

REPORT BY THE TRUSTEE

of the

CUSTOMS AND EXCISE SERVICE

CHILDREN'S EDUCATION TRUST FUND

FOR THE YEAR

1 APRIL 2019 To 31 MARCH 2020

**Report by the Trustee
of the Customs and Excise Service Children's Education Trust Fund
for the year from 1 April 2019 to 31 March 2020**

INTRODUCTION

The Customs and Excise Service Children's Education Trust Fund Ordinance (the Ordinance) (Cap. 551) came into operation on 21 July 2000.

2. In accordance with section 4 of the Ordinance, the Commissioner of Customs and Excise shall be the Trustee of the Customs and Excise Service Children's Education Trust Fund (the Fund). As required by section 11 of the Ordinance, I take pleasure in presenting to the President and Honourable Members of the Legislative Council a copy of the signed and audited statement of accounts, the Director of Audit's report and my report on administration of the Fund for the year running from 1 April 2019 to 31 March 2020.

3. The Fund was started with a generous donation of \$300,000 granted by the Board of Management of the Chinese Permanent Cemeteries in September 1997. Over the years, individual donors have contributed an additional sum of \$8,950,000 towards operation of the Fund.

OBJECTS OF THE FUND

4. In accordance with section 5 of the Ordinance, the Trustee shall apply the Fund

in such manner and to such extent as the Customs and Excise Service Children's Education Trust Fund Committee (the Committee) may, in its absolute discretion, direct for the following objects :-

- (a) to provide assistance in, and facilities for, the higher education of the children of customs officers;
- (b) to provide assistance in, and facilities for, the education and training of handicapped children of customs officers; and
- (c) such other objects ancillary or incidental to the objects referred to in paragraphs (a) and (b) as the Committee may consider appropriate.

THE COMMITTEE AND THE INVESTMENT ADVISORY BOARD

5. The Committee was formed in accordance with section 6 of the Ordinance for management of the Fund. The Financial Secretary appointed Mr. Benedict SIN Ngayan as the Chairman, together with, Mr. Howard YEUNG Ping-leung, Mr. Alexander WONG and Ms. KAN Kit-sing as members of the Committee for a period of two years with effect from 1 August 2018. A membership list is at **Appendix I**.

6. The Investment Advisory Board (the Board) was formed in accordance with section 10 of the Ordinance to guide the Trustee on placing of money drawn from the Fund in investments other than those authorized under the Trustee Ordinance (Cap.29). The Financial Secretary appointed Mr. Steve LAU Hon-wah as the Chairman, together with Mr. Martin LEE Ka-shing, Mr. Stephen TAN, Ms. Wendy YUEN Miu-ling and Mr. Karson CHOI Ka-tsan as members of the Board for a period of two years with effect

from 1 August 2018. A membership list is at **Appendix II**.

7. Under section 9 of the Ordinance, the Trustee may, subject to prior approval of the Committee, place any money drawn from the Fund in investments authorized under the Trustee Ordinance (Cap.29) or recommended by the Board.

MEETING

8. With major decisions having made by circulation, the Committee met on 18 November 2019 to review the administration of the Fund.

GRANTS

9. From 1 April 2019 to 31 March 2020, a total sum of \$720,500 was approved and distributed to 117 eligible applicants, including \$267,500 to 107 eligible applicants in the form of higher education grants, \$365,000 to 17 eligible applicants in the form of scholarship and \$88,000 to ten eligible applicants as special grant for their handicapped children.

10. Balance of the Fund as at 31 March 2020 amounted to \$4,143,552 with \$8,950,000 in the capital account and an accumulated deficit of \$4,806,448.

