

REPORT BY THE TRUSTEE OF THE

PRISONERS' EDUCATION TRUST FUND

FOR THE PERIOD

1 APRIL 2020 TO 31 MARCH 2021

Report by the Commissioner of Correctional Services,
Trustee of the Prisoners' Education Trust Fund
for the period 1 April 2020 to 31 March 2021

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 2020 to 31 March 2021.

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\$13,111,119 were received in the twenty-nine years ended 31 March 2021 including the following donations for the total amount of HK\$100,180 received in the period from 1 April 2020 to 31 March 2021:

- HK\$100,000 from CRA Benevolent Fund Limited
- HK\$180 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 11 May 2020 and 18 November 2020 to make recommendations on the allocation of funds on investment. The recommendations were approved by the Prisoners' Education Trust Fund Committee. The following investment recommendation was executed:

- On 26 May 2020, an amount of HK\$1,000,000 was placed into a HKD time deposit with the Bank of East Asia, Limited at an interest rate of 0.88% per annum for one month.
- On 4 June 2020, an amount of HK\$2,228,126.80 was placed into a HKD time deposit with the Bank of East Asia, Limited at an interest rate of 1.11% per annum for three months.
- On 25 August 2020, an amount of US\$104,312.50 was placed into a USD time deposit with the Bank of East Asia, Limited at an interest rate of 0.44% per annum for six months.
- On 25 August 2020, an amount of HK\$816,284.48 was placed into a HKD time deposit with the Bank of East Asia, Limited at an interest rate of 0.72% per annum for six months.
- On 27 October 2020, an amount of US\$200,000 was placed into a USD time deposit with the Bank of East Asia, Limited at an interest rate of 0.17% per annum for two months.
- On 4 December 2020, an amount of HK\$1,200,000 was placed into a HKD time deposit with the Bank of East Asia, Limited at an interest rate of 0.39% per annum for six months.
- On 4 December 2020, an amount of HK\$1,037,925.90 was placed into a HKD time deposit with the Bank of East Asia, Limited at an interest rate of 0.26% 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 2020, 20 August 2020 and 30 December 2020 to consider applications for financial assistance, a total sum of HK\$1,448,455 was approved for payment of external examination fees, course fees and reference books for 418 successful applicants.

Accumulated Fund

12. The accumulated fund as at 31 March 2021 amounted to HK\$16,976,049 including HK\$13,361,119 in the capital account, HK\$655,629 in the accumulated surplus account and HK\$2,959,301 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.



WOO Ying-ming
Commissioner of Correctional Services,
The Trustee of the
Prisoners' Education Trust Fund
8 October 2021

Prisoners' Education Trust Fund Committee

Membership

(Date of commencement: 1 December 2019)

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

Members : Ms. CHAN Suk-yee
(appointed by the Secretary for Security)

Representative of the Commissioner of Correctional Services –
Mr. CHAN Wing-ching
Senior Superintendent (Rehabilitation)

Ms. LI Pui-ling
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 Treasurer : Ms. CHAN Hiu-sin, Senior Treasury Accountant
(Correctional Services Department)

Hon Secretary : Ms. CHOI Man-wah, Education Officer
(Correctional Services Department)

Prisoners' Education Trust Fund
Investment Advisory Committee

Membership

(Date of commencement: 1 December 2019)

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

Members : Ms. LEE Sai-yin, Jeanne, B.B.S., J.P.
(appointed by the Secretary for Security)

Mr. CHOI Chi-kin, Calvin
(appointed by the Secretary for Security)

Mr. CHAN Tat-wah, Terry
(appointed by the Secretary for Security)

Mr. LAM Shing-ngai, Louie
(appointed by the Secretary for Security)

Appendix III**Prisoners' Education Trust Fund
Statement of Investment as at 31 March 2021**

<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	590,000	(254,398)
CLP Holdings Ltd.	7,000	414,429	528,500	114,071
Hang Seng Bank Ltd.	6,900	824,762	1,038,450	213,688
Hong Kong and China Gas Co. Ltd.	98,837 ^{Note1}	642,058	1,215,695	573,637
Hong Kong Exchanges and Clearing Ltd.	5,800	1,137,759	2,652,920	1,515,161
MTR Corporation Ltd.	26,500	658,590	1,167,325	508,735
Tracker Fund of Hong Kong	59,000	1,401,353	1,689,760	288,407
		<u>5,923,349</u>	<u>8,882,650</u>	<u>2,959,301</u>

Note 1: Including bonus issue of 4,706 shares received on 23 June 2020.

