The Hong Kong Institute of Biotechnology Limited

香港生物科技研究院有限公司

(Limited by guarantee)

Report of the Directors and Financial Statements
30 June 2014

Report of the directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2014.

Principal place of business

The Hong Kong Institute of Biotechnology Limited (the "Institute") is a company limited by guarantee, and is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 2 Biotechnology Avenue, 12 Miles, Tai Po Road, Shatin, New Territories, Hong Kong.

Principal activities

The Institute is an independent non-profit making organisation set up with a primary goal to assist in the development of an internationally recognised biotechnology industry in Hong Kong. The principal activities of the Institute and other particulars of the Institute's subsidiary (the "Group") are set out in note 10 to the financial statements.

Financial statements

The surplus of the Group for the year ended 30 June 2014 and the state of the Institute's and the Group's affairs as at that date are set out in the financial statements on pages 5 to 43.

Transfer to reserves

Surplus of HK$8,697,412 (2013: HK$7,787,257) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in funds.

Fixed assets

Movements in fixed assets during the year are set out in note 8 to the financial statements.

Directors

The directors during the financial year and up to the date of this report are:

Professor Christopher H.K. Cheng	
Professor Benjamin W.S. Wah	
Mrs Salome Chan Lam Yuet Ping	(appointed on 1 August 2013)
Mr Terence C.W. Chan	(resigned on 31 July 2013)

Directors (continued)

In accordance with article 39 of the Institute's articles of association, the present directors shall retire from office at each annual general meeting but shall be eligible for re-election.

No contract of significance to which the Institute, or any of its holding entity, subsidiary and fellow subsidiaries was a party and in which a director of the Institute had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Institute, or any of its holding entity, subsidiary and fellow subsidiaries a party to any arrangement to enable the directors of the Institute to acquire benefits by means of the acquisition of shares in or debentures of the Institute or any other body corporate.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Institute is to be proposed at the forthcoming annual general meeting.

By order of the board

Director

Hong Kong, 15 DEC 2014

KPMG

Independent auditor's report to the members of The Hong Kong Institute of Biotechnology Limited

(Incorporated in Hong Kong and limited by guarantee)

We have audited the consolidated financial statements of The Hong Kong Institute of Biotechnology Limited (the "Institute") and its subsidiary (together "the Group") set out on pages 5 to 43, which comprise the consolidated and Institute balance sheets as at 30 June 2014, the consolidated income and expenditure statement, the consolidated statement of comprehensive income, the consolidated statement of changes in funds and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Institute are responsible for the preparation of consolidated 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 and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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 Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated 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 directors, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG

Independent auditor's report to the members of The Hong Kong Institute of Biotechnology Limited (continued)

(Incorporated in Hong Kong and limited by guarantee)

Auditor's responsibility (continued)

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Institute and of the Group as at 30 June 2014 and of the Group's surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
15 DEC 2014

Consolidated income and expenditure statement for the year ended 30 June 2014

(Expressed in Hong Kong dollars)

	Note	*2014*	*2013*
Income			
Grants from government agencies and third parties		$ 3,399,746	$ 1,595,247
Sales of goods		21,794,899	21,805,905
Incubator facilities fees		1,907,483	1,263,571
Consultation service fees		2,557,460	3,531,415
Facility licence fees		5,934,816	5,768,860
Net investment gain	12	1,853,357	1,708,091
Other revenue	3	576,489	449,456
		$ 38,024,250	$ 36,122,545
Expenditure			
Staff costs	4(a)	$ 12,030,966	$ 11,597,486
Depreciation		2,049,054	2,167,732
Amortisation		694	540
Other operating expenses		15,246,124	14,569,530
		$ 29,326,838	$ 28,335,288
Surplus before taxation	4	$ 8,697,412	$ 7,787,257
Income tax	5	-	-
Surplus for the year		$ 8,697,412	$ 7,787,257

The notes on pages 14 to 43 form part of these financial statements.

Consolidated statement of comprehensive income for the year ended 30 June 2014

(Expressed in Hong Kong dollars)

		2014		*2013*
Surplus for the year	$	8,697,412	$	7,787,257
Other comprehensive income for the year, net of tax				
Items that may be reclassified subsequently to income and expenditure:				
Change in fair value of available-for-sale equity securities:				
– net movement in the fair value reserve		(53,349)		443,857
Total comprehensive income for the year	$	8,644,063	$	8,231,114

The notes on pages 14 to 43 form part of these financial statements.

