

REPORT BY THE TRUSTEE OF THE

PRISONERS' EDUCATION TRUST FUND

FOR THE PERIOD

1 APRIL 2015 TO 31 MARCH 2016

Report by the Commissioner of Correctional Services,
Trustee of the Prisoners' Education Trust Fund
for the period 1 April 2015 to 31 March 2016

Introduction

The Prisoners' Education Trust Fund Ordinance (CAP 467, hereunder referred to as the Ordinance) was passed into law by the Legislative Council on 29 March 1995 and enacted on 30 March 1995.

2. In accordance with Section 5 of the Ordinance, the Commissioner of Correctional Services shall be the trustee, and as required by Section 7 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 period 1 April 2015 to 31 March 2016.

3. The fund was initially founded by a generous donation of HK\$250,000 by the Hong Kong Bank Foundation in 1992. The objective of the fund is to provide financial assistance in the form of grants for individual prisoners to sit for public examinations, cover course enrolment fees, procure textbooks or studying aids, and to procure educational facilities for prisoners.

4. Further donations of HK\$11,307,391 were received in the twenty-four years ended 31 March 2016 including the following donations for the total amount of HK\$2,098,335 received in the period from 1 April 2015 to 31 March 2016:

- HK\$250,000 from Tung Sin Tan
- HK\$300 from Mr. IP Yun-lam, a Hong Kong citizen
- HK\$110 from Mr. YAU Chi-chiu, CSDSM, Commissioner of Correctional Services
- HK\$80,000 from CRA Benevolent Fund Limited
- HK\$50,000 from Yan Oi Tong Limited
- HK\$100,000 from Dr. SHI Lap-tak, MH, JP, the Chairman and Executive President of Brilliant Printing Limited
- HK\$80,000 from Mr. James Mathew FONG, Partner of Mayer Brown JSM

- HK\$500,000 from Mr. LEUNG Siu-on Clifford, the Chairman of Lok Sin Tong Benevolent Society Kowloon
- HK\$250,000 from Po Leung Kuk
- Proceeds of HK\$23,969 generated through the sale of industrial products manufactured by persons in custody in the 50th Hong Kong Brands and Products Expo from the Correctional Services Department
- HK\$150,000 from Correctional Services Department Sports Association
- HK\$600,000 from Care of Rehabilitated Offenders Association Limited
- HK\$7,873 from Correctional Services Department Staff Club
- HK\$224 from Immigration Department Staff Club
- HK\$5,859 from the Donation Box set up at the Hong Kong Correctional Services Museum to collect donations from the visitors.

5. In July 2015 the funding policy of the Prisoners' Education Trust Fund Operational Guidelines was revised with the approval of the Prisoners' Education Trust Fund Committee. According to the revised funding policy, the fund moneys in excess of the initial capital of HK\$1,310,000 can be used to fund grants for individual prisoners, and a portion of the capital may be utilized to fund the provision of educational facilities for prisoners.

Object of the Fund

6. In accordance with Section 4 of the Ordinance, the trustee shall apply the fund in such a manner and to such extent as the Prisoners' Education Trust Fund Committee may direct for the following objectives: -

- (a) the provision of financial assistance to individual prisoners, on application, in their efforts to obtain education; and
- (b) the provision of educational facilities for prisoners.

Committees

7. The Prisoners' Education Trust Fund Committee was formed in accordance with Section 6 of the Ordinance. The membership of the

Committee is shown in Appendix I.

8. The Investment Advisory Committee was formed in accordance with Section 8 of the Ordinance. The membership of the Committee is shown in Appendix II.

9. The Prisoners' Education Trust Fund Committee is to make policy decisions as well as decisions on the granting of financial assistance to individual prisoners. Under Section 9 of the Ordinance, the trustee may invest any moneys of the fund in such trust investments as may be recommended by the Investment Advisory Committee and approved by the Prisoners' Education Trust Fund Committee.

