3,098</b>	<b>6,039</b>

Hong Kong Profits Tax is provided at 16.5% (2008: 16.5%) on the estimated taxable surplus arising in Hong Kong during the year.

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### 17. Income tax (continued)

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	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Surplus before tax	18,291	30,935	11,090	33,159
Tax at the applicable rate of 16.5% (2008: 16.5%)	3,018	5,104	1,830	5,471
Tax effect of different tax rate for subsidiary in mainland China	(27)	(127)	—	—
Tax effect of expenses that are not deductible in determining taxable surplus	955	1,296	1,469	746
Tax effect of income that is not assessable in determining taxable surplus	(723)	(712)	(116)	(153)
Effect of decrease in tax rate on opening deferred tax	—	(10)	—	(10)
Tax effect of utilization of tax losses previously not recognized	(122)	—	—	—
Tax effect of tax losses not recognized	146	503	—	—
Over-provision in prior years	(90)	(15)	(63)	(15)
Others	(95)	—	(22)	—
	<b>3,062</b>	<b>6,039</b>	<b>3,098</b>	<b>6,039</b>

The Group has tax losses of RMB974,000 (approximately HK\$1,110,000) (2008: RMB462,000 (approximately HK\$526,000)) arising in mainland China as at 30 June 2009. As at 30 June 2008, the Group also had tax losses of HK\$737,000 arising from HKIAAT in Hong Kong. Tax losses arising in mainland China are available to offset against future taxable profits of the company in which the losses arose with a time limit of five years from the year the losses were incurred.

**18. Other comprehensive income**

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Exchange loss on translating the financial statements of the subsidiary in mainland China	7	114	—	—

**19. Employee benefits**

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Salaries, wages and allowances	86,105	75,159	80,736	69,938
Provident fund contributions	5,715	4,718	5,200	4,250
	<b>91,820</b>	<b>79,877</b>	<b>85,936</b>	<b>74,188</b>
Number of staff				
At beginning of financial year	167	149	147	134
At end of financial year	190	167	168	147

**20. Key management personnel's remuneration**

	Group and Institute				
	Salary	Performance bonus	Retirement benefits	Total	Total
	2009	2009	2009	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Chief Executive & Registrar	<u>2,940</u>	<u>490</u>	<u>441</u>	<u>3,871</u>	<u>3,544</u>

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

## Notes to the financial statements

### For the year ended 30 June 2009

#### 21. Related party transactions

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

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

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

- (i) During the year, an amount of HK\$346,000 (2008: Nil) was paid to KPMG for giving lectures, acting as workshop facilitators for the Institute's qualification programme and the Professional Standards Monitoring Committee monitors' fee.
- (ii) For the year ended 30 June 2008, an amount of HK\$550,000 was paid to Deloitte Touche Tohmatsu pursuant to contracts awarded for development of the Institute's professional programme.
- (iii) For the year ended 30 June 2008, an amount of HK\$95,000 was paid to PricewaterhouseCoopers for staff secondment fee.

In both the current and prior years, certain council members were partners of Deloitte Touche Tohmatsu, PricewaterhouseCoopers and KPMG.

In addition, the Group received income in the ordinary course of business, such as accreditation, subscriptions and fees from the council members or parties related to council members. The Group also paid honoraria to recipients, some of whom are council members or parties related to council members, for various services provided to the Group 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 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  
Included in "Receivables" of the Institute at 30 June 2009 is an amount of HK\$4,245,000 (30 June 2008: HK\$2,286,000; 1 July 2007: HK\$1,122,000) due from HKICPA Beijing. The whole amount was impaired during the year.
- (ii) The HKICPA Trust Fund  
During the year, the Institute donated HK\$3,000,000 (2008: Nil) to The HKICPA Trust Fund. Included in "Payables and accruals" of the Institute at 30 June 2009 is HK\$4,087,000 (30 June 2008: HK\$1,116,000; 1 July 2007: HK\$1,142,000) due to The HKICPA Trust Fund.
- (iii) The HKICPA Charitable Fund  
During the year, the Institute donated HK\$416,000 (2008: Nil) to The HKICPA Charitable Fund. Included in "Payables and accruals" of the Institute at 30 June 2009 is an amount of HK\$416,000 (30 June 2008: HK\$1,000,000; 1 July 2007: HK\$1,000,000) due to The HKICPA Charitable Fund.
- (iv) HKIAAT  
During the year, the Institute charged service fees of HK\$2,272,000 (2008: HK\$2,272,000) to HKIAAT for management, rental and other services provided to HKIAAT at agreed terms. A total staff employment costs of HK\$4,795,000 (2008: HK\$4,101,000) was also recharged to HKIAAT for the human resources support on a cost recovery basis.  
  