Consolidated balance sheet at 30 June 2014

(Expressed in Hong Kong dollars)

	Note	*2014*	*2013*
Non-current assets			
Fixed assets	8	$ 7,611,689	$ 8,351,270
Intangible assets	9	5,266	5,960
Available-for-sale equity securities	11	3,492,669	3,546,018
Funds with The Chinese University of Hong Kong	12	34,559,068	32,705,711
		$ 45,668,692	$ 44,608,959
Current assets			
Inventories	13	$ 3,747,106	$ 2,720,121
Gross amount due from customers for contract work		217,148	307,332
Accounts receivable, deposits and prepayments	14	6,326,702	6,213,840
Amount due from The Chinese University of Hong Kong	16	-	9,583
Cash and bank balances	15	27,602,670	21,048,951
		$ 37,893,626	$ 30,299,827
Current liabilities			
Current portion of loan from The Chinese University of Hong Kong	17	$ 390,000	$ 390,000
Accounts payable and accruals	19	3,228,650	2,584,130
Amount due to The Chinese University of Hong Kong	16	164,297	-
		$ 3,782,947	$ 2,974,130
Net current assets		$ 34,110,679	$ 27,325,697
Total assets less current liabilities		$ 79,779,371	$ 71,934,656

Consolidated balance sheet at 30 June 2014 (continued)

(Expressed in Hong Kong dollars)

	Note	2014	2013
Non-current liabilities			
Loan from The Chinese University of Hong Kong	17	$ 374,463	$ 764,463
Deferred income	20	780,800	1,190,148
		$ 1,155,263	$ 1,954,611
NET ASSETS		$ 78,624,108	$ 69,980,045
Represented by:			
Capital fund	21	$ -	$ -
General fund	22	78,438,621	69,741,209
Fair value reserve	23	185,487	238,836
		$ 78,624,108	$ 69,980,045

Approved and authorised for issue by the board of directors on 15 DEC 2014

) Directors

The notes on pages 14 to 43 form part of these financial statements.

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Balance sheet at 30 June 2014

(Expressed in Hong Kong dollars)

	Note	2014	2013
Non-current assets			
Fixed assets	8	$ 7,611,689	$ 8,351,270
Investment in a subsidiary	10	10,000	10,000
Available-for-sale equity securities	11	3,492,669	3,546,018
Funds with The Chinese University of Hong Kong	12	34,559,068	32,705,711
		$ 45,673,426	$ 44,612,999
Current assets			
Inventories	13	$ 3,747,082	$ 2,706,181
Gross amount due from customers for contract work		217,148	307,332
Accounts receivable, deposits and prepayments	14	6,324,752	6,213;840
Amount due from a subsidiary	18	153,786	188,786
Amount due from The Chinese University of Hong Kong	16	-	9,583
Cash and bank balances	15	27,572,373	21,001,974
		$ 38,015,141	$ 30,427,696
Current liabilities			
Current portion of loan from The Chinese University of Hong Kong	17	$ 390,000	$ 390,000
Accounts payable and accruals	19	3,208,986	2,575,526
Amount due to The Chinese University of Hong Kong	16	164,297	-
		$ 3,763,283	$ 2,965,526
Net current assets		$ 34,251,858	$ 27,462,170
Total assets less current liabilities		$ 79,925,284	$ 72,075,169

Balance sheet at 30 June 2014 (continued)
(Expressed in Hong Kong dollars)

	Note	*2014*	*2013*
Non-current liabilities			
Loan from The Chinese University of Hong Kong	17	$ 374,463	$ 764,463
Deferred income	20	780,800	1,190,148
		$ 1,155,263	$ 1,954,611
NET ASSETS		$ 78,770,021	$ 70,120,558
Represented by:			
Capital fund	21	$ -	$ -
General fund	22	78,584,534	69,881,722
Fair value reserve	23	185,487	238,836
		$ 78,770,021	$ 70,120,558

Approved and authorised for issue by the board of directors on 15 DEC 2014

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The notes on pages 14 to 43 form part of these financial statements.