Allocation of Funds on Investment

10. The Investment Advisory Committee held meetings on 27 March 2015 and 24 July 2015 to make recommendations on the allocation of funds on investment. The recommendations were approved by the Prisoners' Education Trust Fund Committee. The following investment recommendations were executed:

- On 14 April 2015, an amount of HK\$1,000,000 was placed into a HKD time deposit with the Bank of East Asia, Limited (BEA) at an interest rate of 0.79% per annum for six months.
- On 3 August 2015, 2,000 and 1,000 shares of Hong Kong Exchanges and Clearing Limited (HKEX) were purchased at a unit price of HK\$209 and HK\$208.80 respectively with a total settlement amount of HK\$630,609.26.
- On 3 August 2015, 20,000 shares of Tracker Fund of Hong Kong were purchased at a unit price of HK\$25 with a settlement amount of HK\$502,538.50.
- On 3 August 2015, 10,000 shares of Ping An Insurance (Group) Company of China Limited -H Shares were purchased at a unit price of HK\$43.30 with a settlement amount of HK\$435,631.34.
- On 3 August 2015, 100,000 shares of Bank of China Limited -H Shares were purchased at a unit price of HK\$4.20 with a settlement amount of

HK\$422,552.34.

- On 5 August 2015, 9,600 and 200 shares of HSBC Holdings plc were unloaded at a unit price of HK\$70.20 and HK\$69.65 respectively with a total settlement amount of HK\$683,639.42.
- On 10 August 2015, 100,000 shares of Bank of China Limited -H Shares were purchased at a unit price of HK\$4.19 with a settlement amount of HK\$421,546.26.
- On 8 January 2016, the CNY time deposit of CNY508,005.22 together with the interest of CNY7,100.75 thereon were converted to a total amount of HK\$595,204.95 at exchange rates of 1:1.15550. The capital and another HKD time deposit of HK\$1,167,636.98 together with the interest of HK\$3,510.60 were to combine to place into a HKD time deposit with the BEA at an interest rate of 0.49% per annum for three months.

A summary of the investments is included in Appendix III.

Financial Assistance

11. Following the Prisoners' Education Trust Fund Committee meetings held on 28 April 2015, 21 August 2015 and 14 December 2015 to consider applications for financial assistance, a total sum of HK\$361,610 was approved for payment of external examination fees, course fees and reference books for 238 successful applicants. Only the income generated from the fund was used to pay for the above-mentioned fees.

Accumulated Fund

12. The accumulated fund as at 31 March 2016 amounted to HK\$12,767,100 including HK\$11,557,391 in the capital account, HK\$692,800 in the accumulated surplus account and HK\$516,909 in the investment revaluation reserve account.

Auditor

13. In accordance with Section 7(2) of the Ordinance, the Director of Audit was appointed the Auditor of the fund.

14. Audited statement of accounts for the fund has been prepared and the Auditor's report and the signed statement of accounts are attached at Appendix IV.

Vote of Thanks

15. I wish to extend my thanks to the Chairman and members of the Prisoners' Education Trust Fund Committee, and all other officers who have contributed to the smooth functioning of the fund. I also wish to thank the Investment Advisory Committee, which has given expert advice on the investment of fund moneys.

16. Finally, my thanks are also due to the Director of Audit for providing his professional service in auditing the accounts.



YAU Chi-Chiu
Commissioner of Correctional Services
Trustee of the
Prisoners' Education Trust Fund
30 November 2016

Prisoners' Education Trust Fund Committee

Membership

(30 November 2016)

Chairman : Dr. LAM Tai-fai, SBS, MH, JP, appointed by the Secretary for Security

Members : Ms. KEUNG Yuen-kwan, Agnes, appointed by the Secretary for Security

Representative of the Commissioner of Correctional Services –
Mr. LAM Wai-kwong
Senior Superintendent (Rehabilitation)

Mr. LAM Che-leung
Superintendent (Officer in charge of the Rehabilitation Unit Two
of the Correctional Services Department)