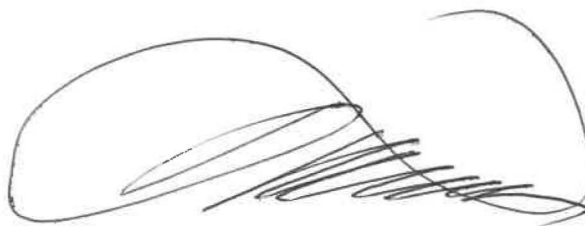
AUDITOR

11. The Director of Audit was appointed as auditor of the Fund in accordance with

section 11(4) of the Ordinance. The signed and audited statement of accounts as well as the Director's report are at **Appendix III**.

VOTE OF THANKS

12. I would like to thank those serving on the Committee and the Board for steering the Fund through yet another year of successful operation. My gratitude also goes to the Director of Audit for carrying out a thorough examination on financial statements of the Fund.

A handwritten signature in black ink, consisting of a large, sweeping loop on the left side and a series of smaller, horizontal strokes on the right side, all contained within a faint, larger loop.

(Hermes Tang)
Commissioner of Customs and Excise
Trustee,
Customs and Excise Service Children's
Education Trust Fund

9 October 2020

Customs and Excise Service Children's Education Trust Fund Committee

(as at 31 March 2020)

- Chairman : Mr. Benedict SIN Nga-yan
(appointed by the Financial Secretary)
- Members : Commissioner of Customs and Excise
Mr. Hermes TANG Yi-hoi, C.D.S.M., C.M.S.M.

Officer in charge of Service Welfare Division in the Customs and
Excise Department
Mr. Simon LEE Chi-ming

Representative of the Customs Officers
Ms. KAN Kit-sing
(appointed by the Financial Secretary)

Mr. Howard YEUNG Ping-leung
(appointed by the Financial Secretary)

Mr. Alexander WONG
(appointed by the Financial Secretary)
- Honorary Treasurer : Ms. Nancy HO King-chi, Senior Treasury Accountant
(Customs and Excise Department)
- Honorary Secretary : Ms. Mandy CHOI Ho-ka, Executive Officer (Staff Relations)
(Customs and Excise Department)

Customs and Excise Service Children's Education Trust Fund

Investment Advisory Board

(as at 31 March 2020)

Chairman : Mr. Steve LAU Hon-wah, S.B.S., J.P.
(appointed by the Financial Secretary)

Members : Mr. Martin LEE Ka-shing, J.P.
(appointed by the Financial Secretary)

Mr. Stephen TAN
(appointed by the Financial Secretary)

Ms. Wendy YUEN Miu-ling
(appointed by the Financial Secretary)

Mr. Karson CHOI Ka-tsan, B.B.S.
(appointed by the Financial Secretary)



Customs and Excise Service
Children's Education Trust Fund

Financial statements for the year ended 31 March 2020

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 Customs and Excise Service Children's Education Trust Fund set out on pages 4 to 14, which comprise the balance sheet as at 31 March 2020, and the income and expenditure account, 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 Customs and Excise Service Children's Education Trust Fund as at 31 March 2020, 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 11(1) to 11(3) of the Customs and Excise Service Children's Education Trust Fund Ordinance (Cap. 551).

Basis for opinion

I conducted my audit in accordance with section 11(4) of the Customs and Excise Service Children's Education Trust Fund 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 Customs and Excise Service Children's Education Trust Fund 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 Customs and Excise for the financial statements

The Commissioner of Customs and Excise 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 11(1) to 11(3) of the Customs and Excise Service Children's Education Trust Fund Ordinance, and for such internal control as the Commissioner of Customs and Excise 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 Customs and Excise is responsible for assessing the Customs and Excise Service Children's Education Trust Fund'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 Customs and Excise Service Children's Education Trust Fund's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner of Customs and Excise;
- conclude on the appropriateness of the Commissioner of Customs and Excise's 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 Customs and Excise Service Children's Education Trust Fund'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 Customs and Excise Service Children's Education Trust Fund 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.



