

Report By The Trustee
Of The
Correctional Services
Children's Education Trust

For The Period

From 1st September 2014 to 31st August 2015

**Report by the Commissioner of Correctional Services,
Trustee of the Correctional Services Children's Education Trust
for the period of 1st September 2014 to 31st August 2015**

Introduction

The Correctional Services Children's Education Trust Ordinance (Cap. 1131) was passed into law by the Legislative Council on 29th June 1983 and enacted on 1st July 1983.

2. In accordance with Section 4 of the Ordinance, the Commissioner of Correctional Services shall be the Trustee, and as required by Section 10 of the Ordinance, I take pleasure to present to the President and Honourable Members of the Legislative Council a copy of the signed and audited statement of accounts, the Auditor's Report and my report on the administration of the Fund for the period of 1st September 2014 to 31st August 2015.

3. The Trust was initially founded by the generous donation of \$500,000 by Dr. William MONG, Chairman and Senior Managing Director of Shun Hing Group. The object of the Trust was to provide financial assistance in the form of grants and book grants for children of serving and retired Assistant Officers and equivalent grades of the Correctional Services Department to pursue higher education, and also for the educational training of disabled children of these staff. For the period of 1st September 2014 to 31st August 2015, a total donation of \$1.68 million was received with \$1 million donated by the Lee Man Tat and Choi May Ling Charitable Foundation, \$300,000 from the Shun Hing Education and Charity Fund Limited, \$120,000 from the Correctional Services Department Sports Association, \$100,000 from Hong Kong Federation of Dongguan Associations Limited, \$100,000 from Mrs MON KOO Di-an, and \$60,000 from Mr TSE Hoi-wing.

4. It was decided by the Trust Committee and confirmed by the Trustee that the capital, being the sum donated, remain intact and only the income generated from the capital be used to fund grants.

Object of the Fund

5. In accordance with Section 5 of the Ordinance, the Trustee shall apply the Fund in such a manner as the Trust Committee may, in its absolute discretion, direct for the following objectives: -

- (a) the provision of assistance in, and facilities for, the higher education of the children of Assistant Officers and equivalent grades and for purposes ancillary thereto;
- (b) the provision of assistance in, and facilities for, the education and training of disabled children of Assistant Officers and equivalent grades; and
- (c) the provision for any such children of opportunities for the furtherance of their studies, education and training.

Committees

6. The Trust Committee was formed in accordance with Section 6 of the Ordinance with its membership shown in Appendix I. The Investment Advisory Board was formed in accordance with Section 9(2) of the Ordinance with its membership shown in Appendix II.

7. The Trust Committee is to make policy decisions as well as decisions on the allocation of funds for grants and book grants. Under Section 9 of the Ordinance, the Trustee may invest the Trust Funds in such investments as authorised by the Trustee Ordinance and as the Committee may advise. Subject to the approval of the Investment Advisory Board and as the Committee may advise, the Trustee may invest the funds in investments which are not authorised under the Trustee Ordinance.

Committee Meetings

8. During the period under review, the Trust Committee held a meeting on 7th July 2015 to consider all applications and to decide on the allocation of funds. The Committee maintained that prior consideration would be given to -

- (a) students studying in local universities;
- (b) disabled children undertaking full time education or training (subject to the availability of funds);
- (c) students studying in local post-secondary colleges; and
- (d) secondary school students from Form 4 to Form 7 (subject to the availability of funds).

9. Members of the Investment Advisory Board held a meeting on 21st April 2015 and exchanged views from time to time during the year to decide on investment matters. A summary of the investments is included in Appendix III.

Grants

10. Following the Trust Committee meeting held on 7th July 2015, a total sum of \$1,116,132 was paid. Bursary certificates and cheques were presented to successful applicants at a ceremony held on 17th August 2015 at the Staff Training Institute of the Correctional Services Department.

11. The accumulated fund as at 31st August 2015 amounted to \$14,221,903 including \$7,986,519 in the capital account, \$2,994,092 in the accumulated surplus account and \$3,241,292 in the investment revaluation reserve account.

Auditor

12. In March 1984, the then Governor appointed the Director of Audit as Auditor of the Trust in accordance with Section 10(2) of the Ordinance.