Ms. SIU Pui-fan
Principal II (Officer in charge of the Education Unit of the
Correctional Services Department)

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

Hon : Mr. CHOI Ting-hei, Education Officer
Secretary (Correctional Services Department)

Prisoners' Education Trust Fund
Investment Advisory Committee

Membership

(30 November 2016)

Chairman : Dr. CHENG Kam-chung, Eric, B.B.S., M.H., J.P.
(appointed by the Secretary for Security)

Members : Ms. CHOY Chi-ting, Eva
(appointed by the Secretary for Security)

Dr. CHU Yuet-wah, Pollyanna
(appointed by the Secretary for Security)

Mr. YIP Chun-nam, Stephen, B.B.S., M.H., J.P.
(appointed by the Secretary for Security)

Mr. LAM Hung, Allan
(appointed by the Secretary for Security)

Appendix III

Prisoners' Education Trust Fund
Statement of Investment as at 31 March 2016

<u>I. Equity security</u>	<u>Number of share</u>	(a) <u>Cost at purchase</u> HK\$	(b) <u>Market value</u> HK\$	(b) – (a) <u>Revaluation gain/(loss)</u> HK\$
Bank of China Ltd. -H Shares	200,000	844,398	642,000	(202,398)
CK Hutchison Holdings Ltd.	1,504 ^{Note 1}	112,495	151,453	38,958
Cheung Kong Property Holdings Ltd.	1,504	N/A ^{Note 2}	74,974	74,974
CLP Holdings Ltd.	5,000	271,157	351,250	80,093
Hang Seng Bank Ltd.	2,900	292,688	398,170	105,482
Hong Kong and China Gas Co. Ltd.	34,294 ^{Note 3}	208,292	496,577	288,285
Hong Kong Exchanges and Clearing Ltd.	5,800	1,137,759	1,082,280	(55,479)
MTR Corporation Ltd.	16,500	296,372	631,125	334,753
Ping An Insurance (Group) Co. of China Ltd. -H Shares	10,000	435,661	370,500	(65,161)
Tracker Fund of Hong Kong	20,000	502,598	420,000	(82,598)
		<u>4,101,420</u>	<u>4,618,329</u>	<u>516,909</u>

Note 1: 1,504 shares of CK Hutchison Holdings Ltd. were exchanged for 2,200 shares of Hutchison Whampoa Ltd. on 3 June 2015.

Note 2: 1,504 shares of Cheung Kong Property Holdings Ltd. were distributed in regard to shares of CK Hutchison Holdings Ltd. on 3 June 2015.

Note 3: Including bonus issue of 3,117 shares received on 17 June 2015.

Appendix III

(Cont'd)

<u>II. Debt security</u>	(a) <u>Cost</u> HK\$	(b) <u>Market value</u> HK\$	(b) – (a) <u>Difference</u> HK\$
USD100,000 nominal value HUT WHA INTL 7.625% due on 09.04.2019 at 125.58%	869,099	894,821	25,722
USD200,000 nominal value SINOPEC 4.375% due on 10.04.2024 at 107.89%	1,655,417	1,640,916	(14,501)
	<u>2,524,516</u>	<u>2,535,737</u>	<u>11,221</u>



Prisoners' Education Trust Fund

Financial Statements for the year ended 31 March 2016

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Legislative Council

I certify that I have audited the financial statements of the Prisoners' Education Trust Fund set out on pages 3 to 15, which comprise the balance sheet as at 31 March 2016, 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 a summary of significant accounting policies and other explanatory information.

Commissioner of Correctional Services' Responsibility for the Financial Statements

The Commissioner of Correctional Services is responsible for the preparation of financial statements that give a true and fair view in accordance with section 7(1) of the Prisoners' Education Trust Fund Ordinance (Cap. 467) and Hong Kong Financial Reporting Standards, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 7(2) of the Prisoners' Education Trust Fund Ordinance and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

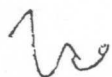
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commissioner of Correctional Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Prisoners' Education Trust Fund as at 31 March 2016, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 7(1) of the Prisoners' Education Trust Fund Ordinance.