S. M. CHOI
Principal Auditor
for Director of Audit

30 June 2020

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

Customs and Excise Service Children's Education Trust Fund
Balance Sheet as at 31 March 2020

	Note	2020 HK\$	2019 HK\$
Current assets			
Accounts receivable		7,390	9,531
Bank deposits		2,666,744	4,302,575
Cash and cash equivalents	3	1,469,418	12,343
		4,143,552	4,324,449
 Accumulated fund			
Capital		8,950,000	8,350,000
Accumulated deficit		(4,806,448)	(4,025,551)
		4,143,552	4,324,449

The accompanying notes 1 to 7 form part of these financial statements.



(Hermes TANG)
 Commissioner of Customs and Excise
 The Trustee of the
 Customs and Excise Service Children's
 Education Trust Fund
 30 June 2020



(SIN Nga-yan, Benedict)
 Chairman
 Customs and Excise Service Children's
 Education Trust Fund Committee
 30 June 2020

Customs and Excise Service Children's Education Trust Fund
Income and Expenditure Account
For the year ended 31 March 2020

	2020	2019
	HK\$	HK\$
Income		
Bank interest	81,955	96,103
Other income	-	2,000
	<u>81,955</u>	<u>98,103</u>
 Expenditure		
Special education grants/Higher education grants/ Scholarships	(720,500)	(669,500)
Exchange losses	(142,352)	(125,123)
	<u>(862,852)</u>	<u>(794,623)</u>
Deficit for the year	(780,897)	(696,520)
Other comprehensive income	-	-
Total comprehensive loss for the year	<u>(780,897)</u>	<u>(696,520)</u>

The accompanying notes 1 to 7 form part of these financial statements.

Customs and Excise Service Children's Education Trust Fund
Statement of Changes in Equity
For the year ended 31 March 2020

	Capital HK\$	Accumulated deficit HK\$	Total HK\$
Balance as at 1 April 2018	7,750,000	(3,329,031)	4,420,969
Donations received during 2018-19	600,000	-	600,000
Total comprehensive loss for 2018-19	-	(696,520)	(696,520)
Balance as at 31 March 2019	<u>8,350,000</u>	<u>(4,025,551)</u>	<u>4,324,449</u>
Donations received during 2019-20	600,000	-	600,000
Total comprehensive loss for 2019-20	-	(780,897)	(780,897)
Balance as at 31 March 2020	<u><u>8,950,000</u></u>	<u><u>(4,806,448)</u></u>	<u><u>4,143,552</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

Customs and Excise Service Children's Education Trust Fund
Statement of Cash Flows
For the year ended 31 March 2020

	Note	2020 HK\$	2019 HK\$
Cash flows from operating activities			
Deficit for the year		(780,897)	(696,520)
Adjustments for:			
Bank interest		(81,955)	(96,103)
Exchange losses		142,352	125,123
Net cash used in operating activities		<u>(720,500)</u>	<u>(667,500)</u>
Cash flows from investing activities			
Bank interest received		83,765	97,226
Net increase in accounts receivable		(20)	-
Net decrease / (increase) in bank deposits with original maturities over three months		<u>1,493,830</u>	<u>(20,978)</u>
Net cash from investing activities		<u>1,577,575</u>	<u>76,248</u>
Cash flows from financing activities			
Donations received		<u>600,000</u>	<u>600,000</u>
Net cash from financing activities		<u>600,000</u>	<u>600,000</u>
Net increase in cash and cash equivalents		1,457,075	8,748
Cash and cash equivalents at beginning of year		<u>12,343</u>	<u>3,595</u>
Cash and cash equivalents at end of year	3	<u><u>1,469,418</u></u>	<u><u>12,343</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

Customs and Excise Service Children's Education Trust Fund
Notes to the Financial Statements

1. General

The Customs and Excise Service Children's Education Trust Fund (the Fund) was established mainly to provide assistance in, and facilities for, the higher education of the children of customs officers and for the education and training of handicapped children of customs officers in accordance with section 5 of the Customs and Excise Service Children's Education Trust Fund Ordinance (Cap. 551). The address of the Fund's principal place of business is 29th and 31st floors of the Customs Headquarters Building, 222 Java Road, North Point, Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with section 11(1) to 11(3) of the Customs and Excise Service Children's Education Trust Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

(b) Basis of preparation of the financial statement

The financial statements have been prepared on an accrual basis and under the historical cost convention.

