Accounting for the Art of Success

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

Annual Report 2012

Hong Kong Arts Centre exhibition

Foreword

Hong Kong's art scene is booming as growing wealth and appreciation for art in Hong Kong and in the Mainland have made the city the art capital of Asia. The figures are staggering. Last year, Sotheby's saw its sales in the city exceed US$1 billion for the first time.

But it isn't only those with deep pockets getting involved. Hong Kong's rediscovered love of art has meant that people young and old, from all walks of life, are participating.

The city's international art fair, ART HK, is in its fifth year and in 2012 welcomed 266 galleries from 38 different countries and more than 67,000 visitors. The fair has grown so much in stature that the organizers of the world-famous Art Basel fair have purchased a majority stake in it and will hold the inaugural Hong Kong edition of Art Basel in 2013.

In the city's West Kowloon Cultural District, which is undergoing redevelopment, galleries, museums and art fairs are expected to rise to further boost Hong Kong's status as an art hub.

This year, the Heritage Museum exhibited a collection of masterpieces by Pablo Picasso loaned from the Musée National Picasso, Paris, in what was by far the most comprehensive exhibition of the Spanish artist's works ever held in Hong Kong.

Like its art industry, Hong Kong's accounting profession holds international standing, influence and respect that belie the territory's small size. And just as the city's artists, galleries and auction houses have helped Hong Kong art go from strength to strength, CPAs working in practice and business – sometimes even in the art business – have helped Hong Kong thrive as one of the world's most important capital markets.

To the Hong Kong people, everyday life and art are inseparable, be it the architecture of a building or sculptures sitting inside a room. Similarly, the work of CPAs is integral to everything people do, from buying groceries in a shop to putting money in a bank.

This annual report features art as its theme, drawing parallels with the accounting profession. You will also find short vignettes about our members' ties to the art world.

Contents

Photo-souvenir: From Three Windows, 5 colours for 252 places, work in situ *(2006) by Daniel Buren, presented by Lisson Gallery at ART HK 12*

President's report

Looking ahead, the Institute's Council will continue to strengthen its seven pillars – constitution and governance; qualification and education; standards, ethics and regulation; member support and development; Mainland and international; communication and branding; and making a difference to society and thought leadership.

Dear members,

It has been a very great honour for me to have served as your president and chaired the Institute's Council in 2012. When I began my term, my priority was to listen to a wider and more diverse range of voices from members. Whether junior or senior, in business or in practice, our members are the success ingredients of the Institute.

To achieve this, I resolved to participate in as many members' activities as I could, meeting you face to face and hearing what issues are important to you.

I also engaged in dialogue with the Institute's other stakeholders, especially the government, given its commitment to regulatory reform on auditing. While the introduction of clause 399 to the Companies' Ordinance – relating to the criminal liability of auditors – was not a desirable outcome for the profession, it was heartening to see a united front and strong lobbying from our members and other accounting bodies. It was a genuine moment of solidarity.

In December 2011, the Institute convened an extraordinary general meeting at which a resolution was voted upon about changing the way the Institute's president and vice presidents are elected. The proposal was voted down by 1,250 votes to 964. We will continue to evaluate the Institute's election processes through the governance review task force.

EGMs such as this are important platforms for debate, despite the time, cost and resources involved in convening them. We encourage our members to voice their diverse opinions using the many channels available.

An important transition in the Institute's management took place this year. Winnie C.W. Cheung retired as chief executive and registrar on 30 June 2012 after 22 years of inspirational service. When she announced her plan to retire, we committed the Institute to a smooth transition using an open and independent recruitment process.

On 1 July, our new chief executive and registrar, Raphael Ding, took the helm. Raphael has been a Council member since 2007, has served on many committees – including as chairman of the ethics committee and the professional standards monitoring committee – and has shown his knowledge and understanding of the diverse and complex operations of the Institute.

Accounting is one of the city's most committed professions when it comes to public affairs. In February 2012, the Institute invited the candidates running to be Chief Executive of Hong Kong to present their election platforms and answer questions from our members and the 30 election committee members from the accountancy subsector. The Institute held another forum before the Legislative Council election in September 2012 for members to meet the four candidates standing for the accountancy functional constituency election.

Many of our resources this year have been devoted to furthering our qualification programme, especially in the Mainland. The QP is one of the world's most rigorous programmes for training CPAs and the Institute believes that China offers great potential for the programme's growth. That, along with our profession's increasingly closer ties with the Mainland, is one of the reasons I have been practising my Mandarin hard this year: so I can better support the Institute's Mainland functions, delegations and presentations.

Our outreach activities go beyond China, of course. We continue to be deeply involved in the Global Accounting Alliance, the International Accounting Standards Board and the International Federation of Accountants and will continue contributing our voice to global standard setting and other issues that affect the profession worldwide. One of those issues is sustainability, which was the focus of our conference in late October 2012.

We continue to recognize the need for specialization within the profession, such as through our specialist accreditations in insolvency and taxation. There has been a range of reactions to specialization, including some that have spurred interesting and active debate. However, the Institute strongly believes that specialization is the right direction to take as it helps our members develop skills that add value to Hong Kong as a world financial market.

Another important segment of our profession is small- and medium-sized practitioners, whom we encourage to diversify in the services they provide. To support their efforts, we make sure their integrity, status and reputation are not compromised by the presence of CPA imposters, who claim to provide professional auditing services to the public despite not possessing the relevant qualifications and skills to do so. We are working with the Hong Kong Police and government departments, such as the Companies Registry and the Inland Revenue Department, to crack down on such illegal behaviour.

Our young members – who never fail to impress their more senior colleagues with their engagement, commitment and enthusiasm – best represent the confident future of our profession. With the 25.35 group, we have established a network of young members to share experiences, discuss common issues and be involved in projects to cultivate a sense of belonging to the Institute. We intend to keep providing effective channels of communication among them and between them and the Institute, offering mentorship and nurturing young members to become future leaders.

One way we can help develop young members is to inculcate our code of ethics, which provides guidance on identifying, evaluating and managing conflicts of interest for accountants in business and in public practice. For the benefit of all members, we will closely monitor proposed changes to the code by the International Ethics Standards Board for Accountants.

We maintain our commitment to meet our corporate social responsibility and in August 2012 we published the third book in the May Moon series for children. *May Moon's Book of Choices* helps children learn about ethics and money morals, and is part of the Institute's "Rich Kid, Poor Kid" programme. It involves more than 200 CPA volunteers visiting primary and secondary schools to teach children why money is important – but not too important. The programme is a real benefit we can bring to Hong Kong families as CPAs.

Looking ahead, the Institute's Council will continue to strengthen its seven pillars – constitution and governance; qualification and education; standards, ethics and regulation; member support and development; Mainland and international; communication and branding; and making a difference to society and thought leadership. The Institute's Council and management discussed these pillars as set out in the Sixth Long Range Plan at an annual away day in Shenzhen, charting the direction of the Institute and reviewing the budget for the years ahead.

The long range plan is especially crucial, given continuing global economic uncertainty and volatility, coupled with the inevitable easing of growth in the Mainland as its market matures. It will help us firmly position ourselves and create new opportunities.

Finally, let me offer my very heartfelt thanks to the Institute's staff, committee members, vice presidents and Council members for their unceasing commitment to achieving our goals, as well as to all those tireless members who volunteer their time, energy and expertise to our ever-expanding activities.

Sincere regards,
Keith Pogson
President

Chief Executive and Registrar's review

I feel honoured to be in the position and I am committed to serve the Institute and the accounting profession with my best skill and ability.

Dear members,

First of all, let me express my delight to be appointed as the new chief executive and registrar of the Institute. I feel honoured to be in the position and I am committed to serve the Institute and the accounting profession with my best skill and ability.

This year, audit regulation has attracted significant attention, not only within the Institute, but also in the government, the Legislative Council and Hong Kong society at large, triggered by the introduction of the controversial clause 399 to the Companies Ordinance.

Clause 399 significantly exposes auditors to civil claims as a disgruntled shareholder may "piggyback" a civil claim on a criminal sanction in relation to an auditor's "recklessness," a legal concept that is largely untested as to how it applies to auditing. Clause 399 makes auditor liability reform in Hong Kong more pressing. Our main task ahead is to continue our discussions with the government and other stakeholders to put through this reform. Meanwhile, the Institute's auditing and assurance standards committee is tasked to develop guidance for our members in relation to clause 399.

For years, the Institute has been working with Mainland authorities to ease restrictions for members doing business there. Supplement IX of the Mainland and Hong Kong Closer Economic Partnership Arrangement introduces a pilot scheme to allow Hong Kong CPAs who have obtained the CICPA qualification and the necessary practical experience to become partners of Mainland accounting firms in Qianhai Bay, a financial hub under development near Shenzhen. This adds to existing opportunities the Institute has created for Hong Kong accountants on the Mainland, such as mutual examination paper exemptions with the CICPA.

The Institute remains committed to maintain convergence between Hong Kong and Mainland standards. In addition to the convergence of accounting and auditing standards already achieved, in November 2011, we signed another declaration with the CICPA, this time on the convergence of our respective *Code of Ethics for Professional Accountants*.

The Institute's strong participation in global accounting and standard setting bodies, such as the IASB, IFAC and GAA, ensures our voices are heard internationally. Upon nomination by the Institute, Professor Judy Tsui, vice president (international and executive education) of The Hong Kong Polytechnic University, was appointed as a member of the influential IFAC Nominating Committee in January 2012.

Our qualification programme continues to grow, both in terms of the number of new students and the extent of mutual recognition with international accounting institutes. On 24 October 2011, the Institute signed a mutual recognition agreement with the International Qualifications Appraisal Board in the United States. The agreement, which is in force until 23 October 2016, means CPAs in Hong Kong and the U.S.

will be able to gain designation in each other's jurisdictions without going through the entire qualification process.

Making strides to develop QP in the Mainland, we set up our first resources centre in Zhuhai to provide on-site support to students from our accredited universities for QP enrolments and examinations. We are also taking steps to establish another resources centre in Shanghai. Together with our office in Beijing, we have established a good base to promote the Institute's brand, of which QP is a significant element, in the Mainland and to serve QP students from the 13 universities located in key Mainland cities that we have accredited to date.

We continue our efforts to promote specialization as it is important for the future of our profession. This year, we started the enrolment for the new advanced diploma in specialist taxation and in early July 2012, we set up the taxation faculty. The tax programme follows the Institute's success with the diploma in insolvency, which was given specialist qualification status in June 2010, and the introduction of Institute's first specialist designation in insolvency in December 2010.

The Institute recorded a deficit – of HK$8 million – in this financial year. The deficit is the result of the expansion of activities to enhance QP, promote our QP in Mainland and expand membership support, and accumulated cost inflation over the last five years during which we have maintained the same fee levels. With the anticipated depletion of the Institute's reserves if we continue with the same level of activities and fees, the Council sees it necessary to take steps to prevent the Institute from falling into a structural deficit situation. The Council at its September 2012 meeting therefore decided to make small fee increases to ensure adequate financial resources are available to support the Institute's statutory and membership functions. Management is also conducting an organization review to ensure the Institute has the right structure and the right mix of talents to efficiently implement the tactical action plans under the Sixth Long Range Plan that is under development.

The Hong Kong Institute of Accredited Accounting Technicians is experiencing a continuous fall in number of students and members in recent years due to the changing education landscape in Hong Kong. The HKIAAT's deficit this year was HK$3.3 million, and we are rigorously reviewing its future operation model and its organization and funding structures.

For members working in business, we held regular forums including several industry-specific focus group discussions for public sector accountants and those working in the retail and catering sectors. We kept professional accountants in business up to date with recent developments via our dedicated e-newsletters and played an active role in the international arena through our representation on the IFAC PAIB committee.

We stepped up efforts to protect our small- and medium-sized practices by working with the Hong Kong Police, the Companies Registry, the Inland Revenue Department and our LegCo representative to crack down on CPA imposters.

This year, we particularly looked to engage our younger members. The 25.35 group Facebook was formed and has since become very popular, with more than 1,000 members having signed up. Throughout this year, we organized a number of events for our young members, including the networking party in June and the Guangzhou study tour this summer.

Social activities are important for providing networking opportunities to our members and maintaining their work-life balance. Our sports and recreation club continues to thrive as do the many interest groups started by our members.

Meanwhile, our care for community is unwavering. Our third children's book, *May Moon's Book of Choices*, applies the expertise and experience of CPAs to help young readers learn ethics and money morals.

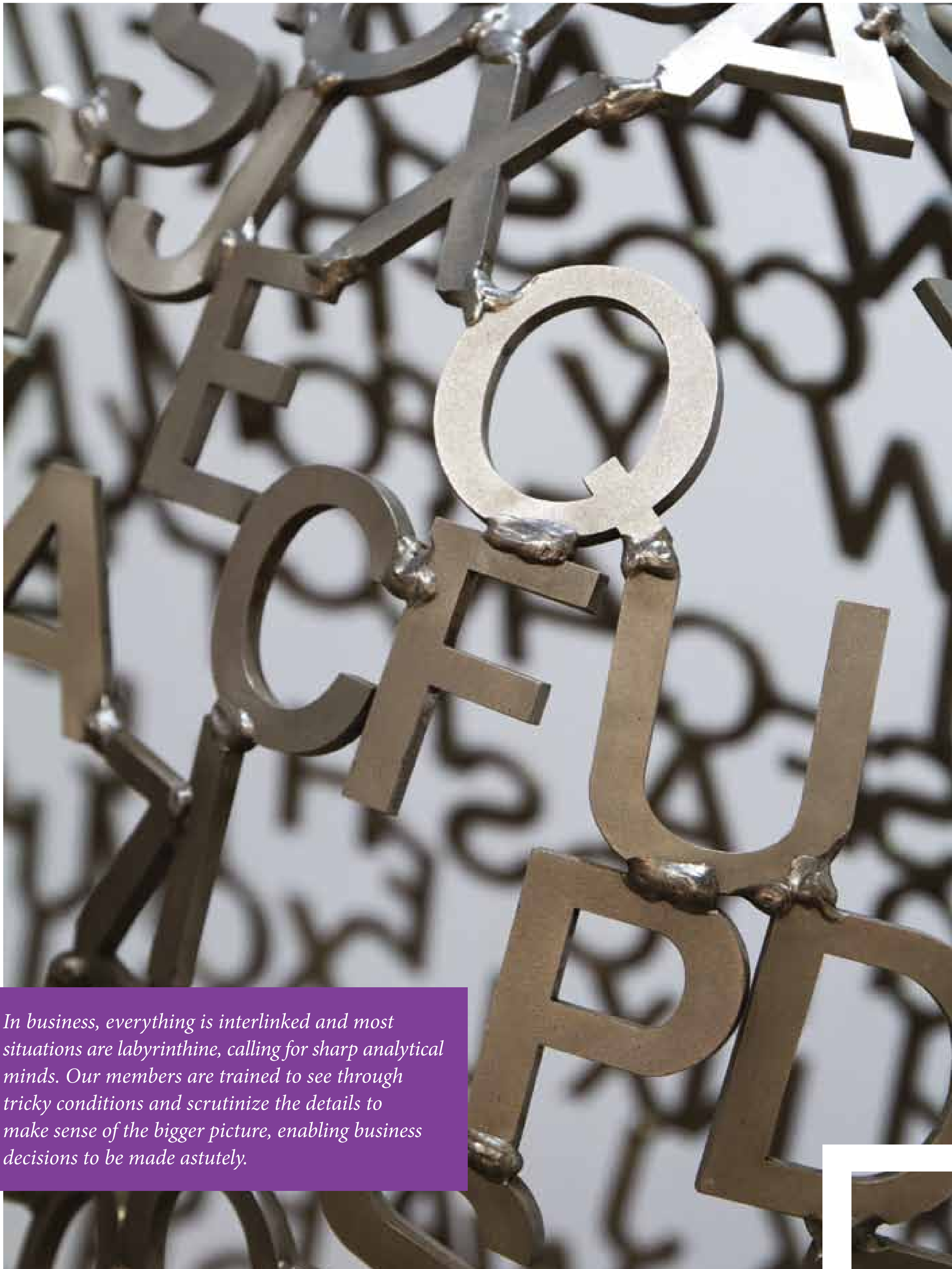
This year, the 2011 annual report won several accolades at the International ARC Awards, while *A Plus* won an award for business reporting at the Society of Publishers in Asia editorial competition.

I encourage you to read the body of the annual report, which is available on the Institute's website, to gain a deeper insight into the many accomplishments of the Institute this year.

All the accomplishments of the Institute are the work of many people. Our profession prospers because of the dedication of members of our Council, our committees and working groups, our staff and, of course, the support of all our members. Thank you all for making 2012 a vigorous and special year for the Institute and Hong Kong's accounting profession.

Last but not least, I wish to thank my predecessor, Winnie Cheung, for all the achievements under her eight-year tenure as chief executive of the Institute.

Sincere regards,
Raphael Ding
Chief Executive and Registrar



In business, everything is interlinked and most situations are labyrinthine, calling for sharp analytical minds. Our members are trained to see through tricky conditions and scrutinize the details to make sense of the bigger picture, enabling business decisions to be made astutely.

Tokyo's Soul *(detail) (2007) by Jaume Plensa, presented by Galerie Lelong at ART HK 12*

Finance & Operations

The prudent financial management of the group's assets safeguards the Institute's resources for the benefit of its members and students. Despite a deficit of HK$11.5 million, the net asset balance was still maintained at HK$319 million for this financial year, almost the same as that for the last financial year.

Our enhanced information technology has brought efficiency and improvements to our internal operations in support of our members' services. The Institute's website and all related web-based functions were successfully migrated to a high-availability platform for the existing online services and the introduction of new online features in the next two years. A faster system backup process was introduced, reducing interruptions to production, allowing faster data restoration and less operational costs.

The examination online marking system for the qualification programme was implemented. This provides a secure system environment to support the remote marking process. The automation design helps streamline operations and reduces the chance of manual errors. A new human resources information system was also implemented to enhance operational efficiency and the security of employee data.