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Consolidated statement of changes in funds for the year ended 30 June 2014

(Expressed in Hong Kong dollars)

	Capital fund (Note 21)	*General fund* (Note 22)	*Fair value reserve* (Note 23)	*Total*
Balance at 1 July 2012	$ -	$ 61,953,952	$ (205,021)	$ 61,748,931
Surplus and total comprehensive income for the year	-	7,787,257	443,857	8,231,114
Balance at 30 June 2013 and 1 July 2013	$ -	$ 69,741,209	$ 238,836	$ 69,980,045
Surplus and total comprehensive income for the year	-	8,697,412	(53,349)	8,644,063
Balance at 30 June 2014	$ -	$ 78,438,621	$ 185,487	$ 78,624,108

The notes on pages 14 to 43 form part of these financial statements.

Consolidated cash flow statement for the year ended 30 June 2014

(Expressed in Hong Kong dollars)

	Note	*2014*	*2013*
Operating activities			
Surplus before taxation		$ 8,697,412	$ 7,787,257
Adjustments for:			
Dividend income		(183,123)	(170,659)
Interest income		(364,856)	(266,660)
Amortisation		694	540
Depreciation		2,049,054	2,167,732
Loss on disposal of fixed assets		20	8
Net investment gain		(1,853,357)	(1,708,091)
Write down of inventories		-	42,096
Operating surplus before changes in working capital		$ 8,345,844	$ 7,852,223
Increase in inventories		(1,026,985)	(894,582)
Decrease in gross amount due from customers for contract work		90,184	42,241
Increase in accounts receivable, deposits and prepayments		(54,532)	(3,154,464)
Decrease in amount due from The Chinese University of Hong Kong		9,583	82,460
Increase in amount due to The Chinese University of Hong Kong		164,297	-
Increase/(decrease) in accounts payable and accruals		644,520	(194,800)
Decrease in receipt in advance		-	(156,261)
Decrease in deferred income		(409,348)	(536,407)
Cash generated from operations		$ 7,763,563	$ 3,040,410

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Consolidated cash flow statement for the year ended 30 June 2014 (continued)

(Expressed in Hong Kong dollars)

	Note	*2014*	*2013*
Investing activities			
Dividend received		$ 175,980	$ 155,631
Interest received		313,669	277,317
Payment for purchase of fixed assets		(1,309,493)	(225,051)
Payment for purchase of intangible assets		-	(6,500)
(Increase)/decrease in deposits with banks with maturity over 3 months		(12,940,096)	8,319,189
Net cash (used in)/generated from investing activities		$ (13,759,940)	$ 8,520,586
Financing activity			
Repayment of loan from The Chinese University of Hong Kong		$ (390,000)	$ (390,000)
Net cash used in financing activity		$ (390,000)	$ (390,000)
Net (decrease)/increase in cash and cash equivalents		$ (6,386,377)	$ 11,170,996
Cash and cash equivalents at 1 July		17,463,416	6,292,420
Cash and cash equivalents at 30 June	15	$ 11,077,039	$ 17,463,416

The notes on pages 14 to 43 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 Institute's status

The Hong Kong Institute of Biotechnology Limited (the "Institute") is a company limited by guarantee. In the event that the Institute is wound up, each member's guaranteed contribution to the assets of the Institute is limited to $1,000. At 30 June 2014, the Institute had three members (2013: three members).

The principal activity of the Institute is to assist in the development of an internationally recognised biotechnology industry in Hong Kong.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued several amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2014 comprise the Institute and its subsidiary (together referred to as the "Group").

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the available-for-sale equity securities are stated at their fair value as explained in the accounting policy set out in note 2(e).

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

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

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRS and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interest in other entities*
- HKFRS 13, *Fair value measurement*

HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation - Special purpose entities.* It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 July 2013.

2 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

HKFRS 12, ***Disclosure of interest in other entities***

HKFRS 12 brings together in a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structures entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 26(f).

HKFRS 13, ***Fair value measurement***

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 26(f). The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 28).

(d) Subsidiary

A subsidiary is an entity controlled by the Institute. Control exists when the Institute has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Institute's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(h)(ii)).

2 Significant accounting policies (continued)

(e) Available-for-sale equity securities

The Group's and the Institute's policies for available-for-sale equity securities, other than investment in a subsidiary are as follows:

The equity securities held by the Group and the Institute are not for trading purpose and are classified as available-for-sale equity securities.

