

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

For The Year of

1 September 2019 to 31 August 2020

**Report by the Commissioner of Correctional Services,
Trustee of the Correctional Services Children's Education Trust
for the year of 1 September 2019 to 31 August 2020**

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 2019 to 31 August 2020.

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 education and training of handicapped children of these staff. For the year of 1 September 2019 to 31 August 2020, a total donation of HK\$600,000 was received with \$300,000 from Helpways Company Limited and HK\$100,000 each from Ms CHENG Wai-yin, Tung Sin Tan and Perennial Cable (HK) Limited.

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 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.

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 any moneys of the fund in such investment authorised for the investments of trust funds by the Trustee Ordinance (Cap. 29) as the committee may advise. Subject to the prior approval of the Investment Advisory Board and as the Committee may advise, the Trustee may invest any moneys of the fund in investments, which are not investments authorised for the investment of trust funds.

Committee Meetings

8. During the year under review, the Trust Committee held a meeting on 9 July 2020 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 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 9 July 2020, a total sum of HK\$1,687,017 was paid to the successful applicants.

11. The accumulated fund as at 31 August 2020 amounted to HK\$21,778,389 including HK\$11,866,519 in the capital account, HK\$5,209,555 in the accumulated surplus account and HK\$4,702,315 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 2020 was HK\$585,637.

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

The Trustee of the Correctional Services Children's Education Trust

10 May 2021

Correctional Services Children's Education Trust Committee
(as at 31 August 2020)

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 Cho-yi
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 –

Ms SIU Yuk-kuen
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 2020)

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

Hon. : Miss CHU Mei-wa
Secretary 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 2020

Investments

<u>Stock</u>	Number of Share Holding	(a)	(b)	(b) – (a)
		<u>Cost</u> HK\$	<u>Year-end bid-prices</u> HK\$	<u>Revaluation Gain / (Loss)</u> HK\$
Champion Real Estate Investment Trust	300,000	1,173,542	1,227,000	53,458
China Mobile Ltd	8,000	669,006	432,800	(236,206)
CLP Holdings Ltd	36,500	2,158,846	2,777,650	618,804
Hang Seng Bank Ltd	15,000	2,005,355	1,828,500	(176,855)
Hong Kong and China Gas Co. Ltd	49,816	263,971	560,928	296,957
Hong Kong Exchanges and Clearing Ltd	16,000	1,554,511	6,256,000	4,701,489
HSBC Holdings PLC	62,582	2,422,512	2,115,272	(307,240)
Industrial and Commercial Bank of China Ltd. – H Shares	145,000	976,650	629,300	(347,350)
Tencent Holdings Ltd.	5,000	2,208,229	2,652,500	444,271
Tracker Fund of Hong Kong	90,000	2,670,613	2,325,600	(345,013)
		<u>16,103,235</u>	<u>20,805,550</u>	<u>4,702,315</u>

Note : In the Balance Sheet as at 31 August 2020, stock is stated at the year-end bid-prices.

Time deposit

HK\$

Time deposit with Bank of East Asia, Limited

613,000

Cash at Bank

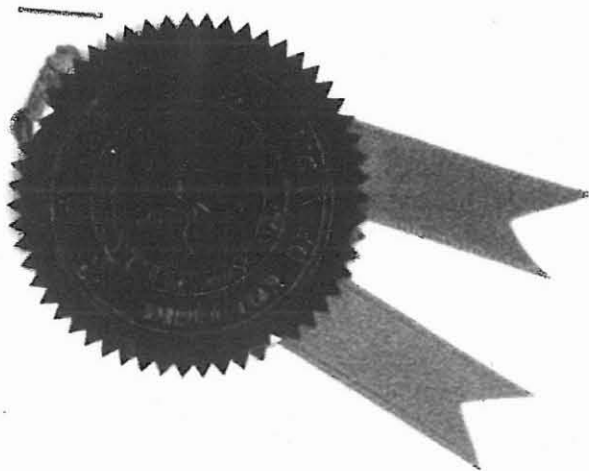
HK\$

Business Vantage savings account
with HSBC

200,632

Current account with HSBC

129,253
329,885



Correctional Services Children's Education Trust

Financial statements for the year ended 31 August 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 Correctional Services Children's Education Trust set out on pages 4 to 17, which comprise the balance sheet as at 31 August 2020, 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 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 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.



