

# *Report of the Director of Audit*



## **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 75 to 82, which comprise the statement of assets and liabilities as at 31 March 2015, 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 2015 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

27 October 2015

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

# Loan Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>Assets</b>			
<b>Loans Outstanding</b>	<b>3</b>		
Housing loans		3,121,128	3,053,320
Education loans		15,951,654	14,755,903
Other loans		3,804,839	3,405,872
		<b>22,877,621</b>	<b>21,215,095</b>
<b>Net Current Assets</b>			
<b>Current Assets</b>			
Investments with the Exchange Fund	<b>4</b>	2,472,200	1,374,043
Cash and bank balances		17,057	31,531
		<b>2,489,257</b>	<b>1,405,574</b>
<b>Current Liabilities</b>			
Deposits	<b>5</b>	(17,375)	(16,076)
		<b>2,471,882</b>	<b>1,389,498</b>
		<b>25,349,503</b>	<b>22,604,593</b>
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>22,877,621</b>	<b>21,215,095</b>
<b>Available Fund</b>	<b>7</b>		
Balance at beginning of year		1,389,498	2,186,351
Surplus/(Deficit) for the year		1,082,384	(796,853)
Balance at end of year		<b>2,471,882</b>	<b>1,389,498</b>
	<b>8, 9</b>	<b>25,349,503</b>	<b>22,604,593</b>

Notes 1 to 12 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
20 August 2015



# Loan Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>Cash and bank balances at beginning of year</b>		<b>31,531</b>	16,384
Receipts	10	4,574,862	3,346,703
Payments	11	(3,492,478)	(4,143,556)
<b>Surplus/(Deficit) for the year</b>		<b>1,082,384</b>	(796,853)
<b>Other cash movements</b>	12	<b>(1,096,858)</b>	812,000
<b>Cash and bank balances at end of year</b>		<b>17,057</b>	31,531

Notes 1 to 12 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
20 August 2015



# 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

	2015			2014		
	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	3,053,320	14,755,903	3,405,872	3,115,810	12,911,039	3,323,327
<b>Additions</b>						
Loan payments	201,252	2,732,248	558,978	108,531	3,782,593	252,432
Capitalised interest	172	-	100,032	143	-	91,464
	<b>201,424</b>	<b>2,732,248</b>	<b>659,010</b>	108,674	3,782,593	343,896
<b>Deductions</b>						
Loan repayments	(25,385)	(1,532,704)	(253,843)	(20,152)	(1,933,216)	(256,122)
Loans written off	-	(3,793)	(6,200)	-	(4,513)	(5,229)
Proceeds from sale of loans	(108,231)	-	-	(151,012)	-	-
	<b>(133,616)</b>	<b>(1,536,497)</b>	<b>(260,043)</b>	(171,164)	(1,937,729)	(261,351)
<b>Balance at end of year</b>	<b>3,121,128</b>	<b>15,951,654</b>	<b>3,804,839</b>	3,053,320	14,755,903	3,405,872

# Loan Fund

## 4. Investments with the Exchange Fund

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

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Investments (Notes (ii) and (iii) below)	<b>2,471,662</b>	1,373,681
Deposits	<b>538</b>	362
	<b>2,472,200</b>	1,374,043

(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 annual investment income is receivable on 31 December of each year.

(iii) Pursuant to the Financial Secretary's directive in December 2014, the HK\$52 million investment income for the calendar year 2014 was set aside and retained within the Exchange Fund as provision for the Housing Reserve, and not received on 31 December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in (ii) above and shall be receivable on a date as determined by the Financial Secretary.

## 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:

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Students	<b>17,254</b>	15,924
Others	<b>121</b>	152
	<b>17,375</b>	16,076

## 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 2015, the amount of contingent liabilities arising from guarantees provided under a commercial loan of the Ocean Park Corporation was HK\$1,388 million (2014: HK\$1,388 million).

