

# *Report of the Director of Audit*



**Audit Commission**  
The Government of the Hong Kong Special Administrative Region

## **Loan Fund**

### **Independent Audit Report To the President of the Legislative Council**

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 41 to 47, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **Director of Accounting Services' responsibility for the financial statements**

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

#### **Auditor's responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In my opinion, the financial statements properly present the assets and liabilities of the Loan Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang  
Director of Audit

25 October 2010

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

# Loan Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

|                                    | Note     | 2010<br>\$'000    | 2009<br>\$'000    |
|------------------------------------|----------|-------------------|-------------------|
| <b>Assets</b>                      |          |                   |                   |
| <b>Loans Outstanding</b>           | <b>3</b> |                   |                   |
| Housing Loans                      |          | 3,185,309         | 3,184,514         |
| Education Loans                    |          | 11,801,729        | 11,407,911        |
| Other Loans                        |          | 3,609,766         | 3,722,452         |
|                                    |          | <b>18,596,804</b> | <b>18,314,877</b> |
| <b>Net Current Assets</b>          |          |                   |                   |
| <b>Current Assets</b>              |          |                   |                   |
| Investments with the Exchange Fund | 4        | 1,654,708         | 1,526,132         |
| Cash and bank balances             |          | 23,444            | 26,091            |
|                                    |          | <b>1,678,152</b>  | <b>1,552,223</b>  |
| <b>Current Liabilities</b>         |          |                   |                   |
| Deposits                           | 5        | (6,406)           | (6,391)           |
|                                    |          | <b>1,671,746</b>  | <b>1,545,832</b>  |
|                                    |          | <b>20,268,550</b> | <b>19,860,709</b> |
| <b>Representing:</b>               |          |                   |                   |
| <b>Total Fund Balance</b>          |          |                   |                   |
| <b>Applied Fund</b>                | <b>6</b> | <b>18,596,804</b> | <b>18,314,877</b> |
| <b>Available Fund</b>              | <b>7</b> |                   |                   |
| Balance at 1 April 2009            |          | 1,545,832         | 1,684,591         |
| Surplus/(Deficit) for the year     |          | 125,914           | (138,759)         |
| Balance at 31 March 2010           |          | <b>1,671,746</b>  | <b>1,545,832</b>  |
|                                    | <b>8</b> | <b>20,268,550</b> | <b>19,860,709</b> |

Notes 1 to 11 form part of these financial statements.

**LI Kwok-tso**  
Director of Accounting Services  
25 August 2010



# Loan Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

|  | Note | 2010<br>\$'000   | 2009<br>\$'000 |
|--|------|------------------|----------------|
| <b>Cash and bank balances at 1 April 2009</b>  |      | <b>26,091</b>    | 38,695         |
| Revenue  | 9    | 2,275,648        | 2,101,121      |
| Expenditure                                    | 10   | (2,149,734)      | (2,239,880)    |
| <b>Surplus/(Deficit) for the year</b>          |      | <b>125,914</b>   | (138,759)      |
| <b>Other cash movements</b>                    | 11   | <b>(128,561)</b> | 126,155        |
| <b>Cash and bank balances at 31 March 2010</b> |      | <b>23,444</b>    | 26,091         |

Notes 1 to 11 form part of these financial statements.

**LI Kwok-tso**  
Director of Accounting Services  
25 August 2010



# Loan Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Purpose and Legislation

The Loan Fund finances loans and advances for schemes of developments in Hong Kong and loans to students under schemes approved by the Finance Committee. It was established with effect from 1 April 1990 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 14 March 1990.

### 2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Loan Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions.
- (ii) The Statement of Assets and Liabilities is structured to show the overall financial position of the Fund including the total outstanding loans.
- (iii) For the purposes of these financial statements, a contingent liability is defined as:
  - (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
  - (b) a present obligation that arises from past events but is not recognised because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - the amount of the obligation cannot be measured with sufficient reliability.

### 3. Loans Outstanding

|                                 | 2010                       |                              |                          | 2009                       |                              |                          |
|---------------------------------|----------------------------|------------------------------|--------------------------|----------------------------|------------------------------|--------------------------|
|                                 | Housing<br>Loans<br>\$'000 | Education<br>Loans<br>\$'000 | Other<br>Loans<br>\$'000 | Housing<br>Loans<br>\$'000 | Education<br>Loans<br>\$'000 | Other<br>Loans<br>\$'000 |
| Balance at 1 April 2009         | 3,184,514                  | 11,407,911                   | 3,722,452                | 3,214,559                  | 10,677,657                   | 3,850,095                |
| <b>Additions:</b>               |                            |                              |                          |                            |                              |                          |
| Loan payments                   | 222,995                    | 1,835,986                    | 90,744                   | 103,685                    | 2,051,133                    | 85,033                   |
| Capitalised interest            | (26)                       | -                            | 75,069                   | 875                        | -                            | 69,310                   |
|                                 | 222,969                    | 1,835,986                    | 165,813                  | 104,560                    | 2,051,133                    | 154,343                  |
| <b>Deductions:</b>              |                            |                              |                          |                            |                              |                          |
| Loan repayments                 | (50,171)                   | (1,439,745)                  | (261,933)                | (62,231)                   | (1,320,129)                  | (264,122)                |
| Loans written off               | (452)                      | (2,423)                      | (16,566)                 | (4,304)                    | (750)                        | (17,864)                 |
| Proceeds from sale of loans     | (171,551)                  | -                            | -                        | (68,070)                   | -                            | -                        |
|                                 | (222,174)                  | (1,442,168)                  | (278,499)                | (134,605)                  | (1,320,879)                  | (281,986)                |
| <b>Balance at 31 March 2010</b> | <b>3,185,309</b>           | <b>11,801,729</b>            | <b>3,609,766</b>         | <b>3,184,514</b>           | <b>11,407,911</b>            | <b>3,722,452</b>         |