During the year, HKIAAT organized the professional bridging examination on behalf of the Institute. The income of HK\$1,350,000 and related expenses of HK\$487,000 generated from the professional bridging examination was included in the amount due from HKIAAT. Included in "Receivables" of the Institute at 30 June 2009 is an amount of HK\$1,286,000 (30 June 2008: HK\$602,000; 1 July 2007: HK\$2,315,000) due from HKIAAT arising from the services provided.

## 22. Financial risk management

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

### a. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's and the Institute's exposure to interest rate fluctuations is limited to interest receivable on its short term deposits and savings accounts as at the date of the statements of financial position. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income alone as the Group has not borrowed any loans during the year. 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, with all other variables held constant, of the Group's and the Institute's surplus before tax and equity.

	Group		Institute	
	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000	At 30 June 2009 HK\$'000	At 30 June 2008 HK\$'000
Time deposits	144,829	101,514	109,821	64,802
Savings accounts	21,632	18,487	16,239	12,955
	<b>166,461</b>	<b>120,001</b>	<b>126,060</b>	<b>77,757</b>
	% p.a.	% p.a.	% p.a.	% p.a.
Effective interest rate of time deposits	1.01%	2.8%	1.01%	2.8%
Effective interest rate of savings accounts	0.04%	0.9%	0.03%	0.9%
<u>Impact of interest rate deviation</u>				
Increase/decrease in interest rate by 1%				
– Increase/decrease in surplus before tax and equity	1,665	1,200	1,261	778

### 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.

## Notes to the financial statements

### For the year ended 30 June 2009

#### 22. Financial risk management (continued)

##### b. Credit risk (continued)

The Group's surplus cash has been deposited with a number of reputable and creditworthy banks. Term deposits have maturities of six months or less are held with authorized institutions under the Deposit Protection Scheme guaranteed by the Hong Kong SAR Government's Exchange Fund. Management considers there is minimal risk associated with the bank balances.

##### c. Liquidity risk

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

##### d. Foreign currency risk

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

#### 23. Capital management

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

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

The Group regularly reviews and manages its 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 Institute 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 Institute's office facilities.

The Council regularly reviews the need to increase membership subscriptions and the capital levy to ensure operational and property needs are fully covered. The Institute's capital levy policy is therefore based on a need basis and the Council has 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.

#### 24. Operating lease commitments

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

	Group		Institute	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Within one year	650	340	233	237
Between one and five years	128	27	24	27
	<b>778</b>	<b>367</b>	<b>257</b>	<b>264</b>



## ■ Independent auditor's report

### 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 60 to 65, which comprise the statement of financial position as at 30 June 2009, and the statement of comprehensive income, statement of changes in accumulated funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Trustees are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“the Institute”). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Institute. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust Fund's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund'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 the Trust Fund's affairs as at 30 June 2009 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

#### **Wong Brothers & Co.**

Certified Public Accountants  
Hong Kong, 20 October 2009

## ■ Statement of financial position

*As at 30 June 2009*

	Note	2009 HK\$	2008 HK\$
<b>Current assets</b>			
Amount due from the Institute	4	4,087,456	1,116,394
Cash and cash equivalents	6	78,034	54,643
		<b>4,165,490</b>	<b>1,171,037</b>
<b>Accumulated funds</b>			
		<b>4,165,490</b>	<b>1,171,037</b>