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 Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Impact of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs which are effective for the current accounting period. There have been no changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund 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 Fund's results of operations and financial position.

(d) Financial assets

(i) Initial recognition

Financial assets are recognised on the date the Fund becomes a party to the contractual provisions of the financial instrument. They are initially stated at fair value plus directly attributable transaction costs.

(ii) Categorisation and subsequent measurement

Financial assets measured at amortised cost

These comprise cash at bank, bank deposits and accounts receivable. 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)(iv)).

(iii) 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.

(iv) Impairment of financial assets

For cash at bank, bank deposits and accounts receivable, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

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 Fund 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 Fund 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 assessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund 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.

For a financial asset with lifetime expected credit losses recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime expected credit losses to 12-month expected credit losses.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(e) Grants and scholarships

Grants and scholarships are recognised in the income and expenditure account when they have been approved by the Customs and Excise Service Children's Education Trust Fund Committee.

(f) Donations

Approved 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 Fund 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 reporting date. Exchange gains and losses are dealt with in the income and expenditure account.

(h) Revenue recognition

Bank interest is recognised as it accrues using the effective interest method.

(i) Cash and cash equivalents

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

3. Cash and cash equivalents

	2020	2019
	HK\$	HK\$
Bank deposits with original maturities within three months	861,925	-
Cash at bank	607,493	12,343
	<u>1,469,418</u>	<u>12,343</u>

4. Financial risk management

The Fund's major financial instruments include bank deposits and cash at bank. The main 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 Fund's maximum exposure to credit risk at the reporting date in relation to the financial instruments is the carrying amount of these assets as stated in the balance sheet. The Fund limits its exposure to credit risk by transacting 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 Fund determines the loss allowance required to be recognised based on 12-month expected credit losses.

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

	2020	2019
	HK\$	HK\$
Cash at bank and deposits with banks, by credit rating		
Aa1 to Aa3	1,469,418	979,915
A1 to A3	2,666,744	3,335,003
	<u>4,136,162</u>	<u>4,314,918</u>

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

(b) 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 Fund's bank deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund'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 Fund is not exposed to cash flow interest rate risk as it has no financial instruments bearing interest at a floating rate.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effect of fluctuations in cash flows.

(d) Currency risk

(i) Exposure to currency risk

The Fund maintained net exposure to financial instruments denominated in US dollar and Renminbi of US\$110,563 (2019: US\$184,204) and CNY1,663,560 (2019: CNY 1,623,381) respectively at the reporting date. As Hong Kong dollar is pegged to the US dollar within a narrow range, it is considered that the Fund had no significant exposure to foreign exchange risk relating to this currency. Since no foreign currency rate hedging is made by the Fund, the carrying amounts of the financial instruments in Renminbi represent the maximum exposure of the Fund to foreign currency risk in respect of

Renminbi.

(ii) Sensitivity analysis

It was estimated that as at 31 March 2020, should the Renminbi strengthen/weaken by 5% (2019: 5%) against the Hong Kong dollar, with all other variables being held constant, the deficit of the Fund would decrease/increase by HK\$91,000 (2019: HK\$95,000).

5. Capital management

The capital structure of the Fund consists of the capital and accumulated deficit. The Fund's objectives when managing capital are:

- to comply with the Customs and Excise Service Children's Education Trust Fund Ordinance; and
- to maintain a strong capital base for carrying out the purpose of the Fund as stated in note 1 above.

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

6. Cost of administering the Fund

The cost of administering the Fund has been borne by the Government of the Hong Kong Special Administrative Region in accordance with section 12 of the Customs and Excise Service Children's Education Trust Fund Ordinance.

7. 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.