

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

For The Year of

1 September 2018 to 31 August 2019

**Report by the Commissioner of Correctional Services,
Trustee of the Correctional Services Children's Education Trust
for the year of 1 September 2018 to 31 August 2019**

Introduction

The Correctional Services Children's Education Trust Ordinance (Cap. 1131) was passed into law by the Legislative Council on 29 June 1983 and enacted on 1 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 year of 1 September 2018 to 31 August 2019.

3. The Trust was initially founded by the generous donation of HK\$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 handicapped children of these staff. For the year of 1 September 2018 to 31 August 2019, a total donation of HK\$3,040,000 was received with \$500,000 from Mr Ng Michael Kwok-wing, HK\$400,000 from Tung Sin Tan, HK\$300,000 from Shun Hing Education and Charity Fund Limited, HK\$280,000 from the Correctional Services Department Sports Association, HK\$200,000 each from City Motors Limited, Sa Sa Making Life Beautiful Charity Fund, Mr Frederick WONG Man-hon and Mr Stanley Yim Yuk-lun, HK\$100,000 each from Perennial Cable (HK) Limited, Mr Anson OR Yiu-wah, Mr Clifford LEUNG Siu-on, Mr David NG Tang, Mr Michael KWAN Wing-lok and Mr TO Chin-sung, HK\$50,000 each from Early Light Industrial Co. Ltd., Margaret Zee Charitable Foundation Ltd. and Tai Wo Motors Limited, and HK\$5,000 each from Mr CHAN Yu-chak and Mr WONG Albert.

4. It was decided by the Trust Committee and confirmed by the Trustee that donations received and approved for acceptance before 6 July 2016 are credited to Accumulated Fund – Capital Account. With effect from 6 July 2016, donations received are recognized as income when they are approved for acceptance, except that when the purpose of a donation is specified to be increasing the Trust’s capital, such donation is credited to Accumulated Fund – Capital Account.

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 handicapped 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 year under review, the Trust Committee held a meeting on 17 July 2019 to consider all applications and to decide on the allocation of funds. The Committee maintained that prior consideration would be given to -

- (a) Full-time students studying in local universities; and
- (b) Handicapped children undertaking full time education or training; and
- (c) Full-time students studying in local post-secondary colleges (subject to the availability of funds).

9. Members of the Investment Advisory Board held a meeting on 26 February 2019 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 17 July 2019, a total sum of HK\$1,634,471 was paid. Bursary certificates and cheques were presented to successful applicants at a ceremony held on 20 August 2019 at the Lecture Hall, Hong Kong Science Museum.

11. The accumulated fund as at 31 August 2019 amounted to HK\$21,775,563 including HK\$11,866,519 in the capital account, HK\$5,710,935 in the accumulated surplus account and HK\$4,198,109 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 31 August 2019 was HK\$772,530.

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.



WOO Ying-ming

Commissioner of Correctional Services

Trustee, Correctional Services Children's Education Trust

9 April 2020

Correctional Services Children's Education Trust Committee
(as at 31 August 2019)

Chairman : Mrs Louise MON KOO Di-an, BBS, JP

Members : Dr Philip MA Ching-yeung

Representative of Assistant Officers and equivalent grades –

Mr LI Wing-kit
Assistant Officer II

Ms WONG Man-ki
Assistant Officer II

Representative of the Commissioner of Correctional Services –

Mr LAM Wai-on
Assistant Commissioner of Correctional Services

Representative of the Permanent Secretary for Education –

Mr CHAN Fu-man
Principal Education Officer

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

Mr WONG Chi-kwong
Superintendent (Staff Relations & Welfare)

Hon. Treasurer : Mr LI Wing-shing
Senior Treasury Accountant
(Correctional Services Department)

Hon. Secretary : Miss CHU Mei-wa
Executive Officer (Staff Relations & Welfare)
(Correctional Services Department)

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

(as at 31 August 2019)

Chairman : Mr Vincent LEE Kwan-ho, BBS

Members : Ms Rosita LEE Pui-shan

Ms Macy WONG Chor-kei

Mr Desmond SIU Kin-fai

Mr Tim KWOK Shun-tim

Hon. Treasurer : Mr LI Wing-shing
Senior Treasury Accountant
(Correctional Services Department)