Our employees are our most important assets. The Institute has reviewed the staff handbook to align the recruitment, retention and development of our human resources with the current and future business goals of the organization. To continuously enhance the skills of our staff to better serve our members, training courses on IT programmes, English writing skills, telephone skills as well as leadership and coaching were provided to 159 staff members with positive feedback.

The Institute also filled key positions in our technical support team to better serve our members in standard setting, quality assurance and compliance, so that we can continue to command public interest, confidence and respect.

Keeping artists in the black

Hong Kong Arts Development Council is the most significant funding source for arts and cultural projects in the city. It has funded many local activities such as the displays of graphic arts in the Shanghai Street Artspace Exhibition Hall in Yau Ma Tei. The council also takes Hong Kong culture to the world through international collaborations, which include showcasing Hong Kong artists at the Venice Biennale. The council applauds freedom of artistic expression, plurality and diversity. Among those helping to uphold such values are ***Shirley Cheng****, the council's finance manager and an Institute member.*

Like a great artist, a great accountant must have a solid foundation built from years of dedication, going through rigorous training to gain essential knowledge and skills. A student artist learns from a master, just as our student members learn from experienced CPAs under the Institute's authorization scheme.

Qualification & Membership

By June 2012 our membership had grown to 33,901, including 3,937 members with practising certificates who can sign statutory audit reports, up from 32,168 and 3,827, respectively, compared to a year ago. In that same period, the number of member practices increased from 1,578 to 1,610.

The CPA designation that our members hold is one of the most internationally recognized and becoming more so. The Institute signed a memorandum of understanding with the Institute of Chartered Accountants in England and Wales to extend our cooperation agreement to our non-QP members. In the United States, the Institute signed a mutual recognition agreement with the International Qualifications Appraisal Board, which represents the National Association of State Boards of Accountancy and the American Institute of CPAs, so that, between 24 October 2011 and 23 October 2016, our respective members can obtain CPA designation in each other's jurisdictions without going through the entire qualification process.

QP – qualification programme

A growing number of graduates are joining our prestigious ranks through the Institute's qualification programme, the most direct and one of the most rigorous paths to becoming a Hong Kong CPA. By the end of June 2012, the number of students had grown to 15,133. In the December 2011 and June 2012 sessions, a total of 1,490 students successfully completed the QP, bringing the total number of graduates since it began to 10,790.

The programme is now in its 12th year and remains as relevant today. Two years ago, it was updated with upgraded study materials and redesigned workshops after a thorough top-to-bottom review by world renowned accounting experts. Because of its international relevance and recognition, many from mainland China are also choosing to take the QP. As of 30 June 2012, the programme had 556 students from the Mainland, including 264 CICPA members and 292 Mainland degree holders.

As practical experience is a vital component of the QP, we continue to expand the opportunities for our students. As of 30 June 2012, we had authorized 1,233 employers and 1,790 supervisors to train our students.

We continue to make an accounting career a promising choice for the best and brightest university graduates. During the reporting period, four new overseas accounting degree programmes offered in Hong Kong were accredited to have their graduates directly eligible to enrol in the QP. In the Mainland, 12 more programmes offered at eight universities were accredited in the same period – more than doubling the number of accredited Mainland universities and increasing the number of Mainland graduates who have the opportunity to study the QP. To date, there are a total of 77 accredited programmes, comprising 47 accounting degrees and 30 conversion courses in Hong Kong and the Mainland. In the reporting period, 58 students from these programmes were awarded QP scholarships and bursaries.

Inspiring future CPAs

This reporting period marked the 10th year of the QP case analysis competition, with a record 576 teams registered to take part in Hong Kong and the Mainland. A special grand finale was held in Hong Kong for the winning teams from Hong Kong, Shanghai and Beijing.

We opened our first Mainland QP resources centre in Zhuhai, in partnership with United International College, to reach out to more prospective CPAs. And for the second year, we organized an academic exchange trip for relevant faculty members of all of our accredited Mainland universities to join the Institute's business conference in Hong Kong.

Meanwhile, more than 700 university and QP students attended a forum to learn about career development and market trends.

Accounting technicians

Since introducing a new qualification framework in 2009 that tests knowledge and understanding of ethics, the Institute's subsidiary, the Hong Kong Institute of Accredited Accounting Technicians, has registered more than 5,100 new students to its AAT examination.

To date, the HKIAAT has accredited 75 sub-degree accounting programmes for eligibility for the AAT examination. In 2011, to meet the broadening secondary school curriculum, the HKIAAT introduced the AAT foundation examination. More than 1,600 secondary school students chose to take the foundation examination in its first year.

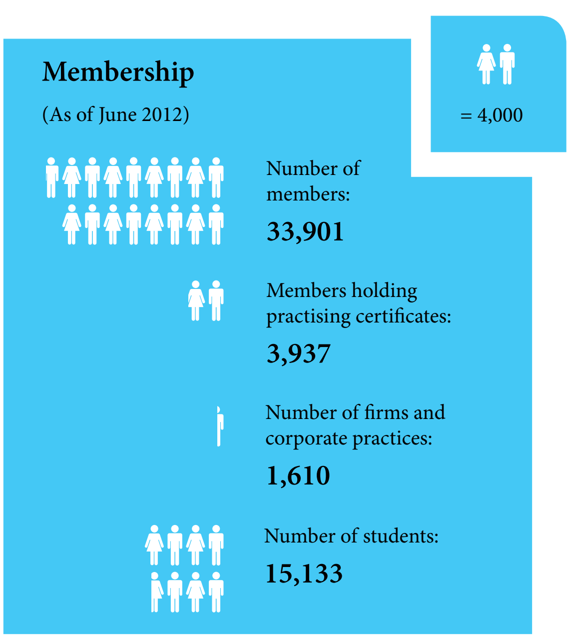
In addition to pursuing a career as an accounting technician, AATs can use their qualification as a bridging route to the QP. So far 1,088 students have registered for the professional bridging examination and 896 AATs have become eligible for entry to the QP.

Continuing professional development

Becoming a member of the Institute is not a one-off event, but a lifelong commitment to keeping knowledge up to date and skills sharp. This year, the Institute held 374 face-to-face events (compared with 342 in the previous year) and 341 e-learning programmes (compared with 274 in the previous year). In total, there were 58,658 enrolments from members, up from 54,313 in the previous year.

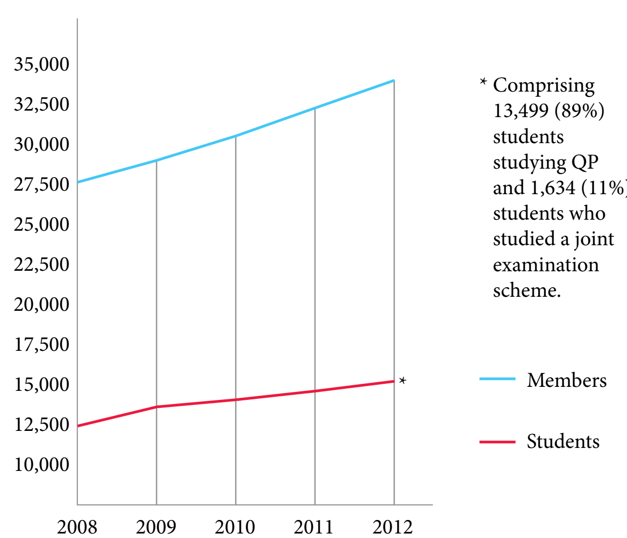
We continue to seek members' views on continuing professional development and in November 2011, we held a CPD forum attended by 225 members who gave us their feedback and suggestions. They told us that they want more e-learning, so during the year we increased the number of webinars, and trialed real-time broadcasts of face-to-face events and an e-Standard course that enabled members to keep up to date with important accounting standards.

On 1 June, we held a half-day business conference that was attended by more than 200 members and guests, and included Liu Yuting, director general of the state equity and corporate finance department of China's Ministry of Finance, and Tang Yunwei, president of the Shanghai Institute of Accounting, as speakers.



Five-year increase

(As of June 2012)



In this reporting period, the Institute extended the support programme that provides free places at selected CPD events to unemployed members. More than 700 places were taken up. We also doubled the number of free stress management workshops for members to two a month.

Specialization

In an important development for the taxation field, in April, the Institute introduced the new advanced diploma in specialist taxation. Taught by taxation specialists including practising accountants, lawyers and academics, the nine month, part-time programme enables participants to extend their competence in Hong Kong taxation matters and broaden their expertise in China and international taxation. The first course runs until December 2012 and has 69 candidates. Meanwhile, the Institute's new tax faculty was launched at a ceremony on 5 July 2012, with the commissioner of inland revenue as the guest of honour.

The tax faculty is the Institute's second, after the restructuring and insolvency faculty. The specialist qualification in insolvency was introduced in June 2010 and was awarded to all 319 successful candidates of the diploma in insolvency from the 2000-01 to 2011-12 cohorts. In this reporting period, for the first time, the insolvency preparatory one course had to be re-run to cope with popular demand.

The specialist designation in insolvency, which is accredited to members with considerable experience and competencies in the field, became effective on 1 July 2011. A total of 69 members had been awarded the designation by the end of the reporting period.

In addition, the Institute has other specialist groups, including corporate finance, financial services and forensics, to help members develop with their peers in their specialized fields of practice.

Hammering out success

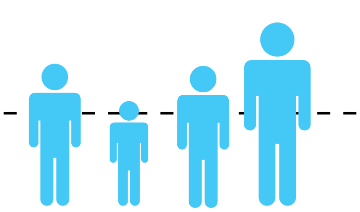
China overtook the United States to become the largest auction market in the world last year, with art sales estimated at US$12 billion. Auction houses with their Hong Kong and China offices will continue to be crucial to this success as Asian art continues to sell strongly. The venerable Christie's and Sotheby's both recorded vibrant results in the region this year. ***Teresa Wong****, Asia head of finance at Christie's Hong Kong is an Institute member, as are* ***Henry Li****, senior director of finance at Sotheby's and colleagues* ***Lo Hing-mei****, business director, and* ***Leung Wing-fai****, financial controller. Newcomers are also making a splash such as Tiancheng International, which sold Auguste Rodin's* Monumental Head of Pierre de Wissant *(1909) for HK$64.9 million in its inaugural auction last year. Tiancheng's finance director,* ***Raymond Tam****, is an Institute member.*

Student gender

(As of June 2012)

8,409 (56%)	Female
6,724 (44%)	Male

Total 15,133



Average member age

41

Youngest member

23

Oldest member

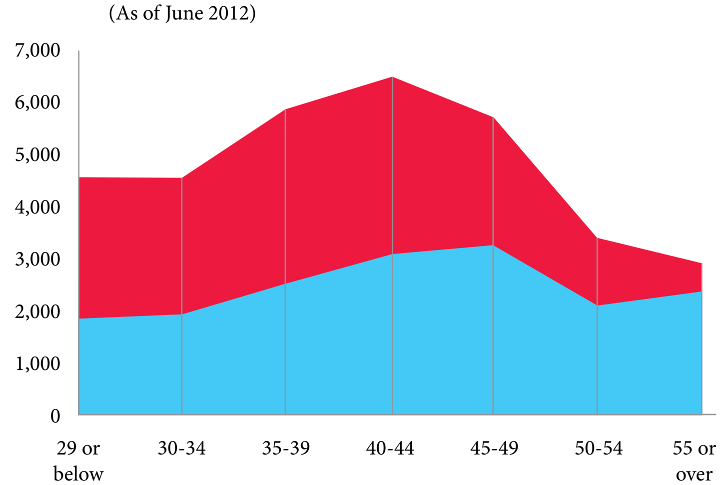
94

Members under 40

15,115 (45%)

Member age and gender distribution

(As of June 2012)



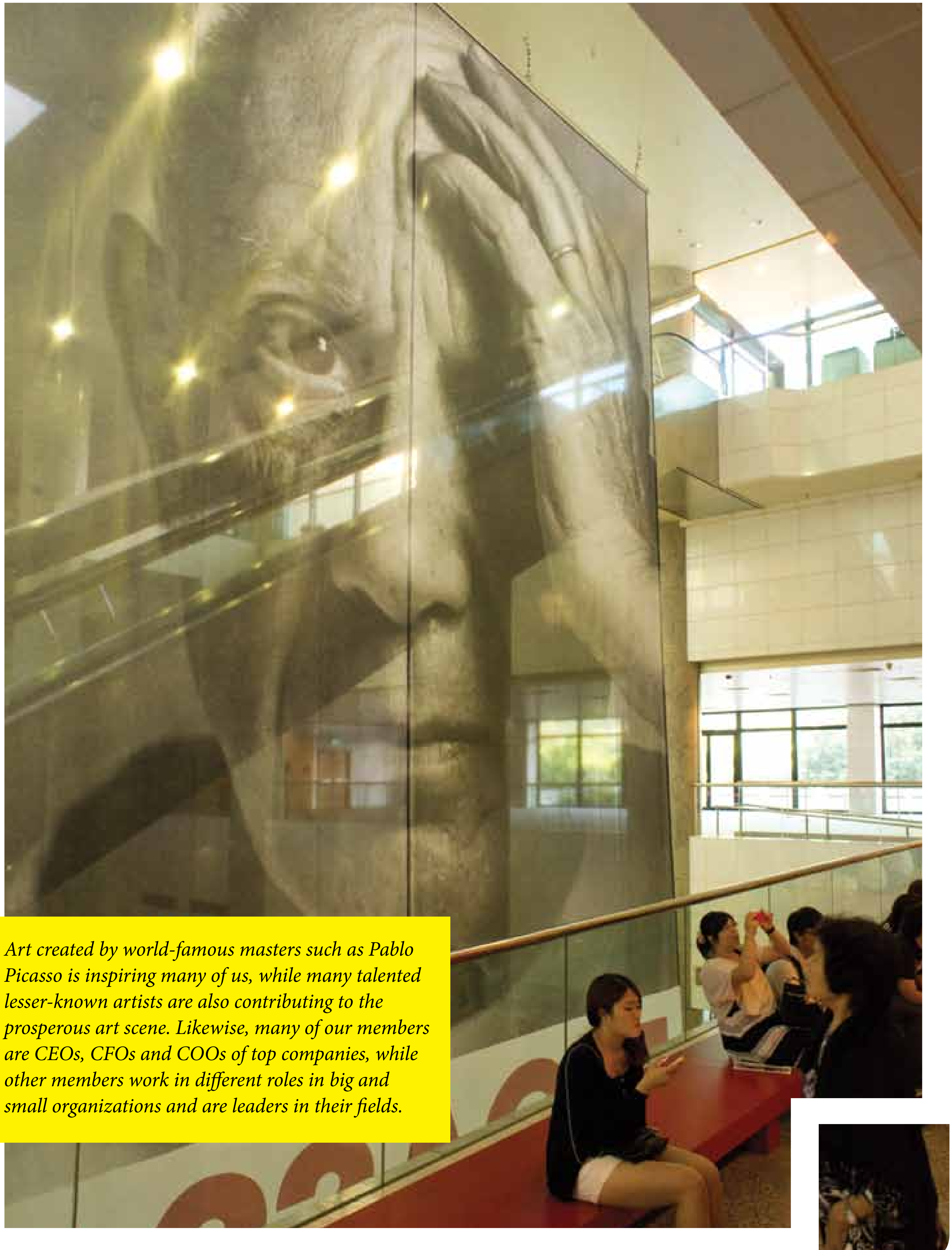
Female **16,522 (49%)**

Male **17,379 (51%)**

Total **33,901**

About half of Hong Kong CPAs are under 40, a young generation regarded as versatile and vibrant. Together with our more senior and experienced members, they excel in myriad roles inside and outside the profession, contributing to the vivid picture of Hong Kong's success.

Pens *(2012) by Hong Kyoung Tack, presented by CAIS Gallery at ART HK 12*



Art created by world-famous masters such as Pablo Picasso is inspiring many of us, while many talented lesser-known artists are also contributing to the prosperous art scene. Likewise, many of our members are CEOs, CFOs and COOs of top companies, while other members work in different roles in big and small organizations and are leaders in their fields.

"PICASSO - Masterpieces from Musée National Picasso, Paris" exhibition in Hong Kong 2012

Advocacy and advisory

This year, the Institute's advocacy for the interests of its members was in high profile, as the Legislative Council passed clause 399 of the Companies Amendment Bill.

In three submissions, the Institute urged LegCo to remove or reword the clause, which would for the first time make auditors criminally liable for certain omissions in their professional work without the need to prove any dishonest intent. A Committee Stage Amendment put forward with the support of the accountancy sector's LegCo representative – which would remove the threshold of "recklessly" omitting a required statement from an audit report – did not gain sufficient support.

However, the Institute was successful in getting junior accountants excluded from the liability for criminal offence. The government's proposed Committee Stage Amendment that could put less experienced audit staff at risk about such an effect was overwhelmingly voted down by legislators, following our intense lobbying.

In light of the new provision (now section 400 of the new Companies Ordinance) and its possible implications, the Institute will provide guidance for members on the conduct of audits and audit reporting.

The passing of the bill has made the issue of auditor liability more pressing. During the year, we submitted to the government proposals on capping auditor liability, which incorporated reports on how the changes would affect capital market stability, on liability capping in other jurisdictions and illustrative legislation for Hong Kong, and on the insurance market for professional indemnity insurance.

Elsewhere and throughout the year, the Institute continued to ensure members' views were heard by policymakers.

Our annual budget proposals were submitted to the financial secretary and shared with the public through a press conference. On budget day, we issued a press release giving our reaction, provided media interviews and held a member forum to discuss the budget's potential effects.

Again on tax and related matters, we held our annual meeting with the commissioner of inland revenue and published a detailed record of what was discussed.

We also discussed tax policy issues in a meeting with the Financial Services and the Treasury Bureau and published the meeting notes in an electronic tax bulletin for members.

On the Mainland, we had a meeting with the State Administration of Taxation on issues relating to cross-border taxes affecting Hong Kong businesses and individuals. A record of this meeting has been made available to members.

