

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

For The Year of

1 September 2021 to 31 August 2022

**Report by the Commissioner of Correctional Services,
Trustee of the Correctional Services Children's Education Trust
for the year of 1 September 2021 to 31 August 2022**

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 2021 to 31 August 2022.

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 2021 to 31 August 2022, a total donation of HK\$3,050,000 was received with HK\$1,000,000 from Dr SUN Tai-lun, BBS, JP, HK\$1,500,000 from Young Chi Wan Foundation Limited, HK\$200,000 from Mr MANG Tak-hing, HK\$200,000 from Tung Wah Group of Hospitals and HK\$150,000 from 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 13 July 2022 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;
- (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 13 July 2022, a total sum of HK\$2,000,792 was paid to the successful applicants.

11. The accumulated fund as at 31 August 2022 amounted to HK\$20,379,157 including HK\$11,866,519 in the capital account, HK\$10,063,947 in the accumulated surplus account and a negative investment revaluation reserve of HK\$1,551,309.

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 2022 was HK\$677,688.

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.



(WONG Kwok-hing)

Commissioner of Correctional Services

The Trustee of the Correctional Services Children's Education Trust

5 May 2023

Correctional Services Children's Education Trust Committee
(as at 31 August 2022)

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

Members : Dr Philip MA Ching-yeung

Representatives of Assistant Officers and equivalent grade –

Mr LI Wing-kit
Assistant Officer II

Ms WONG Cho-yi
Assistant Officer II

Representative of the Commissioner of Correctional Services –

Mr CHEUNG Shu-yan
Assistant Commissioner of Correctional Services

Representative of the Permanent Secretary for Education –

Mr CHENG Kwok-yan
Principal Education Officer

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

Ms SIU Yuk-kuen
Superintendent (Staff Relations & Welfare)

Hon. Treasurer : Ms CHAN Hiu-sin
Senior Treasury Accountant
(Correctional Services Department)

Hon. Secretary : Ms AU Ching-ye
Executive Officer (Staff Relations & Welfare)
(Correctional Services Department)

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

(as at 31 August 2022)

Chairman : Mr Vincent LEE Kwan-ho, BBS

Members : Ms Jenny TAM Yuk-ching

Ms Macy WONG Chor-kei

Mr Desmond SIU Kin-fai

Mr Tim KWOK Shun-tim

Hon. Treasurer : Ms CHAN Hiu-sin
Senior Treasury Accountant
(Correctional Services Department)

Hon. Secretary : Ms AU Ching-yee
Executive Officer (Staff Relations & Welfare)
(Correctional Services Department)

Correctional Services Children's Education Trust
Statement of Investment and Cash at Banks as at 31 August 2022

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	445,000	1,858,539	1,495,200	(363,339)
China Mobile Limited	8,000	669,006	420,400	(248,606)
CLP Holdings Limited	36,500	2,158,846	2,469,225	310,379
Hang Seng Bank Limited	15,000	2,005,355	1,843,500	(161,855)
Hong Kong and China Gas Co. Limited	52,306	263,972	405,372	141,400
Hang Seng China Enterprises Index ETF	20,000	2,334,629	1,398,800	(935,829)
Hong Kong Exchanges and Clearing Limited	10,000	971,569	3,176,000	2,204,431
Industrial and Commercial Bank of China Limited – H Shares	145,000	976,650	580,000	(396,650)
Tencent Holdings Limited	5,000	2,208,229	1,636,000	(572,229)
Tracker Fund of Hong Kong	172,000	4,658,982	3,519,120	(1,139,862)
Wharf Real Estate Investment Company Limited	40,000	<u>1,819,149</u>	<u>1,430,000</u>	<u>(389,149)</u>
		<u>19,924,926</u>	<u>18,373,617</u>	<u>(1,551,309)</u>

Note : In the Balance Sheet as at 31 August 2022, stock is stated at the year-end bid-prices.

Cash at Bank

	HK\$
Business Vantage savings account with HSBC	413,984
Current account with HSBC	<u>165,266</u>
	<u>579,250</u>



Correctional Services Children's Education Trust

Financial statements for the year ended 31 August 2022

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 2022, 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 2022, 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.

