



Supplementary Legal Aid Fund

Annual Report 2020



1. Overview

The provision of legal aid is an integral part of Hong Kong's legal system. Our policy objective is to ensure that no one with reasonable grounds for pursuing or defending a legal action is denied access to justice because of a lack of means. The Legal Aid Ordinance (Cap.91) (LAO), enacted in 1967, sets out the legal framework for the administration of legal aid. The Legal Aid Department (LAD) provides legal aid for civil proceedings under the Ordinary Legal Aid Scheme (OLAS) and Supplementary Legal Aid Scheme (SLAS), as well as for criminal proceedings under OLAS. To qualify for legal aid, a person is required by law to satisfy both the means and merits tests as provided by the LAO.

2. Supplementary Legal Aid Scheme

SLAS came into operation in 1984 and aimed at providing legal assistance to people whose financial resources exceeded the statutory limit allowed under OLAS, but was below the amount specified for SLAS. SLAS is a self-financing scheme. SLAS by design aimed at cases which involved monetary claims of a reasonable size, with a high success rate and a reasonably good chance of recovering costs and damages to ensure its financial viability. It was funded by an initial seed money of \$1 million from the Lotteries Fund and an injection of \$27 million and a further injection of \$100 million by the Government in 1995 and 2012 respectively to support the operation of the expanded SLAS. Its income sources also include the application fees payable by applicants, the interim contributions from aided persons and the final contributions from a percentage deduction of the damages recovered in successful cases.

3. Financial Eligibility Limit of SLAS

At present, SLAS is available to applicants whose financial resources exceed the statutory limit of \$420,400¹ for OLAS but is below \$2,102,000. The costs of SLAS are met from the Supplementary Legal Aid

¹ With effect from 26 June 2020, the financial eligibility limits for OLAS and SLAS have been adjusted upwards from \$307,130 to \$420,400, and from \$1,535,650 to \$2,102,000 respectively..

Fund (SLAF), which is financed by the applicants' contributions and damages or compensation recovered. In making an application, an applicant has to pay a non-refundable application fee of \$1,000 for Type I Proceedings or \$5,000 for Type II Proceedings (see section 4 below on the types of proceedings). Upon approval of the application, the aided person is required to pay an interim contribution. For Type I Proceedings, the interim contribution is calculated at 25% of the financial eligibility limit for OLAS, which is currently \$105,100. For Type II proceedings, the interim contribution is equivalent to 10% of the financial resources of the aided person, or the maximum amount paid under OLAS currently at \$105,100, whichever is the higher. On successful conclusion of the case, the aided person is also required to pay a final contribution from any damages recovered to the SLAF. The rates of final contribution for personal injuries and employees' compensation claims and the provision of legal representation to employees for appeals against awards made by the Labour Tribunal range from 6% to 10%. For the remaining types of proceedings, the contribution rates range from 15% to 20%.

4. Scope of SLAS

The scope of SLAS initially covered claims for damages for personal and fatal injuries. It was subsequently extended to cover employees' compensation claims in 1992 and medical, dental as well as legal professional negligence in 1995. It was significantly expanded in November 2012 and April 2020 respectively and currently covers the following types of cases –

Type I Proceedings

- claims brought under the Employees' Compensation Ordinance (Cap. 282) irrespective of the amount of the claim;
- representation for employees in appeals against awards made by the Labour Tribunal irrespective of the amount in dispute; and
- fatal and non-fatal personal injuries claims where the claim is likely to exceed \$75,000.