We represented the profession's point of view in the field of insolvency on the government advisory group on modernizing the corporate insolvency law and the Official Receiver's Office service advisory committee. We also participated in the ORO and Institute's joint approval and appeal committee for the Panel A scheme.

We also made recommendations to the government in improving the winding-up provisions of the Companies Ordinance, under the rewrite project.

The 2011 Best Corporate Governance Disclosure Awards were successfully concluded with the secretary for financial services and the treasury as guest of honour at the presentation. The awards are in their 13th year and have become the benchmark for governance standards in Hong Kong.

Throughout the reporting period, the Institute made submissions and commentaries on various issues to make sure members' views and interests were reflected. These included:

- Tax legislation on profits tax deductions for specified intellectual property rights
- Proposed amendments to the Inland Revenue Ordinance and the Stamp Duty Ordinance to facilitate development of an Islamic bond market in Hong Kong
- Government consultation on introducing a legal framework for entering into tax information exchange agreements
- Departmental interpretation and practice notes no. 48 on advance pricing arrangement
- Securities and Futures (Amendment) Bill 2011 in relation to the implementation of a statutory price sensitive information disclosure regime
- Securities and Futures Commission consultation on the regulation of sponsors
- SFC consultation on amending the Codes on Takeovers and Mergers and Share Repurchases
- Companies Bill in relation to preparation of simplified financial and directors' reports, abolition of the headcount test and clause 399
- Hong Kong Deposit Protection Board draft guidance notes on accrued interest estimations and contingent liabilities estimations
- Various IFAC professional accountants in business consultation papers
- Asia-Oceania Tax Consultants' Association – Society of Trust and Estate Practitioners' endorsed global survey on a taxpayers' charter

- OECD public consultation on permanent establishment issues
- OECD Asian corporate governance roundtable task force project

Technical support for members

We hold regular forums for our members who are professional accountants in business. During the reporting period these included a joint seminar with the Institute of Chartered Accountants in England and Wales on conflicts faced by CFOs and several industry-specific focus group discussions. Our members in business organized a strategy meeting to come up with input for the Council away day that discussed the Institute's strategies and the Sixth Long Range Plan. The Institute also introduced and issued to all listed companies an IFAC employers' brochure explaining the roles and competence of professional accountants in business.

For our members working in insolvency and restructuring, the Institute issued a revised statement on professional ethics in insolvency and liquidation. We also hosted a visit by a delegation from the Shanghai Municipal Enterprises Liquidation Association.

Meanwhile, we kept our members involved in taxation updated through our Hong Kong and Mainland taxation conferences.

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance came into effect in Hong Kong on 1 April 2012 and directly and indirectly affects the work of many members. The Institute co-organized seminars on anti-money laundering for accountants with the narcotics division of the Security Bureau. We also issued a bulletin answering frequently asked questions on suspicious transaction reporting.

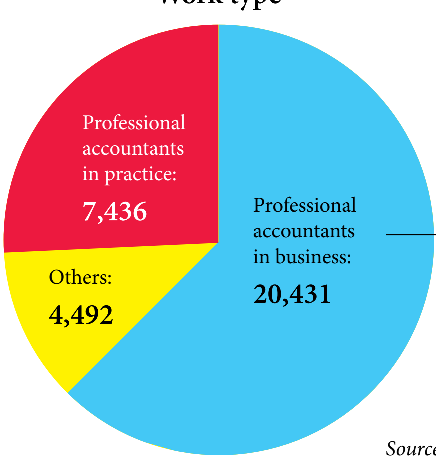
Throughout the reporting period, we continued to keep members updated on news and standards through our monthly technical newsletter, *TechWatch*, as well as regular newsletters for our specialized members, including *The IP's Voice* (for restructuring and insolvency faculty members), *Inside Business* (for professional accountants in business), *Tax Link* (for taxation faculty members) and *Corporate Finance Alert* (for corporate finance interest group members). More technical support on standards is listed in the "standards and regulation" section of this report.

Member activities

The Institute organizes sports and recreation groups to help members network, build camaraderie with peers, and to strike a better work-life balance. These activities have been popular with members, especially recently. This reporting period saw an increase in membership of the sports and recreation club of more than threefold, to 2,785 members. The range of activities has also grown to include photography, go-karting and snooker. This year we hosted a cross-border sports event in Hong Kong in which our members were joined by their counterparts from the Shenzhen Institute of CPAs and the Guangzhou Institute of CPAs.

A new membership card with smart card features was issued to all members, making it easier to register for continuing professional development and other member activities. Meanwhile, a new members' credit card that allows transactions in both Hong Kong dollars and Chinese yuan and offers improved benefits was launched in partnership with the Bank of China.

Work type



Our members are business leaders

Source: Member census as of June 2012 with 32,359 respondents

New Facebook groups were introduced for all sports and recreation groups as well as the 25.35 group, to allow members to connect with fellow participants and to discover and join new activities.

The 25.35 group, which helps younger members develop their careers and connect with each other and the Institute, is now heading into its second year. This year, more than 105 young members took part in the group's "meet the professionals" networking party and 112 attended the Christmas party. By June 2012, the 25.35 Facebook group had 947 members.

For our small- and medium-sized practitioners, we organized several events relevant to their business. There were 249 participants at two cocktail receptions that discussed whether a quick polling system should be introduced to help the Institute better communicate with SMPs to identify challenges and technical needs.

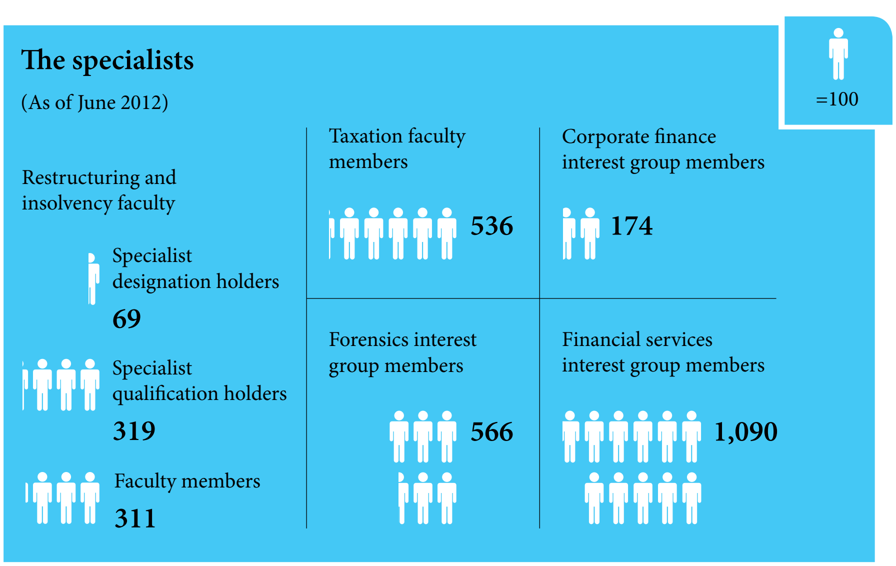
Two working groups were established to combat bogus CPAs and work out logistics for proposed collaborations among CPA firms in Hong Kong and Beijing. With the assistance of the Companies Registry, the Inland Revenue Department and the Commercial Crime Bureau, there have been significant achievements in the Institute's actions against fake CPAs.

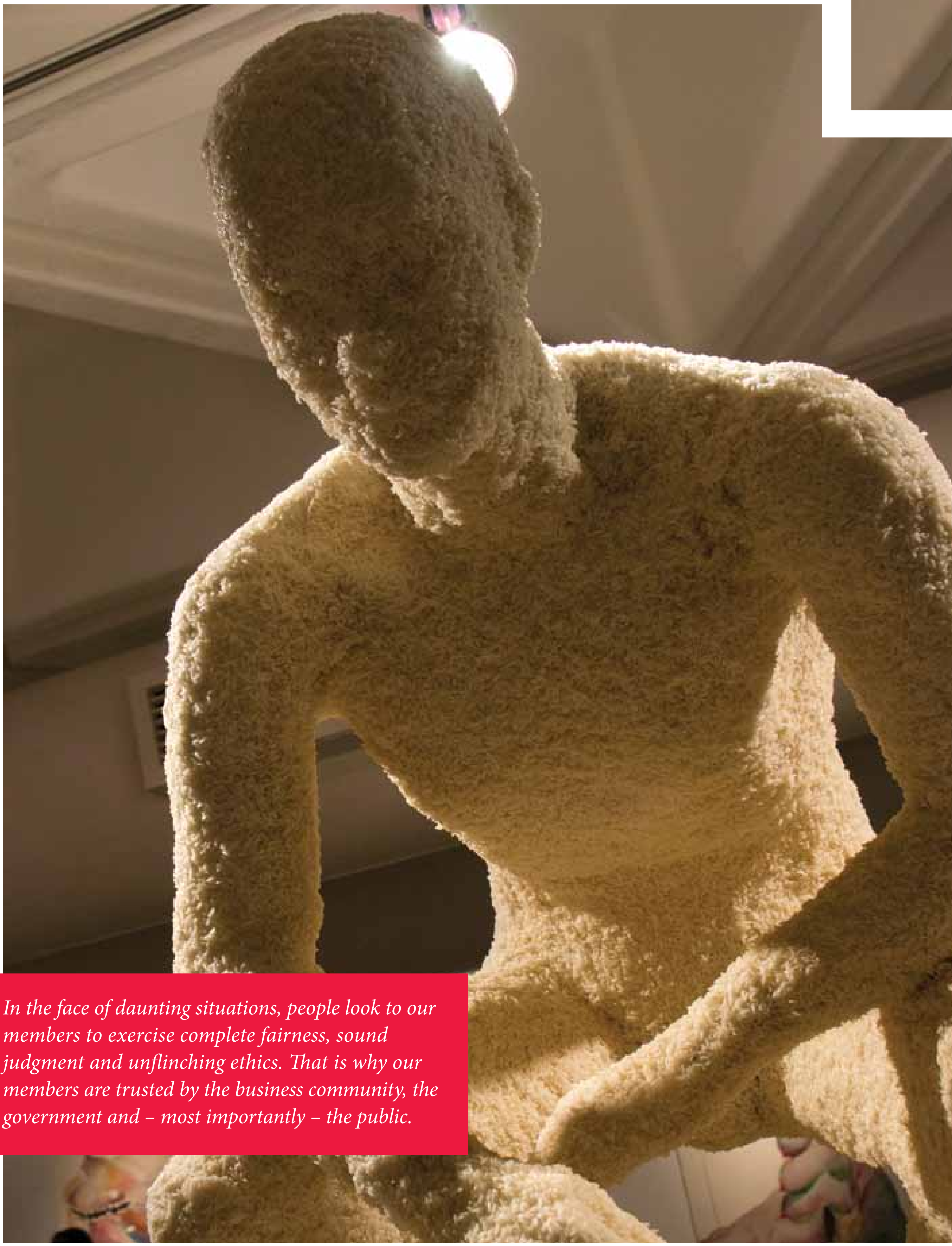
Other events for SMPs included a quality assurance forum attended by 411 participants, as well as a forum on the revised code of ethics, a seminar on mediation and a forum on suspicious transaction reporting, which were all attended by more than 200 participants. The 2011 SMP symposium was attended by 299 participants, while 30 joined a visit to Shenzhen and Guangzhou led by Institute president and chief executive, and 59 participants from Hong Kong and 20 from Shenzhen attended a joint seminar and networking lunch.

The Institute's main fellowship events were well attended throughout the reporting period, as were significant one-off member events, including a forum on China's 12th Five-Year Plan, a briefing session on the Elections (Corrupt and Illegal Conduct) Ordinance and an election forum at which the candidates for Hong Kong's chief executive election answered our members' questions. More than 460 participants attended the Cross-straits, Hong Kong and Macau Accounting Profession Conference organized by the Institute in September 2011 to discuss the latest developments in the accounting profession and economic and regulatory changes. The financial secretary was the guest of honour.

Grooming aspiring artists

Pursuing an artistic career in Hong Kong has more glamour nowadays as there are more first-rate institutions around in which aspiring artists can study. In 2010, when the world-renowned Savannah College of Art and Design established a campus in the historic former North Kowloon Magistracy Building in Shek Kip Mei, Hong Kong's role as a cultural capital was further cemented. For more than 30 years, the college has been a premier learning institution for visual arts in the United States. Hong Kong students have been given a chance to collaborate with global brands such as Yves Saint Laurent and Audemars Piguet on art projects. ***Brenda Leung****, finance analyst at the college, is a member of the Institute.*





In the face of daunting situations, people look to our members to exercise complete fairness, sound judgment and unflinching ethics. That is why our members are trusted by the business community, the government and – most importantly – the public.

Chinese Thinker *(2011) by Marco Yau Kwok-wing exhibited at the Hong Kong Arts Centre*

Standards & Regulation

Our members hold a qualification that is world-class and relevant, in part due to the Institute's commitment to keeping Hong Kong's accounting standards at the forefront of international ones.

The business community and the general public respect and trust our members, because every CPA commits to the highest standards of work and ethics. In turn, the Institute is committed to helping members keep up with new standards and acting promptly when a member falls short.

Standards and technical support

The Institute maintains full convergence with international financial reporting, auditing and assurance and ethical standards. During the reporting period, we issued more than 10 updates to the members' handbook on revised standards and interpretations.

We are fully engaged in the accounting profession internationally and world standard setters welcome and respect our views. In the reporting period we issued more than 10 comment letters on international proposals. Our other international activities this year included hosting a forum with the new IASB Chairman Hans Hoogervorst, attending the World Standard Setters' meeting in London and the International Forum of Accounting Standard Setters meetings in Vienna and Kuala Lumpur, and supporting the Institute's representative on the IFRS Advisory Council. We also co-hosted a forum with the ICAEW on the application of clarified HKSAs by SMPs.

We attended the Asian-Oceanian Standard-Setters Group meetings and were elected as vice chair of the group – a great opportunity to build on Hong Kong's reputation as an Asian hub of quality accounting skills. Since the introduction of the clarified HKSAs, we have focused on aligning locally developed guidance with the clarified HKSAs as well as keeping members up to date with new developments such as guidance to the auditor when responding to questions at an annual general meeting.

On the Mainland, we met with the Ministry of Finance and also signed a joint declaration with our counterparts for convergence of Mainland and Hong Kong ethical standards.

To help members understand and apply new standards, the Institute held more than 70 events during the reporting period, including technical update evenings, HKFRS for Private Entities workshops, training for audit staff, seminars on the revised code of ethics and forums on financial reporting and auditing. The effectiveness of the Institute's training was demonstrated when our staff were invited to run the HKFRS for Private Entities workshops with the IASB in Myanmar.

We continued to make information on new standards accessible to members through several channels: the technical enquiry system, staff summaries on newly released standards, explanatory material published monthly in *TechWatch*, our weekly e-circular, our monthly magazine *A Plus*, our online resource centres and our technical alerts.

Quality assurance

The Institute is the only body authorized by law to register CPAs and grant practising certificates in Hong Kong. It is not a responsibility we take lightly. Our practice review programme meets all international standards of best practice, including giving priority to reviewing the audits of listed companies. During the year, we started 203 site visits and the Practice Review Committee considered 186 reports. Where problems were identified, the committee exercised its powers to direct firms to take remedial action, require further site visits or recommend disciplinary action.

The second track we use to ensure the highest levels of quality of work from our members is our professional standards monitoring programme, which reviews published financial statements of listed companies. During the reporting period, we reviewed 77 sets of financial statements and sent 67 letters to auditors with constructive commentary on the quality of their clients' financial reporting.

We use the findings from both programmes to publish articles and host forums as a way to help members maintain the quality of their work in the areas of audit, assurance and financial reporting.

Compliance

The Institute maintains its commitment to handling complaints and carrying out disciplinary proceedings promptly and impartially. Complaints against our members are firstly dealt with by the professional conduct committee, which has the power to dismiss unsubstantiated complaints and adjudicate minor ones. The committee refers serious complaints to the Council, which determines whether a case warrants referral to the Investigation or Disciplinary Panels.

In the reporting period, 126 new complaints were received, bringing the total caseload to 178. Of those cases, 30 involved businesses that are not CPA practices but use CPA in their name or advertise that they offer audit services.

The committee considered 63 complaints, with these results: 31 were closed as there was insufficient evidence to establish a prima facie case; nine warning letters were issued; 11 disapproval letters were issued; seven serious cases were recommended to the Council for referral to the Investigation or Disciplinary Panels; two cases related to listed entities were referred to the Financial Reporting Council for investigation; and three cases await further direction from the Council.

The Institute handled three appeal cases during the year. The first relates to a judicial review application against the Institute arising from regulatory proceedings involving a CPA firm. The Court of First Instance had dismissed the judicial review application and, subsequently, the Court of Appeal dismissed the firm's appeal against the Court of First Instance's decision. In November 2011, the Court of Appeal dismissed the firm's application for leave to appeal to the Court of Final Appeal. The firm lodged an application for leave to appeal to the Court of Final Appeal with the Appeal Committee, which was granted in March 2012. The hearing at the Court of Final Appeal is scheduled to be held in June 2013.

The second was an appeal lodged by a member against a disciplinary order issued in 2009. The appeal was dismissed by the Court of Appeal in March 2012. The member subsequently filed a Notice of Motion for leave to appeal to the Court of Final Appeal and the hearing for the motion is scheduled to be held in October 2012.

The third was an appeal lodged by a director of a corporate practice against the sanctions on him ordered by a Disciplinary Committee. The hearing will be held in January 2013.

We continued to explain the complaint process to members and encouraged their cooperation. As a result, no referral for investigatory action was made during the year. One investigation report was submitted to the Council for consideration. Two investigations are ongoing.

At the start of the reporting period, 13 disciplinary cases were in progress and another 13 were referred or being referred during the year. The Disciplinary Committees concluded 12 cases this year.