Hon. Secretary : Miss CHU Mei-wa
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 2019

Investments

| <u>Stock</u> | Number of Share <u>Holding</u> | (a) <u>Cost</u> HK\$ | (b) <u>Year-end bid-prices</u> HK\$ | (b) – (a) <u>Revaluation Gain / (Loss)</u> HK\$ |
|--|--------------------------------------|--------------------------------|---|---|
| Champion Real Estate Investment Trust | 300,000 | 1,173,542 | 1,584,000 | 410,458 |
| China Mobile Ltd | 8,000 | 669,006 | 519,200 | (149,806) |
| CLP Holdings Ltd | 36,500 | 2,158,846 | 2,947,375 | 788,529 |
| Hang Seng Bank Ltd | 15,000 | 2,005,355 | 2,452,500 | 447,145 |
| Hong Kong and China Gas Co. Ltd | 47,444 | 263,971 | 718,302 | 454,331 |
| Hong Kong Exchanges and Clearing Ltd | 16,000 | 1,554,511 | 3,836,800 | 2,282,289 |
| HSBC Holdings PLC | 62,582 | 2,422,512 | 3,523,367 | 1,100,855 |
| Industrial and Commercial Bank of China Ltd. – H Shares | 145,000 | 976,650 | 716,300 | (260,350) |
| Tencent Holdings Ltd. | 5,000 | 2,208,229 | 1,623,000 | (585,229) |
| Tracker Fund of Hong Kong | 90,000 | <u>2,670,613</u> | <u>2,380,500</u> | <u>(290,113)</u> |
| | | <u>16,103,235</u> | <u>20,301,344</u> | <u>4,198,109</u> |

Note : In the Balance Sheet as at 31 August 2019, stock is stated at the year-end bid-prices.

Time deposit

HK\$

Time deposit with Bank of East Asia, Limited

500,000

Cash at Bank

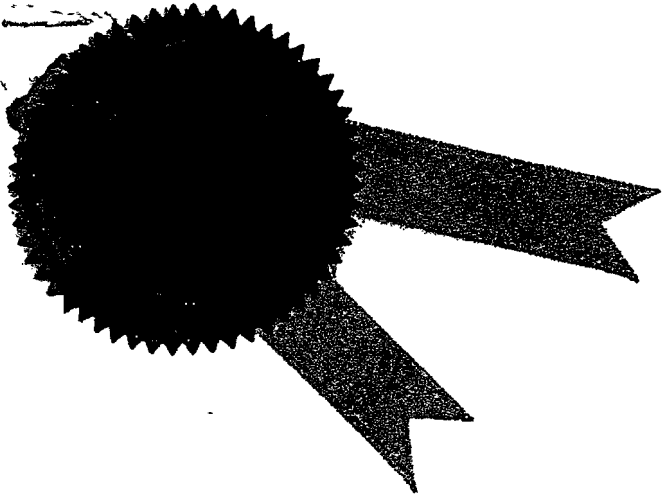
HK\$

BusinessVantage savings account
with HSBC

802,817

Current account with HSBC

29,146
831,963



Correctional Services Children's Education Trust

Financial statements for the year ended 31 August 2019

Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I certify that I have audited the financial statements of the Correctional Services Children's Education Trust set out on pages 4 to 19, which comprise the balance sheet as at 31 August 2019, 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 notes to the financial statements, including a summary of significant accounting policies.

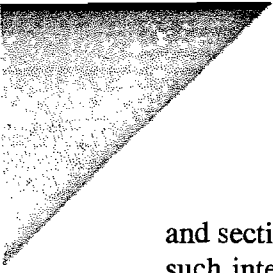
In my opinion, the financial statements give a true and fair view of the financial position of the Correctional Services Children's Education Trust as at 31 August 2019, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with section 10(1) of the Correctional Services Children's Education Trust Ordinance (Cap. 1131).

Basis for opinion

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. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Correctional Services Children's Education Trust in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Commissioner of Correctional Services for the financial statements

The Commissioner of Correctional Services is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA



and section 10(1) of the Correctional Services Children's Education Trust Ordinance, 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.