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in income and expenditure statement. Dividend income from these investments is recognised in income and expenditure statement in accordance with the policy set out in note 2(q)(vii). When these investments are derecognised or impaired (see note 2(h)(i)), the cumulative gain or loss is reclassified from equity to income and expenditure statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 2(h)(ii)).

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income and expenditure statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings	50 years or shorter of the unexpired term of lease
- Fixture and improvements	10 years
- Furniture and equipment	3 to 10 years
- Motor vehicles	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies (continued)

(g) Intangible assets

Cost incurred to acquire trademark are capitalised as intangible assets. They are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(h)(ii)).

Amortisation of intangible assets with finite useful lives is changed to income and expenditure statement on a straight-line basis over the assets estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follow:

– Trademark	9-10 years

Both the period and method of amortisation are reviewed annually.

(h) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities and trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(i) Impairment of investments in equity securities and trade and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in a subsidiary, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(h)(ii).

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income and expenditure statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(i) Impairment of investments in equity securities and trade and other receivables (continued)

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to income and expenditure statement. The amount of the cumulative loss that is recognised in income and expenditure statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income and expenditure statement.

  Impairment losses recognised in income and expenditure statement in respect of available-for-sale equity securities are not reversed through income and expenditure statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of accounts receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against accounts receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in income and expenditure statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- intangible assets; and
- investment in a subsidiary.

2 Significant accounting policies (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in the income and expenditure statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income and expenditure statement in the year in which the reversals are recognised.

2 Significant accounting policies (continued)

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Long term contracts

The accounting policy for recognising contract revenue is set out in note 2(q)(vi). When the outcome of a long term contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long term contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Long term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Accounts receivable, deposits and prepayments". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Accounts payable and accruals".

(k) Trade and other receivables (including amounts due from related parties)

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 Significant accounting policies (continued)

(l) Trade and other payables (including amounts due to related parties)

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income and expenditure statement as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income and expenditure statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2 Significant accounting policies (continued)

(o) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Institute has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income and expenditure statement as follows:

(i) Designated donations received in previous years from The Hong Kong Jockey Club Charities Trust, relating to the Institute's buildings and equipment cost, were credited to deferred income. Deferred income is transferred to the income and expenditure statement so as to match the depreciation charge and impairment loss, if any, (see notes 2(f) and (h)(ii)) on these fixed assets.

2 Significant accounting policies (continued)

(q) Revenue recognition (continued)

(ii) Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income and expenditure statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income and expenditure statement as revenue on a systematic basis over the useful life of the asset.

(iii) Consultation service fees are recognised when services are rendered.

(iv) Incubator facilities fees and facility licence fees are recognised on a straight line basis over the term of the license agreement.

(v) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(vi) Contract revenue

When the outcome of a long term contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated to the contract costs for the contract.

When the outcome of a long term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(vii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(viii) Interest income is recognised as it accrues using the effective interest method.

2 Significant accounting policies (continued)

(r) Related parties

(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 the Group's parent.

(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.

(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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Other revenue

	2014	2013
Interest income	$ 364,856	$ 266,660
Dividend income	183,123	170,659
Miscellaneous income	28,510	12,137
	$ 576,489	$ 449,456

4 Surplus before taxation

Surplus before taxation is arrived at after charging:

	2014	2013
(a) Staff costs		
Salaries, wages and other benefits	$ 11,548,984	$ 11,177,551
Contributions to defined contribution retirement plan	481,982	419,935
	$ 12,030,966	$ 11,597,486

(b) Other items

	2014	2013
Auditor's remuneration	$ 90,436	$ 83,766
Cost of inventories	9,717,295	10,755,055
Licence fee for land and building	877,200	781,337
Facility fee	552,420	524,850
Loss on disposal of fixed assets	20	8

5 Income tax

(a) The Institute is exempted from Hong Kong Profits Tax under section 87 of the Hong Kong Inland Revenue Ordinance while its subsidiary sustained losses for tax purpose for both years. Accordingly, no provision for Hong Kong Profits Tax has been made in the financial statements.