Ensuring safe transport

One little-known aspect of the art world is the packaging, storing and transport of art pieces. Such logistics has its own science, with techniques such as Marvelseal – polyethylene sheeting lined with aluminium – to maintain a constant relative humidity and the tilt detectors in crates to ensure art pieces remain upright during transport. The growth of art in Hong Kong has created opportunities for companies such as BALtrans Exhibition and Removal, which has been at the forefront of art world logistics since 1987. Among BALtrans' recent projects were the first exhibition of British Museum artifacts in Shanghai and the National Project of Artworks on Key Historical Themes in Hong Kong. The company's financial controller, ***Tam Yuen-shan,*** *is an Institute member.*

China & International

Mainland China is Hong Kong's main trading partner and many of our members work with Mainland companies and accounting firms. This year, the Institute continued to foster ever closer ties with the accounting profession and the government over the border, with an aim to create new opportunities for businesses and our profession.

In September 2011, the Institute signed a joint declaration with the Chinese Institute of CPAs on the ongoing convergence of Mainland and Hong Kong auditing standards. And in November of the same year, we signed a joint declaration with the CICPA on the convergence of our respective *Code of Ethics for Professional Accountants*.

Throughout the reporting period, the Institute advocated policies that will make it easier for our members to work on the Mainland. We wrote to the Ministry of Finance proposing to simplify the procedure for Hong Kong practices applying for temporary audit licences in China. Some of the suggestions were adopted and implemented under CEPA supplement IX. We also wrote to the ministry and the China Securities and Regulatory Commission to suggest making use of the framework set out in the memorandum of understanding between the ministry and the Institute to resolve the issue of the United States' Public Company Accounting Oversight Board pressuring Hong Kong audit practices to disclose working papers of U.S.-listed Mainland clients.

The Institute met with C.Y. Leung, then Hong Kong's chief executive-elect, to put across the profession's views on the negotiation and implementation of the Closer Economic Partnership Arrangement and the profession's aspirations regarding access to the Mainland market under China's 12th Five-Year Plan. The Institute submitted to Leung a full written proposal on CEPA and on the further opening up of the Mainland market to Hong Kong accountants.

On 29 June, under new measures set out by CEPA supplement IX, it was announced that Hong Kong CPAs who have obtained the CICPA qualification will be able to become partners of Mainland accounting firms under a pilot scheme in Qianhai Bay, a commercial hub under development in Shenzhen.

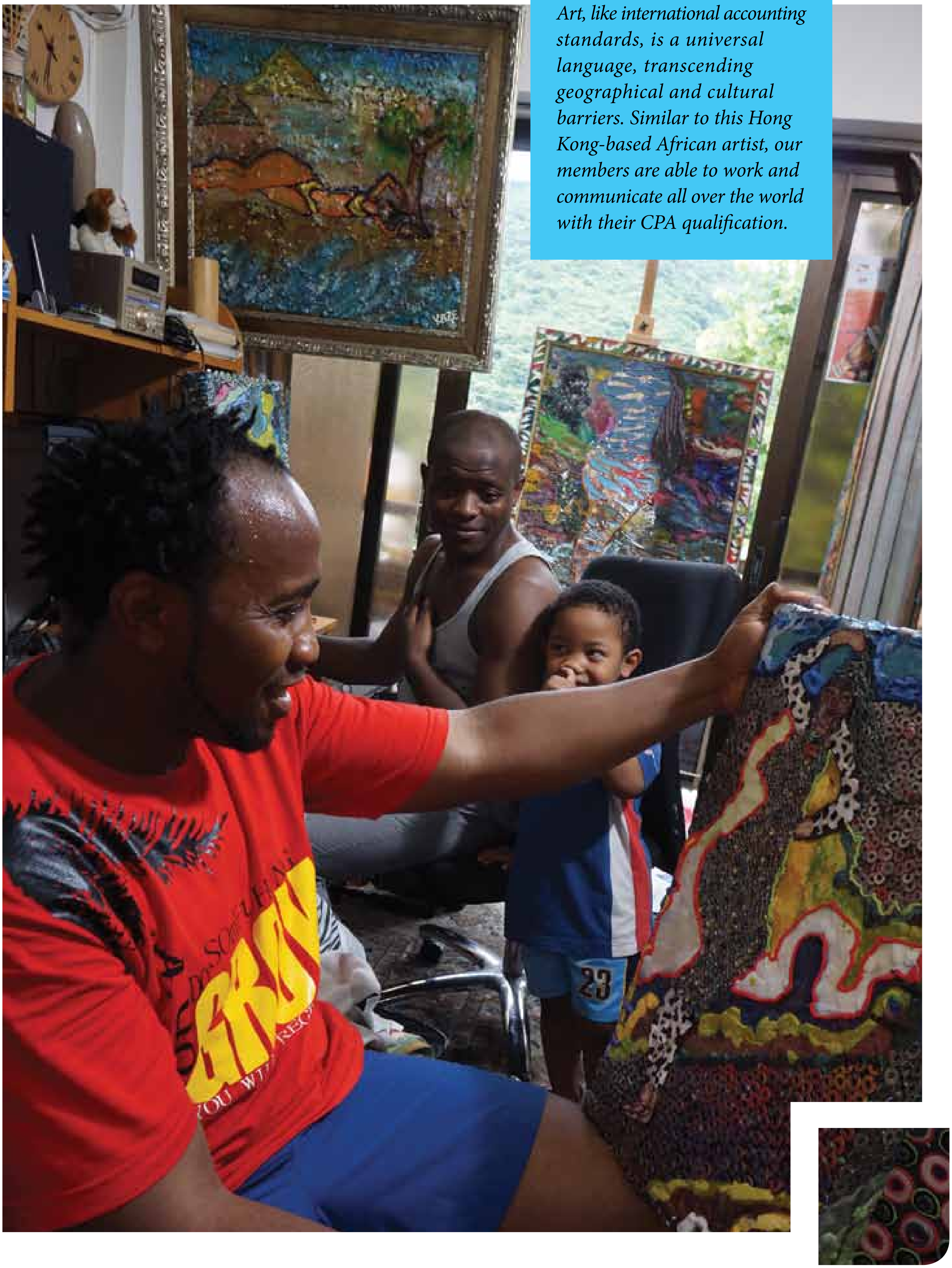
Institute Council members, committee members and staff attended and hosted meetings throughout the year with policymakers from the Mainland to better understand their views and tell them ours. Those we met included the Ministry of Finance, Ministry of Commerce, China Securities Regulatory Commission, State Administration of Taxation, United Front Work Department of CPC Central Committee and Hong Kong and Macau Affairs Office of the State Council. We also visited and met with fellow accounting institutes, including the CICPA, Beijing Institute of CPAs and Jinan Institute of CPAs.

International

Throughout the year, we maintained our presence at international meetings, ensuring the views of our members would be taken into account when new global issues are agreed on.

As in previous years, we attended the meetings of the International Federation of Accountants, including the

Art, like international accounting standards, is a universal language, transcending geographical and cultural barriers. Similar to this Hong Kong-based African artist, our members are able to work and communicate all over the world with their CPA qualification.



Council meeting in Berlin, the chief executives' strategic forum and the Nominating Committee meeting in New York, the Professional Accountants in Businesses Committee meetings in Toronto and New Delhi, and the Small and Medium Practices Committee meetings in Brussels, New York, Singapore and Las Vegas.

In early June, the Institute formed a delegation with the Financial Reporting Council to visit the European Commission and the International Forum of Independent Audit Regulators to discuss regulatory reform in Hong Kong.

The Institute also represented members' view at three IFRS Advisory Council meetings in London.

All across the world and throughout the year, we also made our members' voice heard at meetings of the Global Accounting Alliance, World Standard-Setters, International Forum of Accounting Standard Setters, Asian-Oceanian Standard-Setters Group, Asia-Oceania Tax Consultants' Association, International Association of Restructuring, Insolvency and Bankruptcy Professionals, International Innovation Network and Accounting for Sustainability Forum.

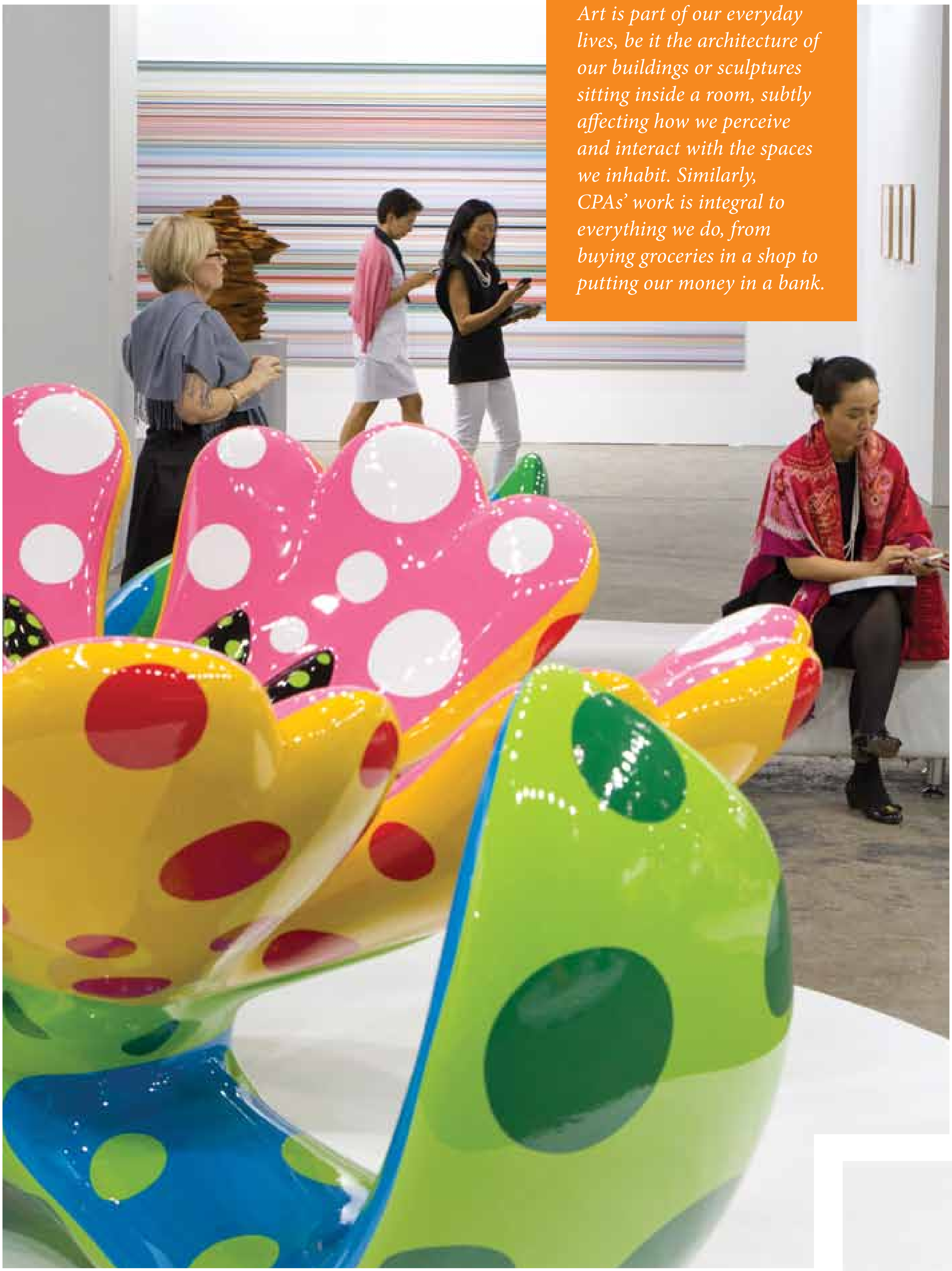
Connecting across the Pacific

Like the inhabitants of any city, Hongkongers sometimes wonder what the rest of the world thinks of us and what aspects of our culture have penetrated other lands. For the past 56 years, the Asia Society has been linking Asia – including Hong Kong – with the United States through arts and culture (as well as business, education and policy issues). Founded by American industrialist John D. Rockefeller III, the Asia Society opened its first Asian centre in Hong Kong in 1990. ***Edith Ngan Chan****, the Hong Kong centre's executive director (2010-12), is an Institute member as are* ***Karen So****, head of finance and administration, and* ***Daniel Yau****, finance and administration manager. In February 2012, the former explosives magazine in Admiralty became its new headquarters, where presentations of art and other subjects are staged regularly.*

Representatives in international and other overseas bodies

Asia-Oceania Tax Consultants' Association (AOTCA)
Anthony Tam, vice president
Asian-Oceanian Standard-Setters Group (AOSSG)
Clement Chan, vice chair (since November 2011)
Global Accounting Alliance (GAA)
Winnie Cheung (retired in June 2012) / **Raphael Ding** (since July 2012), Board member **Jonathan Ng**, member of CAGE Education Directors' Reciprocity Project
Institute of Chartered Accountants in England and Wales (ICAEW)
Edward Chow, Council member (co-option)
International Accounting Standards Board (IASB)
Marvin Cheung (retired in December 2011) / **Ronald Arculli** (since January 2012), IFRS Foundation trustee **P.M. Kam** (retired in December 2011) / **Carlson Tong** (since January 2012), IFRS Advisory Council member **Peter Kilgour**, member of Lease Accounting Working Group
International Association of Restructuring, Insolvency and Bankruptcy Professionals (INSOL)
Bruno Arboit (retired in September 2011) / **Edward Middleton** (since November 2011), board director
International Federation of Accountants (IFAC)
Winnie Cheung, member of Working Group on Constitutional Review **Judy Tsui**, Nominating Committee member (since January 2012) **Albert Au**, Small and Medium Practices Committee member **Susanna Chiu**, Professional Accountants in Business Committee member
International Innovation Network (IIN)
Alison Wilde, General Assembly member and Coordination Committee elected member

Art is part of our everyday lives, be it the architecture of our buildings or sculptures sitting inside a room, subtly affecting how we perceive and interact with the spaces we inhabit. Similarly, CPAs' work is integral to everything we do, from buying groceries in a shop to putting our money in a bank.



Flowers that Bloom at Midnight *(2009) by Yayoi Kusama, presented by Gagosian Gallery at ART HK 12*

Branding & Communication

The Institute continued communicating the work it does with members, the business community, policymakers and the general public. We also strengthened the CPA brand as the success ingredient for Hong Kong.

This year, there were several events that made our communications particularly important.

In the lead-up to the Legislative Council vote on clause 399 of the Companies Amendment Bill – which would make auditors criminally liable for omissions in their professional work without needing to prove any dishonest intent – the Institute highlighted the significant implications the clause would have on Hong Kong's accounting profession and Hong Kong business. We talked to local and international media and garnered wide coverage.

When the clause was passed on 12 July 2012, we talked to the media explaining how we managed to prevent the net from being cast too wide by building enough support from legislators to vote down a government proposed amendment that would have made junior accountants also liable for criminal offence.

This year the Institute continued its campaign to crack down on fake CPAs. Through the media we communicated how fake CPAs hurt the business reputation of Hong Kong and put forward our proposal to change the law to ban non-qualified companies from using "CPA" in their company names. We also explained how the Institute is working with the Hong Kong Police, the Companies Registry, the Inland Revenue Department and the accountancy sector's LegCo representative to combat the unscrupulous behaviour and educate the public about the perils of using unlicensed firms.

Before the election for Hong Kong's new chief executive on 25 March 2012, the Institute held a forum on 15 February to give members a chance to meet the candidates. As an important constituent of Hong Kong – our members represent 1 percent of Hong Kong's working population and many of them hold leadership positions in business, practice and government – the accounting profession has always been committed to serving the public interest. The forum also drew enthusiastic coverage from the media.

Between December 2011 and February 2012, *Wonderful Accounting,* a new radio programme, aired every Sunday evening on *RTHK 1*. Hosted by DJ Chung Kit-leung and Jonathan Ng, the Institute's deputy executive director (student education and training), the programme explored the interesting and exciting world of accounting. The 13 episodes communicated to the public the broad scope of the accounting profession and the challenges and opportunities faced by CPAs.

Throughout the year, the Institute kept members and the media up to date on significant activities and milestones. These included the Cross-straits, Hong Kong and Macau Accounting Profession Conference, the joint declarations with the Chinese Institute of CPAs on ongoing convergence of standards on auditing and ethics, the mutual recognition agreement with the United States' International Qualifications Appraisal Board, our Best Corporate Governance Disclosure Awards and our response to the Hong Kong government budget.

Community service

The Institute prides itself on making a contribution to Hong Kong and part of that means doing community service.

We make an invaluable impact by bringing the values of a CPA to the youngest among us. This year, we published our third children's storybook, *May Moon's Book of Choices*, which explains to children why money morals are important if you want to gain something even more important than money: respect and trust.

Meanwhile, "Rich Kid, Poor Kid" is now into its eighth year. The programme, which involves our members going into schools to teach children money values, has now reached more than 60,000 primary and secondary school students with positive messages about spending, saving and sharing.

Promoting culture in community

Established in 1977, the Hong Kong Arts Centre promotes contemporary arts and culture at its Wanchai site, which features galleries, exhibition halls, studios and classrooms. The organization also runs the Hong Kong Art School, which offers courses such as fine art and applied art. Always ground-breaking, this year the centre created a special venue, Comix Home Base, for the city's burgeoning community of comic and graphic novel artists. As a self-funding non-profit body, the centre relies heavily on donations, rental income, fees for courses and box-office takings. Like many artistic and cultural organizations, some of the centre's programmes don't make money. That should give any accountant a headache but ***Alex Wong****, its finance and administration director and an Institute member, is an experienced professional familiar with the workings of non-profits.*

Our efforts to reach the younger generation have captured the public attention. The *South China Morning Post* featured a centre spread in its guide to successful parenting with CPAs talking about why it is important to teach children money skills.

The Institute also runs other social service programmes to get members involved in the community. Through the Free Public Advisory Service Scheme, our members volunteer as duty accountants to help people solve accounting related issues. Through the Smart Way Forward and Millennium Entrepreneurship mentorship programmes, our members coach secondary school students and help them understand the profession and the business world.