In preparing the financial statements, the Commissioner of Correctional Services is responsible for assessing the Correctional Services Children's Education Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Correctional Services Children's Education Trust's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner of Correctional Services;
- conclude on the appropriateness of the Commissioner of Correctional Services' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast

significant doubt on the Correctional Services Children's Education Trust's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Correctional Services Children's Education Trust to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Frankie Lau.

Frankie Lau
Acting Principal Auditor
for Director of Audit

2 April 2020

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

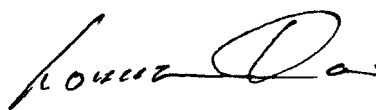
Correctional Services Children's Education Trust
Balance Sheet as at 31 August 2019

| | Note | 2019 HK\$ | 2018 HK\$ |
|---|------|--------------|--------------|
| Non-current Assets | | | |
| Financial assets measured at fair value through other comprehensive income | 3 | 20,301,344 | - |
| Available-for-sale financial assets | 4 | - | 19,977,230 |
| | | 20,301,344 | 19,977,230 |
| Current Assets | | | |
| Accounts receivable | 5 | 142,256 | 140,608 |
| Time deposit | 6 | 500,000 | - |
| Cash and cash equivalents | 7 | 831,963 | 1,826,165 |
| | | 1,474,219 | 1,966,773 |
| | | 21,775,563 | 21,944,003 |
| Accumulated Fund | | | |
| Capital | | 11,866,519 | 11,866,519 |
| Accumulated surplus | | 5,710,935 | 3,532,876 |
| Investment revaluation reserve | | 4,198,109 | 6,544,608 |
| | | 21,775,563 | 21,944,003 |

The accompanying notes 1 to 13 form part of these financial statements.



WOO Ying-ming
 Commissioner of Correctional Services
 Trustee of the
 Correctional Services Children's Education Trust
 2 April 2020



Mrs MON KOO Di-an, Louise
 Chairman of the
 Correctional Services Children's
 Education Trust Committee
 2 April 2020

Correctional Services Children's Education Trust
Income and Expenditure Account for the year ended 31 August 2019

| | Note | 2019 HK\$ | 2018 HK\$ |
|---|------|--------------|--------------|
| Income | | | |
| Dividends | | 755,365 | 717,616 |
| Donations | | 3,040,000 | 1,640,000 |
| Interest income | 8 | 17,165 | 6,896 |
| | | 3,812,530 | 2,364,512 |
| Expenditure | | | |
| Education assistance to employees' children | | (1,550,471) | (1,416,137) |
| Education assistance to employees' handicapped children | | (84,000) | (56,000) |
| | | (1,634,471) | (1,472,137) |
| Surplus for the year | | 2,178,059 | 892,375 |

The accompanying notes 1 to 13 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Comprehensive Income for the year ended 31 August 2019

| | 2019 HK\$ | 2018 HK\$ |
|--|------------------|----------------|
| Surplus for the year | 2,178,059 | 892,375 |
| Other comprehensive income | | |
| Items that will not be reclassified to the income and expenditure account: | | |
| Financial assets measured at fair value through other comprehensive income | | |
| Fair value changes on revaluation | (2,346,499) | - |
| Items that may be reclassified subsequently to the income and expenditure account: | | |
| Available-for-sale financial assets | | |
| Fair value changes on revaluation | - | (50,102) |
| Total comprehensive (loss)/income for the year | <u>(168,440)</u> | <u>842,273</u> |

The accompanying notes 1 to 13 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Changes in Equity for the year ended 31 August 2019

| | Capital HK\$ | Accumulated surplus HK\$ | Investment revaluation reserve HK\$ | Total HK\$ |
|--|-------------------------|---|--|-----------------------|
| Balance at 1 September 2017 | 11,866,519 | 2,640,501 | 6,594,710 | 21,101,730 |
| Total comprehensive income for 2017-18 | - | 892,375 | (50,102) | 842,273 |
| Balance at 31 August 2018 | 11,866,519 | 3,532,876 | 6,544,608 | 21,944,003 |
| Total comprehensive loss for 2018-19 | - | 2,178,059 | (2,346,499) | (168,440) |
| Balance at 31 August 2019 | 11,866,519 | 5,710,935 | 4,198,109 | 21,775,563 |