5 Income tax (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax liabilities/(assets) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Registration cost of trademark	*Tax losses carried forward*	*Total*
At 1 July 2012	$ -	$ -	$ -
Charged/(credited) to consolidated income and expenditure statement	983	(983)	-
At 30 June 2013	$ 983	$ (983)	$ -
At 1 July 2013	$ 983	$ (983)	$ -
(Credited)/charged to consolidated income and expenditure statement	(114)	114	-
At 30 June 2014	$ 869	$ (869)	$ -

(c) Reconciliation between tax expense and accounting surplus at an applicable tax rate:

	2014	*2013*
Surplus before tax	$ 8,697,412	$ 7,787,257
Notional tax on surplus before taxation, calculated at 16.5% (2013: 16.5%)	$ 1,435,073	$ 1,284,898
Tax effect of non-taxable revenue	(6,268,860)	(5,954,030)
Tax effect of non-deductible expenses	4,831,264	4,655,346
Tax effect of unused tax losses not recognised	2,523	13,786
Actual tax expense	$ -	$ -

5 Income tax (continued)

(d) Deferred tax assets not recognised

As at 30 June 2014, the Group has cumulative tax losses of $169,226 (2013: $154,631). In accordance with the accounting policy set out in note 2(o), the Group has not recognised deferred tax in respect of cumulative tax losses of $163,960 as at 30 June 2014 (2013: $148,671) as it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. The tax losses do not expire under the current tax legislation.

6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

		2014		*2013*
Directors' fees	$	-	$	-
Salaries, allowances and benefits in kind		-		-
Discretionary bonuses		13,400		27,115
Retirement scheme contributions		-		-

7 Surplus for the year

The consolidated surplus for the year includes a surplus of $8,702,812 (2013: $7,881,441) which has been dealt with in the financial statements of the Institute.

8 Fixed assets

	The Group and the Institute				
	Buildings	*Fixture and improvements*	*Furniture and equipment*	*Motor vehicles*	*Total*
Cost:					
At 1 July 2013	$ 112,687,852	$ 9,362,505	$ 48,464,696	$ 126,480	$ 170,641,533
Additions	-	131,130	1,178,363	-	1,309,493
Disposals	-	-	(411,144)	-	(411,144)
At 30 June 2014	$ 112,687,852	$ 9,493,635	$ 49,231,915	$ 126,480	$ 171,539,882
Accumulated depreciation:					
At 1 July 2013	$ 112,687,852	$ 3,428,461	$ 46,047,470	$ 126,480	$ 162,290,263
Charge for the year	-	943,871	1,105,183	-	2,049,054
Written back on disposals	-	-	(411,124)	-	(411,124)
At 30 June 2014	$ 112,687,852	$ 4,372,332	$ 46,741,529	$ 126,480	$ 163,928,193
Net book value:					
At 30 June 2014	$ -	$ 5,121,303	$ 2,490,386	$ -	$ 7,611,689

	The Group and the Institute				
	Buildings	*Fixture and improvements*	*Furniture and equipment*	*Motor vehicles*	*Total*
Cost:					
At 1 July 2012	$ 112,687,852	$ 9,271,365	$ 48,770,684	$ 126,480	$ 170,856,381
Additions	-	91,140	133,911	-	225,051
Disposals	-	-	(439,899)	-	(439,899)
At 30 June 2013	$ 112,687,852	$ 9,362,505	$ 48,464,696	$ 126,480	$ 170,641,533
Accumulated depreciation:					
At 1 July 2012	$ 112,687,852	$ 2,492,211	$ 45,255,879	$ 126,480	$ 160,562,422
Charge for the year	-	936,250	1,231,482	-	2,167,732
Written back on disposals	-	-	(439,891)	-	(439,891)
At 30 June 2013	$ 112,687,852	$ 3,428,461	$ 46,047,470	$ 126,480	$ 162,290,263
Net book value:					
At 30 June 2013	$ -	$ 5,934,044	$ 2,417,226	$ -	$ 8,351,270

8 Fixed assets (continued)

Included in fixed assets are the Institute's buildings with costs totalling $100,618,702 (2013: $100,618,702) which were financed by donations from The Hong Kong Jockey Club Charities Trust ("HKJCCT") (note 21).

The buildings are situated on leasehold land which The Chinese University of Hong Kong has granted a licence to the Institute to use. The licence was granted initially for a period of five years expiring on 30 June 1997 and was subsequently renewed for a period of 49.5 years expiring on 31 December 2046.