Type II Proceedings (where the claim is likely to exceed \$75,000)

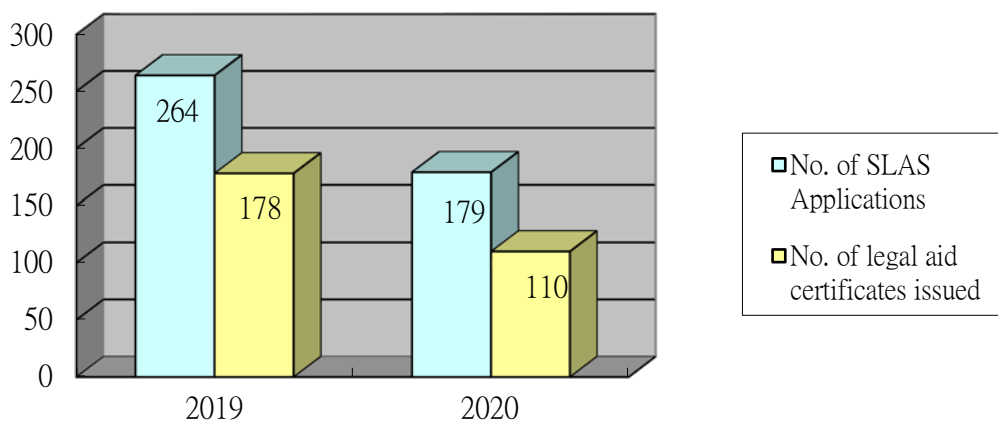
- medical and dental negligence claims;
- professional negligence claims against lawyers, certified public

accountants (practising), registered architects, registered professional engineers, registered professional surveyors, registered professional planners, authorized land surveyors, registered landscape architects and estate agents;

- negligence claims against insurers or their intermediaries in respect of the taking out of the personal insurance products;
- monetary claims against vendors in the sale of completed or uncompleted first-hand residential properties;
- Professional negligence claims against financial intermediaries licensed or registered for Type 1 (dealing in securities), Type 2 (dealing in futures contracts) or Type 8 (securities margin financing) regulated activities within the meaning of the Securities and Futures Ordinance (Cap.571); and
- Monetary claims in respect of derivatives of securities, currency futures or other futures contracts on the basis that the person was induced to deal in those derivatives, futures or contracts by fraud, deception or misrepresentation.

5. Applications and Legal Aid Certificates granted

In 2020, there were 179 SLAS applications and 110 legal aid certificates were issued under SLAS.



Note: Certificates may not be granted in the same year as the applications were received.

6. Finance

The financial year of the SLAF runs from 1 October of one year to 30 September of the following year. For the year ended on 30 September 2020, a surplus of \$7,959,312 in the SLAF was recorded as compared with a surplus of \$7,681,011 in the year ended on 30 September 2019. As at 30 September 2020, the SLAF had a balance of \$213 million. The Report of the Director of Audit is at **Appendix**.

31 December 2020



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Supplementary Legal Aid Fund

Financial statements for the year ended 30 September 2020

Supplementary Legal Aid Fund

Financial statements for the year ended 30 September 2020

Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report

Opinion

I have audited the financial statements of the Supplementary Legal Aid Fund set out on pages 4 to 15, which comprise the balance sheet as at 30 September 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 Supplementary Legal Aid Fund as at 30 September 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 31(1) of the Legal Aid Ordinance (Cap. 91).

Basis for opinion

I conducted my audit in accordance with section 31(2) of the Legal Aid 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 Supplementary Legal Aid 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 Director of Legal Aid for the financial statements

The Director of Legal Aid 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 31(1) of the Legal Aid Ordinance, and for such internal control as the Director of Legal Aid 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 Director of Legal Aid is responsible for assessing the Supplementary Legal Aid 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 Supplementary Legal Aid Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director of Legal Aid;
- conclude on the appropriateness of the Director of Legal Aid'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 Supplementary Legal Aid 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 Supplementary Legal Aid