I communicate with the Commissioner of Correctional Services regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



S. M. CHOI
Principal Auditor
for Director of Audit


14 April 2023


Audit Commission
6th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

Correctional Services Children's Education Trust
Balance Sheet as at 31 August 2022

	Note	2022 HK\$	2021 HK\$
Non-current Assets			
Financial assets measured at fair value through other comprehensive income	3	18,373,617	21,650,546
Current Assets			
Accounts receivable	4	76,290	101,936
Cash and cash equivalents	5	1,929,250	2,172,496
		2,005,540	2,274,432
Net Assets		20,379,157	23,924,978
Accumulated Fund			
Capital		11,866,519	11,866,519
Accumulated surplus		10,063,947	8,344,470
Investment revaluation reserve		(1,551,309)	3,713,989
		20,379,157	23,924,978

The accompanying notes 1 to 10 form part of these financial statements.


 (WONG Kwok-hing)
 Commissioner of Correctional Services
 The Trustee of the
 Correctional Services Children's Education Trust
 14 April 2023


 (Mrs MON KOO Di-an, Louise)
 Chairman of the
 Correctional Services Children's
 Education Trust Committee
 14 April 2023

Correctional Services Children's Education Trust
Income and Expenditure Account for the year ended 31 August 2022

	Note	2022 HK\$	2021 HK\$
Income			
Dividends		670,474	643,834
Donations		3,050,000	3,138,000
Interest income	6	7,214	8,550
Refund of education assistance		1,232	-
		3,728,920	3,790,384
 Expenditure			
Education assistance to employees' children		(1,937,792)	(1,763,387)
Education assistance to employees' handicapped children		(63,000)	(63,000)
		(2,000,792)	(1,826,387)
 Surplus for the year		 1,728,128	 1,963,997

The accompanying notes 1 to 10 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Comprehensive Income for the year ended 31 August 2022

	2022	2021
	HK\$	HK\$
Surplus for the year	1,728,128	1,963,997
Other comprehensive (loss)/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	(5,273,949)	182,592
	(5,273,949)	182,592
Total comprehensive (loss)/income for the year	(3,545,821)	2,146,589

The accompanying notes 1 to 10 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Changes in Equity for the year ended 31 August 2022

	2022 HK\$	2021 HK\$
Capital		
At end of year	11,866,519	11,866,519
Accumulated surplus		
At beginning of year	8,344,470	5,209,555
Surplus for the year	1,728,128	1,963,997
Transfer of cumulative (losses)/gains on disposal of financial assets measured at fair value through other comprehensive income from investment revaluation reserve	(8,651)	1,170,918
At end of year	10,063,947	8,344,470
Investment revaluation reserve		
At beginning of year	3,713,989	4,702,315
Other comprehensive (loss)/income for the year	(5,273,949)	182,592
Transfer of cumulative losses/(gains) on disposal of financial assets measured at fair value through other comprehensive income to accumulated surplus	8,651	(1,170,918)
At end of year	(1,551,309)	3,713,989
Total accumulated fund at end of year	20,379,157	23,924,978

The accompanying notes 1 to 10 form part of these financial statements.

Correctional Services Children's Education Trust
Statement of Cash Flows for the year ended 31 August 2022

	Note	2022 HK\$	2021 HK\$
Cash flows from operating activities			
Surplus for the year		1,728,128	1,963,997
Adjustments for :			
Interest income		(7,214)	(8,550)
Dividends		(670,474)	(643,834)
Net cash from operating activities		1,050,440	1,311,613
Cash flows from investing activities			
Interest received		3,924	9,511
Dividends received		632,675	570,891
Acquisition of financial assets measured at fair value through other comprehensive income		(1,988,369)	(4,838,775)
Proceeds from disposal of financial assets measured at fair value through other comprehensive income		58,084	4,176,371
Decrease in time deposit with original maturity over three months		-	613,000
Net cash (used in)/from investing activities		(1,293,686)	530,998
Net (decrease)/increase in cash and cash equivalents		(243,246)	1,842,611
Cash and cash equivalents at beginning of year		2,172,496	329,885
Cash and cash equivalents at end of year	5	1,929,250	2,172,496

The accompanying notes 1 to 10 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), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). A summary of the significant accounting policies adopted by the Trust is set out below.

- (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 certain new or revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Trust. 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 financial statements.

(d) Financial assets

(i) Initial recognition and measurement

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 8. Purchases and sales of financial instruments are recognised on trade date, the date on which the Trust commits to purchase or sell the instruments.