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\$
USD200,000 nominal value SINOPEC 4.375% due on 10.04.2024 at 109.3745%	1,598,075	1,700,467	102,392
	<u>1,598,075</u>	<u>1,700,467</u>	<u>102,392</u>

Appendix IV

Prisoners' Education Trust Fund

Financial statements for the year ended 31 March 2021

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 Prisoners' Education Trust Fund set out on pages 4 to 18, which comprise the balance sheet as at 31 March 2021, 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 Prisoners' Education Trust Fund as at 31 March 2021, 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 7(1) of the Prisoners' Education Trust Fund Ordinance (Cap. 467).

Basis for opinion

I conducted my audit in accordance with section 7(2) of the Prisoners' Education Trust Fund Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Prisoners' Education Trust Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Commissioner of 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 7(1) of the Prisoners' Education Trust Fund 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 Prisoners' Education Trust Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Prisoners' Education Trust Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner of 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 Prisoners' Education Trust Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Prisoners' Education Trust Fund to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



S. M. CHOI
Principal Auditor
for Director of Audit

20 September 2021

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

Prisoners' Education Trust Fund
Balance Sheet as at 31 March 2021

	Note	2021 HK\$	2020 HK\$
Non-current Assets			
Financial assets measured at fair value through other comprehensive income	3	8,882,650	7,024,486
Debt securities measured at amortised cost	4	1,598,075	1,606,805
		<u>10,480,725</u>	<u>8,631,291</u>
Current Assets			
Debt securities measured at amortised cost	4	-	3,131,067
Accounts receivable	5	35,536	95,163
Time deposits with original maturities over three months		2,012,958	2,200,000
Cash and cash equivalents	6	4,446,830	1,825,962
		<u>6,495,324</u>	<u>7,252,192</u>
Net Assets		<u><u>16,976,049</u></u>	<u><u>15,883,483</u></u>
Accumulated Fund			
Capital		13,361,119	13,260,939
Accumulated surplus		655,629	1,521,407
Investment revaluation reserve		2,959,301	1,101,137
		<u>16,976,049</u>	<u>15,883,483</u>

The accompanying notes 1 to 12 form part of these financial statements.



WOO Ying-ming
Commissioner of Correctional Services,
The Trustee of the
Prisoners' Education Trust Fund
25 June 2021

Prisoners' Education Trust Fund
Income and Expenditure Account for the year ended 31 March 2021

	Note	2021 HK\$	2020 HK\$
Income			
Interest income	7	102,981	182,026
Dividends		255,069	272,655
Net exchange gains/(losses)		11,145	(52,563)
		<u>369,195</u>	<u>402,118</u>
Expenditure			
Financial assistance to prisoners		(1,206,277)	(565,161)
Educational facilities for prisoners		(28,696)	(12,342)
		<u>(1,234,973)</u>	<u>(577,503)</u>
Deficit for the year		<u><u>(865,778)</u></u>	<u><u>(175,385)</u></u>

The accompanying notes 1 to 12 form part of these financial statements.

Prisoners' Education Trust Fund
Statement of Comprehensive Income for the year ended 31 March 2021

	2021	2020
	HK\$	HK\$
Deficit for the year	(865,778)	(175,385)
Other comprehensive income/(loss)		
Items that will not be reclassified to the income and expenditure account:		
Financial assets measured at fair value through other comprehensive income		
Net change in fair value	1,858,164	(1,872,050)
Total comprehensive income/(loss) for the year	992,386	(2,047,435)

The accompanying notes 1 to 12 form part of these financial statements.