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

23 December 2021

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

SUPPLEMENTARY LEGAL AID FUND
BALANCE SHEET AS AT 30 SEPTEMBER 2020

	Note	2020 HK\$	2019 HK\$
NON-CURRENT ASSETS			
Accounts receivable pending finalisation of accounts of litigation cases	3	38,537,094	27,403,357
Placement with the Exchange Fund	4	<u>56,805,060</u>	<u>55,204,140</u>
		<u>95,342,154</u>	<u>82,607,497</u>
CURRENT ASSETS			
Accounts receivable pending finalisation of accounts of litigation cases	3	11,113,714	6,559,127
Interest receivable		3,553,980	3,494,027
Time deposits with original maturities over three months		215,409,422	214,867,090
Cash and cash equivalents	5	11,473,218	5,917,463
		241,550,334	230,837,707
CURRENT LIABILITIES			
Accounts payable pending finalisation of accounts of litigation cases	6	(43,439,547)	(35,838,060)
Administration fee payable to the Government of the Hong Kong Special Administrative Region		(4,682,342)	(5,215,292)
		<u>(48,121,889)</u>	<u>(41,053,352)</u>
NET CURRENT ASSETS		<u>193,428,445</u>	<u>189,784,355</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		288,770,599	272,391,852
NON-CURRENT LIABILITIES			
Accounts payable pending finalisation of accounts of litigation cases	6	<u>(75,803,018)</u>	<u>(67,383,583)</u>
NET ASSETS		<u>212,967,581</u>	<u>205,008,269</u>
ACCUMULATED FUND			
Capital		127,000,000	127,000,000
Accumulated surplus		<u>85,967,581</u>	<u>78,008,269</u>
		<u>212,967,581</u>	<u>205,008,269</u>

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

(Thomas E KWONG)
Director of Legal Aid
23 December 2021

SUPPLEMENTARY LEGAL AID FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 HK\$	2019 HK\$
INCOME			
Application fees	7	107,000	122,000
Percentage contributions	8	6,759,335	9,784,756
Interest income		<u>6,676,445</u>	<u>6,489,765</u>
		<u>13,542,780</u>	<u>16,396,521</u>
EXPENDITURE			
Legal costs and expenses for finalised cases	9		
Successful litigation			
- costs to opposite parties		-	-
- other disbursements		-	-
		-	-
Unsuccessful applications		(366,335)	(360,458)
Unsuccessful litigation			
- costs to opposite parties		(184,449)	(1,272,420)
- other disbursements		(329,898)	(1,833,175)
		<u>(514,347)</u>	<u>(3,105,595)</u>
		(880,682)	(3,466,053)
Administration fee		(4,682,342)	(5,215,292)
Cash transportation services charges		(19,240)	(33,020)
Bank charges		(405)	(390)
Electronic payment services charges		(135)	(113)
Expenses for interpretation services		(664)	(642)
		<u>(5,583,468)</u>	<u>(8,715,510)</u>
SURPLUS FOR THE YEAR		7,959,312	7,681,011
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>7,959,312</u></u>	<u><u>7,681,011</u></u>

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

SUPPLEMENTARY LEGAL AID FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	CAPITAL HK\$	ACCUMULATED SURPLUS HK\$	TOTAL HK\$
Balance at 1 October 2018	127,000,000	70,327,258	197,327,258
Total comprehensive income for 2018-19	-	7,681,011	7,681,011
Balance at 30 September 2019	127,000,000	78,008,269	205,008,269
Total comprehensive income for 2019-20	-	7,959,312	7,959,312
Balance at 30 September 2020	127,000,000	85,967,581	212,967,581

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

SUPPLEMENTARY LEGAL AID FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	2020 HK\$	2019 HK\$
Cash flows from operating activities			
Surplus for the year		7,959,312	7,681,011
Adjustments for:			
Interest income		(6,676,445)	(6,489,765)
Increase in accounts receivable			
pending finalisation of accounts of litigation cases		(15,688,324)	(3,695,000)
Increase in accounts payable			
pending finalisation of accounts of litigation cases		16,020,922	10,658,597
(Decrease) / Increase in administration fee payable to the Government of the Hong Kong Special Administrative Region		(532,950)	1,235,155
Net cash from operating activities		<u>1,082,515</u>	<u>9,389,998</u>
Cash flows from investing activities			
Increase in placement with the Exchange Fund		(1,600,920)	(2,427,715)
Increase in time deposits with original maturities over three months		(542,332)	(15,451,155)
Interest received		6,616,492	6,240,412
Net cash from / (used in) investing activities		<u>4,473,240</u>	<u>(11,638,458)</u>
Net increase / (decrease) in cash and cash equivalents		5,555,755	(2,248,460)
Cash and cash equivalents at beginning of year		<u>5,917,463</u>	<u>8,165,923</u>
Cash and cash equivalents at end of year	5	<u><u>11,473,218</u></u>	<u><u>5,917,463</u></u>