TEO Wing-on
Principal Auditor
for Director of Audit

30 June 2016

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

Prisoners' Education Trust Fund
Balance Sheet as at 31 March 2016

	Note	2016 HK\$	2015 HK\$
Non-current Assets			
Available-for-sale financial assets	3	4,618,329	3,330,035
Held-to-maturity securities	4	2,524,516	2,564,670
		<u>7,142,845</u>	<u>5,894,705</u>
Current Assets			
Accounts receivable	5	63,578	86,462
Time deposits	6	-	1,788,090
Cash and cash equivalents	7	5,560,677	3,481,791
		<u>5,624,255</u>	<u>5,356,343</u>
		<u>12,767,100</u>	<u>11,251,048</u>
Accumulated Fund			
Capital		11,557,391	9,459,056
Accumulated surplus		692,800	817,824
Investment revaluation reserve		516,909	974,168
		<u>12,767,100</u>	<u>11,251,048</u>

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



YAU Chi-chiu
Commissioner of Correctional Services,
Trustee of the
Prisoners' Education Trust Fund
30 June 2016

Prisoners' Education Trust Fund
Income and Expenditure Account for the year ended 31 March 2016

	Note	2016 HK\$	2015 HK\$
Income			
Interest income	8	114,535	111,352
Dividends		114,966	117,230
Gains on disposal of available-for-sale financial assets		15,880	-
		<u>245,381</u>	<u>228,582</u>
 Expenditure			
Financial assistance to prisoners		(300,208)	(78,760)
Educational facilities for prisoners		(22,372)	(22,651)
Exchange loss		(47,825)	(4,786)
		<u>(370,405)</u>	<u>(106,197)</u>
 (Deficit) / Surplus for the year		<u><u>(125,024)</u></u>	<u><u>122,385</u></u>

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

Prisoners' Education Trust Fund
Statement of Comprehensive Income for the year ended 31 March 2016

	2016 HK\$	2015 HK\$
(Deficit)/ Surplus for the year	(125,024)	122,385
Other comprehensive income		
Items that may be reclassified subsequently to surplus or deficit:		
Available-for-sale financial assets		
Net (losses)/ gains on revaluation	(471,848)	225,180
Reclassification adjustment released from investment revaluation reserve upon disposal	14,589	-
	<u>(457,259)</u>	<u>225,180</u>
Total comprehensive (loss) / income for the year	<u><u>(582,283)</u></u>	<u><u>347,565</u></u>

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

Prisoners' Education Trust Fund
Statement of Changes in Equity for the year ended 31 March 2016

	Capital HK\$	Accumulated Surplus HK\$	Investment Revaluation Reserve HK\$	Total HK\$
Balance at 1 April 2014	7,109,412	695,439	748,988	8,553,839
Donations received for 2014-15	2,349,644	-	-	2,349,644
Total comprehensive income for 2014-15	-	122,385	225,180	347,565
Balance at 31 March 2015	9,459,056	817,824	974,168	11,251,048
Donations received for 2015-16	2,098,335	-	-	2,098,335
Total comprehensive loss for 2015-16	-	(125,024)	(457,259)	(582,283)
Balance at 31 March 2016	11,557,391	692,800	516,909	12,767,100

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

Prisoners' Education Trust Fund
Statement of Cash Flows for the year ended 31 March 2016

