

REPORT BY THE TRUSTEE OF THE

PRISONERS' EDUCATION TRUST FUND

FOR THE PERIOD

1 APRIL 2016 TO 31 MARCH 2017

Report by the Commissioner of Correctional Services,
Trustee of the Prisoners' Education Trust Fund
for the period 1 April 2016 to 31 March 2017

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 2016 to 31 March 2017.

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\$11,689,915 were received in the twenty-five years ended 31 March 2017 including the following donations for the total amount of HK\$382,524 received in the period from 1 April 2016 to 31 March 2017:

- HK\$600 from Mr. IP Yun-lam, a Hong Kong citizen
- HK\$416 from Immigration Department Staff Club
- HK\$150 from Mr. YAU Chi-chiu, CSDSM, Commissioner of Correctional Services
- HK\$438 from Correctional Services Department Staff Club
- HK\$100,000 from CRA Benevolent Fund Limited
- Proceeds of HK\$26,804 generated through the sale of industrial products manufactured by persons in custody in the 51st Hong Kong Brands and Products Expo from the Correctional Services Department

- HK\$200,000 from Carina Production Company Limited
- HK\$50,000 from Mr. YEUNG Ka-shing, Corporate Project Director of Sinobest Development Holdings Limited
- HK\$4,116 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 10 May 2016 and 2 November 2016 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 18 May 2016, 20,000 shares of Tracker Fund of Hong Kong were purchased at a unit price of HK\$20.10 with a settlement amount of HK\$404,040.95.
- On 18 May 2016, 4,000 shares of Hang Seng Bank Limited were purchased at a unit price of HK\$132.20 with a settlement amount of HK\$532,013.72.
- On 18 May 2016, 15,000 shares of Hong Kong and China Gas Company Limited were purchased each at a unit price of HK\$14.36 and HK\$14.38 with a total settlement amount of HK\$433,720.70.
- On 18 May 2016, 2,000 shares of CLP Holdings Limited were purchased at a unit price of HK\$71.20 with a settlement amount of HK\$143,265.96.
- On 19 May 2016, an amount of HK\$400,000 was placed into a HKD time deposit with the Bank of East Asia, Limited at an interest rate of 1.02% per annum for 12 months.
- On 20 May 2016, 10,000 shares of MTR Corporation Limited were purchased at a unit price of HK\$36.00 with a settlement amount of HK\$362,187.72.
- On 21 November 2016, 1,500 and 4 shares of CK Hutchison Holdings Limited were unloaded at the unit prices of HK\$95.25 and HK\$95.30 respectively with a total settlement amount of HK\$142,286.79.
- On 21 November 2016, 10,000 shares of Ping An Insurance (Group)

Company of China Limited - H Shares were unloaded at a unit price of HK\$40.35 with a settlement amount of HK\$401,047.43.

A summary of the investments is included in Appendix III.

Financial Assistance

11. Following the Prisoners' Education Trust Fund Committee meetings held on 27 April 2016, 25 August 2016 and 13 December 2016 to consider applications for financial assistance, a total sum of HK\$126,614 was approved for payment of external examination fees, course fees and reference books for 89 successful applicants.

Accumulated Fund

12. The accumulated fund as at 31 March 2017 amounted to HK\$14,332,094 including HK\$11,939,915 in the capital account, HK\$947,784 in the accumulated surplus account and HK\$1,444,395 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.

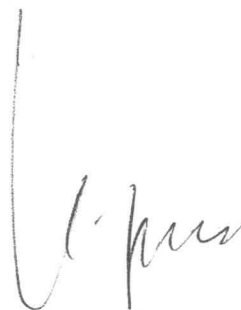
14. Audited statement of accounts for the fund has been prepared and the Auditor's report and the signed statement of accounts are attached at Appendix IV.

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.

A handwritten signature in black ink, appearing to read 'L. Kwok-Leung', is positioned above the printed name.