Approved by the Trustees on 20 October 2009

**Paul F. Winkelmann**  
Trustee

**Albert S.C. Au**  
Trustee

**Wilson Y.W. Fung**  
Trustee

## ■ Statement of comprehensive income

*For the year ended 30 June 2009*

	Note	2009 HK\$	2008 HK\$
<b>Revenue</b>			
Donations	7	3,005,746	564
Recovery of impaired loans to members	5	18,000	—
		<b>3,023,746</b>	<b>564</b>
<b>Expenses</b>			
Grants to members	8	(28,938)	(25,850)
Bank charges		(355)	(355)
Impairment of loans to members	5	—	(66,670)
		<b>(29,293)</b>	<b>(92,875)</b>
<b>Surplus/(deficit) and total comprehensive income for the year</b>		<b>2,994,453</b>	<b>(92,311)</b>

## ■ Statement of changes in accumulated funds

*For the year ended 30 June 2009*

	2009 HK\$	2008 HK\$
<b>Accumulated funds</b>		
At beginning of financial year	1,171,037	1,263,348
Total comprehensive income	2,994,453	(92,311)
	<b>4,165,490</b>	<b>1,171,037</b>
At end of financial year	<b>4,165,490</b>	<b>1,171,037</b>

## ■ Statement of cash flows

*For the year ended 30 June 2009*

	Note	2009 HK\$	2008 HK\$
<b>Cash flows from operating activities</b>			
Surplus/(deficit) for the year		2,994,453	(92,311)
Adjustment for:			
Impairment of loans to members		—	66,670
<b>Operating cash flows before working capital changes</b>		2,994,453	(25,641)
(Increase)/decrease in amount due from the Institute		(2,971,062)	25,850
<b>Net cash generated by operating activities and net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of financial year		23,391	209
		54,643	54,434
<b>Cash and cash equivalents at end of financial year</b>	6	<b>78,034</b>	<b>54,643</b>

## ■ Notes to the financial statements

*For the year ended 30 June 2009*

### 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 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 Chapter 50 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. Its trustees are the president, the immediate past president and a vice president of the Institute. The Trust Fund is a subsidiary of the Institute. The Trust Fund, being a charitable trust, is exempt from tax 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 the 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. 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.

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

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

The Institute has issued new/revised HKFRSs up to 30 June 2009 available for early adoption for the current accounting period of the Trust Fund. The Trust Fund has assessed that none of these HKFRSs are applicable to the Trust Fund's operations.

**c. Effects of new/revised HKFRSs that were issued after 30 June 2009 and up to the date of approval of the financial statements**

The Institute has issued certain revised HKFRSs after 30 June 2009 and up to the date of approval of the financial statements, the Trust Fund has assessed that these revised HKFRSs are not applicable to the Trust Fund's operations.

**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. Transaction costs that are directly attributable to the acquisition or issue of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition.

The Trust Fund's financial assets are classified as receivables and cash and cash equivalents. At each date of the statement of financial position subsequent to initial recognition, they are carried at amortized cost using the effective interest method, less identified impairment charges (see note 2e).

**e. Impairment of financial assets**

The Trust Fund recognizes charges for impaired receivables promptly where there is objective evidence that impairment of a receivable has occurred. Impairment allowances are assessed individually for significant receivables.

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 allowance account. The amount of any reversal is recognized in the statement of comprehensive income.

**f. Derecognition of financial assets**

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

**g. Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions.

**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.

**i. Related parties**

Parties are considered to be related to the Trust Fund if the Trust Fund has the ability to control,

directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Trust Fund and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Trust Fund where those parties are individuals.

**3. Financial instruments by category**

The carrying amounts of receivables as at the date of the statement of financial position are as follows:

	2009 HK\$	2008 HK\$
Amount due from the Institute	4,087,456	1,116,394
Cash and cash equivalents	78,034	54,643
	<b>4,165,490</b>	<b>1,171,037</b>

The fair value of the Trust Fund's financial assets at the date of the statement of financial position approximates their carrying amount.