	Note	2016 HK\$	2015 HK\$
Cash flows from operating activities			
(Deficit) / Surplus for the year		(125,024)	122,385
Interest income		(114,535)	(111,352)
Dividends		(114,966)	(117,230)
Gain on disposal of available-for-sale financial assets		(15,880)	-
Exchange loss		47,825	4,786
Net cash used in operating activities		<u>(322,580)</u>	<u>(101,411)</u>
Cash flows from investing activities			
Interest received		158,145	148,447
Dividends received		134,018	112,615
Purchase of available-for-sale financial assets/ held-to-maturity securities		(2,413,313)	(2,206,983)
Proceeds from disposal of available-for-sale financial assets		683,639	-
Proceeds from redemption of held-to-maturity securities		-	773,550
Decrease in time deposits with original maturity over three months		1,740,642	1,479,647
Net cash from investing activities		<u>303,131</u>	<u>307,276</u>
Cash flows from financing activities			
Donations received		2,098,335	2,349,644
Net cash from financing activities		<u>2,098,335</u>	<u>2,349,644</u>
Net increase in cash and cash equivalents		2,078,886	2,555,509
Cash and cash equivalents at beginning of year		3,481,791	926,282
Cash and cash equivalents at end of year	7	<u><u>5,560,677</u></u>	<u><u>3,481,791</u></u>

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

Prisoners' Education Trust Fund
Notes to the Financial Statements

1. General

The Prisoners' Education Trust Fund (the Fund) was established for the purposes of providing financial assistance to individual prisoners, on application, in their efforts to obtain education and providing educational facilities for prisoners in accordance with section 4 of the Prisoners' Education Trust Fund Ordinance (Cap. 467).

The address of the Fund'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 7(1) of the Prisoners' Education Trust Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention except that available-for-sale financial assets 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 Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Adoption of new / revised HKFRSs

The Fund has adopted all new / revised HKFRSs which are effective and relevant to the Fund for the current accounting period.

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) Available-for-sale financial assets

The Fund's available-for-sale financial assets are classified as non-current assets unless the Prisoners' Education Trust Fund Committee intends to dispose of the investments within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on the trade-dates on which the Fund is committed to the transactions. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. At each balance sheet date, the fair value is re-measured and any unrealised holding gains or losses arising from the change in fair value are recognised in other comprehensive income and accumulated separately in the investment revaluation reserve. The fair values of quoted investments are based on current bid-prices.

(e) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Fund has the positive intention and ability to hold to maturity.

Held-to-maturity securities are carried at amortised cost using the effective interest method less impairment losses, if any.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset.

(f) Impairment of financial assets

The carrying amounts of held-to-maturity securities and available-for-sale financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

For held-to-maturity securities, if any such evidence exists, an impairment loss is recognised in the income and expenditure account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period, the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income and expenditure account. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment losses been recognised in prior years.

When there is objective evidence that an impairment loss on available-for-sale financial assets has occurred, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income and expenditure account - is removed from the investment revaluation reserve and recognised in the income and expenditure account. Impairment losses for equity securities are not reversed through the income and expenditure account. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income and recorded in the investment revaluation reserve.

(g) Donations

Donations are credited to the Accumulated Fund – Capital Account once cash is received and approval for acceptance obtained.

(h) Foreign currency translation

Hong Kong dollar is the currency of the primary economic environment in which the Fund operates. Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income and expenditure account.

(i) Revenue recognition

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

Dividend income is recognised when the Fund's right to receive payment is established.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. Available-for-sale financial assets

	2016 HK\$	2015 HK\$
Equity securities Listed, at fair value	<u>4,618,329</u>	<u>3,330,035</u>

4. Held-to-maturity securities

	2016 HK\$	2015 HK\$
Debt securities Listed, at cost	2,646,984	2,647,202
Less : Amortisation of premium	<u>(122,468)</u>	<u>(82,532)</u>
	<u>2,524,516</u>	<u>2,564,670</u>

Classified as

Non-current assets	<u>2,524,516</u>	<u>2,564,670</u>
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5. Accounts receivable

	2016 HK\$	2015 HK\$
Interest receivable	63,578	67,410
Dividends receivable	-	19,052
	<u>63,578</u>	<u>86,462</u>

6. Time deposits

	2016 HK\$	2015 HK\$
Deposits with original maturity over 3 months	<u>-</u>	<u>1,788,090</u>

7. Cash and cash equivalents

	2016 HK\$	2015 HK\$
Current account	82,494	35,074
Savings accounts	2,706,096	3,446,717
Deposits with original maturity within 3 months	2,772,087	-
	<u>5,560,677</u>	<u>3,481,791</u>