13. Audited financial statements of the Trust have been prepared and the Auditor's report and the signed financial statements are attached at Appendix IV.

Vote of Thanks

14. I wish to extend my thanks to the Chairman and members of the Trust Committee, and all other officers who have contributed to make the Trust function in the best interests of the staff of the Correctional Services Department. I also wish to thank the Investment Advisory Board which has contributed its effort to make profitable investments and maintain for the Trust a very healthy account to meet the objectives of the Trust despite fluctuations in the stock and financial markets. The income from investments and bank interest for the year ended 31st August 2015 was \$813,285.

15. Finally, my thanks are also due to the Director of Audit for providing his professional service in auditing the financial statements of the Trust.



YAU Chi-chiu

Commissioner of Correctional Services
Trustee, Correctional Services Children's Education Trust
27 May 2016

Correctional Services Children's Education Trust Committee
(as at 31st August 2015)

Chairman : Mr David MONG Tak-yeung

Members : Mr Vincent LEE Kwan-ho

Representative of Assistant Officers and equivalent grades –

Mr HO Yat-sun
Assistant Officer I

Miss WONG Man-ki
Assistant Officer II

Representative of the Commissioner of Correctional Services –

Mr LAW Yick-man
Assistant Commissioner of Correctional Services

Representative of the Permanent Secretary for Education –

Mr Edwin TSUI Kai-cheung
Principal Education Officer

Correctional Services Welfare Officer
appointed by the Commissioner of Correctional Services –

Mr CHEUNG Shu-kan
Superintendent (Staff Relations & Welfare)

Hon. Treasurer : Mr FUNG Bing-sum
Senior Treasury Accountant
(Correctional Services Department)

Hon. Secretary : Miss CHAN Sze-lok
Executive Officer (Staff Relations & Welfare)
(Correctional Services Department)

**Correctional Services Children's Education Trust
Investment Advisory Board**

(as at 31st August 2015)

Chairman : Mr Billy KONG Churk-hoi, BBS, MH, JP

Members : Mr CHENG Shing-lung

Mr Charlie LEE Wai-chung

Ms Clarea AU Suet-ming

Miss Selina TSANG Wai-sze

**Hon.
Treasurer** : Mr FUNG Bing-sum
Senior Treasury Accountant
(Correctional Services Department)

**Hon.
Secretary** : Miss CHAN Sze-lok
Executive Officer (Staff Relations & Welfare)
(Correctional Services Department)

Appendix III

Correctional Services Children's Education Trust
Statement of Investment and Cash at Banks as at 31 August 2015

Investments

		(a)	(b)	(b) – (a)
	<u>Holding</u>	<u>Cost</u>	<u>Year End</u> <u>Market Value</u>	<u>Revaluation</u> <u>Gain</u>
		\$	\$	\$
<u>Stock</u>				
Champion Reit	300,000	1,173,542	1,158,000	(15,542)
China Mobile	8,000	669,006	762,800	93,794
CLP Holdings Ltd	36,500	2,158,846	2,341,475	182,629
HK China Gas	32,406	263,971	473,127	209,156
HK Exchanges and Clearing	16,000	1,554,511	2,912,000	1,357,489
HSBC Holdings PLC	62,582	<u>2,422,511</u>	<u>3,836,277</u>	<u>1,413,766</u>
		<u>8,242,387</u>	<u>11,483,679</u>	<u>3,241,292</u>

Note : In the Balance Sheet as at 31 August 2015, stock is stated at the year-end market value.

Time deposit - CNY

\$

Time deposit with Bank of East Asia, Limited 728,305

Cash at Bank

\$

BusinessVantage savings account with HSBC 1,883,165

Current account with HSBC 26,408
1,909,573



Correctional Services Children's Education Trust

Financial Statements for the year ended 31 August 2015

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Legislative Council

I certify that I have audited the financial statements of the Correctional Services Children's Education Trust set out on pages 3 to 15, which comprise the balance sheet as at 31 August 2015, and the income and expenditure account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Commissioner of Correctional Services' Responsibility for the Financial Statements

The Commissioner of Correctional Services is responsible for the preparation of financial statements that give a true and fair view in accordance with section 10(1) of the Correctional Services Children's Education Trust Ordinance (Cap. 1131) and Hong Kong Financial Reporting Standards, and for such internal control as the Commissioner of Correctional Services 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 10(2) of the Correctional Services Children's Education Trust Ordinance and the Audit Commission auditing standards. Those standards require that I 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 Commissioner of Correctional Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Correctional Services Children's Education Trust as at 31 August 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 10(1) of the Correctional Services Children's Education Trust Ordinance.