9 Intangible assets

The Group

		Trademark
Cost:		
At 1 July 2012	$	-
Additions		6,500
At 30 June 2013	$	6,500
At 1 July 2013	$	6,500
Additions		-
At 30 June 2014	$	6,500
Accumulated amortisation:		
At 1 July 2012	$	-
Charge for the year		540
At 30 June 2013	$	540
At 1 July 2013	$	540
Charge for the year		694
At 30 June 2014	$	1,234
Net book value:		
At 30 June 2014	$	5,266
At 30 June 2013	$	5,960

10 Investment in a subsidiary

	The Institute 2014	The Institute 2013
Unlisted shares, at cost	$ 10,000	$ 10,000

The following list contains the particulars of the subsidiary. The class of shares held is ordinary.

Name of company	*Place of incorporation*	*Percentage of ownership interest held by the Institute*	*Principal activity*
IBSOmed Bioscience Limited	Hong Kong	100%	To provide services and products related to biotechnology

11 Available-for-sale equity securities

	The Group and the Institute 2014	The Group and the Institute 2013
Equity securities:		
– Listed in Hong Kong, at fair value	$ 3,492,669	$ 3,546,018

12 Funds with The Chinese University of Hong Kong ("CUHK" or the "University")

	The Group and the Institute 2014	2013
Funds placed with investment managers in the name of CUHK	$ 10,432,726	$ 8,989,523
Fixed income assets in the name of CUHK	24,126,342	23,716,188
	$ 34,559,068	$ 32,705,711

Note: Funds held by the University are pooled with other University funds for investment and bank deposits arrangement in the name of CUHK.

Funds placed with investment managements and marketable investments in the name of CUHK are invested in financial assets measured at fair value. According to the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*, the funds are categorised as Level 1,2, and 3 by 47%, 16% and 37% respectively (2013: 39%, 17% and 44% respectively).

Fixed income assets in the name of CUHK are invested in financial assets carried at other than fair value. According to the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*, the funds are categorised as Level 1 and 2 by 3% and 97% respectively.

13 Inventories

	The Group 2014	2013	*The Institute* 2014	2013
Raw materials	$ 2,908,506	$ 2,306,816	$ 2,908,506	$ 2,306,816
Work in progress	588,020	362,391	588,020	362,391
Finished goods	250,580	50,914	250,556	36,974
	$ 3,747,106	$ 2,720,121	$ 3,747,082	$ 2,706,181

13 Inventories (continued)

The analysis of the amount of inventories recognised as an expense and included in income and expenditure are as follows:

	The Group		*The Institute*	
	2014	*2013*	*2014*	*2013*
Carrying amount of inventories sold	$ 9,717,295	$ 10,712,959	$ 9,700,180	$ 10,767,098
Written down of inventories	-	42,096	-	-
	$ 9,717,295	$ 10,755,055	$ 9,700,180	$ 10,767,098

14 Accounts receivable, deposits and prepayments

	The Group		*The Institute*	
	2014	*2013*	*2014*	*2013*
Accounts receivable	$ 4,902,147	$ 6,052,569	$ 4,902,147	$ 6,052,569
Deposits and prepayments	1,424,555	161,271	1,422,605	161,271
	$ 6,326,702	$ 6,213,840	$ 6,324,752	$ 6,213,840

All of the accounts receivable, deposits and prepayments are expected to be recovered or recognised as expense within one year.

The Group's and the Institute's credit policies are set out in note 26(a).

The ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group and the Institute	
	2014	*2013*
Neither past due nor impaired	$ 1,674,512	$ 4,403,873
Less than 1 month past due	2,028,056	793,276
Over 1 month past due	1,199,579	855,420
	$ 4,902,147	$ 6,052,569

14 Accounts receivable, deposits and prepayments (continued)

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Institute. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

15 Cash and bank balances

	The Group		*The Institute*	
	2014	*2013*	*2014*	*2013*
Deposits with banks	$ 25,388,099	$ 18,550,155	$ 25,388,099	$ 18,550,155
Cash at bank and in hand	2,214,571	2,498,796	2,184,274	2,451,819
Cash and bank balances in the balance sheets	$ 27,602,670	$ 21,048,951	$ 27,572,373	$ 21,001,974
Less: Deposits with banks with maturity over 3 months	(16,525,631)	(3,585,535)	(16,525,631)	(3,585,535)
Cash and cash equivalents in the consolidated cash flow statement	$ 11,077,039	$ 17,463,416	$ 11,046,742	$ 17,416,439

16 Amount due from/(to) The Chinese University of Hong Kong

The amount due from/(to) The Chinese University of Hong Kong is unsecured, interest-free and recoverable on demand.