Prisoners' Education Trust Fund
Statement of Changes in Equity for the year ended 31 March 2021

	Capital HK\$	Accumulated Surplus HK\$	Investment Revaluation Reserve HK\$	Total HK\$
Balance at 1 April 2019	13,007,672	1,696,792	2,973,187	17,677,651
Donations received for 2019-20	253,267	-	-	253,267
Total comprehensive loss for 2019-20	-	(175,385)	(1,872,050)	(2,047,435)
Balance at 31 March 2020	13,260,939	1,521,407	1,101,137	15,883,483
Donations received for 2020-21	100,180	-	-	100,180
Total comprehensive income for 2020-21	-	(865,778)	1,858,164	992,386
Balance at 31 March 2021	13,361,119	655,629	2,959,301	16,976,049

The accompanying notes 1 to 12 form part of these financial statements.

Prisoners' Education Trust Fund
Statement of Cash Flows for the year ended 31 March 2021

	Note	2021 HK\$	2020 HK\$
Cash flows from operating activities			
Deficit for the year		(865,778)	(175,385)
Adjustments for :			
Interest income		(102,981)	(182,026)
Dividends		(255,069)	(272,655)
Net exchange (gains)/losses		(11,145)	52,563
Decrease/(Increase) in accounts receivable		65	(65)
Net cash used in operating activities		<u>(1,234,908)</u>	<u>(577,568)</u>
Cash flows from investing activities			
Interest received		163,115	248,366
Dividends received		272,411	273,119
Proceeds from redemption of debt securities measured at amortised cost		3,125,225	781,700
Decrease/(Increase) in time deposits with original maturities over three months		189,733	(180,508)
Net cash from investing activities		<u>3,750,484</u>	<u>1,122,677</u>
Cash flows from financing activities			
Donations received		100,180	253,267
Net cash from financing activities		<u>100,180</u>	<u>253,267</u>
Net increase in cash and cash equivalents		2,615,756	798,376
Cash and cash equivalents at beginning of year		1,825,962	1,027,586
Effects of exchange rate changes on cash and cash equivalents		5,112	-
Cash and cash equivalents at end of year	6	<u><u>4,446,830</u></u>	<u><u>1,825,962</u></u>

The accompanying notes 1 to 12 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), 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 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 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 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.

Certain comparative figures for 2020 have been reclassified to conform with the current year's presentation of the Fund's financial statements.

(c) Impact of new and revised HKFRSs

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

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

(d) Financial assets

(i) Initial recognition and measurement

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

(ii) Categorisation and subsequent measurement

Financial assets measured at fair value through other comprehensive income

The Fund 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 Fund's financial assets measured at fair value through other comprehensive income are classified as non-current assets unless the Prisoners' Education Trust Fund Committee intends to dispose of the investments within 12 months of the reporting date.

Financial assets measured at amortised cost

These comprise debt securities, accounts receivable, time deposits 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, net of loss allowance, if any (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.

(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 debt securities, accounts receivable, time deposits and cash and cash equivalents, the Fund measures the expected credit losses to determine the loss allowance required to be recognised. Equity securities 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 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) Donations

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

(f) Foreign currency translation

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

(g) 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.

(h) Cash and cash equivalents

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

3. Financial assets measured at fair value through other comprehensive income

The Fund 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.

	2021 HK\$	2020 HK\$
Equity securities listed in Hong Kong, at fair value:		
Bank of China Ltd. - H Shares	590,000	594,000
CLP Holdings	528,500	500,500
Hang Seng Bank Ltd.	1,038,450	913,560
Hong Kong and China Gas Co. Ltd.	1,215,695	1,197,346
Hong Kong Exchanges and Clearing Ltd.	2,652,920	1,354,880
MTR Corporation Ltd.	1,167,325	1,060,000
Tracker Fund of Hong Kong	1,689,760	1,404,200
	<u>8,882,650</u>	<u>7,024,486</u>

4. Debt securities measured at amortised cost

	2021 HK\$	2020 HK\$
Debt securities		
Listed, at cost	1,677,978	4,048,098
Less : Amortisation of premium	(79,903)	(110,989)
	1,598,075	3,937,109
Unlisted, at cost	-	805,379
Less : Amortisation of premium	-	(4,616)
	-	800,763
	<u>1,598,075</u>	<u>4,737,872</u>
Classified as		
Non-current assets	1,598,075	1,606,805
Current assets	-	3,131,067
	<u>1,598,075</u>	<u>4,737,872</u>