TEO Wing-on
Principal Auditor
for Director of Audit

11 April 2016

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Correctional Services Children's Education Trust
Balance Sheet as at 31 August 2015

	Note	2015 HK\$	2014 HK\$
Non-current Assets			
Available-for-sale financial assets	3	11,483,679	13,323,163
Current Assets			
Accounts receivable	4	100,346	81,434
Time deposit	5	230,636	505,617
Cash and cash equivalents	6	2,407,242	548,937
		<u>2,738,224</u>	<u>1,135,988</u>
		<u>14,221,903</u>	<u>14,459,151</u>
Accumulated Fund			
Capital		7,986,519	6,306,519
Accumulated surplus		2,994,092	3,331,707
Investment revaluation reserve		3,241,292	4,820,925
		<u>14,221,903</u>	<u>14,459,151</u>

The accompanying notes 1 to 11 form part of these financial statements.



YAU Chi-chiu
Commissioner of Correctional Services
Trustee of the
Correctional Services Children's Education Trust
11 April 2016



MONG Tak-yeung, David
Chairman of the
Correctional Services Children's
Education Trust Committee
11 April 2016

Correctional Services Children's Education Trust
Income and Expenditure Account for the year ended 31 August 2015

	Note	2015 HK\$	2014 HK\$
Income			
Dividends		518,095	502,671
Interest income	7	17,225	12,589
Gain on disposal of available-for-sale financial assets		277,965	88,834
		<u>813,285</u>	<u>604,094</u>
 Expenditure			
Education assistance to employees' children		(1,070,632)	(963,555)
Education assistance to employees' handicapped children		(45,500)	(52,000)
Exchange loss		(34,768)	(2,530)
		<u>(1,150,900)</u>	<u>(1,018,085)</u>
 Deficit for the year		<u>(337,615)</u>	<u>(413,991)</u>

The accompanying notes 1 to 11 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Comprehensive Income for the year ended 31 August 2015

	2015 HK\$	2014 HK\$
Deficit for the year	(337,615)	(413,991)
Other comprehensive income		
Items that may be reclassified subsequently to surplus or deficit :		
Available-for-sale financial assets		
Fair value changes on revaluation	(1,330,244)	1,370,941
Reclassification adjustment released from investment revaluation reserve upon disposal	(249,389)	(91,889)
	<u>(1,579,633)</u>	<u>1,279,052</u>
Total comprehensive (loss)/income for the year	<u>(1,917,248)</u>	<u>865,061</u>

The accompanying notes 1 to 11 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Changes in Equity for the year ended 31 August 2015

	Capital HK\$	Accumulated surplus HK\$	Investment revaluation reserve HK\$	Total HK\$
Balance at 1 September 2013	6,126,519	3,745,698	3,541,873	13,414,090
Donations received for 2013-14	180,000	-	-	180,000
Total comprehensive income / (loss) for 2013-14	-	(413,991)	1,279,052	865,061
Balance at 31 August 2014	6,306,519	3,331,707	4,820,925	14,459,151
Donations received for 2014-15	1,680,000	-	-	1,680,000
Total comprehensive loss for 2014-15	-	(337,615)	(1,579,633)	(1,917,248)
Balance at 31 August 2015	<u>7,986,519</u>	<u>2,994,092</u>	<u>3,241,292</u>	<u>14,221,903</u>

The accompanying notes 1 to 11 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Cash Flows for the year ended 31 August 2015