# Loan Fund

## 9. Commitments

Outstanding commitments under loan schemes operating on revolving and non-revolving bases were as follows:

	2015 HK\$'000	2014 HK\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	4,240,781	5,360,481
Balance of approved loans operating on revolving basis available for granting of new loans	11,880,769	11,328,467
	<u>16,121,550</u>	<u>16,688,948</u>

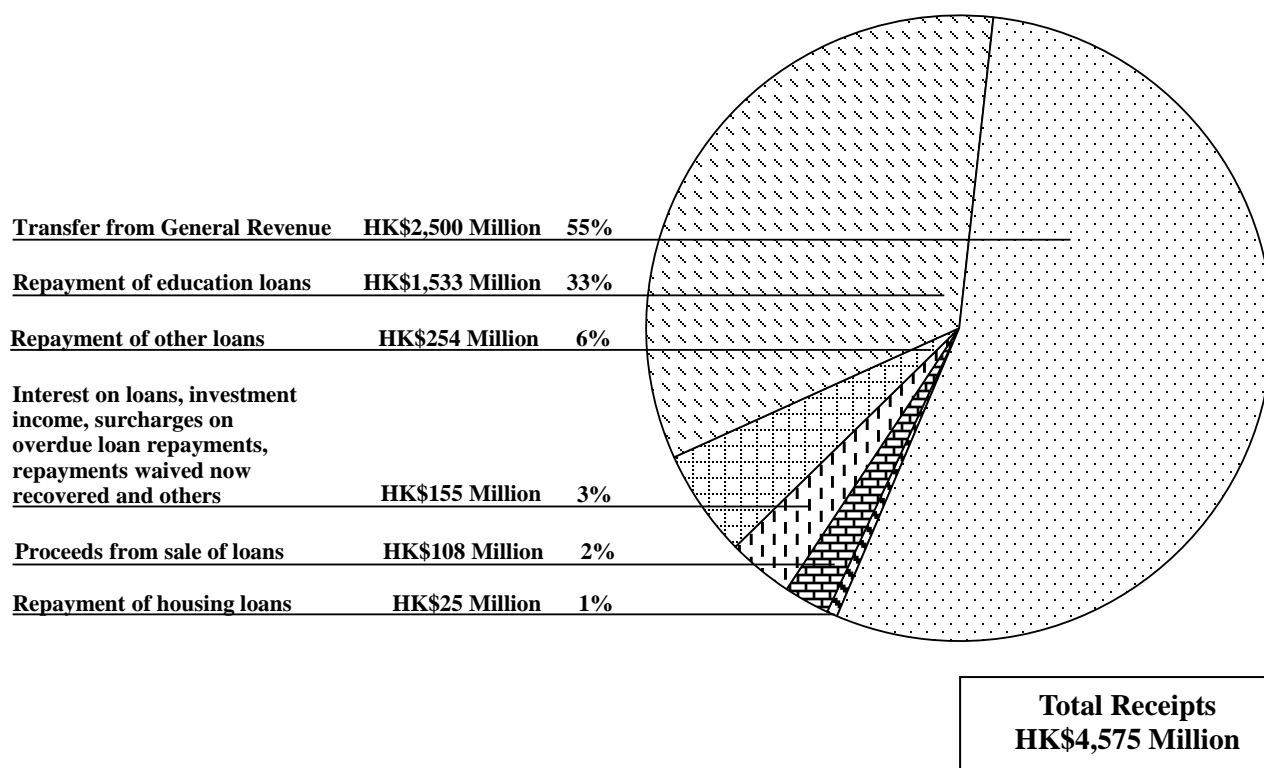
## 10. Receipts

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan repayments			
Housing loans	24,652	25,385	20,152
Education loans	1,632,085	1,532,704	1,933,216
Other loans	290,959	253,843	256,122
	1,947,696	1,811,932	2,209,490
Interest on loans	162,815	150,880	161,032
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	-	122,296
Others	-	2	3
	29,000	2	122,299
Surcharges on overdue loan repayments	2,869	3,740	2,789
Proceeds from sale of loans	177,300	108,231	151,012
Repayments waived now recovered	-	64	65
Others	-	13	16
Transfer from General Revenue	2,500,000	2,500,000	700,000
	<u>4,819,680</u>	<u>4,574,862</u>	<u>3,346,703</u>

- (i) The HK\$52 million investment income for the calendar year 2014 was set aside and retained within the Exchange Fund as provision for the Housing Reserve, and not received on 31 December 2014.