# Loan Fund

## 4. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 8 of the Resolution:

|   | <b>2010</b>             | 2009             |
|---|-------------------------|------------------|
|   | <b>\$'000</b>           | \$'000           |
| Investments<br>(see (ii) and (iii) below) | <b>1,654,471</b>        | 1,512,880        |
| Deposits                                  | <b>237</b>              | 13,252           |
|   | <b><u>1,654,708</u></b> | <u>1,526,132</u> |

(ii) The investments represent the cost of investments together with interest of \$120 million received in the year ended 31 March 2010.

(iii) Effective from 1 April 2007, the return on the investments is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher.

## 5. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable to revenue:

|          | <b>2010</b>         | 2009         |
|----------|---------------------|--------------|
|          | <b>\$'000</b>       | \$'000       |
| Students | <b>6,324</b>        | 6,289        |
| Others   | <b>82</b>           | 102          |
|          | <b><u>6,406</u></b> | <u>6,391</u> |

## 6. Applied Fund

This represents the outstanding loans made from the Fund under paragraph 6 of the Resolution.

## 7. Available Fund

This represents funds available for making loans under paragraph 6 of the Resolution.

## 8. Contingent Liabilities

There are contingent liabilities as listed below, with the maximum amount of each liability as at 31 March 2010 indicated in brackets:

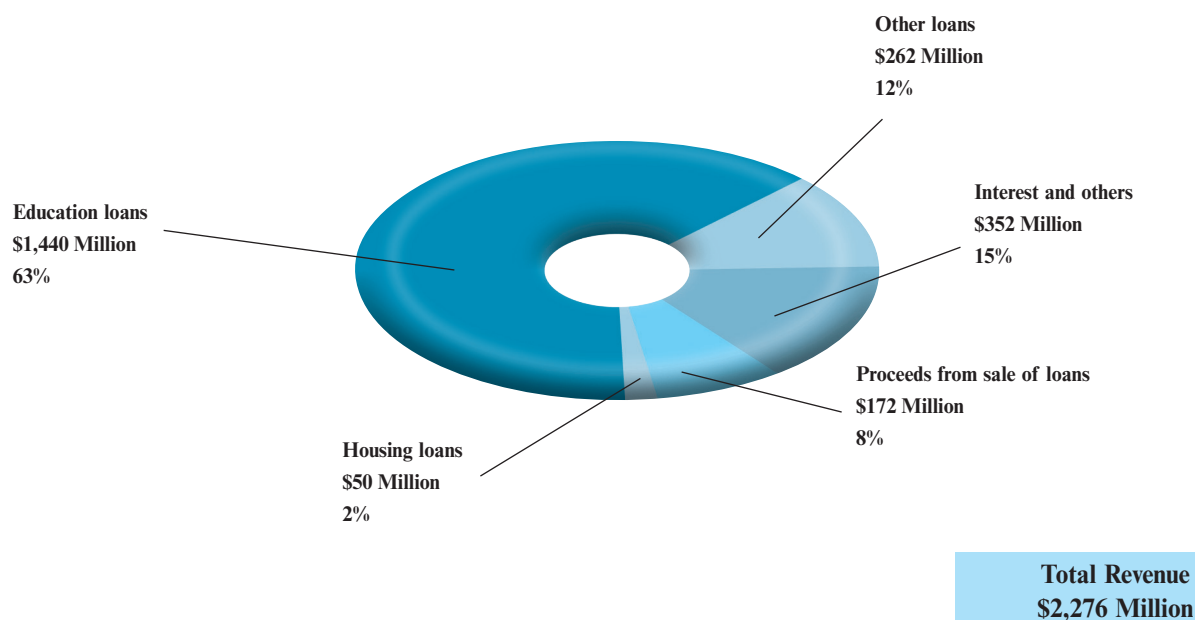
- (i) Guarantee provided for commercial loan of the Ocean Park Corporation (\$1,388 million); and
- (ii) Guarantee provided under a special finance scheme for small and medium enterprises (\$18 million).

