

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 71 to 77, which comprise the statement of assets and liabilities as at 31 March 2014, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 of the Loan Fund for the year ended 31 March 2014 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

28 October 2014

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Assets			
Loans Outstanding	3		
Housing Loans		3,053,320	3,115,810
Education Loans		14,755,903	12,911,039
Other Loans		3,405,872	3,323,327
		21,215,095	19,350,176
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	1,374,043	2,181,926
Cash and bank balances		31,531	16,384
		1,405,574	2,198,310
Current Liabilities			
Deposits	5	(16,076)	(11,959)
		1,389,498	2,186,351
		22,604,593	21,536,527
Representing:			
Total Fund Balance			
Applied Fund	6	21,215,095	19,350,176
Available Fund	7		
Balance at beginning of year		2,186,351	2,249,746
Deficit for the year		(796,853)	(63,395)
Balance at end of year		1,389,498	2,186,351
	8	22,604,593	21,536,527

Notes 1 to 11 form part of these financial statements.

Martin SIU
Director of Accounting Services
15 August 2014



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Cash and bank balances at beginning of year		16,384	24,655
Receipts	9	3,346,703	2,239,979
Payments	10	(4,143,556)	(2,303,374)
Deficit for the year		(796,853)	(63,395)
Other cash movements	11	812,000	55,124
Cash and bank balances at end of year		31,531	16,384

Notes 1 to 11 form part of these financial statements.

Martin SIU
Director of Accounting Services
15 August 2014



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.
- (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

	2014			2013		
	Housing Loans HK\$'000	Education Loans HK\$'000	Other Loans HK\$'000	Housing Loans HK\$'000	Education Loans HK\$'000	Other Loans HK\$'000
Balance at beginning of year	3,115,810	12,911,039	3,323,327	3,084,860	12,361,535	3,434,893
Additions						
Loan payments	108,531	3,782,593	252,432	179,459	2,041,079	82,836
Capitalised interest	143	-	91,464	160	-	87,059
	108,674	3,782,593	343,896	179,619	2,041,079	169,895
Deductions						
Loan repayments	(20,152)	(1,933,216)	(256,122)	(21,250)	(1,489,384)	(268,595)
Loans written off	-	(4,513)	(5,229)	(608)	(2,191)	(12,866)
Proceeds from sale of loans	(151,012)	-	-	(126,811)	-	-
	(171,164)	(1,937,729)	(261,351)	(148,669)	(1,491,575)	(281,461)
Balance at end of year	3,053,320	14,755,903	3,405,872	3,115,810	12,911,039	3,323,327

Loan Fund

4. Investments with the Exchange Fund

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

	2014	2013
	HK\$'000	HK\$'000
Investments	1,373,681	2,181,903
(Note (ii) below)		
Deposits	362	23
	1,374,043	2,181,926

(ii) The investments represent the cost of investments together with the investment income received in the year being reported. Effective from 1 April 2007, the investment income 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. The investment income for the year ended 31 March 2014 was HK\$122 million (2013: HK\$136 million).

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 for credit to the Fund:

	2014	2013
	HK\$'000	HK\$'000
Students	15,924	11,823
Others	152	136
	16,076	11,959

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

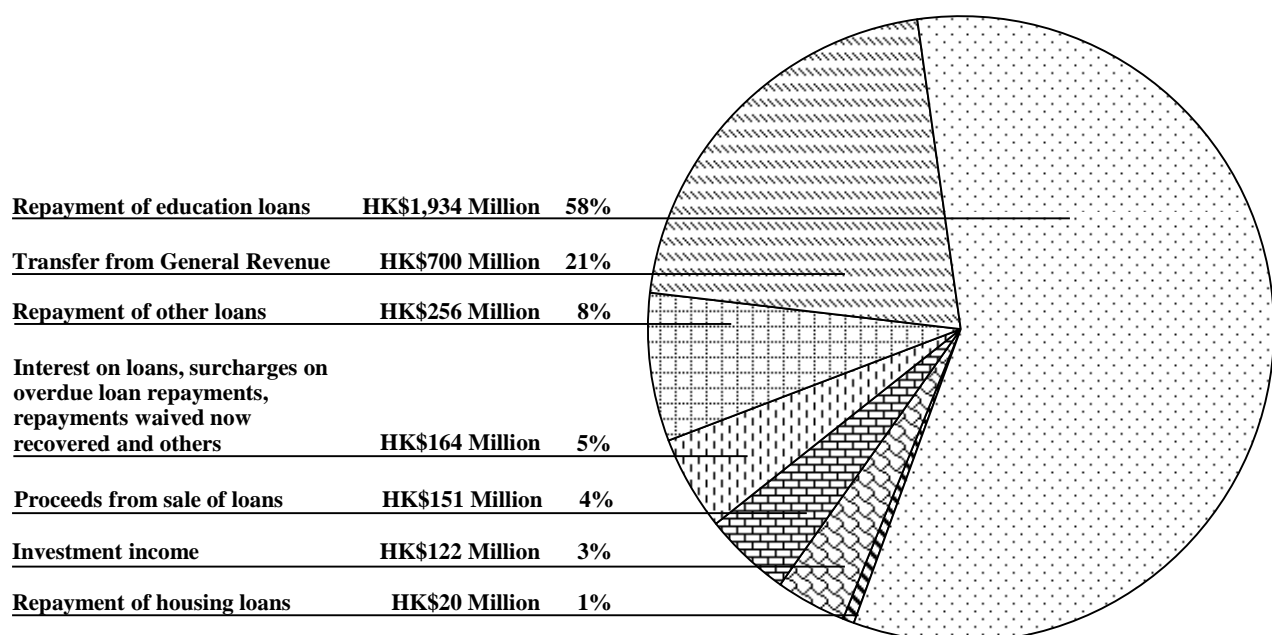
As at 31 March 2014, the amount of contingent liabilities arising from guarantees provided for a commercial loan of the Ocean Park Corporation was HK\$1,388 million (2013: HK\$1,388 million).

