

**REPORT BY THE TRUSTEE OF THE
PRISONERS' EDUCATION TRUST FUND**

FOR THE PERIOD

1 APRIL 2018 TO 31 MARCH 2019

Report by the Commissioner of Correctional Services,
Trustee of the Prisoners' Education Trust Fund
for the period 1 April 2018 to 31 March 2019

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 2018 to 31 March 2019.

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\$12,757,672 were received in the twenty-seven years ended 31 March 2019 including the following donations for the total amount of HK\$432,942 received in the period from 1 April 2018 to 31 March 2019:

- HK\$140 from Mr. LAM Kwok-leung, SBS, CSDSM, former Commissioner of Correctional Services
- HK\$100,000 from CRA Benevolent Fund Limited
- Proceeds of HK\$20,850 generated through the sale of industrial products manufactured by persons in custody in the 53rd Hong Kong Brands and Products Expo from the Correctional Services Department
- HK\$309,466 from Community Synergy For Rehabilitation Association Company Limited
- HK\$2,486 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 2018 and 13 November 2018 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 10 December 2018, 19,000 shares of Tracker Fund of Hong Kong were purchased at a unit price of HK\$25.90 with a settlement amount of HK\$494,655.40.

A summary of the investments is included in Appendix III.

Financial Assistance

11. Following the Prisoners' Education Trust Fund Committee meetings held on 19 April 2018, 22 August 2018 and 17 December 2018 to consider applications for financial assistance, a total sum of HK\$344,960 was approved for payment of external examination fees, course fees and reference books for 136 successful applicants.

Accumulated Fund

12. The accumulated fund as at 31 March 2019 amounted to HK\$17,677,651 including HK\$13,007,672 in the capital account, HK\$1,696,792 in the accumulated surplus account and HK\$2,973,187 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

Trustee of the

Prisoners' Education Trust Fund

18 October 2019

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 Che-leung

Senior Superintendent (Rehabilitation)

Mr. WONG Wai-sing

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, B.B.S., J.P.
(appointed by the Secretary for Security)

Appendix III

Prisoners' Education Trust Fund
Statement of Investment as at 31 March 2019

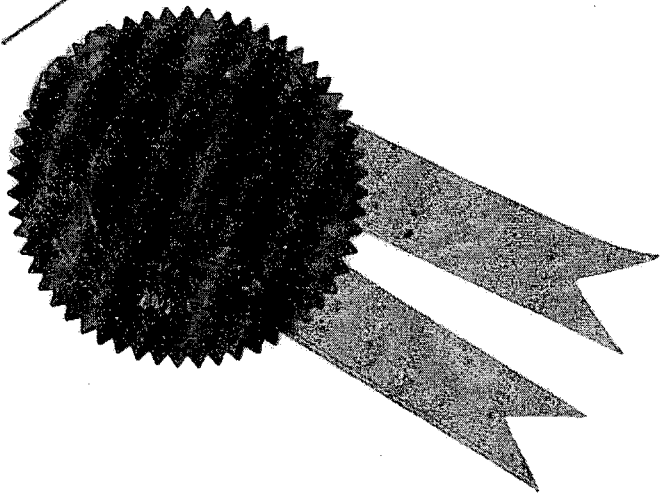
<u>I. Equity security</u>	<u>Number of share</u>	(a) <u>Cost at purchase</u> HK\$	(b) <u>Market value</u> HK\$	(b) – (a) <u>Revaluation gain/(loss)</u> HK\$
Bank of China Ltd. - H Shares	200,000	844,398	712,000	(132,398)
CLP Holdings Ltd.	7,000	414,429	636,650	222,221
Hang Seng Bank Ltd.	6,900	824,762	1,335,150	510,388
Hong Kong and China Gas Co. Ltd.	85,574 ^{Note 1}	642,058	1,608,791	966,733
Hong Kong Exchanges and Clearing Ltd.	5,800	1,137,759	1,585,720	447,961
MTR Corporation Ltd.	26,500	658,590	1,286,575	627,985
Tracker Fund of Hong Kong	59,000	1,401,353	1,731,650	330,297
		<u>5,923,349</u>	<u>8,896,536</u>	<u>2,973,187</u>

Note 1: Including bonus issue of 7,779 shares received on 22 June 2018.