**4. Amount due from the Institute**

The amount due from the Institute is unsecured, interest-free and repayable on demand. Subsequent to the date of the statement of financial position, the Institute settled HK\$4,087,456 to the Trust Fund.

## ■ Notes to the financial statements

*For the year ended 30 June 2009*

### 5. Short-term loans to members

	2009 HK\$	2008 HK\$
Short-term loans to members	48,670	66,670
Impairment of loans to members	(48,670)	(66,670)
	—	—
<b>Movements on the provision for impairment of loans to members are as follows:</b>		
At beginning of financial year	66,670	—
Recovery of impaired loans to members	(18,000)	—
Impairment of loans to members	—	66,670
At end of financial year	<b>48,670</b>	<b>66,670</b>

At 30 June 2008, the Trust Fund's short-term loans to members of HK\$66,670 were impaired. Due to financial difficulty, these members failed to make the agreed monthly repayments to the Trust Fund and full provision was made. The Trust Fund does not hold any collateral or other credit enhancements over these balances. The maximum exposure to credit risk at the date of the statement of financial position is the fair value of these short-term loans to members mentioned above, which approximates to their carrying amount.

### 6. Cash and cash equivalents

	2009 HK\$	2008 HK\$
Bank balances		
– Current account	76,534	54,643
– Savings account	1,500	—
	<b>78,034</b>	<b>54,643</b>

### 7. Donations

	2009 HK\$	2008 HK\$
Donation from the Institute	3,000,000	—
Others	5,746	564
	<b>3,005,746</b>	<b>564</b>



**8. Grants to members**

During the year, grants totaling HK\$28,938 (2008: HK\$25,850) were paid to help alleviate members facing financial hardship in the payment of the annual subscriptions to the Institute.

**9. Related party transactions**

During the year, the Trust Fund received a donation of HK\$3,000,000 (2008: Nil) from the Institute. The amount due from the Institute at 30 June 2009 is HK\$4,087,456 (2008: HK\$1,116,394).

**10. Financial risk management**

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

**a. Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Management considers that the Trust Fund's exposure to interest rate risk is low as the Trust Fund has not borrowed any loans during the year and only minimal fund balances are held in the savings account and current account which does not generate 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. Donation income is mainly from the Institute which is its holding company. The Trust fund also has a policy in place to evaluate credit risk when loans are granted to members and the repayment of short-term loans to members are closely monitored. Further quantitative data in respect of the exposure to credit risk arising from short-term loans to members are disclosed in note 5 to the financial statements.

The Trust Fund's surplus cash has been deposited with a reputable and creditworthy bank which is an authorized institution under the Deposit Protection Scheme guaranteed by the Hong Kong SAR Government's Exchange Fund. Management considers there is minimal risk associated with the bank balances.

**11. Capital management**

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

## ■ Independent auditor's report

### To the Trustees of The HKICPA Charitable Fund

We have audited the financial statements of The HKICPA Charitable Fund ("the Charitable Fund") set out on pages 67 to 72, which comprise the statement of financial position as at 30 June 2009, and the statement of comprehensive income, statement of changes in accumulated funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Trustees are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("the Institute"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor's responsibility**

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Institute. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charitable Fund's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charitable Fund'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 the Charitable Fund's affairs as at 30 June 2009 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

#### **Wong Brothers & Co.**

Certified Public Accountants  
Hong Kong, 20 October 2009

## ■ Statement of financial position

*As at 30 June 2009*

	Note	2009 HK\$	2008 HK\$
<b>Current assets</b>			
Amount due from the Institute	3	415,898	1,000,000
Cash and cash equivalents	5	737,282	738,642
		<u>1,153,180</u>	<u>1,738,642</u>
<b>Current liability</b>			
Payables		—	(954,082)
		<u>1,153,180</u>	<u>784,560</u>
<b>Accumulated funds</b>			
		<u>1,153,180</u>	<u>784,560</u>