Loan Fund

9. Receipts

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan repayments			
Housing loans	25,397	20,152	21,250
Education loans	1,823,501	1,933,216	1,489,384
Other loans	261,421	256,122	268,595
	2,110,319	2,209,490	1,779,229
Interest on loans	189,619	161,032	194,664
Investment income			
Investments with the Exchange Fund	-	122,296	136,148
Others	-	3	4
	84,000	122,299	136,152
Surcharges on overdue loan repayments	2,386	2,789	3,050
Proceeds from sale of loans	237,286	151,012	126,811
Repayments waived now recovered	-	65	49
Others	-	16	24
Transfer from General Revenue	700,000	700,000	-
	3,323,610	3,346,703	2,239,979

Analysis of Receipts for the year ended 31 March 2014



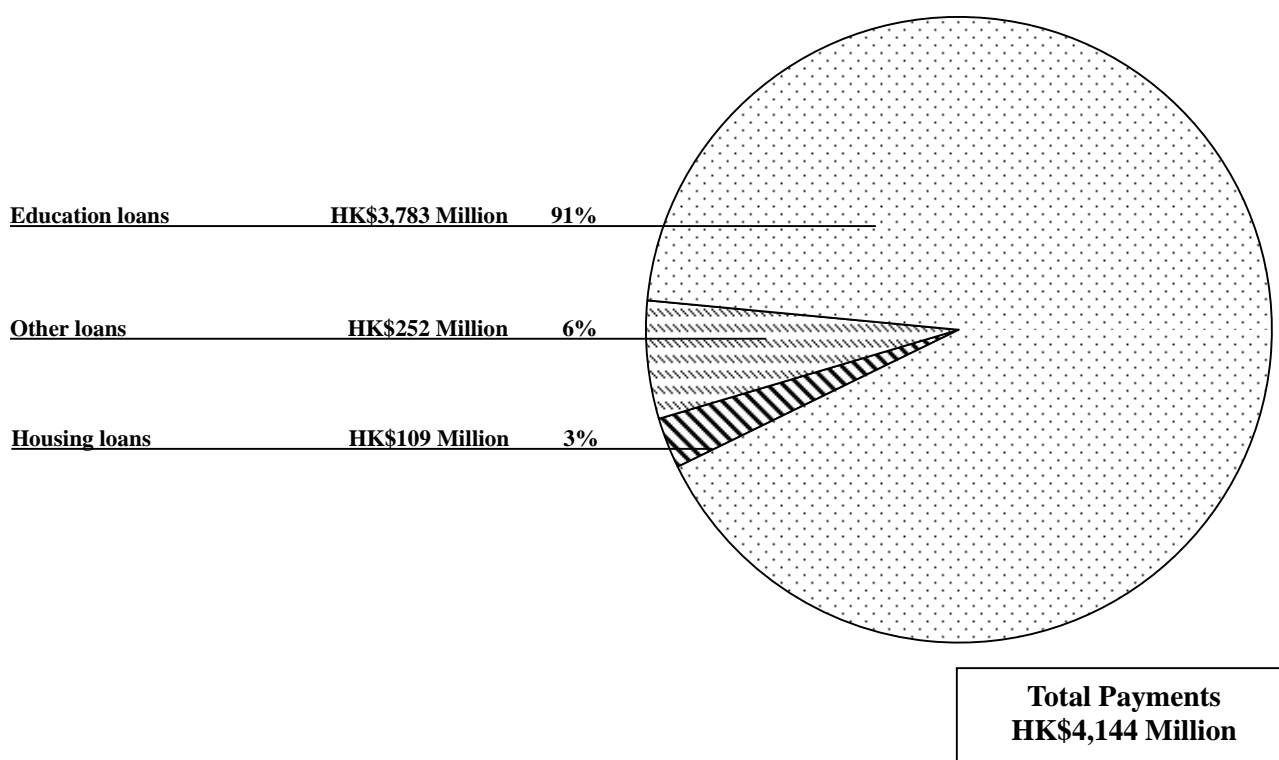
Total Receipts
HK\$3,347 Million

Loan Fund

10. Payments