The Institute made contributions to a number of local and international charities, namely Hong Kong Red Cross, Médecins Sans Frontières and Oxfam Hong Kong for their social and emergency relief projects. We also sponsored CPA teams to take part in charity competitions to raise funds for public health education projects of the Hospital Authority, Mindset and World Cancer Research Fund.

Awards

A Plus, the Institute's monthly magazine for members, received a prize from the Society of Publishers in Asia Editorial Awards, coming second place for business reporting for an article on backdoor listings published in May 2011. It is rare for a custom publication to win a SOPA award, which champions outstanding journalism, with the other prizes going to large national and regional publishers and media.

At the 2011-12 Mercury Awards – the largest global competition recognizing excellence in professional communications – the Institute's "success stories" advertising campaign run in 2007 won gold in the print category and honours in the TV category.

Our 2011 annual report, featuring accounting and movies as the theme, won the silver award for written text, bronze for photography and overall honours in the non-profit professional body section at the International ARC Awards. The competition is the largest globally and drew more than 2,200 entries from 32 countries this year.

Governance Statement

On behalf of our members, we ensure governance at all levels of the Institute adheres to the highest standards and supports an ethical and responsible culture – attributes that are imperative for a regulatory body working in the public interest.

As a statutory organization, we are committed to setting an example and raising expectations of what good governance can achieve. The high quality of our governance maintains and uplifts the confidence of our members, the users of their services and the public.

The Institute's Council and accountability boards provide strict oversight of operations, ensuring we meet or exceed the targets we set.

We continue to strengthen our governance by scrutinizing internal controls, using technology to enhance the efficiency, security and accountability of our internal operations, and attracting and keeping the most talented people so we can deliver the highest quality services to our members.

The governance review task force continues to review existing policies, rules and processes governing the Institute, including Council meetings, Council elections, election of the president and vice presidents, co-option of Council members, committee appointments and the role of the Institute in public elections. This task force makes recommendations to the Council with a view to improving objectivity and efficiency in the Institute's governance.

We are also working to make the Institute a more flexible organization, where many diverse opinions and agendas can be incorporated in order to achieve our goals.

The governing Council

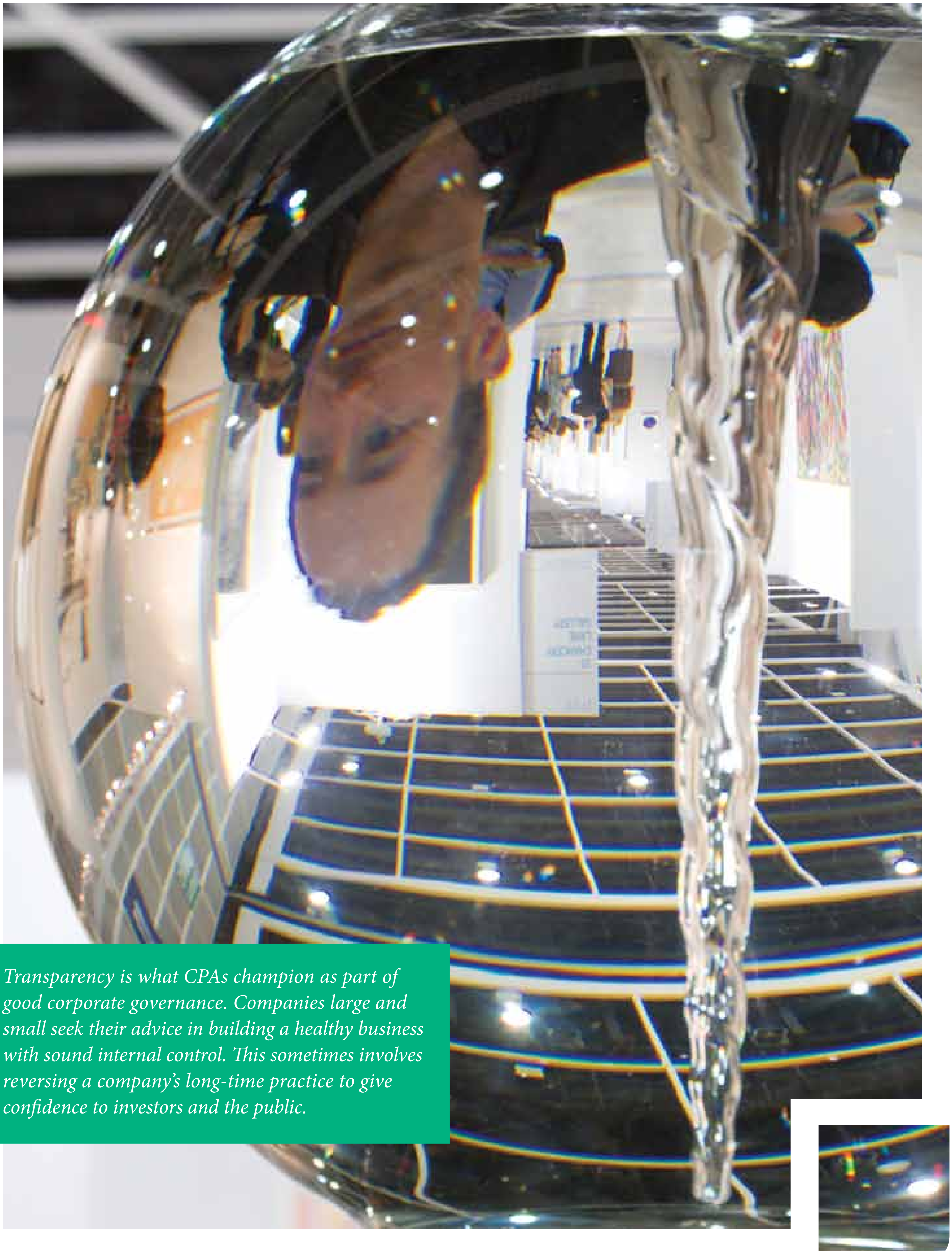
The Council is the governing body of the Institute and consists wholly of volunteers – non-executive members who are not compensated. The Council makes decisions on overall strategy, policy and direction and oversees the Institute's operations and governance. It is also the decision-making body on matters stipulated in the Professional Accountants Ordinance.

The Council consists of 22 members this year. Fourteen are CPAs directly elected by the membership, including the immediate past president who sits on the Council to allow for continuity. Two additional CPAs were co-opted by the Council to round out its skills. There are two ex-officio members from the government and four lay members, who are prominent business leaders appointed by the government to provide independent views and advice.

The combination of members from within and outside the accounting profession gives the Council a balanced perspective from which to debate the issues it faces. The Council applies strict rules to prohibit a Council or committee member from taking part in any discussions or decisions on matters in which he or she has a real or apparent conflict of interest.

Council meetings are held monthly, with a break in August. Individual member attendance can be viewed on the Institute's website at *www.hkicpa.org.hk*.

The Council sets strategy and direction and exercises oversight of the operation and governance of the Institute with the assistance of a supervisory arm and an executive arm.



Transparency is what CPAs champion as part of good corporate governance. Companies large and small seek their advice in building a healthy business with sound internal control. This sometimes involves reversing a company's long-time practice to give confidence to investors and the public.

Elan Vital *(2012) by Petroc Sesti, presented by 10 Chancery Lane Gallery at ART HK 12*

Supervisory: checks and balances

The supervisory arm consists of the audit committee and four accountability boards that ensure the Institute's management is doing its job in accordance with the strategies and policies determined by the Council. Each accountability board reviews plans, budgets and progress reports from the management and advises the Council about performance and operations. The four boards look after the 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 appointed by the Council and currently consists of five members, a majority of whom are independent (i.e. not current Council members).

Execution

Execution of the Council's policies and decisions is vested in the chief executive and registrar, who is appointed by the Council. The chief executive and registrar is responsible for overseeing the Institute's activities and day-to-day operations, while at the same time acting as secretary and policy adviser to the Council. The chief executive and registrar works with a management team of two executive directors, a general counsel, a deputy executive director and six directors. Together they manage more than 200 staff and a network of statutory, decision-making and advisory committees and panels.

An executive committee comprising of the chief executive, the executive directors, the deputy executive director and the heads of legal, finance, communications, and member and corporate services meets each month to make management decisions and consider reports and recommendations to the Council. The president and two vice presidents are ex-officio members of the executive committee.

As part of its regulatory role, the Institute has five statutory committees: the Registration and Practising Committee, the Qualification and Examinations Board, the Practice Review Committee, the Investigation Panels and the Disciplinary Panels.

Remuneration

The remuneration committee provides oversight of staff and executive compensation. It also makes recommendations to the Council on annual pay adjustments, performance bonuses and other employment terms and conditions.

The remuneration of general staff is determined by the Council based on the recommendations of the remuneration committee, which in turn is advised by the chief executive and registrar, who makes decisions for individual staff based on documented assessment.

The remuneration of directorate staff is determined by the Council based on the recommendation of the leadership team, comprising of the president, the vice presidents and the chief executive and registrar, within the parameters of the remuneration policy set by the remuneration committee. The Council is in a good position to make an informed decision about directors, who serve various committees and whose performance is known to at least some Council members who also sit on these committees. Input is also obtained from committee chairs.

The remuneration of the chief executive and registrar is determined based on an annual performance review by the whole Council. Remuneration at all levels is determined with reference to staff performance and market conditions.

Archiving arts for posterity

Asia Art Archive has collated one of the most valuable collections of materials on contemporary art in the region. The archive was born from a simple idea – to record Asia's shifting contemporary art scene – and sent researchers to dig into studios, libraries, galleries and private collections to assemble materials on contemporary art, scan them and save them. Today, the archive has hundreds of thousands of digital copies of artworks, while its physical material is housed in a fireproof room with temperature and humidity control. Among its major art collections are those of Kunming painters Mao Xuhui and Zhang Xiaogang. The archive says it runs on a shoestring budget, but finance director ***Kong Yoon-ping****, a member of the Institute, keeps it on an even keel.*

Nomination committee

On behalf of the Council, the nomination committee approves nominations of Institute members or staff to positions requested by external bodies related to the accounting profession. It assesses the nominees' qualifications to determine their suitability.

It also makes recommendations to the Council on the appointment of the Institute's committees and the co-option of Council members. It comprises the president, vice presidents and the chief executive.

Corporate social responsibility

The Institute and its members are responsible corporate citizens who use their accounting knowledge to contribute to Hong Kong. The main corporate social responsibility programme developed by the Institute is called "Rich Kid, Poor Kid" which teaches primary and secondary school children money skills and values. The Institute and its members also contribute to many other charities and community services.

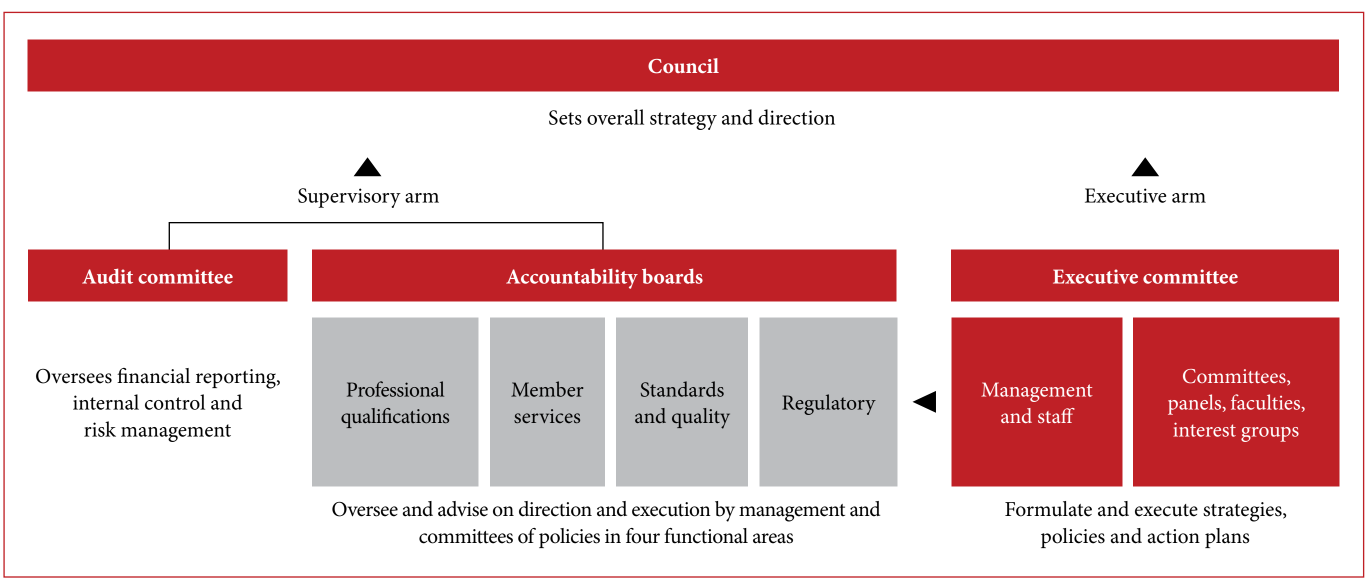
Accountability to members

The Institute has two formal channels to report to members on its performance: the annual report and the annual general meeting. The Council considers the AGM one of its most important meetings of the year and believes this opportunity to meet face-to-face with members and answer questions is a valuable one. All senior management of the Institute attend when possible and the event is open to the news media.

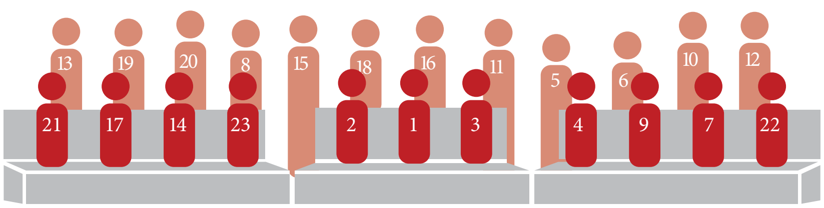
The second formal channel is the annual report and summary financial statements, which are either mailed or emailed to all members. The informal channels include the weekly e-circular, the president's message in *A Plus* and regular updates to members from the chief executive.

Preserving cultural heritage

The Hong Kong Heritage Museum in Sha Tin became one of the city's most talked-about attractions for its summer 2012 exhibition, "PICASSO – Masterpieces from Musée National Picasso, Paris." From May to July, almost 300,000 people visited the exhibit of 55 works by the versatile Spanish master, covering his major periods – Blue, Rose, Cubist and Classical. The museum, committed to preserving and interpreting the cultural heritage of Hong Kong and neighbouring regions, is run by the city's Leisure and Cultural Services Department, where Institute member ***Amy Choi*** *is an internal audit officer.*



Council



Elected members

1. Keith Pogson *(President)*
2. Susanna Chiu *(Vice President)*
3. Clement Chan *(Vice President)*
4. Tsai Wing Chung, Philip *(Immediate Past President)*
5. Mabel M.B. Chan
6. Raymond Cheng
7. Cho Lung Pui Lan, Stella
8. Jack S.L. Chow
9. Ding Wai Chuen, Raphael*
10. Dennis Ho Chiu Ping
11. Ronald Kung
12. Lam Chi Yuen, Nelson
13. Stephen Law
14. Doug Oxley

Government-appointed lay members

15. Ambrose Cheung Wing Sum
16. Andrew Fung
17. Catherine K.C. Leung
18. Edith Shih

Co-opted members

19. Cheung Wing Han, Ivy
20. Gary Poon Tsun Wah

Ex-officio members

21. Ada Chung
 (Representative of the Financial Secretary, Government of the HKSAR)
22. Lesley Y.C. Wong
 (Director of Accounting Services, Government of the HKSAR)

Chief executive and registrar

23. Winnie C.W. Cheung* (Secretary)

* *Ding Wai Chuen, Raphael was appointed as the Institute's new chief executive and registrar effective 1 July 2012, succeeding Winnie C.W. Cheung, who retired on 30 June 2012. Kim Man Wong was voted in at the Council meeting on 26 June 2012 to fill the casual vacancy.*

Management team

Chief executive and registrar

1. Winnie C.W. Cheung*

Executive directors

2. Tommy Wong *(Qualification and education)*
3. Chris Joy *(Standards and regulation)*

Deputy executive director

4. Jonathan Ng *(Student education and training)*

General counsel

5. Johnny Chan

Directors

6. Mindee Hansen* *(Communications)*
7. Perry Pang *(Finance and operations)*
8. Patrick Tam *(Member and corporate services)*
9. Alison Wilde *(Professional development)*
10. Peter Tisman *(Specialist practices)*
11. Steve Ong* *(Standard setting)*

* *Winnie C.W. Cheung retired on 30 June 2012 and was succeeded by Ding Wai Chuen, Raphael.*
Steve Ong and Mindee Hansen resigned on 30 April and 30 June 2012 respectively.
Simon Riley became director of standard setting on 20 August 2012.
Linda Biek became director of compliance on 17 September 2012.
Elsa Ho became director of quality assurance on 3 October 2012.