	Note	2015 HK\$	2014 HK\$
Cash flows from operating activities			
Deficit for the year		(337,615)	(413,991)
Interest income		(17,225)	(12,589)
Dividends		(518,095)	(502,671)
Gain on disposal of available-for-sale financial assets		(277,965)	(88,834)
Exchange loss		34,768	2,530
Net cash used in operating activities		<u>(1,116,132)</u>	<u>(1,015,555)</u>
Cash flows from investing activities			
Interest received		18,309	9,344
Dividends received		498,193	504,089
Decrease/(Increase) in time deposits with original maturity over three months		265,058	(508,144)
Proceeds from disposal of available-for-sale financial assets		537,815	284,546
Net cash from investing activities		<u>1,319,375</u>	<u>289,835</u>
Cash flows from financing activities			
Donations received		1,680,000	180,000
Net cash from financing activities		<u>1,680,000</u>	<u>180,000</u>
Net increase/(decrease) in cash and cash equivalents		1,883,243	(545,720)
Cash and cash equivalents at beginning of year		548,937	1,094,657
Effect of foreign exchange rate changes		(24,938)	-
Cash and cash equivalents at end of year	6	<u><u>2,407,242</u></u>	<u><u>548,937</u></u>

The accompanying notes 1 to 11 form part of these financial statements.

Correctional Services Children's Education Trust
Notes to the Financial Statements

1. General

The Correctional Services Children's Education Trust (the Trust) was established in accordance with section 3(1) of the Correctional Services Children's Education Trust Ordinance (Cap. 1131) for the following objects:

- (a) the provision of assistance in, and facilities for, the higher education of the children of Assistant Officers and equivalent grades and for purposes ancillary thereto;
- (b) the provision of assistance in, and facilities for, the education and training of handicapped children of Assistant Officers and equivalent grades; and
- (c) the provision for any such children of opportunities for the furtherance of such studies, education and training.

The address of the Trust's principal place of business is 24/F, Wan Chai Tower, 12 Harbour Road, Hong Kong.

2. Significant accounting policies

- (a) Statement of compliance

The financial statements have been prepared in accordance with section 10(1) of the Correctional Services Children's Education Trust Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

- (b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention except that available-for-sale financial assets are stated at fair value as explained in the accounting policy set out in note 2(d) below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and

expenditure. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

(c) Adoption of new/revised HKFRSs

The Trust has adopted all new / revised HKFRSs which are effective and relevant to the Trust for the current accounting period.

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

(d) Available-for-sale financial assets

The Trust's available-for-sale financial assets are classified as non-current assets unless the Correctional Services Children's Education Trust Committee intends to dispose of the investments within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on the trade-dates on which the Trust is committed to the transactions. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At each balance sheet date, the fair value is re-measured and any unrealised holding gains or losses arising from the change in fair value are recognised in other comprehensive income and accumulated separately in the investment revaluation reserve.

When available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying amount, as well as the accumulated fair value adjustments released from the investment revaluation reserve to the income and expenditure account. The Trust uses the weighted average method to determine the realised gains and losses to be recognised in the income and expenditure account.

The fair values of quoted investments are based on current bid prices at the balance sheet date.

(e) Impairment of financial assets

The carrying amount of available-for-sale financial assets is reviewed at each balance sheet date to determine whether there is objective evidence of impairment. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income and expenditure account – is removed from the investment revaluation reserve and recognised in the income and expenditure account. Impairment losses for equity securities are not reversed through the income and expenditure account. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

(f) Donations

Donations are credited to the Accumulated Fund – Capital Account on actual receipt.

(g) Foreign currency translation

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

(h) Revenue recognition

Interest income from bank deposits is recognised as it accrues using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Dividend is recognised when the Trust's right to receive payment is established. Dividend income from listed equity securities is recognised in the income and expenditure account when the share price is quoted ex-dividend.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. Available-for-sale financial assets

	2015 HK\$	2014 HK\$
Equity securities Listed in Hong Kong, at fair value	<u>11,483,679</u>	<u>13,323,163</u>

4. Accounts receivable

	2015 HK\$	2014 HK\$
Interest receivable	2,567	3,651
Dividends receivable	<u>97,779</u>	<u>77,783</u>
	<u>100,346</u>	<u>81,434</u>

5. Time deposit

	2015 HK\$	2014 HK\$
Time deposit with original maturity over 3 months	<u>230,636</u>	<u>505,617</u>

Time deposit include the following amount denominated in a currency other than the Trust's functional currency.