The accompanying notes 1 to 13 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Cash Flows for the year ended 31 August 2019

| | Note | 2019 HK\$ | 2018 HK\$ |
|--|------|-----------------------|-------------------------|
| Cash flows from operating activities | | | |
| Surplus for the year | | 2,178,059 | 892,375 |
| Adjustments for : | | | |
| Interest income | | (17,165) | (6,896) |
| Dividends | | (755,365) | (717,616) |
| Increase in accounts receivable | | (141) | (600) |
| Net cash from operating activities | | <u>1,405,388</u> | <u>167,263</u> |
| Cash flows from investing activities | | | |
| Interest received | | 16,105 | 6,896 |
| Dividends received | | 754,917 | 702,043 |
| Purchase of financial assets measured at fair value through other comprehensive income | | (2,670,612) | - |
| Purchase of available-for-sale financial assets | | - | (3,184,880) |
| Increase in time deposit with original maturity over three months | | (500,000) | - |
| Net cash used in investing activities | | <u>(2,399,590)</u> | <u>(2,475,941)</u> |
| Net decrease in cash and cash equivalents | | (994,202) | (2,308,678) |
| Cash and cash equivalents at beginning of year | | 1,826,165 | 4,134,843 |
| Cash and cash equivalents at end of year | 7 | <u><u>831,963</u></u> | <u><u>1,826,165</u></u> |

The accompanying notes 1 to 13 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 (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Trust. 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 Trust for the current and prior accounting periods reflected in these financial statements.

- (b) Basis of preparation of the financial statements

The financial statements have been prepared on an accrual basis and under the historical cost convention except that financial assets measured at fair value through other comprehensive income 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.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Trust. Of these, the Trust has adopted the requirements of HKFRS 9 “Financial Instruments” from 1 September 2018.

HKFRS 9 replaces Hong Kong Accounting Standard (HKAS) 39 “Financial Instruments: Recognition and Measurement”. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Trust has applied HKFRS 9 retrospectively to items that existed as at 1 September 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items as at 1 September 2018 have not been impacted by the initial application of HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets

HKFRS 9 categorises financial assets into three principal classification categories: measured (i) at amortised cost; (ii) at fair value through other comprehensive income; and (iii) at fair value through profit or loss. These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the classification categories for the Trust’s financial assets under HKAS 39 and HKFRS 9.

| Financial assets | Classification under HKAS 39 | Classification under HKFRS 9 |
|---------------------------|-------------------------------------|-------------------------------------|
| Cash and cash equivalents | Loans and receivables | Financial assets at amortised cost |
| Time deposit | Loans and receivables | Financial assets at amortised cost |

| Financial assets | Classification under HKAS 39 | Classification under HKFRS 9 |
|-------------------------|-------------------------------------|--|
| Accounts receivable | Loans and receivables | Financial assets at amortised cost |
| Equity securities | Available-for-sale financial assets | Financial assets measured at fair value through other comprehensive income |

Financial assets previously classified as loans and receivables carried at amortised cost were reclassified to financial assets measured at amortised cost. The carrying amounts as at 1 September 2018 were the same as those as at 31 August 2018.

Equity securities amounting to HK\$19,977,230 as at 31 August 2018 previously classified as available-for-sale financial assets carried at fair value were reclassified to financial assets measured at fair value through other comprehensive income (note 3). The Trust elected to present in other comprehensive income changes in the fair value of the equity securities because these investments were held as long-term strategic investments that were not expected to be sold in the short to medium term.

For an explanation of how the Trust classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in note 2(d)(ii).

(ii) Credit losses and impairment

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the “incurred loss” accounting model in HKAS 39. The Trust applies the new expected credit loss model to the financial assets measured at amortised cost. The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets as at 1 September 2018.

(d) Financial assets

(i) Initial recognition

Financial assets are recognised on the date the Trust becomes party to the contractual provisions of the financial instruments. They are initially stated at fair value plus transaction costs directly attributable to the acquisition of the financial assets. For an explanation of how the Trust determines fair value of financial instruments, see note 10. Purchases and sales of investments are recognised using trade date accounting.