Committees and working groups

Statutory boards and committees	Chairmen and convenors
Registration and Practising Committee	Wilson Fung
Qualification and Examinations Board	Simon Tsang
Practice Review Committee	Mabel M.B. Chan
Investigation Panels	Chow Ka Ming, Anderson
Disciplinary Panels	Russell Coleman

Non-statutory boards and committees	Chairmen and convenors
Audit profession reform committee	Charles Lee
Audit committee	Wong Tak Wai, Alvin
Nomination committee	Keith Pogson
Remuneration committee	Ambrose Cheung Wing Sum
Professional qualifications accountability board	Tsai Wing Chung, Philip
Member services accountability board	Susanna Chiu
Standards and quality accountability board	Roger Best
Regulatory accountability board	Gordon W.E. Jones
Financial reporting standards committee	Clement Chan
Auditing and assurance standards committee	Dennis Ho Chiu Ping
Ethics committee	Alden Leung
Restructuring and insolvency faculty executive committee	Bruno Arboit
Taxation committee*	Ayesha Lau
Corporate finance committee	Stephen Law
Professional conduct committee	Jack S.L. Chow
Insolvency SD vetting committee	Nicholas P. Etches
Tax SQ and SD development committee	Tim T.L. Lui
HKIAAT board	Cho Lung Pui Lan, Stella

Advisory working groups	Chairmen and convenors
Regulatory reform working group	Clement Chan
Professional liability reform working group	Paul F. Winkelmann
Governance review task force	Edward K.F. Chow
Sustainability and integrated reporting advisory group	Peter H.Y. Wong
Continuing professional development advisory panel	Elizabeth Law
Professional accountants in business leadership panel	Susanna Chiu
Small and medium practitioners leadership panel	Mabel M.B. Chan/Raymond Cheng
25.35 young members leadership panel	Gary Poon Tsun Wah
Professional standards monitoring expert panel	–
Banking regulatory liaison group	Martin Wardle
Insurance regulatory liaison group	Lloyd Bryce-Borthwick
Securities and investment funds regulatory liaison group	Marie-Anne Kong/Liu Yun Bonn

* *Taxation committee was renamed as taxation faculty executive committee on 5 July 2012. Florence Chan succeeded Ayesha Lau as chairman on 10 October 2012.*

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 financial statements of Hong Kong Institute of Certified Public Accountants (the "Institute") set out on pages 39 to 70, which comprise the statements of financial position of the Institute and its subsidiaries (collectively referred to as the "Group") and the Institute at 30 June 2012, and the statements of comprehensive income, the statements of changes in members' equity and the statements of cash flows of the Group and the Institute for the year then ended, and a summary of significant accounting policies and other explanatory information.

Council's responsibility for the financial statements

The Council of the Institute is responsible for maintaining proper accounts and preparing annual financial statements pursuant to the Professional Accountants Ordinance that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Institute, and for such internal control as the Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Institute at 30 June 2012, and of the deficit and cash flows of the Group and of the Institute for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Professional Accountants Ordinance.

Mazars CPA Limited
Certified Public Accountants
42nd floor, Central Plaza
18 Harbour Road, Wanchai, Hong Kong
18 September 2012

Yip Ngai Shing
Practising Certificate number: P05163

Statements of Financial Position

At 30 June 2012

		Group		Institute	
		2012	2011	**2012**	2011
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets					
Fixed assets	*4*	**199,561**	207,286	**199,189**	207,109
Investments in subsidiaries	*5*	**-**	-	**-**	-
Deferred tax assets	*6*	**-**	65	**-**	-
		199,561	207,351	**199,189**	207,109
Current assets					
Inventories		**993**	799	**984**	786
Receivables	*7*	**1,580**	2,563	**3,272**	3,790
Deposits and prepayments		**5,381**	4,744	**5,178**	4,489
Tax recoverable		**12**	52	**12**	-
Time deposits with original maturities over three months		**-**	47,803	**-**	30,133
Cash and cash equivalents	*8*	**208,658**	164,601	**161,178**	132,546
		216,624	220,562	**170,624**	171,744
Current liabilities					
Subscriptions and fees received in advance	*9*	**(62,892)**	(60,124)	**(60,198)**	(58,539)
Payables and accruals	*10*	**(34,663)**	(45,539)	**(32,173)**	(42,630)
Current tax liabilities		**-**	(2,990)	**-**	(2,972)
		(97,555)	(108,653)	**(92,371)**	(104,141)
Net current assets		**119,069**	111,909	**78,253**	67,603
Non-current liabilities					
Deferred tax liabilities	*6*	**-**	(36)	**-**	(36)
		318,630	319,224	**277,442**	274,676
Members' equity					
General fund		**187,250**	198,753	**151,956**	160,098
Capital fund	*11*	**131,496**	120,588	**125,486**	114,578
Exchange reserve		**(116)**	(117)	**-**	-
		318,630	319,224	**277,442**	274,676

Approved by the Council on 18 September 2012

Keith Pogson
President

Ding Wai Chuen, Raphael
Chief Executive and Registrar

Statements of Comprehensive Income

For the year ended 30 June 2012

	Note	Group		Institute	
		2012	2011	**2012**	2011
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Subscriptions and fees	*12*	**122,414**	116,951	**118,762**	112,917
Other revenue	*13*	**90,701**	89,649	**84,442**	82,732
Total revenue		**213,115**	206,600	**203,204**	195,649
Other income	*14*	**14,446**	17,907	**16,039**	19,527
Expenses	*15*	**(239,274)**	(219,655)	**(227,708)**	(209,211)
(Deficit)/Surplus before tax	*16*	**(11,713)**	4,852	**(8,465)**	5,965
Income tax credit/(charge)	17	**210**	(2,078)	**323**	(1,987)
(Deficit)/Surplus		**(11,503)**	2,774	**(8,142)**	3,978
Other comprehensive income					
Item that may be reclassified subsequently to surplus or deficit: Exchange gain on translating the financial statements of HKICPA Beijing		**1**	13	**-**	-
Comprehensive income		**(11,502)**	2,787	**(8,142)**	3,978

Approved by the Council on 18 September 2012

Keith Pogson
President

Ding Wai Chuen, Raphael
Chief Executive and Registrar

Statements of Changes in Members' Equity

For the year ended 30 June 2012

2012

	Group				Institute		
	General fund *HK$'000*	**Capital fund** *HK$'000*	**Exchange reserve** *HK$'000*	**Total** *HK$'000*	**General fund** *HK$'000*	**Capital fund** *HK$'000*	**Total** *HK$'000*
At the beginning of the reporting period	198,753	120,588	(117)	319,224	160,098	114,578	274,676
Deficit	(11,503)	-	-	(11,503)	(8,142)	-	(8,142)
Other comprehensive income	-	-	1	1	-	-	-
Comprehensive income	(11,503)	-	1	(11,502)	(8,142)	-	(8,142)
Capital levy from members and students	-	10,908	-	10,908	-	10,908	10,908
At the end of the reporting period	**187,250**	**131,496**	**(116)**	**318,630**	**151,956**	**125,486**	**277,442**

2011

	Group				Institute		
	General fund *HK$'000*	Capital fund *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*	General fund *HK$'000*	Capital fund *HK$'000*	Total *HK$'000*
At the beginning of the reporting period	195,979	110,232	(130)	306,081	156,120	104,222	260,342
Surplus	2,774	-	-	2,774	3,978	-	3,978
Other comprehensive income	-	-	13	13	-	-	-
Comprehensive income	2,774	-	13	2,787	3,978	-	3,978
Capital levy from members and students	-	10,356	-	10,356	-	10,356	10,356
At the end of the reporting period	198,753	120,588	(117)	319,224	160,098	114,578	274,676

Statements of Cash Flows

For the year ended 30 June 2012

		Group		Institute	
		2012	2011	**2012**	2011
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cash flows from operating activities					
(Deficit)/Surplus before tax		**(11,713)**	4,852	**(8,465)**	5,965
Adjustments for:					
Allowance for obsolete inventories		**833**	-	**833**	-
Depreciation		**11,589**	11,545	**11,472**	11,448
Impairment of receivables		**66**	59	**66**	59
Loss on disposal of fixed assets		**-**	36	**-**	36
Obsolete inventories written off		**57**	29	**57**	9
Uncollectible amounts written off		**92**	-	**55**	-
Operating cash flows before working capital changes		**924**	16,521	**4,018**	17,517
Increase in inventories		**(1,084)**	(197)	**(1,088)**	(213)
Decrease/(Increase) in receivables		**825**	(1,424)	**397**	(1,850)
Increase in deposits and prepayments		**(637)**	(366)	**(689)**	(281)
Decrease in time deposits with original maturities over three months		**47,803**	28,942	**30,133**	28,886
Increase/(Decrease) in subscriptions and fees received in advance		**2,768**	(4,002)	**1,659**	(4,046)
(Decrease)/Increase in payables and accruals		**(10,876)**	11,435	**(10,457)**	12,131
Cash generated from operations		**39,723**	50,909	**23,973**	52,144
Tax (paid)/refunded		**(2,711)**	(595)	**(2,697)**	69
Net cash generated from operating activities		**37,012**	50,314	**21,276**	52,213
Cash flows from investing activities					
Purchase of fixed assets		**(3,864)**	(1,828)	**(3,552)**	(1,809)
Sales proceeds from disposal of fixed assets		**-**	3	**-**	3
Net cash utilized in investing activities		**(3,864)**	(1,825)	**(3,552)**	(1,806)
Cash flows from financing activities					
Capital levy received		**10,908**	10,356	**10,908**	10,356
Net increase in cash and cash equivalents		**44,056**	58,845	**28,632**	60,763
Cash and cash equivalents at the beginning of the reporting period		**164,601**	105,738	**132,546**	71,783
Exchange difference in respect of cash and cash equivalents		**1**	18	**-**	-
Cash and cash equivalents at the end of the reporting period	*8*	**208,658**	164,601	**161,178**	132,546

Notes to the Financial Statements

For the year ended 30 June 2012

1. Principal activities and registered office

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

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

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

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

The HKICPA Charitable Fund was formed under a trust deed dated 2 December 2001 for general charitable purposes. According to the trust deed, its trustees are the president, the immediate past president and the chief executive of the Institute.

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

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

2. Principal accounting policies

a. Basis of preparation

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

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

Depreciation

The residual values, useful lives and depreciation method applied in the recognition of depreciation are reviewed, and adjusted if appropriate, at least at the end of each reporting period. In arriving at the depreciation charges, management has applied estimates to the residual values and useful life of each class of assets. Depreciation is provided on a straight-line basis over the useful life of each class of assets.

Impairment of receivables

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

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 financial statements, except for the first-time early adoption of the new/revised HKFRSs as set out in note 2b to these financial statements. The following HKFRSs issued in prior years, that are not yet effective for the current year but are applicable to the Group, have been early adopted in prior years:

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

b. Early adoption of applicable new/revised HKFRSs that were issued during the current year

The Institute has issued certain new/revised HKFRSs during the current year that are available for early adoption. Of these, the following new/revised HKFRSs are applicable to these financial statements and early adopted by the Group for the first time:

Amendments to HKAS 1 (Revised)	"Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income"
HKAS 19 (2011)	"Employee Benefits"
Annual Improvements Project	"Annual Improvements 2009-2011 Cycle"

Amendments to HKAS 1 (Revised) improve the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that will not be reclassified to profit or loss. The amended HKAS 1 will be effective for annual periods beginning on or after 1 July 2012. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the change in presentation of other comprehensive income, the application of the amendments does not have any significant impact on the Group.

HKAS 19 (2011), which replaces HKAS 19 "Employee Benefits", improves the accounting for defined benefit plans. Under the revised standard, all changes in the present value of the defined benefit obligation and the fair value of plan assets will be recognized in the financial statements immediately in the period they occur. The revised standard also changes the definitions of, among others, short-term employee benefits and other long-term employee benefits so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled. Under the amended definitions, an employee benefit, other than a termination benefit, is a short-term employee benefit when it is expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. If this is not the case, then it is an other long-term employee benefit, provided it is not a post-employment benefit. HKAS 19 (2011) will be effective for annual periods beginning on or after 1 January 2013. The adoption of HKAS 19 (2011) has no significant impact to the amounts reported or presentation and disclosures in the financial statements.

"Annual Improvements 2009-2011 Cycle" sets out a collection of amendments to HKFRSs which make necessary, but non-urgent, amendments to HKFRSs that will not be included as part of another major project. The amendments, among others, clarify the requirements for comparative information, the classification of servicing equipment and the income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction. The amendments are effective for annual periods beginning on or after 1 January 2013. The application of the amendments does not have any significant impact on the Group.

c. Effects of revised HKFRSs that were issued after 30 June 2012 and up to the date of approval of the financial statements

The Institute has issued the following revised HKFRSs after 30 June 2012 and up to the date of approval of the financial statements which are applicable to these financial statements but not early adopted by the Group:

Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	"Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"

Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 clarify the transition guidance in HKFRS 10 and provide additional transition relief in HKFRS 10, HKFRS 11 and HKFRS 12. In particular, for retrospective application, the amendments limit the requirement to provide adjusted comparative information to the annual period immediately preceding the date of the initial application of those HKFRSs. Furthermore, the amendments remove the requirement to present comparative disclosure information related to unconsolidated structured entities for periods before HKFRS 12 is first applied. The effective date of the amendments is annual periods beginning on or after 1 January 2013, which is aligned with the effective date of HKFRSs 10, 11 and 12.

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

d. Basis of consolidation and subsidiaries

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

A subsidiary is an entity over which the Institute has control. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In the Institute's statement of financial position, the investments in subsidiaries are stated at cost less impairment charges.

e. Financial instruments

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

The Group's financial assets, including receivables and cash and bank balances, are subsequently measured at amortized cost using the effective interest method, less identified impairment charges (see note 2f) as the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

f. Impairment of financial assets

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

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

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

g. Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the contractual rights to receive the cash flows of the financial assets expire; or where the Group transfers the financial assets and either (i) it has transferred substantially all the risks and rewards of ownership of the financial assets or (ii) it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial assets but has not retained control of the financial assets.

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

h. Impairment of non-financial assets

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

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

i. Fixed assets

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

Other fixed assets are stated at cost less accumulated depreciation and impairment charges. The cost of an item of other fixed assets comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any cost directly attributable to bringing the item 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 item and restoring the site on which it is located. Expenditure incurred after the item of other fixed assets has been put into operation, such as repairs and maintenance cost, is normally charged to surplus or deficit in the period in which it is incurred. In situations where the recognition criteria are satisfied, 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 surplus or deficit in the period the item is derecognized, is the difference between the net disposal proceeds and the carrying amount of the item.

Depreciation of fixed assets 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 least at the end of each reporting period and, if expectations differ from previous estimates, the changes will be accounted for as a change in an accounting estimate. If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, no depreciation is charged.

The estimated useful lives of fixed assets are as follows:

Leasehold land held for own use under finance leases	Over the lease term
Buildings held for own use	20 years
Leasehold improvements	10 years or over the remaining lease terms of the relevant leases whichever is shorter
Furniture, fixtures and equipment	3 to 10 years

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

j. Operating leases

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

k. Inventories

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

l. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and deposits with banks and other financial institutions having a maturity of three months or less at acquisition.

m. Provisions

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

n. Capital levy

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

o. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Institute and its subsidiaries are measured using the currency of the primary environment in which the Institute and its subsidiaries operate respectively (the functional currency). These 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 the functional currency at the rate of exchange prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All exchange differences are recognized in surplus or deficit.

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

p. Revenue recognition

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

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

First registration fees are recognized on entitlement.

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

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

q. Income tax

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

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus, and is accounted for using the liability method. Except to the extent that the deferred tax arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss, deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable surplus will be available against which deductible temporary differences, tax losses and credits can be utilized. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

r. Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Retirement benefits costs

The Group operates two approved defined contribution retirement benefits schemes for employees: a Mandatory Provident Fund ("MPF") Exempted Occupational Retirement Schemes Ordinance registered 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 surplus or deficit as incurred.

(iii) Employee leave entitlements

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

s. Related parties

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

(i) A person or a close member of that person's family is related to the Group if that person:

(a) has control or joint control over the Group;
(b) has significant influence over the Group; or
(c) is a member of the key management personnel of the Group or of a parent of the Group.

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

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

3. Financial instruments by category

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

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets – *measured at amortized cost*				
Receivables, net of charges for impairment	**1,580**	2,563	**1,516**	2,368
Amounts due from subsidiaries, net of charges for impairment	**-**	-	**1,756**	1,422
Time deposits with original maturities over three months	**-**	47,803	**-**	30,133
Cash and cash equivalents	**208,658**	164,601	**161,178**	132,546
	210,238	214,967	**164,450**	166,469
Financial liabilities – *measured at amortized cost (note 10)*				
Payables	**8,495**	3,096	**8,199**	2,812
Amounts due to a subsidiary	**-**	-	**50**	554
Accruals	**21,421**	28,741	**19,408**	26,243
	29,916	31,837	**27,657**	29,609

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

4. Fixed assets

<u>2012</u>	Leasehold land held for own use under finance leases	Buildings held for own use	Leasehold improvements	Furniture, fixtures and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Group					
Net book value at 1 July 2011	158,282	30,286	10,909	7,809	207,286
Additions	-	-	102	3,762	3,864
Depreciation	(4,398)	(2,163)	(2,225)	(2,803)	(11,589)
Net book value at 30 June 2012	**153,884**	**28,123**	**8,786**	**8,768**	**199,561**
At cost	184,670	43,255	22,545	28,003	278,473
Accumulated depreciation and impairment	(30,786)	(15,132)	(13,759)	(19,235)	(78,912)
	153,884	28,123	8,786	8,768	199,561
Institute					
Net book value at 1 July 2011	158,282	30,286	10,909	7,632	207,109
Additions	-	-	102	3,450	3,552
Depreciation	(4,398)	(2,163)	(2,225)	(2,686)	(11,472)
Net book value at 30 June 2012	**153,884**	**28,123**	**8,786**	**8,396**	**199,189**
At cost	184,670	43,255	22,279	27,223	277,427
Accumulated depreciation and impairment	(30,786)	(15,132)	(13,493)	(18,827)	(78,238)
	153,884	**28,123**	**8,786**	**8,396**	**199,189**

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

a. The Group's and the Institute's leasehold land and buildings held for own use, which are held on medium-term leases expiring on 30 June 2047, comprise the 37th floor and 27th floor of Wu Chung House located at 213 Queen's Road East, Wanchai, Hong Kong with a total gross area of 49,722 sq. ft. acquired on 8 July 2005 and 28 February 2006 respectively.