Approved by the Trustees on 20 October 2009

**Paul F. Winkelmann**  
Trustee

**Albert S.C. Au**  
Trustee

**Winnie C.W. Cheung**  
Trustee

## ■ Statement of comprehensive income

*For the year ended 30 June 2009*

	Note	2009 HK\$	2008 HK\$
<b>Revenue</b>			
Donations	6	428,718	2,155,132
Interest income		1,486	3,200
Others		—	490
		<u>430,204</u>	<u>2,158,822</u>
<b>Expenses</b>			
Charitable event expense		—	(15,543)
Charitable donations	7	(60,820)	(2,504,082)
Bank charges		(764)	—
		<u>(61,584)</u>	<u>(2,519,625)</u>
<b>Surplus/(deficit) and total comprehensive income for the year</b>		<u>368,620</u>	<u>(360,803)</u>

## ■ Statement of changes in accumulated funds

*For the year ended 30 June 2009*

	General fund HK\$	2009 Specific fund HK\$	Total HK\$	General fund HK\$	2008 Specific fund HK\$	Total HK\$
At beginning of financial year	739,623	44,937	784,560	1,100,426	44,937	1,145,363
Transfer	44,937	(44,937)	—	—	—	—
Total comprehensive income	368,620	—	368,620	(360,803)	—	(360,803)
At end of financial year	<u>1,153,180</u>	<u>—</u>	<u>1,153,180</u>	<u>739,623</u>	<u>44,937</u>	<u>784,560</u>

## ■ Statement of cash flows

*For the year ended 30 June 2009*

	Note	2009 HK\$	2008 HK\$
<b>Cash flows from operating activities</b>			
Surplus/(deficit) for the year		368,620	(360,803)
Decrease in amount due from the Institute		584,102	—
(Decrease)/increase in payables		(954,082)	520,823
<b>Net cash (utilized in)/generated by operating activities and (decrease)/increase in cash and cash equivalents</b>		(1,360)	160,020
Cash and cash equivalents at beginning of financial year		738,642	578,622
<b>Cash and cash equivalents at end of financial year</b>	5	<b>737,282</b>	<b>738,642</b>

## ■ Notes to the financial statements

*For the year ended 30 June 2009*

### 1. Principal activities

The HKICPA Charitable Fund (“the Charitable Fund”) was set up under a trust deed dated 2 December 2001 for general charitable purposes. Its trustees are the president, the immediate past president and the chief executive of 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 Chapter 50 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 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 the 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. These financial statements have been prepared under 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 new/revised HKFRSs up to 30 June 2009 available for early adoption for the current accounting period of the Charitable Fund. The Charitable Fund has assessed that none of these HKFRSs are applicable to the Charitable Fund’s operations.

**c. Effects of new/revised HKFRSs that were issued after 30 June 2009 and up to the date of approval of the financial statements**

The Institute has issued certain revised HKFRSs after 30 June 2009 and up to the date of approval of the financial statements, the Charitable Fund has assessed that these revised HKFRSs are not applicable to the Charitable Fund's operations.

**d. Financial instruments**

Financial assets and financial liabilities are recognized in the statement of financial position when the Charitable Fund becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. 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 Charitable Fund's financial assets are classified as receivables and cash and cash equivalents. At each date of the statement of financial position subsequent to initial recognition, they are carried at amortized cost using the effective interest method, less identified impairment charges (see note 2e).

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

**e. Impairment of financial assets**

The Charitable Fund recognizes charges for impaired receivables promptly where there is objective evidence that impairment of a receivable has occurred. Impairment allowances are assessed individually for significant receivables.

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 allowance account. The amount of any reversal is recognized in the statement of comprehensive income.

**f. 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 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.

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

**g. Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions.

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### **h. Revenue recognition**

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

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

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

#### **i. Related parties**

Parties are considered to be related to the Charitable Fund if the Charitable Fund has the ability to control, directly or indirectly, the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Charitable Fund and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Charitable Fund where those parties are individuals.