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

SUPPLEMENTARY LEGAL AID FUND
NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Supplementary Legal Aid Fund (the Fund) was established under section 29 of the Legal Aid Ordinance (Cap. 91) for financing the Supplementary Legal Aid Scheme, which provides legal aid to any person whose financial resources exceed HK\$420,400 (before 26 June 2020: HK\$307,130) but do not exceed HK\$2,102,000 (before 26 June 2020: HK\$1,535,650), for the civil proceedings mentioned in Part 1 of Schedule 3, except proceedings mentioned in Part 2 of that Schedule, in accordance with section 5A of the Ordinance.

The address of the Fund's principal place of business is 24th - 27th Floors, Queensway Government Offices, 66 Queensway, Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with section 31(1) of the Legal Aid 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 policies adopted by the Fund 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.

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 certain new or revised HKFRSs which are first effective or available for early adoption 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 and financial liabilities

(i) Initial recognition and measurement

Financial assets and financial liabilities 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 or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities.

(ii) Classification and subsequent measurement

Financial assets measured at amortised cost

These comprise placement with the Exchange Fund, interest receivable, time deposits with original maturities over three months 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 Fund 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.

Financial liabilities measured at amortised cost

These comprise administration fee payable to the Government of the Hong Kong Special Administrative Region. They are subsequently measured at amortised cost using the effective interest method.

(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.

A financial liability is derecognised when the obligation specified in the contract is discharged, is cancelled or expires.

(iv) Impairment of financial assets

For placement with the Exchange Fund, interest receivable, time deposits and cash and cash equivalents, 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) Recognition of revenue and expenditure

- (i) Revenue (application fees and percentage contributions) and expenditure (legal costs and expenses) are recognised in the income and expenditure account in the year in which litigation and accounts of the cases are finalised.

- (ii) The amount of accounts receivable (Note 3) that cannot be fully recovered from the payments to the Fund for respective cases are taken up as legal costs and expenses in the income and expenditure account in the year in which litigation and accounts of the cases are finalised. The legal costs and expenses that can be recovered are deducted from the accounts payable (Note 6) of the corresponding cases and are not recognised as expenditure in the income and expenditure account.
- (f) Interest income from bank deposits and the placement with the Exchange Fund is recognised as it accrues using the effective interest method.
- (g) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank, time deposits 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. ACCOUNTS RECEIVABLE PENDING FINALISATION OF ACCOUNTS OF LITIGATION CASES

These are the legal costs and disbursements paid by the Fund for cases not yet finalised.

	2020	2019
	HK\$	HK\$
Accounts receivable expected to be realised		
- within 12 months after the reporting date	11,113,714	6,559,127
- over 12 months after the reporting date	38,537,094	27,403,357
	<u>49,650,808</u>	<u>33,962,484</u>

4. PLACEMENT WITH THE EXCHANGE FUND

On 10 March 2016, an amount of HK\$50 million was placed with the Exchange Fund. The term of the placement is six years from the date of placement, during which the amount of the principal sum cannot be withdrawn. Interest on the placement is at a rate determined annually in January and shall be paid annually in arrears on 31 December of each year. The rate is the average annual rate of return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 3.7% per annum for January to December 2020 (2.9% per annum for January to December 2019).