LAM Kwok-Leung
Commissioner of Correctional Services
Trustee of the
Prisoners' Education Trust Fund
31 October 2017

Prisoners' Education Trust Fund Committee

Membership

(Date of commencement: 1 December 2016)

Chairman : Dr. LAM Tai-fai, S.B.S, M.H., J.P.
(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

(Date of commencement: 1 December 2016)

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

Members : 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)

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

Appendix III

Prisoners' Education Trust Fund
Statement of Investment as at 31 March 2017

<u>I. Equity security</u>	<u>Number of share</u>	<u>(a) Cost at purchase HK\$</u>	<u>(b) Market value HK\$</u>	<u>(b) – (a) Revaluation gain/(loss) HK\$</u>
Bank of China Ltd. - H Shares	200,000	844,398	772,000	(72,398)
Cheung Kong Property Holdings Ltd.	1,504	N/A ^{Note1}	78,659	78,659
CLP Holdings Ltd.	7,000	414,429	568,750	154,321
Hang Seng Bank Ltd.	6,900	824,762	1,087,440	262,678
Hong Kong and China Gas Co. Ltd.	70,723 ^{Note2}	642,058	1,099,036	456,978
Hong Kong Exchanges and Clearing Ltd.	5,800	1,137,759	1,134,480	(3,279)
MTR Corporation Ltd.	26,500	658,590	1,156,725	498,135
Tracker Fund of Hong Kong	40,000	906,699	976,000	69,301
		<u>5,428,695</u>	<u>6,873,090</u>	<u>1,444,395</u>

Note 1: 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 2: Including bonus issue of 6,429 shares received on 24 June 2016.

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%	841,027	855,472	14,445
USD200,000 nominal value SINOPEC 4.375% due on 10.04.2024 at 107.89%	1,647,330	1,632,830	(14,500)
	<u>2,488,357</u>	<u>2,488,302</u>	<u>(55)</u>

Appendix IV



Prisoners' Education Trust Fund

Financial Statements for the year ended 31 March 2017

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 15, which comprise the balance sheet as at 31 March 2017, 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 2017, 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.



LIANG Kar-lun, Ken
Acting Principal Auditor
for Director of Audit

11 August 2017

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

Prisoners' Education Trust Fund
Balance Sheet as at 31 March 2017

	Note	2017 HK\$	2016 HK\$
Non-current Assets			
Available-for-sale financial assets	3	6,873,090	4,618,329
Held-to-maturity securities	4	2,488,357	2,524,516
		<u>9,361,447</u>	<u>7,142,845</u>
Current Assets			
Accounts receivable	5	74,782	63,578
Time deposits	6	3,786,429	-
Cash and cash equivalents	7	1,109,436	5,560,677
		<u>4,970,647</u>	<u>5,624,255</u>
		<u>14,332,094</u>	<u>12,767,100</u>
Accumulated Fund			
Capital		11,939,915	11,557,391
Accumulated surplus		947,784	692,800
Investment revaluation reserve		1,444,395	516,909
		<u>14,332,094</u>	<u>12,767,100</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 2017

Prisoners' Education Trust Fund
Income and Expenditure Account for the year ended 31 March 2017

	Note	2017 HK\$	2016 HK\$
Income			
Interest income	8	111,076	114,535
Dividends		243,436	114,966
Exchange gain		5,086	-
Gain on disposal of available-for-sale financial assets		-	15,880
		<u>359,598</u>	<u>245,381</u>
 Expenditure			
Financial assistance to prisoners		(83,984)	(300,208)
Educational facilities for prisoners		(15,808)	(22,372)
Exchange loss		-	(47,825)
Loss on disposal of available-for-sale financial assets		(4,822)	-
		<u>(104,614)</u>	<u>(370,405)</u>
 Surplus/(Deficit) for the year		<u><u>254,984</u></u>	<u><u>(125,024)</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 2017

	2017 HK\$	2016 HK\$
Surplus/(Deficit) for the year	254,984	(125,024)
Other comprehensive income		
Items that may be reclassified subsequently to surplus or deficit:		
Available-for-sale financial assets		
Net gains/(losses) on revaluation	901,283	(471,848)
Reclassification adjustment for amounts released from investment revaluation reserve upon disposal	26,203	14,589
	927,486	(457,259)
Total comprehensive income/(loss) for the year	1,182,470	(582,283)

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 2017

	Capital HK\$	Accumulated Surplus HK\$	Investment Revaluation Reserve HK\$	Total HK\$
Balance at 1 April 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
Donations received for 2016-17	382,524	-	-	382,524
Total comprehensive income for 2016-17	-	254,984	927,486	1,182,470
Balance at 31 March 2017	11,939,915	947,784	1,444,395	14,332,094