### **3. Amount due from the Institute**

The amount due from the Institute is unsecured, interest-free and repayable on demand. Subsequent to the date of the statement of financial position, the Institute settled the amount to the Charitable Fund.

### **4. Financial instruments by category**

The carrying amounts of each category of financial instruments as at the date of the statement of financial position are as follows:

	<b>2009</b>	<b>2008</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Financial assets</b>		
Amount due from the Institute	415,898	1,000,000
Cash and cash equivalents	737,282	738,642
	<b>1,153,180</b>	<b>1,738,642</b>
<b>Financial liabilities</b>		
Payables	—	954,082

The fair value of the Charitable Fund's financial assets at the date of the statement of financial position approximates their carrying amount.



**5. Cash and cash equivalents**

	<b>2009</b>	<b>2008</b>
	<b>HK\$</b>	<b>HK\$</b>
Bank balances		
– Savings accounts	729,695	69,326
– Current accounts	7,587	669,316
	<b>737,282</b>	<b>738,642</b>

**6. Donations**

	<b>2009</b>	<b>2008</b>
	<b>HK\$</b>	<b>HK\$</b>
Aid for Sichuan earthquake relief	10,820	2,154,082
Donation from the Institute	415,898	–
Others	2,000	1,050
	<b>428,718</b>	<b>2,155,132</b>

**Aid for Sichuan earthquake relief**

During the year ended 30 June 2008, the Institute launched an appeal to members to raise funds for the Sichuan earthquake relief efforts. The total amount raised from members of HK\$2,154,082 was matched dollar for dollar by the Charitable Fund with a cap of HK\$300,000. The total fund raised for the relief efforts was HK\$2,454,082 of which HK\$1,500,000 was paid to the Hong Kong Red Cross China Relief Fund and the remaining balance of HK\$954,082 was committed to other relief organizations which was subsequently paid to SCMP Charities Ltd. – SCMP Homes for Hope. A full provision of HK\$954,082 was made in the financial statements for the year ended 30 June 2008 to “Sichuan earthquake relief organizations”.

**7. Charitable donations**

	<b>2009</b>	<b>2008</b>
	<b>HK\$</b>	<b>HK\$</b>
Playright Children’s Play Association	50,000	–
SCMP Charities Ltd – SCMP Homes for Hope	10,820	954,082
Hong Kong Red Cross China Relief Fund	–	1,500,000
Liaison Office of the Central Peoples Government in the HKSAR	–	50,000
	<b>60,820</b>	<b>2,504,082</b>

**8. Related party transactions**

During the year, the Charitable Fund received a donation of HK\$415,898 (2008: Nil) from the Institute. The amount due from the Institute at 30 June 2009 is HK\$415,898 (2008: HK\$1,000,000).

## ■ Notes to the financial statements

### *For the year ended 30 June 2009*

#### 9. Financial risk management

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

##### a. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Charitable Fund's exposure to interest rate fluctuations is limited to interest receivable on its savings accounts as at the date of the statement of financial position. Any fluctuation in the prevailing levels of market interest rates will have impact on the interest income alone as the Charitable Fund has not borrowed any loans during the year. The Charitable Fund manages the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impacts on interest income.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Charitable Fund's surplus/(deficit) before tax and equity.

	2009 HK\$	2008 HK\$
Savings accounts	729,695	69,326
	% p.a.	% p.a.
Effective interest rate of savings accounts	0.1%	0.5%
<u>Impact of interest rate deviation</u>		
Increase in interest rate by 1%		
– Increase in surplus before tax/(decrease) in deficit before tax	7,297	(693)
– Increase in accumulated funds	7,297	693
Decrease in interest rate by 1%		
– (Decrease) in surplus before tax/increase in deficit before tax	(7,297)	693
– Decrease in accumulated funds	(7,297)	(693)

##### 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 reputable and creditworthy banks which are authorized institutions under the Deposit Protection Scheme guaranteed by the Hong Kong SAR Government's Exchange Fund. Management considers there is minimal risk associated with the bank balances.

#### 10. Capital management

The Charitable Fund operates by donating 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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