Appendix III

(Cont'd)

<u>II. Debt security</u>	<u>(a)</u> <u>Cost</u> <u>HK\$</u>	<u>(b)</u> <u>Market value</u> <u>HK\$</u>	<u>(b) – (a)</u> <u>Difference</u> <u>HK\$</u>
USD300,000 normal value BANK OF CHINA LIMITED, HONG KONG BRANCH 2.875% due on 30.06.2020 at 102.065%	2,375,217	2,343,757	(31,460)
HKD800,000 normal value BANK OF CHINA LIMITED, HONG KONG BRANCH 2.03% due on 07.08.2020 at 100.67240%	802,892	793,062	(9,830)
USD200,000 nominal value SINOPEC 4.375% due on 10.04.2024 at 107.89%	1,639,565	1,641,254	1,689
USD100,000 nominal value HUT WHA INTL 7.625% due on 09.04.2019 at 125.58%	785,740	783,262	(2,478)
	<hr/>	<hr/>	<hr/>
	<u>5,603,414</u>	<u>5,561,335</u>	<u>(42,079)</u>



Prisoners' Education Trust Fund

Financial statements for the year ended 31 March 2019

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 21, which comprise the balance sheet as at 31 March 2019, 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 2019, 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
Principal Auditor
for Director of Audit

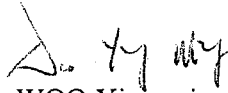
28 August 2019

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

Prisoners' Education Trust Fund
Balance Sheet as at 31 March 2019

	Note	2019 HK\$	2018 HK\$
Non-current Assets			
Financial assets measured at fair value through other comprehensive income	3	8,896,536	-
Debt securities measured at amortised cost	4	4,817,674	-
Available-for-sale financial assets	5	-	7,721,439
Held-to-maturity securities	6	-	5,665,370
		13,714,210	13,386,809
Current Assets			
Debt securities measured at amortised cost	4	785,740	-
Accounts receivable	7	130,623	95,734
Time deposits	8	2,019,492	1,000,000
Cash and cash equivalents	9	1,027,586	1,756,624
		3,963,441	2,852,358
		17,677,651	16,239,167
Accumulated Fund			
Capital		13,007,672	12,574,730
Accumulated surplus		1,696,792	1,371,692
Investment revaluation reserve		2,973,187	2,292,745
		17,677,651	16,239,167

The accompanying notes 1 to 16 form part of these financial statements.


WOO Ying-ming
 Commissioner of Correctional Services,
 Trustee of the
 Prisoners' Education Trust Fund
 28 June 2019

Prisoners' Education Trust Fund
Income and Expenditure Account for the year ended 31 March 2019

	Note	2019 HK\$	2018 HK\$
Income			
Interest income	10	183,223	147,521
Dividends		262,260	279,020
Exchange gain		767	36,260
Gain on disposal of available-for-sale financial assets		-	88,469
		446,250	551,270
 Expenditure			
Financial assistance to prisoners		(121,150)	(121,090)
Educational facilities for prisoners		-	(6,272)
		(121,150)	(127,362)
 Surplus for the year		325,100	423,908

The accompanying notes 1 to 16 form part of these financial statements.

Prisoners' Education Trust Fund
Statement of Comprehensive Income for the year ended 31 March 2019

	2019	2018
	HKS	HKS
Surplus for the year	325,100	423,908
Other comprehensive income		
Items that will not be reclassified to the income and expenditure account:		
Financial assets measured at fair value through other comprehensive income		
Fair value changes on revaluation	680,442	-
Items that may be reclassified subsequently to the income and expenditure account:		
Available-for-sale financial assets		
Net gains on revaluation	-	927,009
Reclassification adjustment for amounts released from investment revaluation reserve upon disposal	-	(78,659)
	-	848,350
Total comprehensive income for the year	1,005,542	1,272,258

The accompanying notes 1 to 16 form part of these financial statements.