5. Investments in subsidiaries

	Institute	
	2012	2011
	HK$'000	*HK$'000*
At cost	**300**	300
Impairment charges	**(300)**	(300)
	-	-

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

Name of subsidiary	Place of incorporation/ establishment and operations	Registered and paid-up capital	Equity interest held	Principal activities
HKICPA (Beijing) Consulting Co., Ltd. (a)	mainland China	HK$300,000	100%	Promotion of the Institute's qualification programme and provision of services to members in mainland China
The HKICPA Trust Fund (a)	Hong Kong	-	(c)	Relief of poverty of members of the Institute
The HKICPA Charitable Fund (a)	Hong Kong	-	(c)	General charitable purposes
Hong Kong Institute of Accredited Accounting Technicians Limited (a)	Hong Kong	-	(c)	Award of the "Accredited Accounting Technician" qualification
The HKIAAT Trust Fund (b)	Hong Kong	-	(c)	Provision of scholarships to persons studying for the examinations held by HKIAAT

(a) Held directly by the Institute.
(b) Held directly by HKIAAT.
(c) Accounted for as a subsidiary of the Institute and 100% consolidated by the Institute by virtue of control.

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

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

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

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

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

6. Deferred tax assets and liabilities

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

	Group				Institute			
	Accelerated tax depreciation	Other temporary differences	Tax loss	Total	Accelerated tax depreciation	Other temporary differences	Tax loss	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2010	(1,599)	1,382	-	(217)	(1,588)	1,306	-	(282)
Credited to surplus or deficit	142	104	-	246	142	104	-	246
At 30 June 2011	(1,457)	1,486	-	29	(1,446)	1,410	-	(36)
(Charged)/ Credited to surplus or deficit	(107)	(82)	160	(29)	(118)	(6)	160	36
At 30 June 2012	**(1,564)**	**1,404**	**160**	**-**	**(1,564)**	**1,404**	**160**	**-**

No deferred tax assets are recognized by the Group and the Institute respectively in respect of unused tax losses of HK$9,289,000 *(2011: HK$1,704,000)* and HK$4,463,000 *(2011: Nil)* because it is not certain whether future taxable profit will be available against which the Group and the Institute can utilize the benefits therefrom. The unused tax losses can be carried forward indefinitely.

b. Reconciliation to the statements of financial position:

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deferred tax assets	**-**	65	**-**	-
Deferred tax liabilities	**-**	(36)	**-**	(36)
	-	29	**-**	(36)

7. Receivables

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accounts receivable	**1,751**	2,761	**1,650**	2,529
Amounts due from subsidiaries	**-**	-	**1,756**	1,422
	1,751	2,761	**3,406**	3,951
Charges for impairment (a)	**(171)**	(198)	**(134)**	(161)
	1,580	2,563	**3,272**	3,790

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

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

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At the beginning of the reporting period	**198**	635	**161**	586
Impairment of accounts receivable	**66**	59	**66**	59
Impaired receivables written off	**(13)**	(419)	**(13)**	(419)
Recovery of impaired receivables (note 14)	**(80)**	(77)	**(80)**	(65)
At the end of the reporting period	**171**	198	**134**	161

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

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

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

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Not past due	**406**	1,048	**2,129**	2,441
Within 30 days past due	**290**	986	**275**	921
31 to 90 days past due	**175**	267	**159**	204
91 to 180 days past due	**270**	126	**270**	88
181 to 270 days past due	**252**	20	**252**	20
Over 270 days past due	**187**	116	**187**	116
	1,174	1,515	**1,143**	1,349
	1,580	2,563	**3,272**	3,790

Receivables of the Institute that were neither past due nor impaired mainly relate to inter-company balances.

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 experience, management is of the opinion that no charge for impairment is necessary in respect of these balances as there has not been a significant change in credit quality of these independent parties and the balances are still considered fully recoverable. The Group and the Institute do not hold any collateral or other credit enhancements over these balances.

8. Cash and cash equivalents

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank balances				
- Time deposits with original maturities within three months	**185,998**	111,293	**150,051**	93,705
- Savings accounts	**10,947**	45,412	**4,916**	32,793
- Current accounts	**11,548**	7,787	**6,061**	5,943
Cash on hand	**165**	109	**150**	105
	208,658	164,601	**161,178**	132,546

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are mainly made for three-month periods depending on the immediate cash requirement of the Group and the Institute and earn interest at the prevailing short-term deposit rates.

9. Subscriptions and fees received in advance

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Subscription fees received in advance	**55,336**	52,799	**53,973**	51,408
Other fees received in advance	**7,556**	7,325	**6,225**	7,131
	62,892	60,124	**60,198**	58,539

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

Other fees received in advance mainly relate to first registration applications to be assessed, and examinations and seminars to be conducted after the end of the reporting period.

10. Payables and accruals

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payables	**8,495**	3,096	**8,199**	2,812
Amounts due to a subsidiary	**-**	-	**50**	554
Accruals	**21,421**	28,741	**19,408**	26,243
Financial liabilities (note 3)	**29,916**	31,837	**27,657**	29,609
Employee leave entitlements and provision for bonus	**4,747**	13,702	**4,516**	13,021
	34,663	45,539	**32,173**	42,630

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

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

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 30 days	**18,963**	25,460	**17,076**	24,037
Between 31 and 90 days	**5,398**	4,752	**5,398**	4,098
Between 91 and 180 days	**1,323**	1,310	**1,014**	1,170
Between 181 and 270 days	**1,281**	216	**1,281**	211
Over 270 days	**2,951**	99	**2,888**	93
	29,916	31,837	**27,657**	29,609

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 are decided annually by the Council.

b. The capital fund of HKIAAT represents a capital levy from its members and students to meet future office expansion. The rates of levy are decided annually by the Board of HKIAAT. Effective from the year ended 30 June 2009, no capital levy is imposed on its members and students.

12. Subscriptions and fees

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Annual subscription fees				
Members	**68,145**	65,044	**68,145**	65,044
Practising certificates	**18,859**	18,420	**18,859**	18,420
Students	**8,395**	8,192	**6,645**	6,163
Firms	**9,790**	9,845	**9,790**	9,845
Corporate practices	**4,890**	4,628	**4,890**	4,628
Others	**1,294**	1,040	**292**	107
First registration fees				
Members	**5,558**	5,564	**5,558**	5,564
Practising certificates	**544**	409	**544**	409
Students	**2,448**	2,104	**1,890**	1,180
Firms	**122**	141	**122**	141
Corporate practices	**149**	206	**149**	206
Others	**611**	154	**269**	6
Other fees				
Advancement to fellowship	**217**	267	**217**	267
Assessment for overseas students	**1,392**	937	**1,392**	937
	122,414	116,951	**118,762**	112,917

13. Other revenue

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Income from examinations	**69,440**	68,101	**64,199**	61,775
Income from seminars and courses	**18,268**	19,124	**17,515**	18,646
Income from member and student activities	**2,248**	1,864	**2,248**	1,861
Accreditation income	**745**	560	**480**	450
	90,701	89,649	**84,442**	82,732

14. Other income

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Qualification				
Royalty income	**89**	128	**-**	-
Conduct				
Disciplinary fines and costs recovery	**956**	2,951	**956**	2,951
FRC special levy (a)	**4,410**	4,210	**4,410**	4,210
Litigation costs recovery (b)	**710**	1,150	**710**	1,150
Corporate functions				
Commission from affinity credit card programme	**86**	668	**86**	668
Commission from professional indemnity insurance master policy	**478**	392	**478**	392
Income from advertisements placed in the journals	**1,028**	1,362	**868**	1,153
Interest income	**957**	603	**727**	482
Income from hardcopy surcharge	**587**	552	**587**	552
Operating lease income	**102**	133	**102**	133
Recovery of impaired receivables (note 7a)	**80**	77	**80**	65
Sales of goods	**2,921**	1,488	**2,818**	1,402
Service fees from HKIAAT	**-**	-	**2,308**	2,308
Others				
Donations (c)	**34**	46	**4**	25
Events sponsorship	**1,805**	1,873	**1,805**	1,873
Project sponsorship	**-**	1,566	**-**	1,566
Miscellaneous	**203**	708	**100**	597
	14,446	17,907	**16,039**	19,527

a. FRC special levy

The Institute representing the accounting profession is one of the four funding parties of the Financial Reporting Council ("FRC") along with the Companies Registry Trading Fund of the Government of the Hong Kong Special Administrative Region, Hong Kong Exchanges and Clearing Limited and the Securities and Futures Commission. Under the existing funding arrangements, the Institute contributes the sum of HK$4,410,000 *(2011: HK$4,200,000)* per annum as the recurrent funding of the FRC. The Institute's share of the funding is met by a special annual levy on member practices which are auditors of listed entities. During the current year, the Institute received HK$4,410,000 *(2011: HK$4,210,000)* from such member practices and contributed HK$4,410,000 *(2011: HK$4,200,000)* to the FRC (note 16).

b. Litigation costs recovery

During the current year, an amount of HK$710,000 *(2011: HK$1,150,000)* was received from a firm and certain individuals as a whole (the "Applicants"), one of whom is a council member, for recovery of legal costs incurred in a judicial review proceeding against the Institute. Total legal costs incurred by the Institute during the year were HK$1,566,000 *(2011: HK$1,632,000)*. An appeal was sought by the Applicants in respect of this judicial review on 7 September 2010. The appeal was dismissed by the Court of Appeal on 1 August 2011. An application for leave to appeal to the Court of Final Appeal was filed to the Court of Appeal by the Applicants on 26 August 2011. The application for leave was refused by the Court of Appeal but was subsequently allowed by the Appeal Committee of the Court of Final Appeal on 28 March 2012. The appeal is scheduled to be heard on 17 June 2013.

c. Donations

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Donations from members	**-**	7	**-**	-
Donations to the library	**4**	25	**4**	25
Others	**30**	14	**-**	-
	34	46	**4**	25

15. Expenses

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

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Expenses by main activities				
Membership	**56,724**	55,393	**56,806**	55,600
Qualification	**70,470**	59,545	**70,492**	59,681
Conduct	**22,682**	20,543	**22,682**	20,543
Quality assurance	**11,407**	11,458	**11,407**	11,458
Standards	**11,115**	11,763	**11,115**	11,763
Corporate functions				
- Finance and operations	**29,470**	25,830	**31,808**	28,189
- Communications	**10,214**	9,840	**10,214**	9,840
- Constitution and governance (a)	**7,839**	5,836	**7,839**	5,836
- China and international relations	**5,345**	5,751	**5,345**	5,751
The HKIAAT Group	**13,873**	13,215	**-**	-
The HKICPA Charitable Fund	**89**	251	**-**	550
The HKICPA Trust Fund	**46**	230	**-**	-
	239,274	219,655	**227,708**	209,211

a. During the current year, the Institute incurred expenses of HK$1,066,000 *(2011: Nil)* in relation to an extraordinary general meeting held on 16 December 2011 to consider a proposed resolution to change the election method of the president and vice presidents of the Institute.

16. (Deficit)/Surplus before tax

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(Deficit)/Surplus before tax has been arrived at after charging/(crediting):				
Employee benefits (note 18)	**121,758**	108,215	**113,685**	101,058
Depreciation	**11,589**	11,545	**11,472**	11,448
Contribution to FRC (note 14a)	**4,410**	4,200	**4,410**	4,200
Auditor's remuneration	**444**	351	**362**	276
Allowance for obsolete inventories (a)	**833**	-	**833**	-
Cost of goods sold	**812**	521	**802**	483
Donations (b)	**88**	261	**75**	561
Exchange (gain)/loss	**(158)**	184	**(127)**	233
Impairment of receivables	**66**	59	**66**	59
Loss on disposal of fixed assets (c)	**-**	36	**-**	36
Obsolete inventories written off	**57**	29	**57**	9
Operating lease expenses	**903**	852	**453**	414
Recovery of obsolete inventories written off	**(5)**	(3)	**(5)**	(3)
Recovery of impaired receivables	**(80)**	(77)	**(80)**	(65)
Uncollectible amounts written off	**92**	-	**55**	-

a. The allowance for obsolete inventories was mainly provided for the examination learning packs which were outdated due to update of relevant course materials.

b. During the current year, the Institute donated HK$50,000 *(2011: HK$550,000)* to The HKICPA Charitable Fund.

c. During the year ended 30 June 2011, a memorandum of understanding was signed between the Institute and Caritas Hong Kong for a computer donation programme "Computer Provisioning Aid" for school children. The loss on disposal of fixed assets in the year ended 30 June 2011 mainly represented the carrying amount of the computers donated to Caritas Hong Kong for that programme.

17. Income tax (credit)/charge

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax				
Hong Kong Profits Tax:				
Current year	**-**	1,938	**-**	1,938
Overprovision in prior years	**(11)**	-	**(11)**	-
	(11)	1,938	**(11)**	1,938
Mainland China income tax:				
Current year	**45**	386	**-**	295
Overprovision in prior years, net	**(273)**	-	**(276)**	-
	(228)	386	**(276)**	295
Total current tax (credit)/charge	**(239)**	2,324	**(287)**	2,233
Deferred tax				
Origination and reversal of temporary differences	**124**	(246)	**124**	(246)
Write-down of deferred tax assets	**65**	-	**-**	-
Benefits of tax losses recognized	**(160)**	-	**(160)**	-
Total deferred tax charge/(credit)	**29**	(246)	**(36)**	(246)
Total tax (credit)/charge	**(210)**	2,078	**(323)**	1,987

No provision for Hong Kong Profits Tax has been made for the year as the Group incurred a loss for taxation purpose during the current year. Hong Kong Profits Tax was provided at 16.5% on the estimated taxable surplus arising in Hong Kong during the year ended 30 June 2011. The mainland China income tax has been provided at the statutory rate of 25% *(2011: 25%)* in accordance with the relevant tax laws in mainland China during the year.

The reconciliation between income tax (credit)/charge and (deficit)/surplus before tax at the 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(Deficit)/Surplus before tax	**(11,713)**	4,852	**(8,465)**	5,965
Tax at the applicable rate of 16.5% *(2011: 16.5%)*	**(1,932)**	801	**(1,396)**	984
Tax effect of different tax rate for a subsidiary in mainland China	**7**	34	**-**	-
Mainland China income tax	**-**	295	**-**	295
Tax effect of non-deductible expenses	**847**	868	**745**	761
Tax effect of non-assessable income	**(211)**	(222)	**(120)**	(79)
Tax effect of unrecognized tax losses	**1,277**	281	**736**	-
Overprovision in prior years, net	**(284)**	-	**(287)**	-
Write-down of deferred tax assets	**65**	-	**-**	-
Others	**21**	21	**(1)**	26
Total tax (credit)/charge	**(210)**	2,078	**(323)**	1,987

18. Employee benefits

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Salaries, wages, bonuses and allowances	**114,116**	101,315	**106,710**	94,796
Provident fund contributions	**7,642**	6,900	**6,975**	6,262
	121,758	108,215	**113,685**	101,058
Number of staff				
At the beginning of the reporting period	**219**	201	**195**	179
At the end of the reporting period	**225**	219	**203**	195

19. Key management personnel remuneration

	Group and Institute	
	2012	2011
	HK$'000	*HK$'000*
Chief Executive and Registrar (a)		
Salaries and allowances	**3,473**	3,050
Performance bonus	**636**	749
Retirement benefits	**515**	454
	4,624	4,253

a. The remuneration charges for the years ended 30 June 2012 and 2011 were recognized for the services rendered by the immediate past Chief Executive and Registrar in the years who retired on 30 June 2012.

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

20. Related party transactions

a. Members of the Institute's Council

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

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

(i) During the current year, expenses of HK$500,000 *(2011: HK$807,000)* were incurred with Deloitte Touche Tohmatsu ("DTT") mainly for the development of a specialist qualification in taxation. The outstanding commitment in respect of this service contract at 30 June 2012 is HK$193,000 *(2011: HK$700,000)*. At 30 June 2012, included in "Payables and accruals" is an amount of HK$512,000 *(2011: HK$802,000)* due to DTT. At 30 June 2011, included in "Receivables" was an amount of HK$323,000 due from DTT mainly for its share of contribution for the professional liability reform project which had been fully settled during the current year.

(ii) During the current year, expenses of HK$425,000 and HK$319,000 were incurred with PricewaterhouseCoopers ("PwC") for expert witness services provided on a disciplinary case and rental of training rooms of PwC respectively. At 30 June 2012, included in "Payables and accruals" is an amount of HK$319,000 due to PwC. At 30 June 2011, included in "Receivables" was an amount of HK$223,000 due from PwC for its share of contribution for the professional liability reform project which had been fully settled during the current year.

(iii) During the current year, expenses of HK$300,000 were incurred with United International College ("UIC") for rental of venue of UIC for the promotion of the Institute's qualification programme. At 30 June 2012, included in "Payables and accruals" is an amount of HK$300,000 *(2011: Nil)* due to UIC.

(iv) At 30 June 2011, included in "Receivables" was an amount of HK$351,000 due from KPMG mainly for its share of contribution for the professional liability reform project which had been fully settled during the current year and included in "Payables and accruals" was an amount of HK$50,000 due to KPMG.

(v) At 30 June 2011, included in "Receivables" was an amount of HK$223,000 due from Ernst & Young ("EY") for its share of contribution for the professional liability reform project which had been fully settled during the current year.

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

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

b. Subsidiaries of the Institute

(i) HKICPA Beijing

During the current year, the Institute paid service fees of HK$2,635,000 *(2011: HK$2,526,000)* to HKICPA Beijing for the promotion of the Institute's qualification programme and the provision of services to members in mainland China.

(ii) The HKICPA Charitable Fund

During the current year, the Institute donated HK$50,000 *(2011: HK$550,000)* to The HKICPA Charitable Fund. At 30 June 2012, included in "Payables and accruals" of the Institute is an amount of HK$50,000 *(2011: HK$554,000)* due to The HKICPA Charitable Fund.

(iii) HKIAAT

During the current year, the Institute charged service fees of HK$2,308,000 *(2011: HK$2,308,000)* to HKIAAT for management, rental and other services provided to HKIAAT at agreed terms. Total staff employment costs of HK$6,485,000 *(2011: HK$5,781,000)* was also recharged to HKIAAT for the human resources support on a cost recovery basis. In addition, HKIAAT organized the professional bridging examination on behalf of the Institute. Income of HK$987,000 *(2011: HK$1,338,000)* generated from and related expenses of HK$108,000 *(2011: HK$425,000)* incurred for the professional bridging examination were included in the amount due from HKIAAT. At 30 June 2012, included in "Receivables" of the Institute is an amount of HK$1,711,000 *(2011: HK$1,422,000)* due from HKIAAT arising from the services provided.