(ii) Categorisation and subsequent measurement from 1 September 2018

Financial assets measured at fair value through other comprehensive income

The Trust elects to measure all of its equity securities, which are held for strategic or longer term investment purposes, at fair value through other comprehensive income. The election is made upon initial recognition on an instrument-by-instrument basis and once made is irrevocable.

Gains and losses on these equity securities are recognised in other comprehensive income, which are not reclassified subsequently to the income and expenditure account, including when they are derecognised. Such gains and losses are recorded separately in the investment revaluation reserve and the cumulative amount is transferred to accumulated surplus upon disposal of the investments. Dividends on such investments are recognised in the income and expenditure account unless the dividends clearly represent a recovery of part of the cost of the investment.

The Trust's financial assets measured at fair value through other comprehensive income 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 reporting date.

Financial assets measured at amortised cost

These comprise accounts receivable, time deposit and cash and cash equivalents. They are held for the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost, net of loss allowance, if any (note 2(d)(v)).

(iii) Categorisation and subsequent measurement before 1 September 2018

The Trust's financial assets included available-for-sale financial assets, accounts receivable, time deposit and cash and cash equivalents. They were initially measured at fair value plus transaction costs that were directly attributable to the acquisition of financial assets. Except for available-for-sale financial assets, all other financial assets were subsequently measured at amortised cost using the effective interest method, less impairment losses, if any (note 2(d)(vi)).

At each reporting date, the fair value of available-for-sale financial assets was re-measured and any unrealised holding gains or losses arising from the change in fair value were recognised in other comprehensive income and accumulated separately in the investment revaluation reserve. The fair values of quoted investments were based on current bid-prices.

The Trust's available-for-sale financial assets were classified as non-current assets unless the Correctional Services Children's Education

Trust Committee intended to dispose of the investments within 12 months of the reporting date.

(iv) Derecognition

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

(v) Impairment of financial assets from 1 September 2018

For accounts receivable, time deposit and cash and cash equivalents, the Trust measures the expected credit losses to determine the loss allowance required to be recognised. Financial assets measured at fair value through other comprehensive income are not subject to the expected credit loss assessment.

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

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

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Trust compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Trust considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Trust in full; or (ii) the financial asset is 90 days past due. The Trust considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vi) Impairment of financial assets before 1 September 2018

The carrying amounts of financial assets were reviewed at each reporting date to determine whether there was objective evidence of impairment.

When there was objective evidence that an impairment loss on available-for-sale financial assets had occurred, 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 - was removed from the investment revaluation reserve and recognised in the income and expenditure account. Impairment losses for equity securities were not reversed through the income and expenditure account. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

For other financial assets, if there was objective evidence that an impairment loss had occurred, an impairment loss was recognised in the income and expenditure account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period, the amount of such impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the income and expenditure account. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment losses been recognised in prior years.

(e) Donations

Donations received are recognised as income when they are approved for acceptance, except that when the purpose of a donation is specified to be increasing the Trust's capital, such donation is credited to Accumulated Fund - Capital Account.

(f) Revenue recognition

Interest income from bank deposits is recognised as it accrues using the effective interest method. 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.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and deposits with banks with original maturities of three months or less from the date of placement.

3. Financial assets measured at fair value through other comprehensive income

The Trust designated all of its equity securities (see table below), which were held as long-term strategic investments, as financial assets measured at fair value through other comprehensive income.

| | 2019 HK\$ | 2018 HK\$ |
|--|-------------------|--------------|
| Equity securities listed in Hong Kong, at fair value: | | |
| Champion Real Estate Investment Trust | 1,584,000 | - |
| China Mobile Limited | 519,200 | - |
| CLP Holdings Limited | 2,947,375 | - |
| Hang Seng Bank Limited | 2,452,500 | - |
| The Hong Kong and China Gas Company Limited | 718,302 | - |
| Hong Kong Exchanges and Clearing Limited | 3,836,800 | - |
| HSBC Holdings plc | 3,523,367 | - |
| Industrial and Commercial Bank of China Limited - H Shares | 716,300 | - |
| Tencent Holdings Limited | 1,623,000 | - |
| Tracker Fund of Hong Kong | 2,380,500 | - |
| | <u>20,301,344</u> | <u>-</u> |

These investments were classified as available-for-sale financial assets in 2017-18.