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 2017

	Note	2017 HK\$	2016 HK\$
Cash flows from operating activities			
Surplus/(Deficit) for the year		254,984	(125,024)
Interest income		(111,076)	(114,535)
Dividends		(243,436)	(114,966)
Loss/(Gain) on disposal of available-for-sale financial assets		4,822	(15,880)
Exchange (gain)/loss		(5,086)	47,825
Net cash used in operating activities		(99,792)	(322,580)
Cash flows from investing activities			
Interest received		141,116	158,145
Dividends received		243,436	134,018
Purchase of available-for-sale financial assets/ held-to-maturity securities		(1,875,430)	(2,413,313)
Proceeds from disposal of available-for-sale financial assets		543,334	683,639
(Increase)/Decrease in time deposits with original maturity over three months		(3,786,429)	1,740,642
Net cash (used in)/from investing activities		(4,733,973)	303,131
Cash flows from financing activities			
Donations received		382,524	2,098,335
Net cash from financing activities		382,524	2,098,335
Net (decrease)/increase in cash and cash equivalents		(4,451,241)	2,078,886
Cash and cash equivalents at beginning of year		5,560,677	3,481,791
Cash and cash equivalents at end of year	7	1,109,436	5,560,677

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) Financial assets

The Fund's financial assets include available-for-sale financial assets, held-to-maturity securities, accounts receivable, time deposits and cash and cash equivalents. They are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities. Except for available-for-sale financial assets, all other financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses, if any (note 2(e)).

At each balance sheet date, the fair value of available-for-sale financial assets 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.

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.

(e) Impairment of financial assets

The carrying amounts of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

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.

For other financial assets, if there is objective evidence that an impairment loss has occurred, 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.

(f) Donations

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

(g) 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.

(h) 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.

(i) 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	2017 HK\$	2016 HK\$
Equity securities Listed, at fair value	<u>6,873,090</u>	<u>4,618,329</u>
4. Held-to-maturity securities	2017 HK\$	2016 HK\$
Debt securities		
Listed, at cost	2,652,194	2,646,984
Less : Amortisation of premium	<u>(163,837)</u>	<u>(122,468)</u>
	<u>2,488,357</u>	<u>2,524,516</u>
Classified as		
Non-current assets	<u>2,488,357</u>	<u>2,524,516</u>
5. Accounts receivable	2017 HK\$	2016 HK\$
Interest receivable	<u>74,782</u>	<u>63,578</u>
6. Time deposits	2017 HK\$	2016 HK\$
Deposits with original maturity over 3 months	<u>3,786,429</u>	<u>-</u>
7. Cash and cash equivalents	2017 HK\$	2016 HK\$
Current account	37,602	82,494
Savings accounts	1,071,834	2,706,096
Deposits with original maturity within 3 months	<u>-</u>	<u>2,772,087</u>
	<u>1,109,436</u>	<u>5,560,677</u>
8. Interest income	2017 HK\$	2016 HK\$
Bank interest	25,446	27,663
Bond interest	126,998	126,808
Less: Amortisation of premium for the year	<u>(41,368)</u>	<u>(39,936)</u>
	<u>85,630</u>	<u>86,872</u>
	<u>111,076</u>	<u>114,535</u>

9. Financial risk management

- (a) The Fund's major financial instruments include available-for-sale financial assets, held-to-maturity securities, bank deposits and cash and cash equivalents. 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 and bank balances, all 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:

	2017 HK\$	2016 HK\$
Debt securities by credit rating		
Aa1 to Aa3 / AA+ to AA-	-	1,655,417
A1 to A3 / A+ to A-	<u>2,488,357</u>	<u>869,099</u>
	<u>2,488,357</u>	<u>2,524,516</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% (2016 : 10%) higher/lower, other comprehensive income and the balance of the investment revaluation reserve of the Fund would have increased/decreased by about HK\$687,000 (2016 : about HK\$462,000). 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 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 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 totalling USD328,020 (2016 : USD333,354) 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.

	2017		2016	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Assets				
Available-for-sale financial assets				
- Listed equity securities	<u>6,873,090</u>	<u>6,873,090</u>	<u>4,618,329</u>	<u>4,618,329</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: fair values are quoted prices (unadjusted) in the active markets for identical financial instruments at the measurement date;
- 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 or indirectly; and
- Level 3: fair values are determined with inputs that are not based on observable market data (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 2017, there were commitments totalling HK\$91,900 (2016 : HK\$81,862) 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.