Renminbi CNY192,141 (2014 : CNY401,124)	<u>230,636</u>	<u>505,617</u>
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6. Cash and cash equivalents

	2015 HK\$	2014 HK\$
Time deposit with original maturity within 3 months	497,669	-
Cash at bank	<u>1,909,573</u>	<u>548,973</u>
	<u>2,407,242</u>	<u>548,973</u>

Cash and cash equivalents include the following amount denominated in a currency other than the Trust's functional currency.

Renminbi		
CNY414,603 (2014 : Nil)	<u>497,669</u>	<u>-</u>

7. Interest income

	2015 HK\$	2014 HK\$
Bank interest	<u>17,225</u>	<u>12,589</u>

8. Financial risk management

- (a) The Trust's major financial instruments include available-for-sale financial assets and bank deposits. The major risks associated with these financial instruments are set out below.

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Trust's maximum exposure to credit risk at the balance sheet date in relation to each class of financial assets is the carrying amount of the assets as stated in the balance sheet.

To minimise credit risks arising from bank deposits, all time deposits are placed with reputable licensed banks in Hong Kong.

(ii) Market risk

The Trust is exposed to market risk due to changes in market variables such as equity prices and interest rates.

(1) Equity price risk

The Trust maintains a diversified portfolio of investments. The Correctional Services Children's Education Trust Investment Advisory Board and the Correctional Services Children's Education Trust Committee monitor the performance of the portfolio and regularly review the investment strategy of the Trust in the management of equity price risk. If the market prices of the respective equity securities had been 10% (2014 : 10%) higher/lower, other comprehensive income and the balance of the investment revaluation reserve of the Trust would have increased/decreased by about HK\$1,148,000 (2014 : about HK\$1,332,000). The sensitivity analysis was based on the carrying amount of equity securities held by the Trust as at the balance sheet date and on the assumption that all other variables were held constant.

(2) Interest rate risk

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

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

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

(3) Foreign currency risk

(1) Exposure to currency risk

The Trust maintained net financial instruments denominated in Renminbi at a total of CNY608,882 (2014: CNY404,021) at the balance sheet date. Since no foreign currency rate hedging is made by the Trust for Renminbi, the carrying amount of the financial instruments in Renminbi represents the maximum exposure of the Trust to foreign currency risk.

(2) Sensitivity analysis

It was estimated that as at the balance sheet date, should the Renminbi strengthen/weaken by 5% (2014: 5%) against the Hong Kong dollar, with all other variables being held constant, the deficit of the Trust for the year would decrease/increase by HK\$37,000 (2014: HK\$25,000).

The above sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the balance sheet date and for financial instruments in existence at that date. The 5% (2014: 5%) strengthening/weakening in Renminbi represents the assessment by the Trust of a reasonably possible change in foreign exchange rate over the period until the end of next year.

(iii) Liquidity risk

In the management of liquidity risk, the Trust maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effects of fluctuations in cash flows.

(b) Fair value hierarchy of financial instruments

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

	2015		2014	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Available-for-sale financial assets				
- Listed equity securities	<u>11,483,679</u>	<u>11,483,679</u>	<u>13,323,163</u>	<u>13,323,163</u>

No financial instruments were classified under Level 2 or Level 3. During the year, there were no transfers between instruments in Level 1 and Level 2.

The three levels of the fair value hierarchy are:

Level 1: fair value measured using only unadjusted quoted prices in active markets for identical financial instruments at the measurement date;

Level 2: fair value measured using observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available; and

Level 3: fair value measured using significant unobservable inputs.

9. Capital management

The capital structure of the Trust consists of capital, accumulated surplus and investment revaluation reserve. The Trust's objectives when managing capital are:

- (a) to comply with the Correctional Services Children's Education Trust Ordinance; and
- (b) to maintain a strong capital base for carrying out the purposes of the Trust as stated in note 1 above.

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

10. Cost of administering the Trust

The cost of administering the Trust has been borne by the Government of the Hong Kong Special Administrative Region in accordance with section 11(1) of the Correctional Services Children's Education Trust Ordinance.

11. Fair values of financial assets

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