8. Interest income

	2016 HK\$	2015 HK\$
Bank interest	27,663	32,557
Bond interest	126,808	114,106
Less: Amortisation of premium for the year	(39,936)	(35,311)
	<u>86,872</u>	<u>78,795</u>
	<u>114,535</u>	<u>111,352</u>

9. Financial risk management

- (a) The Fund's major financial instruments include available-for-sale financial assets, held-to-maturity securities and bank deposits. The major risks associated with these financial instruments are set out below.

(i) 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 as at the balance sheet 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 bank deposits, all time deposits are placed with reputable licensed banks in Hong Kong. To minimise credit risks arising from held-to-maturity securities, only those classified under the investment grade by Moody's or Standard & Poor's are considered. At the balance sheet date, the credit quality of investments in debt securities analysed by the lower of ratings designated by Moody's or Standard & Poor's was as follows:

	2016 HK\$	2015 HK\$
Debt securities by credit rating		
Aa1 to Aa3 / AA+ to AA-	1,655,417	1,666,672
A1 to A3 / A+ to A-	869,099	897,998
	<u>2,524,516</u>	<u>2,564,670</u>

(ii) Market risk

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

(1) Equity price risk

The Fund maintains a diversified portfolio of investments. The Investment Advisory Committee and the Prisoners' Education Trust Fund Committee monitor the performance of the portfolio and regularly review the investment strategy of the Fund in the management of equity price risk. If the market prices of the respective equity securities had been 10% (2015 : 10%) higher/lower, other comprehensive income and the balance of the investment revaluation reserve of the Fund would have increased/decreased by about HK\$462,000 (2015 : about HK\$333,000). The sensitivity analysis was based on the carrying amount of equity securities held by the Fund at the balance sheet date and on the assumption that all other variables were held constant.

(2) Interest rate risk

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

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's held-to-maturity securities and time deposits bear interest at fixed rates, their fair value 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 Fund's deficit and equity.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is not exposed to material cash flow interest rate risk because interest income from financial instruments bearing interest at a floating rate is not significant.

(3) Foreign currency risk

The Fund maintained net financial instruments denominated in US dollars at a total of USD333,354 (2015 : USD340,471) at the balance sheet date. As Hong Kong dollar is pegged to the US dollar within a narrow range, it is considered that the Fund had no significant exposure to foreign exchange risk relating to this currency.

(iii) Liquidity risk

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 effects of fluctuations in cash flows.

(b) Fair value hierarchy of financial instruments

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

	2016		2015	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Assets				
Available-for-sale financial assets				
- Listed equity securities	<u>4,618,329</u>	<u>4,618,329</u>	<u>3,330,035</u>	<u>3,330,035</u>

No financial instruments were classified under Level 2 or Level 3. During the year, there were no significant transfers between 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 valuations: fair value measured using only unadjusted quoted prices in active markets for identical financial instruments at the measurement date.

Level 2 valuations: fair value measured using observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: fair value measured using significant unobservable inputs.

10. Capital management

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

- to comply with the Prisoners' Education Trust Fund Ordinance; and
- to maintain a capital base for carrying out the purposes of the Fund as stated in note 1 above.

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

11. Commitments

As at 31 March 2016, there were commitments totalling HK\$81,862 (2015 : HK\$42,832) being the outstanding balance of approved grants payable upon the registration/enrolment of the grantees with the relevant examination bodies and institutes or the procurement of learning aids/equipment for the grantees.

12. Cost of administering the Fund

The cost of administering the Fund has been borne by the Government of the Hong Kong Special Administrative Region in accordance with section 10 of the Prisoners' Education Trust Fund Ordinance.

13. Fair values of financial assets

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