5. Accounts receivable

	2021 HK\$	2020 HK\$
Interest receivable	35,536	77,756
Dividend receivable	-	17,342
Others	-	65
	<u>35,536</u>	<u>95,163</u>

6. Cash and cash equivalents

	2021 HK\$	2020 HK\$
Time deposits with original maturities within three months	2,374,903	-
Current account	453,444	344,397
Savings account	1,618,483	1,481,565
	<u>4,446,830</u>	<u>1,825,962</u>

7. Interest income

	2021 HK\$	2020 HK\$
Bank interest	30,585	60,935
Interest on debt securities	90,400	152,747
Less: Amortisation of premium for the year	(18,004)	(31,656)
	<u>72,396</u>	<u>121,091</u>
	<u>102,981</u>	<u>182,026</u>

8. Financial risk management

The Fund's major financial assets include financial assets measured at fair value through other comprehensive income, debt securities measured at amortised cost, time deposits and cash and cash equivalents. The major risks associated with these financial assets 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 those assets as stated in the balance sheet.

To minimise the credit risk arising from time deposits and cash and cash equivalents, all time deposits and bank balances are placed with reputable licensed banks in Hong Kong. To minimise credit risk arising from debt securities, only those classified under the investment grade by Moody's or

Standard & Poor's are considered. Hence, the credit risk associated with time deposits, bank balances and debt securities is considered to be low.

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

	2021 HK\$	2020 HK\$
Cash and cash equivalents and time deposits, by credit rating		
Aa1 to Aa3 / AA+ to AA-	2,051,927	1,825,962
A1 to A3 / A+ to A-	<u>4,407,861</u>	<u>2,200,000</u>
	<u>6,459,788</u>	<u>4,025,962</u>
Debt securities, by credit rating		
A1 to A3 / A+ to A-	<u>1,598,075</u>	<u>4,737,872</u>
	<u>8,057,863</u>	<u>8,763,834</u>

While the financial assets measured at amortised cost are subject to the impairment requirements, the Fund has estimated that their expected credit losses on these financial assets 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, interest rates and currency exchange rates may affect the fair value or cash flows of a financial instrument.

The Fund 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 Fund'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 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. It was estimated that, at 31 March 2021, if the market prices of the respective equity securities had been 10% (2020 : 10%) higher/lower, other comprehensive income for the year and the balance of the investment revaluation reserve of the Fund would have increased/decreased by HK\$888,000 (2020 : other comprehensive loss would have decreased/increased and the balance of the investment revaluation reserve of the Fund would have increased/decreased by

HK\$702,000). The sensitivity analysis was based on the carrying amount of equity securities held by the Fund 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 Fund's debt securities and 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 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.

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in currency exchange rates.

The Fund maintained financial assets denominated in US dollars totalling USD518,836 (2020 : USD514,048) at the reporting date. As Hong Kong dollar is pegged to the US dollar within a narrow range, it is considered that the Fund had no significant exposure to foreign exchange risk relating to this currency.

(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 effects of fluctuations in cash flows. Hence, the Fund does not have significant exposure to liquidity risk.

9. Fair value measurement

(a) Fair value hierarchy of financial instruments

The following table presents the carrying values 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”.

	2021		2020	
	Level 1	Total	Level 1	Total
	HK\$	HK\$	HK\$	HK\$
Assets				
Financial assets measured at fair value through other comprehensive income				
- Listed equity securities	<u>8,882,650</u>	<u>8,882,650</u>	<u>7,024,486</u>	<u>7,024,486</u>

No financial instruments were classified under Level 2 or Level 3.

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:-

Level 1 – fair values are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair values are determined with inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – fair values of financial instruments are determined with inputs that are not based on observable market data (unobservable inputs).

(b) Valuation techniques and key inputs

The fair value of financial instruments classified under Level 1 is based on 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.

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 its projected cash flow requirements, future financial obligations and commitments.

11. Commitments

As at 31 March 2021, there were commitments totalling HK\$283,724 (2020 : HK\$200,535) 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.