(iv) The HKICPA Trust Fund

At 30 June 2012, included in "Receivables" of the Institute is an amount of HK$45,000 *(2011:Nil)* due from The HKICPA Trust Fund.

21. Financial risk management

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

a. Interest rate risk

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

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

	Group		Institute	
	2012	2011	**2012**	2011
	% p.a.	*% p.a.*	***% p.a.***	*% p.a.*
Time deposits	**0.75%**	0.43%	**0.65%**	0.47%
Savings accounts	**0.02%**	0.01%	**0.03%**	0.01%

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

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

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Time deposits				
- with original maturities within three months	**185,998**	111,293	**150,051**	93,705
- with original maturities over three months	**-**	47,803	**-**	30,133
	185,998	159,096	**150,051**	123,838
Impact of interest rate deviation				
Increase/Decrease in interest rate by 0.25% *(2011: 0.25%)*				
- Decrease/Increase in deficit before tax	**465**	-	**375**	-
- Increase/Decrease in surplus before tax	**-**	398	**-**	310
- Increase/Decrease in members' equity	**465**	398	**375**	310

b. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

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

c. Liquidity risk

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

d. Foreign currency risk

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

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

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

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

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

23. Operating lease commitments

The Group and the Institute have operating leases on premises at two industrial and one office buildings at 30 June 2012 and 2011. The total future minimum lease payments under the non-cancellable operating leases are payable as follows:

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**381**	660	**269**	222
Between one and five years	**21**	126	**21**	17
	402	786	**290**	239

24. Capital commitments

	Group		Institute	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Capital expenditure in respect of the acquisition of computer equipment contracted but not provided for in the financial statements	**232**	1,173	**232**	1,173

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 72 to 78, which comprise the statement of financial position at 30 June 2012, and the statement of comprehensive income, the statement of changes in accumulated funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustees' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Trust Fund at 30 June 2012, and of its deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Mazars CPA Limited
Certified Public Accountants
42nd floor, Central Plaza
18 Harbour Road, Wanchai, Hong Kong
18 September 2012

Yip Ngai Shing
Practising Certificate number: P05163

Statement of Financial Position

At 30 June 2012

	Note	2012 HK$	2011 HK$
Current assets			
Other receivables	4	**174**	-
Cash and cash equivalents	5	**4,234,592**	4,231,594
		4,234,766	4,231,594
Current liability			
Amount due to the Institute	6	**44,850**	-
Net assets		**4,189,916**	4,231,594
Accumulated funds		**4,189,916**	4,231,594

Approved by the Trustees on 18 September 2012

Keith Pogson	**Tsai Wing Chung, Philip**	**Susanna Chiu**	**Wong Hong Yuen**
Trustee	Trustee	Trustee	Trustee

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 HK$	2011 HK$
Revenue			
Donations from third parties		**4,000**	5,000
Recovery of impaired loans to members	4	**-**	11,500
Interest income		**257**	85
		4,257	16,585
Expenses			
Grants to members	7	**(44,850)**	(228,300)
Bank charges		**(1,085)**	(1,485)
		(45,935)	(229,785)
Deficit		**(41,678)**	(213,200)
Other comprehensive income		**-**	-
Comprehensive income		**(41,678)**	(213,200)

Statement of Changes in Accumulated Funds

For the year ended 30 June 2012

	2012 HK$	2011 HK$
Accumulated funds		
At the beginning of the reporting period	**4,231,594**	4,444,794
Deficit	**(41,678)**	(213,200)
Other comprehensive income	**-**	-
Comprehensive income	**(41,678)**	(213,200)
At the end of the reporting period	**4,189,916**	4,231,594

Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012 HK$	2011 HK$
Cash flows from operating activities			
Deficit		**(41,678)**	(213,200)
Increase in other receivables		**(174)**	-
Increase in amount due to the Institute		**44,850**	-
Net cash generated from/(utilized in) operating activities and increase/(decrease) in cash and cash equivalents		**2,998**	(213,200)
Cash and cash equivalents at the beginning of the reporting period		**4,231,594**	4,444,794
Cash and cash equivalents at the end of the reporting period	5	**4,234,592**	4,231,594

Notes to the Financial Statements

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 then Hong Kong Society of Accountants, which was renamed on 8 September 2004 as the Hong Kong Institute of Certified Public Accountants (the "Institute"). According to the trust deed, the trustees of the Trust Fund are the president, the immediate past president, a vice president and a past president of the Institute. The Institute is a body corporate incorporated in Hong Kong on 1 January 1973 under the Professional Accountants Ordinance with its registered office located at 37th floor, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong. The Trust Fund was set up for the relief of poverty of members of the Institute by means of subsidy and/or loan. The Trust Fund is a subsidiary of the Institute. The Trust Fund, being a charitable trust, is exempt from Hong Kong Profits 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 Hong Kong Financial Reporting Standards ("HKFRSs"), which include all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Institute and accounting principles generally accepted in Hong Kong. These financial statements have been prepared under the historical cost convention.

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

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 financial statements, except for the first-time early adoption of the revised HKFRSs as set out in note 2b to these financial statements. The following HKFRSs issued in prior years, that are not yet effective for the current year but are applicable to the Trust Fund, have been early adopted in prior years:

HKFRS 9	"Financial Instruments"
HKFRS 13	"Fair Value Measurement"

b. Early adoption of applicable revised HKFRSs that were issued during the current year

The Institute has issued certain new/revised HKFRSs during the current year that are available for early adoption. Of these, the following revised HKFRSs are applicable to these financial statements and early adopted by the Trust Fund for the first time:

Amendments to HKAS 1 (Revised)	"Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income"
Annual Improvements Project	"Annual Improvements 2009-2011 Cycle"

Amendments to HKAS 1 (Revised) improve the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that will not be reclassified to profit or loss. The amended HKAS 1 will be effective for annual periods beginning on or after 1 July 2012. The application of the amendments does not have any significant impact on the Trust Fund.

"Annual Improvements 2009-2011 Cycle" sets out a collection of amendments to HKFRSs which make necessary, but non-urgent, amendments to HKFRSs that will not be included as part of another major project. The amendments, among others, clarify the requirements for comparative information, the classification of servicing equipment and the income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction. The amendments are effective for annual periods beginning on or after 1 January 2013. The application of the amendments does not have any significant impact on the Trust Fund.

c. Financial instruments

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

The Trust Fund's financial assets, including other receivables and bank balances, are subsequently measured at amortized cost using the effective interest method, less identified impairment charges (see note 2d) as the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities include the amount due to the Institute which is subsequently measured at amortized cost using the effective interest method.

d. Impairment of financial assets

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

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

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

e. Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the contractual rights to receive the cash flows of the financial assets expire; or where the Trust Fund transfers the financial assets and either (i) it has transferred substantially all the risks and rewards of ownership of the financial assets; or (ii) it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial assets but has not retained control of the financial assets.

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

f. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, and deposits with banks and other financial institutions having a maturity of three months or less at acquisition.

g. Revenue recognition

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

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

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

h. Related parties

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

(i) A person or a close member of that person's family is related to the Trust Fund if that person:

(a) has control or joint control over the Trust Fund;
(b) has significant influence over the Trust Fund; or
(c) is a member of the key management personnel of the Trust Fund or of a parent of the Trust Fund.

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

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

3. Financial instruments by category

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

	2012	2011
	HK$	*HK$*
Financial assets – *measured at amortized cost*		
Other receivables	**174**	-
Cash and cash equivalents	**4,234,592**	4,231,594
	4,234,766	4,231,594
Financial liability – *measured at amortized cost*		
Amount due to the Institute	**44,850**	-

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

4. Other receivables

	2012	2011
	HK$	*HK$*
Short term loans to members	**37,170**	37,170
Interest receivable	**174**	-
	37,344	37,170
Impairment charges on loans to members	**(37,170)**	(37,170)
	174	-

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

	2012	2011
	HK$	*HK$*
At the beginning of the reporting period	**37,170**	48,670
Recovery of impaired loans to members	**-**	(11,500)
At the end of the reporting period	**37,170**	37,170

Since 30 June 2008, these members had not made the agreed monthly repayments to the Trust Fund and a full provision had been made. During the year ended 30 June 2011, the Trust Fund recovered an amount of HK$11,500 previously considered as impaired. The Trust Fund does not hold any collateral or other credit enhancements over these balances.

5. Cash and cash equivalents

	2012	2011
	HK$	*HK$*
Bank balances		
- Time deposit with original maturity within three months	**3,000,000**	-
- Savings account	**1,228,555**	4,225,167
- Current account	**6,037**	6,427
	4,234,592	4,231,594

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term time deposit is mainly made for three-month periods depending on the immediate cash requirement of the Trust Fund and earn interest at the prevailing short-term deposit rates.

6. Amount due to the Institute

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

7. Grants to members

During the current year, grants totaling HK$44,850 *(2011: HK$228,300)* were paid to help alleviate members facing financial hardship.

8. Financial risk management

Financial instruments consist of bank balances, other receivables and amount due to the Institute. The Trust Fund carries as little risk from financial instruments as practicable. The liquidity risk is disclosed in note 6 to the financial statements. The Trust Fund is exposed to other financial risks which are discussed below:

a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Trust Fund's exposure to interest rate fluctuations is mainly limited to interest receivable on its short-term time deposit. Management considers that the Trust Fund has limited exposure to interest rate risk relating to the savings account as the changes in interest rate of the savings account over the period until the end of the next annual reporting period are expected to be minimal. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income alone as the Trust Fund did not borrow any interest bearing loans. The Trust Fund manages the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impact on interest income.

b. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Trust Fund has designed its credit policy with an objective to minimize its exposure to credit risk. The Trust Fund also has a policy in place to evaluate credit risk when loans are granted to members and the repayments of short term loans to members are closely monitored. Further quantitative data in respect of the exposure to credit risk arising from short term loans to members are disclosed in note 4 to the financial statements.

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

9. Capital management

The Trust Fund operates by allocating its receipts and therefore is not exposed to any capital deficiency risk. In the event of capital needs, the Institute will make donations to the Trust Fund to ensure its 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 80 to 86, which comprise the statement of financial position at 30 June 2012, and the statement of comprehensive income, the statement of changes in accumulated funds and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustees' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Charitable Fund at 30 June 2012, and of its deficit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Mazars CPA Limited
Certified Public Accountants
42nd floor, Central Plaza
18 Harbour Road, Wanchai, Hong Kong
18 September 2012

Yip Ngai Shing
Practising Certificate number: P05163

Statement of Financial Position

At 30 June 2012

	Note	2012 HK$	2011 HK$
Current assets			
Amount due from the Institute	*4*	**50,125**	554,400
Cash and cash equivalents	*5*	**1,385,578**	894,865
Net assets		**1,435,703**	1,449,265
Accumulated funds		**1,435,703**	1,449,265

Approved by the Trustees on 18 September 2012

Keith Pogson
Trustee

Tsai Wing Chung, Philip
Trustee

Ding Wai Chuen, Raphael
Trustee

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 HK$	2011 HK$
Revenue			
Donations	*6*	**74,625**	566,200
Interest income		**383**	194
		75,008	566,394
Expenses			
Charitable donations	*7*	**(62,500)**	(250,000)
Sponsorship		**(25,000)**	-
Bank charges		**(1,070)**	(1,256)
		(88,570)	(251,256)
(Deficit)/Surplus		**(13,562)**	315,138
Other comprehensive income		**-**	-
Comprehensive income		**(13,562)**	315,138

Statement of Changes in Accumulated Funds

For the year ended 30 June 2012

	2012 HK$	2011 HK$
Accumulated funds		
At the beginning of the reporting period	**1,449,265**	1,134,127
(Deficit)/Surplus	**(13,562)**	315,138
Other comprehensive income	**-**	-
Comprehensive income	**(13,562)**	315,138
At the end of the reporting period	**1,435,703**	1,449,265

Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012 HK$	2011 HK$
Cash flows from operating activities			
(Deficit)/Surplus		**(13,562)**	315,138
Decrease/(Increase) in amount due from the Institute		**504,275**	(554,400)
Net cash generated from/(utilized in) operating activities and net increase/(decrease) in cash and cash equivalents		**490,713**	(239,262)
Cash and cash equivalents at the beginning of the reporting period		**894,865**	1,134,127
Cash and cash equivalents at the end of the reporting period	*5*	**1,385,578**	894,865

Notes to the Financial Statements

1. Principal activities

The HKICPA Charitable Fund (the "Charitable Fund") was set up under a trust deed dated 2 December 2001 for general charitable purposes. According to the trust deed, the trustees of the Charitable Fund are the president, the immediate past president and the chief executive of the Hong Kong Institute of Certified Public Accountants (the "Institute"). The Institute is a body corporate incorporated in Hong Kong on 1 January 1973 under the Professional Accountants Ordinance with its registered office located at 37th floor, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong. The Charitable Fund is a subsidiary of the Institute. The Charitable Fund, being a charitable trust, is exempt from Hong Kong Profits 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 Hong Kong Financial Reporting Standards ("HKFRSs"), which include all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Institute and accounting principles generally accepted in Hong Kong. These financial statements have been prepared under the historical cost convention.

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

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 financial statements, except for the first-time early adoption of the revised HKFRSs as set out in note 2b to these financial statements. The following HKFRSs issued in prior years, that are not yet effective for the current year but are applicable to the Charitable Fund, have been early adopted in prior years:

HKFRS 9	"Financial Instruments"
HKFRS 13	"Fair Value Measurement"

b. Early adoption of applicable revised HKFRSs that were issued during the current year

The Institute has issued certain new/revised HKFRSs during the current year that are available for early adoption. Of these, the following revised HKFRSs are applicable to these financial statements and early adopted by the Charitable Fund for the first time:

Amendments to HKAS 1 (Revised)	"Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income"
Annual Improvements Project	"Annual Improvements 2009-2011 Cycle"

Amendments to HKAS 1 (Revised) improve the presentation of other comprehensive income. The amendments require entities to group together the items of other comprehensive income that may be reclassified to profit or loss in the future by presenting them separately from those that will not be reclassified to profit or loss. The amended HKAS 1 will be effective for annual periods beginning on or after 1 July 2012. The application of the amendments does not have any significant impact on the Charitable Fund.

"Annual Improvements 2009-2011 Cycle" sets out a collection of amendments to HKFRSs which make necessary, but non-urgent, amendments to HKFRSs that will not be included as part of another major project. The amendments, among others, clarify the requirements for comparative information, the classification of servicing equipment and the income tax consequences of distributions to holders of an equity instrument and of transaction costs of an equity transaction. The amendments are effective for annual periods beginning on or after 1 January 2013. The application of the amendments does not have any significant impact on the Charitable Fund.

c. Financial instruments

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

The Charitable Fund's financial assets, including amount due from the Institute and bank balances, are subsequently measured at amortized cost using the effective interest method, less identified impairment charges (see note 2d) as the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

d. Impairment of financial assets

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

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

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

e. Derecognition of financial assets

Financial assets are derecognized when the contractual rights to receive the cash flows of the financial assets expire; or where the Charitable Fund transfers the financial assets and either (i) it has transferred substantially all the risks and rewards of ownership of the financial assets or (ii) it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial assets but has not retained control of the financial assets.

f. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

g. 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.

h. Related parties

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

(i) A person or a close member of that person's family is related to the Charitable Fund if that person:

(a) has control or joint control over the Charitable Fund;
(b) has significant influence over the Charitable Fund; or
(c) is a member of the key management personnel of the Charitable Fund or of a parent of the Charitable Fund.

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

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

3. Financial instruments by category

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

	2012	2011
	HK$	*HK$*
Amount due from the Institute	**50,125**	554,400
Cash and cash equivalents	**1,385,578**	894,865
	1,435,703	1,449,265

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

4. Amount due from the Institute

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

5. Cash and cash equivalents

	2012	2011
	HK$	*HK$*
Bank balances		
- Savings accounts	**1,358,032**	887,099
- Current accounts	**27,546**	7,766
	1,385,578	894,865

Cash at bank earns interest at floating rates based on daily deposit rates.

6. Donations

	2012	2011
	HK$	*HK$*
Donation from the Institute	**50,000**	550,000
Other parties	**24,625**	16,200
	74,625	566,200

7. Charitable donations

	2012	2011
	HK$	*HK$*
Caritas Hong Kong (a)	**7,300**	150,000
Guangdong Poverty Relief Day	**-**	100,000
Hong Kong Red Cross	**50,000**	-
Medecins Sans Frontieres	**5,200**	-
	62,500	250,000

a. During the year ended 30 June 2011, a memorandum of understanding was signed between the Institute and Caritas Hong Kong for a computer donation programme "Computer Provisioning Aid" for school children. The amount paid represents the donation to Caritas Hong Kong for this programme.

8. Related party transactions

During the current year, the Charitable Fund received a donation of HK$50,000 *(2011: HK$550,000)* from the Institute. At 30 June 2012, the amount due from the Institute is HK$50,125 *(2011: HK$554,400)* which has been settled after the end of the reporting period.

9. Financial risk management

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

a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Charitable Fund's exposure to interest rate fluctuations is limited to interest receivable on its bank savings accounts at the end of the reporting period. Management considers that the Charitable Fund has limited exposure to interest rate risk relating to the Charitable Fund's bank balances as the changes in interest rate for these items over the period until the end of the next annual reporting period are expected to be minimal. Any fluctuation in the prevailing levels of market interest rates will have an impact on the interest income alone as the Charitable Fund did not borrow any interest bearing loans. The Charitable Fund manages the interest rate risk by monitoring closely the movements in interest rates in order to limit potential adverse impact on interest income.

b. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

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

10. Capital management

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

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A Chinese version of this annual report is available on request and can also be downloaded from the Institute's website.

Established in 1973, the Institute is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has about 34,000 members and 15,000 students. Members of the Institute are entitled to the description certified public accountant and to the designation CPA.

CPA Hong Kong Institute of Certified Public Accountants
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