S. M. CHOI
Principal Auditor
for Director of Audit

28 April 2021

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

Correctional Services Children's Education Trust
Balance Sheet as at 31 August 2020

	Note	2020 HK\$	2019 HK\$
Non-current Assets			
Financial assets measured at fair value through other comprehensive income	3	20,805,550	20,301,344
		<u>20,805,550</u>	<u>20,301,344</u>
Current Assets			
Accounts receivable	4	29,954	142,256
Time deposit	5	613,000	500,000
Cash and cash equivalents	6	329,885	831,963
		<u>972,839</u>	<u>1,474,219</u>
Net Assets		<u>21,778,389</u>	<u>21,775,563</u>
Accumulated Fund			
Capital		11,866,519	11,866,519
Accumulated surplus		5,209,555	5,710,935
Investment revaluation reserve		4,702,315	4,198,109
		<u>21,778,389</u>	<u>21,775,563</u>

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



WOO Ying-ming
Commissioner of Correctional Services
The Trustee of the
Correctional Services Children's Education Trust
28 April 2021



Mrs MON KOO Di-an, Louise
Chairman of the
Correctional Services Children's
Education Trust Committee
28 April 2021

Correctional Services Children's Education Trust
Income and Expenditure Account for the year ended 31 August 2020

	Note	2020 HK\$	2019 HK\$
Income			
Dividends		566,454	755,365
Donations		600,000	3,040,000
Interest income	7	19,183	17,165
		<u>1,185,637</u>	<u>3,812,530</u>
 Expenditure			
Education assistance to employees' children		(1,596,017)	(1,550,471)
Education assistance to employees' handicapped children		(91,000)	(84,000)
		<u>(1,687,017)</u>	<u>(1,634,471)</u>
 (Deficit)/Surplus for the year		<u><u>(501,380)</u></u>	<u><u>2,178,059</u></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 2020

	2020 HK\$	2019 HK\$
(Deficit)/Surplus for the year	(501,380)	2,178,059
Other comprehensive income/(loss)		
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	504,206	(2,346,499)
Total comprehensive income/(loss) for the year	<u>2,826</u>	<u>(168,440)</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 2020

	Capital HK\$	Accumulated surplus HK\$	Investment revaluation reserve HK\$	Total HK\$
Balance at 1 September 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
Total comprehensive income for 2019-20	-	(501,380)	504,206	2,826
Balance at 31 August 2020	11,866,519	5,209,555	4,702,315	21,778,389

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 2020

	Note	2020 HK\$	2019 HK\$
Cash flows from operating activities			
(Deficit)/Surplus for the year		(501,380)	2,178,059
Adjustments for :			
Interest income		(19,183)	(17,165)
Dividends		(566,454)	(755,365)
Decrease/(Increase) in accounts receivable		756	(141)
Net cash (used in)/from operating activities		<u>(1,086,261)</u>	<u>1,405,388</u>
Cash flows from investing activities			
Interest received		19,281	16,105
Dividends received		677,902	754,917
Purchase of financial assets measured at fair value through other comprehensive income		-	(2,670,612)
Increase in time deposit with original maturity over three months		(113,000)	(500,000)
Net cash from/(used in) investing activities		<u>584,183</u>	<u>(2,399,590)</u>
Net decrease in cash and cash equivalents		(502,078)	(994,202)
Cash and cash equivalents at beginning of year		<u>831,963</u>	<u>1,826,165</u>
Cash and cash equivalents at end of year	6	<u><u>329,885</u></u>	<u><u>831,963</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 of the Trust 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).