Placement with the Exchange Fund is analysed as follows:

	2020 HK\$	2019 HK\$
Principal sum and interest received	56,805,060	55,204,140
Interest receivable	1,573,469	1,197,400
Balance as at end of year	<u>58,378,529</u>	<u>56,401,540</u>
Classified as:		
Non-current assets	56,805,060	55,204,140
Current assets	1,573,469	1,197,400
	<u>58,378,529</u>	<u>56,401,540</u>

5. CASH AND CASH EQUIVALENTS

	2020 HK\$	2019 HK\$
Time deposits with original maturities within three months	4,000,000	-
Cash at bank	7,472,680	5,916,843
Cash in hand	538	620
	<u>11,473,218</u>	<u>5,917,463</u>

6. ACCOUNTS PAYABLE PENDING FINALISATION OF ACCOUNTS OF LITIGATION CASES

These are the application fees and contributions paid by the aided persons and damages, costs and disbursements recovered from the opposite parties for cases not yet finalised.

	2020 HK\$	2019 HK\$
Accounts payable expected to be settled		
- within 12 months after the reporting date	43,439,547	35,838,060
- over 12 months after the reporting date	75,803,018	67,383,583
	<u>119,242,565</u>	<u>103,221,643</u>

7. APPLICATION FEES

These are the application fees from cases finalised in the year less the amounts used to set off percentage contributions in accordance with regulation 14(1)(b)(iii) and 14(2)(b)(iii) of the Legal Aid (Assessment of Resources and Contributions) Regulations (Cap. 91 sub. Leg. B).

8. PERCENTAGE CONTRIBUTIONS

These are the percentage contributions payable to the Fund under section 32 of the Legal Aid Ordinance by those aided persons who are successful in the proceedings.

9. LEGAL COSTS AND EXPENSES

These are the costs and disbursements paid by the Fund that cannot be recovered either from the aided persons and/or the opposite parties upon finalisation of a case.

10. FINANCIAL RISK MANAGEMENT

The Fund's major financial instruments include the placement with the Exchange Fund, interest receivable, time deposits, cash and cash equivalents and administration fee payable to the Government of the Hong Kong Special Administrative Region. 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 Fund's maximum exposure to credit risk at the reporting date in relation to each class of financial assets is the carrying amount of the assets as stated in the balance sheet. For the placement with the Exchange Fund, the credit risk is considered to be low. For time deposits and cash at bank, the Fund limits its exposure to credit risk by transacting with reputable licensed banks in Hong Kong.

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

	2020	2019
	HK\$	HK\$
Time deposits and cash at bank, by credit rating		
- Aa1 to Aa3	26,398,187	40,928,093
- A1 to A3	154,662,417	135,895,603
- Baa1 to Baa3	45,821,498	43,960,237
	<u>226,882,102</u>	<u>220,783,933</u>

While the financial assets measured at amortised cost are subject to the impairment requirements, the Fund has estimated that their expected credit losses 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 fair 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 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 Fund is not exposed to material cash flow interest rate risk as it has no major 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. Hence, the Fund does not have significant exposure to liquidity risk.

As at 30 September 2020, the financial liability is payable within one year (2019: within one year).

(d) Other financial risk

The Fund is exposed to financial risk arising from the placement with the Exchange Fund due to changes in the interest rate which is determined every January (Note 4). It was estimated that, as at 30 September 2020, a 50 basis point increase / decrease in the interest rates for 2020 (2019: 50 basis point), with all other variables held constant, would increase / decrease the surplus for the year and the accumulated fund by HK\$284,000 (2019: HK\$276,000).

11. CAPITAL MANAGEMENT

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

- (a) to comply with the Legal Aid Ordinance; and
- (b) to maintain a strong capital base for carrying out the purpose of the Fund as stated in Note 1 above.

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

12. CONTINGENT LIABILITIES

As at 30 September 2020, the contingent liabilities of the Fund amounted to HK\$13.2 million for six litigations (2019: HK\$12.1 million for six litigations).

13. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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