4. Available-for-sale financial assets

| | 2019 HK\$ | 2018 HK\$ |
|--|--------------|-------------------|
| Equity securities listed in Hong Kong, at fair value | <u>-</u> | <u>19,977,230</u> |

5. Accounts receivable

| | 2019 HK\$ | 2018 HK\$ |
|----------------------|----------------|----------------|
| Dividends receivable | 140,441 | 139,993 |
| Interest receivable | 1,059 | - |
| Others | 756 | 615 |
| | <u>142,256</u> | <u>140,608</u> |

6. Time deposit

| | 2019 HK\$ | 2018 HK\$ |
|--|----------------|--------------|
| Deposit with original maturity over 3 months | <u>500,000</u> | <u>-</u> |

7. Cash and cash equivalents

| | 2019 | 2018 |
|--------------|----------------|------------------|
| | HK\$ | HK\$ |
| Cash at bank | <u>831,963</u> | <u>1,826,165</u> |

8. Interest income

| | 2019 | 2018 |
|---------------|---------------|--------------|
| | HK\$ | HK\$ |
| Bank interest | <u>17,165</u> | <u>6,896</u> |

9. Financial risk management

The Trust's major financial instruments include financial assets measured at fair value through other comprehensive income, accounts receivable, bank deposits and cash and cash equivalents. The major risks associated with these financial instruments are set out below.

(a) Credit risk

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

To minimise the credit risks arising from bank deposits and bank balances, all deposits are placed with reputable licensed banks in Hong Kong. Hence, the credit risk associated with bank deposits and bank balances is considered to be low. As such, the credit risk on these financial instruments is assessed as not having increased significantly since initial recognition and the Trust determines the loss allowance required to be recognised based on 12-month expected credit losses.

The Trust has estimated that 12-month expected credit losses on these financial instruments are immaterial and considers that no loss allowances required.

The credit quality of bank deposits and cash and cash equivalents, analysed by the ratings designated by Moody's or their equivalents, at the reporting date is shown below:

| | 2019 HK\$ | 2018 HK\$ |
|--|------------------|------------------|
| Bank deposits and cash and cash equivalents, by credit rating | | |
| Aa1 to Aa3 | 831,963 | 1,826,165 |
| A1 to A3 | 500,000 | - |
| | <u>1,331,963</u> | <u>1,826,165</u> |

(b) Market risk

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

(i) 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% (2018 : 10%) higher/lower, other comprehensive income and the balance of the investment revaluation reserve of the Trust would have increased/decreased by about HK\$2,030,000 (2018: about HK\$1,998,000). The sensitivity analysis was based on the carrying amount of equity securities held by the Trust at the reporting date and on the assumption that all other variables were held constant.

(ii) Interest rate risk

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

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

(c) 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.

10. Fair value measurement

(a) Fair value hierarchy of financial instruments

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

| | 2019 | | 2018 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Level 1 HK\$ | Total HK\$ | Level 1 HK\$ | Total HK\$ |
| Financial assets measured at fair value through other comprehensive income | | | | |
| - Listed equity securities | 20,301,344 | 20,301,344 | - | - |
| Available-for-sale financial assets | | | | |
| - Listed equity securities | - | - | 19,977,230 | 19,977,230 |
| | <u>20,301,344</u> | <u>20,301,344</u> | <u>19,977,230</u> | <u>19,977,230</u> |

No financial instruments were classified under Level 2 or Level 3.

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:-

Level 1: fair values are quoted prices (unadjusted) in the active markets for identical financial instruments at the measurement date;

Level 2: fair values are determined with inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

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

(b) Valuation techniques and key inputs

The fair value of financial instruments classified under Level 1 is based on quoted market prices of these financial instruments at the reporting date.

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

11. Capital management

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

- to comply with the Correctional Services Children's Education Trust Ordinance; and
- 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.

12. 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.

13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2019

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 August 2019 and which have not been early adopted in the financial statements. The Trust is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations 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 Trust's financial performance and financial position.