- (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 policies 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 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 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) Financial assets

(i) Initial recognition

Financial assets are recognised on the date the Trust becomes a party to the contractual provisions of the financial instrument. They are initially stated at fair value plus transaction costs directly attributable to the acquisition of the financial assets. An explanation of how the Trust determines the fair value of financial instruments is set out in note 9. Purchases and sales of investments are recognised using trade date accounting.

(ii) Categorisation and subsequent measurement

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)(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 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 assessment, 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.

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) 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 include cash at banks and other short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

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.

	2020 HK\$	2019 HK\$
Equity securities listed in Hong Kong, at fair value:		
Champion Real Estate Investment Trust	1,227,000	1,584,000
China Mobile Limited	432,800	519,200
CLP Holdings Limited	2,777,650	2,947,375
Hang Seng Bank Limited	1,828,500	2,452,500
The Hong Kong and China Gas Company Limited	560,928	718,302
Hong Kong Exchanges and Clearing Limited	6,256,000	3,836,800
HSBC Holdings plc	2,115,272	3,523,367
Industrial and Commercial Bank of China Limited - H Shares	629,300	716,300
Tencent Holdings Limited	2,652,500	1,623,000
Tracker Fund of Hong Kong	2,325,600	2,380,500
	<u>20,805,550</u>	<u>20,301,344</u>

4. Accounts receivable

	2020 HK\$	2019 HK\$
Dividends receivable	28,993	140,441
Interest receivable	961	1,059
Others	-	756
	<u>29,954</u>	<u>142,256</u>

5. Time deposit

	2020 HK\$	2019 HK\$
Deposit with original maturity over 3 months	<u>613,000</u>	<u>500,000</u>

6. Cash and cash equivalents

	2020 HK\$	2019 HK\$
Cash at bank	<u>329,885</u>	<u>831,963</u>

7. Interest income

	2020 HK\$	2019 HK\$
Bank interest	<u>19,183</u>	<u>17,165</u>

8. Financial risk management

The Trust's major financial instruments include financial assets measured at fair value through other comprehensive income, accounts receivable, time 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 Trust's maximum exposure to credit risk at the reporting date in relation to each class of financial assets is the carrying amount of those assets as stated in the balance sheet.

To minimise the credit risks arising from time deposits and bank balances, all deposits are placed with reputable licensed banks in Hong Kong. Hence, the credit risk associated with time deposits and bank balances is considered to be low.

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

	2020 HK\$	2019 HK\$
Time deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	329,885	831,963
A1 to A3	613,000	500,000
	<u>942,885</u>	<u>1,331,963</u>

As such, the credit risk on these financial assets 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 allowance is required.

(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. It was estimated that, as at 31 August 2020, if the market prices of the respective equity securities had been 10% (2019 : 10%) higher/lower, other comprehensive income for the year and the balance of the investment revaluation reserve of the Trust would have increased/decreased by HK\$2,080,000 (2019: other comprehensive loss would have decreased/increased by HK\$2,030,000 and the balance of the investment revaluation reserve of the Trust would have increased/decreased by HK\$2,030,000). 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 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.

(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 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. Hence, the Trust does not have significant exposure to liquidity risk.

9. Fair value measurement

(a) Fair value hierarchy of financial instruments

The following table presents the carrying value 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".

	2020		2019	
	Level 1	Total	Level 1	Total
	HK\$	HK\$	HK\$	HK\$
Financial assets measured at fair value through other comprehensive income				
- Equity securities listed in Hong Kong	<u>20,805,550</u>	<u>20,805,550</u>	<u>20,301,344</u>	<u>20,301,344</u>

During the year, there were no transfers between financial instruments in Level 1 and Level 2.

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 active markets for identical assets or liabilities;
- 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 (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3- fair values of financial instruments 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.

10. 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 objects 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.

11. 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.