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan payments			
Housing loans	337,000	108,531	179,459
Education loans	3,003,741	3,782,593	2,041,079
Other loans	236,995	252,432	82,836
	3,577,736	4,143,556	2,303,374
Additional commitments	230,000	-	-
	<u>3,807,736</u>	<u>4,143,556</u>	<u>2,303,374</u>

Analysis of Payments for the year ended 31 March 2014



Loan Fund

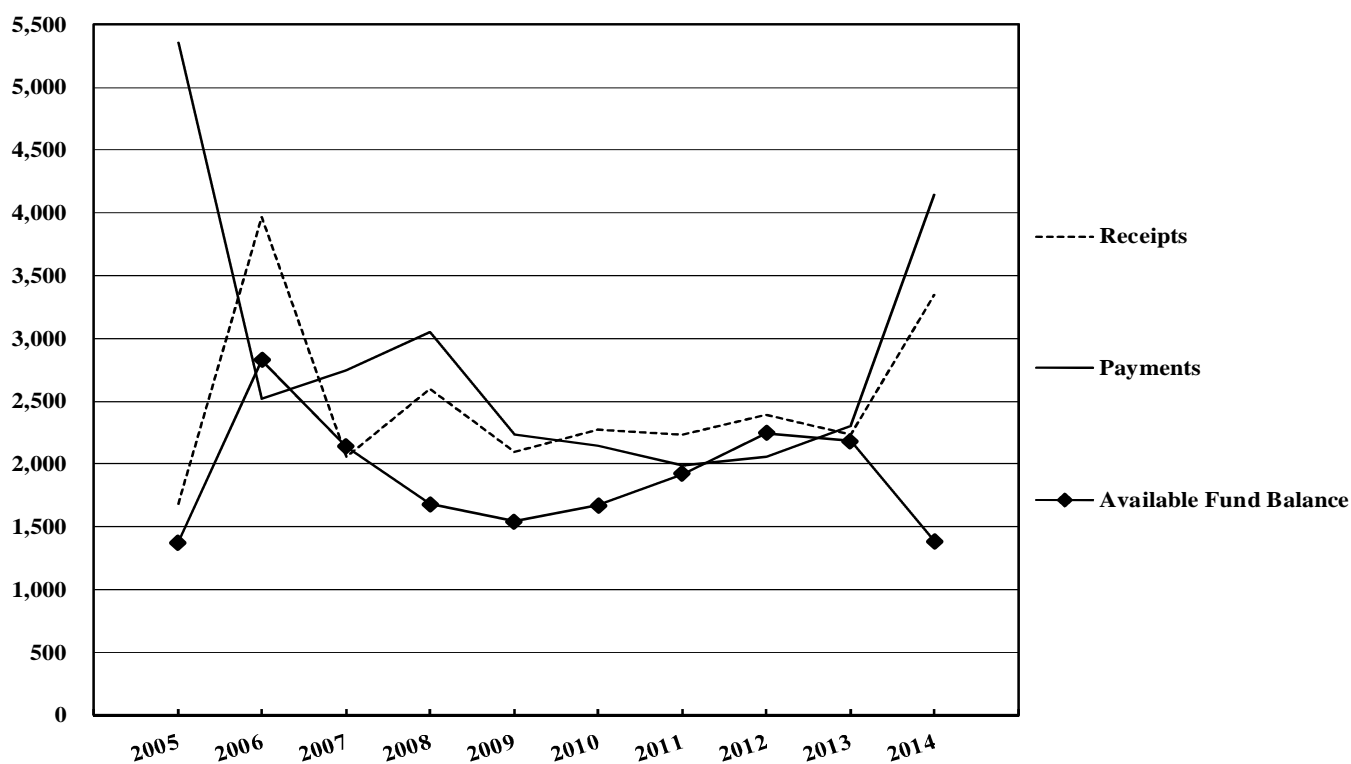
11. Other Cash Movements

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

	2014 HK\$'000	2013 HK\$'000
Reduction in Assets		
Investments with the Exchange Fund	807,883	53,515
Increase in Liabilities		
Deposits	4,117	1,609
	<u>812,000</u>	<u>55,124</u>

Receipts, Payments and Available Fund Balance for the years ended 31 March 2005 to 2014

HK\$Million



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