Prisoners' Education Trust Fund
Statement of Changes in Equity for the year ended 31 March 2019

	Capital HK\$	Accumulated Surplus HK\$	Investment Revaluation Reserve HK\$	Total HK\$
Balance at 1 April 2017	11,939,915	947,784	1,444,395	14,332,094
Donations received for 2017-18	634,815	-	-	634,815
Total comprehensive income for 2017-18	-	423,908	848,350	1,272,258
Balance at 31 March 2018	12,574,730	1,371,692	2,292,745	16,239,167
Donations received for 2018-19	432,942	-	-	432,942
Total comprehensive income for 2018-19	-	325,100	680,442	1,005,542
Balance at 31 March 2019	13,007,672	1,696,792	2,973,187	17,677,651

The accompanying notes 1 to 16 form part of these financial statements.

Prisoners' Education Trust Fund
Statement of Cash Flows for the year ended 31 March 2019

	Note	2019 HK\$	2018 HK\$
Cash flows from operating activities			
Surplus for the year		325,100	423,908
Adjustments for :			
Interest income		(183,223)	(147,521)
Dividends		(262,260)	(279,020)
Gain on disposal of available-for-sale financial assets		-	(88,469)
Exchange gain		(767)	(36,260)
Decrease/(Increase) in accounts receivable		988	(8,463)
Net cash used in operating activities		<u>(120,162)</u>	<u>(135,825)</u>
Cash flows from investing activities			
Interest received		227,875	191,042
Dividends received		244,454	279,020
Purchase of financial assets measured at fair value through other comprehensive income		(494,655)	-
Purchase of held-to-maturity securities		-	(3,196,762)
Proceeds from disposal of available-for-sale financial assets		-	88,469
(Increase)/Decrease in time deposits with original maturities over three months		(1,019,492)	2,786,429
Net cash (used in)/from investing activities		<u>(1,041,818)</u>	<u>148,198</u>
Cash flows from financing activities			
Donations received		432,942	634,815
Net cash from financing activities		<u>432,942</u>	<u>634,815</u>
Net (decrease)/increase in cash and cash equivalents		(729,038)	647,188
Cash and cash equivalents at beginning of year		1,756,624	1,109,436
Cash and cash equivalents at end of year	9	<u><u>1,027,586</u></u>	<u><u>1,756,624</u></u>

The accompanying notes 1 to 16 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

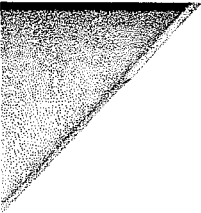
The financial statements have been prepared in accordance with section 7(1) of the Prisoners' Education Trust Fund Ordinance and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

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.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 "Financial Instruments" from 1 April 2018.

HKFRS 9 replaces Hong Kong Accounting Standard (HKAS) 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the classification categories for the Fund's financial assets under HKAS 39 and HKFRS 9.

Financial assets	Classification under HKAS 39	Classification under HKFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Time deposits	Loans and receivables	Amortised cost
Accounts receivable	Loans and receivables	Amortised cost
Debt securities	Held-to-maturity securities	Amortised cost
Equity securities	Available-for-sale financial assets	Fair value through other comprehensive income

Financial assets previously classified as loans and receivables carried at amortised cost were reclassified to financial assets measured at amortised cost. The carrying amounts as at 31 March 2018 were the same as those as at 1 April 2018.

Debt securities amounting to HK\$5,665,370 as at 31 March 2018 previously classified as held-to-maturity securities carried at amortised cost were reclassified to debt securities measured at amortised cost (note 4). The Fund intends to hold these securities to collect contractual cash flows which consist solely of payments of principal and interest. The carrying amounts of the debt securities as at 31 March 2018 were the same as those as at 1 April 2018.