17 Loan from The Chinese University of Hong Kong

Loan from The Chinese University of Hong Kong is unsecured, interest-free and repayable over ten years commencing from 1 January 2008.

18 Amount due from a subsidiary

The amount due from a subsidiary is unsecured, interest-free and recoverable on demand.

19 Accounts payable and accruals

Accounts payable and accruals are expected to be settled within one year.

20 Deferred income

Deferred income represents grants received from the Innovation and Technology Fund of the Hong Kong Special Administrative Region Government on designated projects for purchase of certain fixed assets. Transfers are made from deferred income to income and expenditure statement in accordance with the accounting policy set out in note 2(q)(ii).

	The Group and the Institute	
	2014	*2013*
Accumulated grants:		
At 1 July	$ 58,299,768	$ 58,299,768
Received/receivable during the year	73,232	-
At 30 June	$ 58,373,000	$ 58,299,768
Accumulated amount transferred:		
At 1 July	$ 57,109,620	$ 56,573,213
Transfer to income and expenditure statement	482,580	536,407
At 30 June	$ 57,592,200	$ 57,109,620
Net balance:		
At 30 June	$ 780,800	$ 1,190,148

21 Capital fund

	The Group and the Institute	
	2014	*2013*
Accumulated donations from The Hong Kong Jockey Club Charities Trust:		
At 1 July and 30 June	$ 108,262,666	$ 108,262,666
Accumulated amount transferred:		
At 1 July and 30 June	108,262,666	108,262,666
Net fund balance:		
At 30 June	$ -	$ -

The HKJCCT originally agreed to donate a total sum of $130 million to meet the acquisition costs of the Institute's buildings and equipment.

Income and expenditure relating to the Institute's buildings and equipment cost are recognised in a manner as set out in note 2(q)(i).

In December 1994, subject to certain conditions, HKJCCT agreed to allow the Institute to use part of the remaining donation to cover the Institute's investment costs and other operating expenditure including repairs and maintenance of the Institute's buildings. All donations due from HKJCCT under this agreement had been received by 30 June 2000.

22 General fund

The fund is used to finance the general operations of the Institute.

Capital management

The Institute defines general fund as its "capital". The Institute's objective is to establish and maintain as a non-profit-making institution. The Institute is not subject to any externally imposed capital requirements and its activities are mainly funded by government grants, sale of goods, facility license fees and consultation service fees.

The general fund of the Institute is managed according to the financial management guidelines and procedures of the Institute in meeting the objectives of the Institute with the view of safeguarding the entity's ability to continue as a going concern.

23 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held at the balance sheet date and is dealt with in accordance with the accounting policies in note 2(e).

24 Commitments

At 30 June 2014, the total future licence fee for land and building and facility fee are payable as follows:

	2014	*2013*
Within 1 year	$ 1,007,820	$ 974,220
After 1 year but within 5 years	276,210	828,630
	$ 1,284,030	$ 1,802,850

25 Material related party transactions

In addition to the transactions and balance disclosed elsewhere in these financial statements, the Group had the following material related party transactions in the ordinary course of business during the year:

(a) Facility management fee, security fee, licence fee and facility fee paid/payables to its ultimate holding entity, The Chinese University of Hong Kong ("CUHK") amounting to $663,030 (2013: $632,460), $nil (2013: $466), $877,200 (2013: $781,337) and $552,420 (2013: $524,850) respectively.

(b) Facilities fee and service fee received/receivable from CUHK amounting to $498,874 (2013: $488,664) and $nil (2013: $nil) respectively.

26 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its investment in available-for-sale equity securities listed on the Stock Exchange of Hong Kong.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks and described below.

26 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk

The Group's credit risk is primarily attributable to bank deposits and accounts receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of accounts receivable, individual credit evaluations are performed on all customers requiring credit over a certain amount. Debtors with overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 30% (2013: 62%) of the total accounts receivable was due from the Group's largest customer.

The Group's bank deposits are placed with major financial institutions with good credit rating.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Currency risk

The functional currency of the Group and the Institute is Hong Kong dollars (HKD). Both the Group's and the Institute's monetary assets and liabilities are denominated mainly in HKD.