# Loan Fund

## Analysis of Receipts for the year ended 31 March 2015



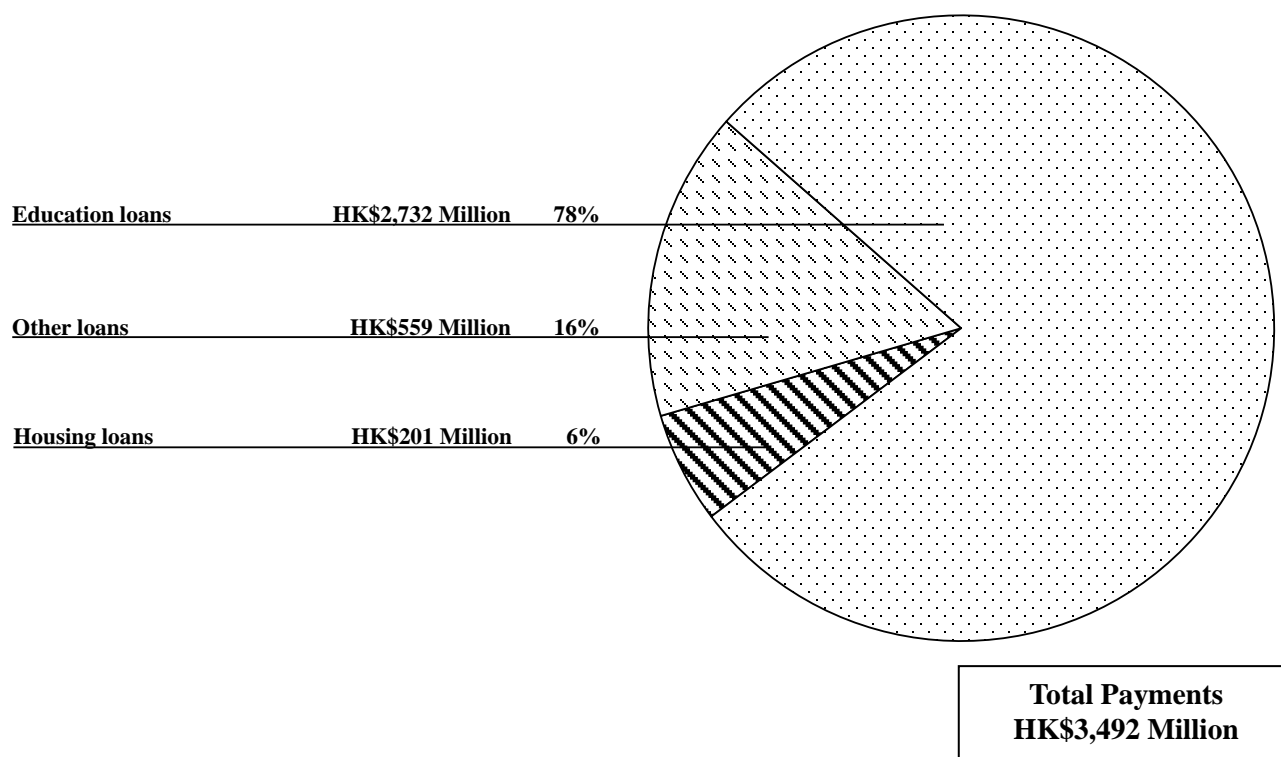
## 11. Payments

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan payments			
Housing loans	241,000	<b>201,252</b>	108,531
Education loans	2,877,252	<b>2,732,248</b>	3,782,593
Other loans	701,295	<b>558,978</b>	252,432
	3,819,547	<b>3,492,478</b>	4,143,556
Additional commitments	259,060	-	-
	4,078,607	<b>3,492,478</b>	4,143,556



# Loan Fund

## Analysis of Payments for the year ended 31 March 2015



## 12. Other Cash Movements

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

	2015 HK\$'000	2014 HK\$'000
<b>(Increase)/Reduction in Assets</b>		
Investments with the Exchange Fund	(1,098,157)	807,883
<b>Increase in Liabilities</b>		
Deposits	1,299	4,117
	<u>(1,096,858)</u>	<u>812,000</u>

# Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2006 to 2015

HK\$ Million