Equity securities amounting to HK\$7,721,439 as at 31 March 2018 previously classified as available-for-sale financial assets carried at fair value were reclassified to financial assets measured at fair value through other comprehensive income (note 3). The Fund elected to present in other comprehensive income changes in the fair value of the equity securities because these investments were held as long-term strategic investments that were not expected to be sold in the short to medium term.

For an explanation of how the Fund classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in note 2(d)(ii).

(ii) Credit losses and impairment

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the “incurred loss” accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost (including debt securities, accounts receivable, time deposits and cash and cash equivalents). The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets as at 1 April 2018.

For further details on the Fund's new accounting policy for impairment, see note 2(d)(v).

(d) Financial assets

(i) Initial recognition

Financial assets are recognised on the date the Fund becomes party to the contractual provisions of the financial instruments. They are initially stated at fair value plus transaction costs directly attributable to the acquisition of the financial assets. For an explanation of how the Fund determines fair value of financial instruments, see note 12(b). Purchases and sales of investments are recognised using trade date accounting.

(ii) Categorisation and subsequent measurement from 1 April 2018

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 on 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 (the 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, net of loss allowance, if any (note 2(d)(v)).

(iii) Categorisation and subsequent measurement before 1 April 2018

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

At each reporting date, the fair value of available-for-sale financial assets was re-measured and any unrealised holding gains or losses arising from the change in fair value were recognised in other comprehensive income and accumulated separately in the investment revaluation reserve. The fair values of quoted investments were based on current bid-prices.

The Fund's available-for-sale financial assets were classified as non-current assets unless the Committee intended to dispose of the investments within 12 months of the reporting date.

(iv) 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.

(v) Impairment of financial assets from 1 April 2018

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 reassessment, 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. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vi) Impairment of financial assets before 1 April 2018

The carrying amounts of financial assets were reviewed at each reporting date to determine whether there was objective evidence of impairment.

When there was objective evidence that an impairment loss on available-for-sale financial assets had 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 - was removed from the investment revaluation reserve and recognised in the income and expenditure account. Impairment losses for equity securities were not reversed through the income and expenditure account. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income and recorded in the investment revaluation reserve.

For other financial assets, if there was objective evidence that an impairment loss had occurred, an impairment loss was 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the income and expenditure account. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment losses been recognised in prior years.

(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 at bank and deposits with banks with original maturities of three months or less from the date of placement.

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.

	2019	2018
	HK\$	HK\$
Equity securities listed in Hong Kong, at fair value:		
Bank of China Ltd. - H Shares	712,000	-
CLP Holdings	636,650	-
Hang Seng Bank Ltd.	1,335,150	-
Hong Kong and China Gas Co. Ltd.	1,608,791	-
Hong Kong Exchanges and Clearing Ltd.	1,585,720	-
MTR Corporation Ltd.	1,286,575	-
Tracker Fund of Hong Kong	1,731,650	-
	<u>8,896,536</u>	<u>-</u>

These investments were classified as available-for-sale financial assets in 2017-18.

4. Debt securities measured at amortised cost

	2019 HK\$	2018 HK\$
Debt securities		
Listed, at cost	5,080,885	-
Less : Amortisation of premium	(280,363)	-
	4,800,522	-
Unlisted, at cost	805,379	-
Less : Amortisation of premium	(2,487)	-
	802,892	-
	<u>5,603,414</u>	<u>-</u>
Classified as		
Non-current assets	4,817,674	-
Current assets	785,740	-
	<u>5,603,414</u>	<u>-</u>