(ii) Classification 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 arising from changes in fair value of 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 (the Committee) intends to dispose of the investments within 12 months of the reporting date.

Financial assets measured at amortised cost

These comprise accounts receivable 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 using the effective interest method. The measurement of loss allowances for these financial assets is based on the expected credit loss model as described in note 2(d)(iv).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Trust estimates cash flows by considering all contractual terms of the financial instrument but does not consider the expected credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(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 financial assets measured at amortised cost, 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 instruments.

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 is recognised as it accrues using the effective interest method. Dividend income 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) Education assistance

Education assistance is recognised as expenditure when approved by the Committee and due for payment.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank, deposits with banks and 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.

	2022 HK\$	2021 HK\$
Equity securities listed in Hong Kong, at fair value:		
Champion Real Estate Investment Trust	1,495,200	1,966,900
China Mobile Limited	420,400	377,200
CLP Holdings Limited	2,469,225	2,837,875
Hang Seng Bank Limited	1,843,500	2,088,000
The Hong Kong and China Gas Company Limited	405,372	654,871
Hang Seng China Enterprises Index ETF	1,398,800	1,868,400
Hong Kong Exchanges and Clearing Limited	3,176,000	4,908,000
Industrial and Commercial Bank of China Limited - H Shares	580,000	629,300
Tencent Holdings Limited	1,636,000	2,404,000
Tracker Fund of Hong Kong	3,519,120	2,376,000
Wharf Real Estate Investment Company Limited	1,430,000	1,540,000
	<u>18,373,617</u>	<u>21,650,546</u>

4. Accounts receivable

	2022 HK\$	2021 HK\$
Dividends receivable	73,000	101,936
Interest receivable	3,290	-
	<u>76,290</u>	<u>101,936</u>

5. Cash and cash equivalents

	2022 HK\$	2021 HK\$
Time deposit with original maturity within three months	1,350,000	-
Cash at bank	<u>579,250</u>	<u>2,172,496</u>
	<u>1,929,250</u>	<u>2,172,496</u>

6. Interest income

	2022 HK\$	2021 HK\$
Bank interest	<u>7,214</u>	<u>8,550</u>

7. Financial risk management

The Trust's major financial instruments include financial assets measured at fair value through other comprehensive income, accounts receivable 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 at the reporting date is equal to their carrying amounts.

To minimise the credit risk arising from time deposits and cash at bank, all time deposits and bank balances are placed with reputable licensed banks in Hong Kong. Hence, the credit risk of these financial assets is considered to be low.

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

	2022 HK\$	2021 HK\$
Cash and cash equivalents, by credit rating		
Aa1 to Aa3	579,250	2,172,496
A1 to A3	<u>1,350,000</u>	<u>-</u>
	<u>1,929,250</u>	<u>2,172,496</u>

While the financial assets measured at amortised cost are subject to the impairment requirements, the Trust has estimated that their expected credit losses are immaterial and considers that no loss allowance is required.

(b) Market risk

Market risk is the risk that changes in market variables such as equity prices and interest rates may affect the fair value or cash flows of a financial instrument.

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

(i) Equity price risk

Equity price risk is the risk of loss arising from changes in equity prices. The Trust's investments in equity securities are subject to the equity price risk inherent in all equity securities i.e. the value of holdings may fall as well as rise.

The Trust maintains a diversified portfolio of investments. The Correctional Services Children's Education Trust Investment Advisory Board and the 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 2022, if the market prices of the respective equity securities had been 10% (2021 : 10%) higher/lower, other comprehensive loss for the year would have decreased/increased and the balance of the investment revaluation reserve of the Trust would have increased/decreased by HK\$1,837,000 (2021 : other comprehensive income for the year and the balance of the investment revaluation reserve of the Trust would have increased/decreased by HK\$2,165,000). 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 fair 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.

8. 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”.

	2022		2021	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Financial assets measured at fair value through other comprehensive income				
Equity securities				
- listed in Hong Kong	<u>18,373,617</u>	<u>18,373,617</u>	<u>21,650,546</u>	<u>21,650,546</u>

No financial instruments were classified under Level 2 or Level 3. There were no transfers between levels during the reporting years.

The three levels of the fair value hierarchy are:

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 the quoted market prices of these financial instruments at the reporting date, without any deduction for estimated future selling costs.

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

9. Capital management

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

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

10. Cost of administering the Trust

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