As the HKD is currently pegged to the USD, the Group and Institute consider the risk of movements in exchange rates between the HKD and the USD to be insignificant. In respect of balances denominated in other currencies, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

26 Financial risk management and fair values of financial instruments (continued)

(c) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the Group's functional currency of Hong Kong dollars. For presentation purposes, the amounts of the exposure are expressed in Hong Kong dollars.

	2014			2013		
	Renminbi	*United States Dollars*	*Euro*	*Renminbi*	*United States Dollars*	*Euro*
Accounts receivable, deposits and prepayments	$ 548,638	$ 59,601	$ -	$ 12,465	$ 24,212	$ -
Cash and cash equivalents	5,336,897	16,691	2,271	5,264,153	10,553	-
Accounts payable and accruals/receipt in advance	-	(38,825)	(95,275)	-	(38,850)	(91,303)
Net exposure to currency risk	$ 5,885,535	$ 37,467	$ (93,004)	$ 5,276,618	$ (4,085)	$ (91,303)

(ii) Sensitivity analysis

The following table indicates the instantaneous change on the Group's surplus after tax and General fund that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2014		2013	
	Increase/ (decrease) in foreign exchange rates	*Effect on surplus after tax and General fund*	*Increase/ (decrease) in foreign exchange rates*	*Effect on surplus after tax and General fund*
Renminbi	5%	$ 294,277	5%	$ 263,831
	(5)%	(294,277)	(5)%	(263,831)
Euro	5%	(4,650)	5%	(4,565)
	(5)%	4,650	(5)%	4,565

26 Financial risk management and fair values of financial instruments (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis (continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments which expose the company to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2013.

(d) Interest rate risk

The Group is exposed to interest rate risk primarily arising from its short-term bank deposits due to fluctuations in the prevailing level of market interest rates.

As at 30 June 2014, it is estimated that a general increase/decrease of 10 basis points in fixed deposits interest rate, with all other variables held constant, would have increased/decreased the Group's surplus and the general fund by approximately $27,603 (2013: $21,049).

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale equity securities (see note 11). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's equity investments are listed on the Stock Exchange of Hong Kong and are included in the Hang Seng Index. These equity investments have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's surplus for the year (and General fund) and fair value reserve in response to reasonably possible changes in the market price of the Institute's equity investments at the balance sheet date.

	2014			*2013*		
	Increase/ (decrease) in price of equity securities	*Effect on surplus for the year and General fund*	*Effect on fair value reserve*	*Increase/ (decrease) in price of equity securities*	*Effect on surplus for the year and General fund*	*Effect on fair value reserve*
Market price of equity investments:						
– available-for-sale	10%	$ -	$ 349,267	10%	$ -	$ 354,602
equity securities	(10)%	-	(349,267)	(10)%	-	(354,602)

26 Financial risk management and fair values of financial instruments (continued)

(e) Equity price risk (continued)

The sensitivity analysis has been determined assuming that the reasonably possible changes in the prices of respective equity securities had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that none of the Group's available-for-sale investments listed on the Stock Exchange of Hong Kong would be considered impaired as a result of a reasonably possible decrease in the prices of respectively equity securities and that all other variables remain constant. The analysis is performed on the same basis for 2013.

(f) Fair value measurement

(i) Financial instruments measured at fair value

The following presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS *13, Fair Value Measurement,* with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair value measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

At 30 June 2014 and 2013, the only financial instruments of the Group and the Institute measured at fair value were available-for-sale equity securities of $3,492,669 (2013: $3,546,018) listed on the Stock Exchange of Hong Kong (see note 11). These instruments fall into Level 1 of the fair value hierarchy described above.

During the year, there were no transfers among instruments in Level 1, Level 2 or Level 3.

(ii) Fair values of financial instruments measured at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at the balance sheet date.

27 Immediate and ultimate controlling party

As at 30 June 2014 the directors consider the immediate parent and ultimate controlling party of the Institute to be The Chinese University of Hong Kong, which is established in Hong Kong under The Chinese University of Hong Kong Ordinance.

28 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2014

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2014 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Group's first financial year commencing after 3 March 2014 (i.e. the Group's financial year which will begin on 1 July 2014) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.