5. Available-for-sale financial assets

	2019 HK\$	2018 HK\$
Equity securities listed in Hong Kong, at fair value	-	7,721,439

6. Held-to-maturity securities

	2019 HK\$	2018 HK\$
Debt securities		
Listed, at cost	-	5,079,960
Less : Amortisation of premium	-	(219,575)
	-	4,860,385
Unlisted, at cost	-	805,379
Less : Amortisation of premium	-	(394)
	-	804,985
	<u>-</u>	<u>5,665,370</u>
Classified as		
Non-current assets	<u>-</u>	<u>5,665,370</u>

7. Accounts receivable

	2019 HKS	2018 HKS
Interest receivable	112,817	94,746
Dividend receivable	17,806	-
Others	-	988
	<u>130,623</u>	<u>95,734</u>

8. Time deposits

	2019 HKS	2018 HKS
Deposits with original maturities over 3 months	<u>2,019,492</u>	<u>1,000,000</u>

9. Cash and cash equivalents

	2019 HKS	2018 HKS
Current account	241,901	23,250
Savings accounts	785,685	729,593
Deposits with original maturities within 3 months	-	1,003,781
	<u>1,027,586</u>	<u>1,756,624</u>

10. Interest income

	2019 HKS	2018 HKS
Bank interest	34,081	17,813
Interest on debt securities	212,022	185,840
Less: Amortisation of premium for the year	(62,880)	(56,132)
	<u>149,142</u>	<u>129,708</u>
	<u>183,223</u>	<u>147,521</u>

11. Financial risk management

The Fund's major financial instruments include financial assets measured at fair value through other comprehensive income, debt securities measured at amortised cost, bank deposits and cash and cash equivalents. The major risks associated with these financial instruments are set out below.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum

exposure to credit risk of the financial assets of the Fund is equal to their carrying amounts at the reporting date.

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 debt securities, only those classified under the investment grade by Moody's or Standard & Poor's are considered. Hence, the credit risk associated with bank balances and debt securities is considered to be low. As such, the credit risk on these financial instruments is assessed as not having increased significantly since initial recognition and the Fund determines the loss allowance required to be recognised based on 12-month expected credit losses.

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

	2019 HK\$	2018 HK\$
Cash and cash equivalents and bank deposits, by credit rating		
Aa1 to Aa3 / AA+ to AA-	1,027,586	752,843
A1 to A3 / A+ to A-	2,019,492	2,003,781
	<u>3,047,078</u>	<u>2,756,624</u>
Debt securities by credit rating		
Aa1 to Aa3 / AA+ to AA-	802,892	804,985
A1 to A3 / A+ to A-	4,800,522	4,860,385
	<u>5,603,414</u>	<u>5,665,370</u>
	<u>8,650,492</u>	<u>8,421,994</u>

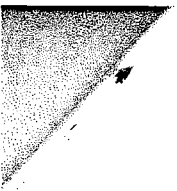
The Fund has estimated that 12-month expected credit losses on these financial instruments are immaterial and considers that no loss allowances required.

(b) Market risk

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

(i) 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% (2018 : 10%) higher/lower, other comprehensive income and the balance of the investment revaluation reserve of the Fund would have increased/decreased by about HK\$890,000 (2018 : about HK\$772,000). 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 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 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.

(iii) Currency risk

The Fund maintained net financial instruments denominated in US dollars totalling USD621,487 (2018 : USD629,247) 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

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.

12. 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.

	2019		2018	
	Level 1 HK\$	Total HK\$	Level 1 HK\$	Total HK\$
Assets				
Financial assets measured at fair value through other comprehensive income				
- Listed equity securities	<u>8,896,536</u>	<u>8,896,536</u>	<u>-</u>	<u>-</u>
Available-for-sale financial assets				
- Listed equity securities	<u>-</u>	<u>-</u>	<u>7,721,439</u>	<u>7,721,439</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 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).

(b) Valuation techniques and key inputs

The fair value of financial instruments classified under Level 1 is based on quoted market prices of these financial instruments at the reporting date.

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

13. 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.

14. Commitments

As at 31 March 2019, there were commitments totalling HK\$190,325 (2018 : HK\$50,764) 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.

15. 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.

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2019

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.