# Loan Fund

## 9. Revenue

|  | 2010                        |                         | 2009             |
|--|-----------------------------|-------------------------|------------------|
|  | Original Estimate<br>\$'000 | Actual<br>\$'000        | Actual<br>\$'000 |
| <b>Loan repayments:</b>                      |                             |                         |                  |
| Housing loans                                | 50,636                      | <b>50,171</b>           | 62,231           |
| Education loans                              | 1,532,615                   | <b>1,439,745</b>        | 1,320,129        |
| Other loans                                  | 269,390                     | <b>261,933</b>          | 264,122          |
|  | 1,852,641                   | <b>1,751,849</b>        | 1,646,482        |
| <b>Interest on loans</b>                     | 276,242                     | <b>230,148</b>          | 247,399          |
| <b>Investment income</b>                     | 86,000                      | <b>119,730</b>          | 136,910          |
| <b>Surcharges on overdue loan repayments</b> | 2,200                       | <b>2,296</b>            | 2,250            |
| <b>Proceeds from sale of loans</b>           | 85,000                      | <b>171,551</b>          | 68,070           |
| <b>Repayments waived now recovered</b>       | -                           | <b>71</b>               | -                |
| <b>Others</b>                                | -                           | <b>3</b>                | 10               |
| <b>Appropriation from General Revenue</b>    | 400,000                     | -                       | -                |
|  | <u>2,702,083</u>            | <u><b>2,275,648</b></u> | <u>2,101,121</u> |

### Analysis of Revenue for the year ended 31 March 2010

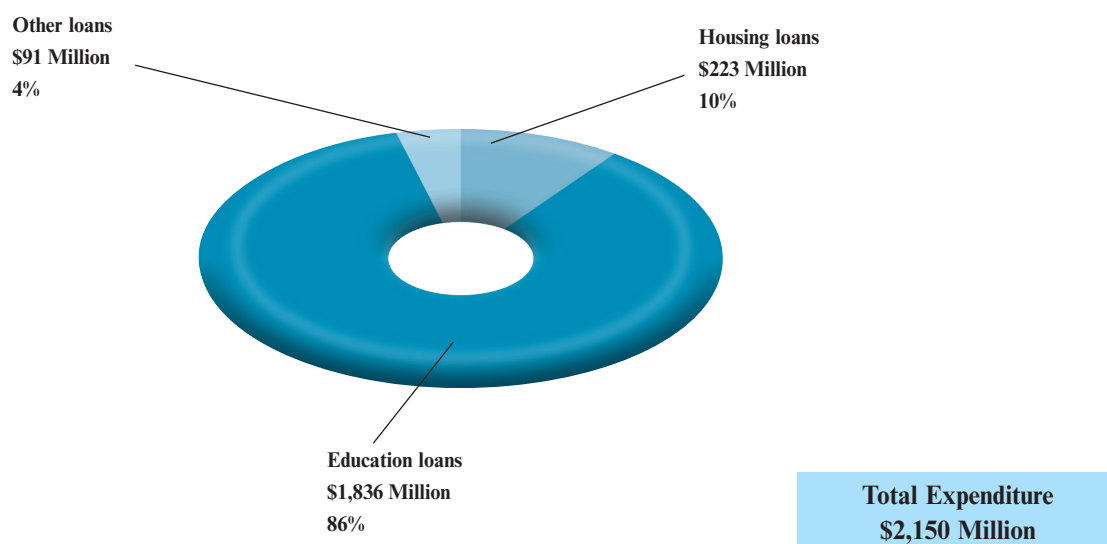


# Loan Fund

## 10. Expenditure

|                       | 2010                        |                         | 2009             |
|-----------------------|-----------------------------|-------------------------|------------------|
|                       | Original Estimate<br>\$'000 | Actual<br>\$'000        | Actual<br>\$'000 |
| <b>Loan payments:</b> |                             |                         |                  |
| Housing loans         | 98,600                      | <b>222,995</b>          | 103,685          |
| Education loans       | 2,372,281                   | <b>1,835,986</b>        | 2,051,133        |
| Other loans           | 121,887                     | <b>90,744</b>           | 85,033           |
|                       | 2,592,768                   | <b>2,149,725</b>        | 2,239,851        |
| <b>Others</b>         | -                           | <b>9</b>                | 29               |
|                       | <u>2,592,768</u>            | <u><b>2,149,734</b></u> | <u>2,239,880</u> |

### Analysis of Expenditure for the year ended 31 March 2010



# Loan Fund

## 11. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities.

|  | 2010<br>\$'000   | 2009<br>\$'000 |
|--|------------------|----------------|
| <b>(Increase)/Reduction in Assets:</b> |                  |                |
| Investments with the Exchange Fund     | (128,576)        | 123,896        |
| <b>Increase in Liabilities:</b>        |                  |                |
| Deposits                               | 15               | 2,259          |
|  | <u>(128,561)</u> | <u>126,155</u> |

## Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2001 to 2010

\$Million

