

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 2016, 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 2016 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

26 October 2016

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Loans Outstanding	3		
Housing loans		3,122,638	3,121,128
Education loans		16,763,924	15,951,654
Other loans		4,267,875	3,804,839
		24,154,437	22,877,621
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,470,666	2,472,200
Cash and bank balances		15,067	17,057
		4,485,733	2,489,257
Current Liabilities			
Deposits	5	(18,200)	(17,375)
		4,467,533	2,471,882
		28,621,970	25,349,503
Representing:			
Total Fund Balance			
Applied Fund	6	24,154,437	22,877,621
Available Fund			
Balance at beginning of year		2,471,882	1,389,498
Surplus for the year		1,995,651	1,082,384
Balance at end of year		4,467,533	2,471,882
	8, 9	28,621,970	25,349,503

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		17,057	31,531
Receipts	10	5,185,601	4,574,862
Payments	11	(3,189,950)	(3,492,478)
Surplus for the year		1,995,651	1,082,384
Other cash movements	12	(1,997,641)	(1,096,858)
Cash and bank balances at end of year		15,067	17,057

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



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

	2016			2015		
	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	3,121,128	15,951,654	3,804,839	3,053,320	14,755,903	3,405,872
Additions						
Loan payments	230,113	2,350,924	608,913	201,252	2,732,248	558,978
Capitalised interest	130	-	119,985	172	-	100,032
	230,243	2,350,924	728,898	201,424	2,732,248	659,010
Deductions						
Loan repayments	(19,454)	(1,537,211)	(260,899)	(25,385)	(1,532,704)	(253,843)
Loans written off	-	(1,443)	(4,963)	-	(3,793)	(6,200)
Proceeds from sale of loans	(209,279)	-	-	(108,231)	-	-
	(228,733)	(1,538,654)	(265,862)	(133,616)	(1,536,497)	(260,043)
Balance at end of year	3,122,638	16,763,924	4,267,875	3,121,128	15,951,654	3,804,839

Loan Fund

4. Investments with the Exchange Fund

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

	2016	2015
	HK\$'000	HK\$'000
Investments	4,469,548	2,471,662
(Note (ii) below)		
Deposits	1,118	538
	4,470,666	2,472,200

(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, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, 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 (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$116 million for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 10(i)).

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:

	2016	2015
	HK\$'000	HK\$'000
Students	18,059	17,254
Others	141	121
	18,200	17,375

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 2016, there were no contingent liabilities. The Government was relieved of its obligations as the guarantor under a commercial loan of the Ocean Park Corporation (2015: HK\$1,388 million).

Loan Fund

9. Commitments

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

	2016 HK\$'000	2015 HK\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	7,771,481	4,240,781
Balance of approved loans operating on revolving basis available for granting of new loans	11,525,559	11,880,769
	<u>19,297,040</u>	<u>16,121,550</u>

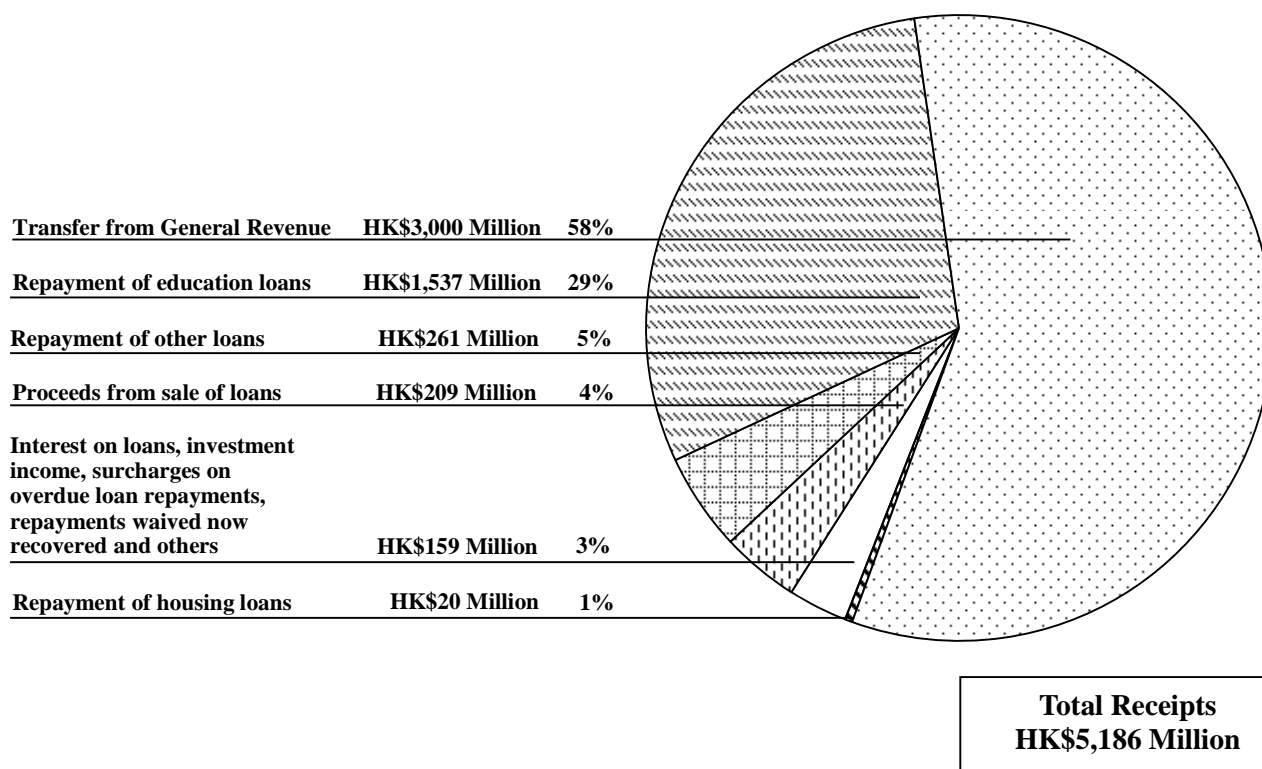
10. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan repayments			
Housing loans	39,940	19,454	25,385
Education loans	1,731,710	1,537,211	1,532,704
Other loans	300,372	260,899	253,843
	2,072,022	1,817,564	1,811,932
Interest on loans	140,022	154,942	150,880
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	-	-
Others	-	2	2
	88,000	2	2
Surcharges on overdue loan repayments	4,087	3,786	3,740
Proceeds from sale of loans	215,526	209,279	108,231
Repayments waived now recovered	-	5	64
Others	-	23	13
Transfer from General Revenue	3,000,000	3,000,000	2,500,000
	<u>5,519,657</u>	<u>5,185,601</u>	<u>4,574,862</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$116 million investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. The Housing Reserve was established in 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 Note 4(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$3 million on the initial provision set aside from the HK\$52 million investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$171 million.

Loan Fund

Analysis of Receipts for the year ended 31 March 2016

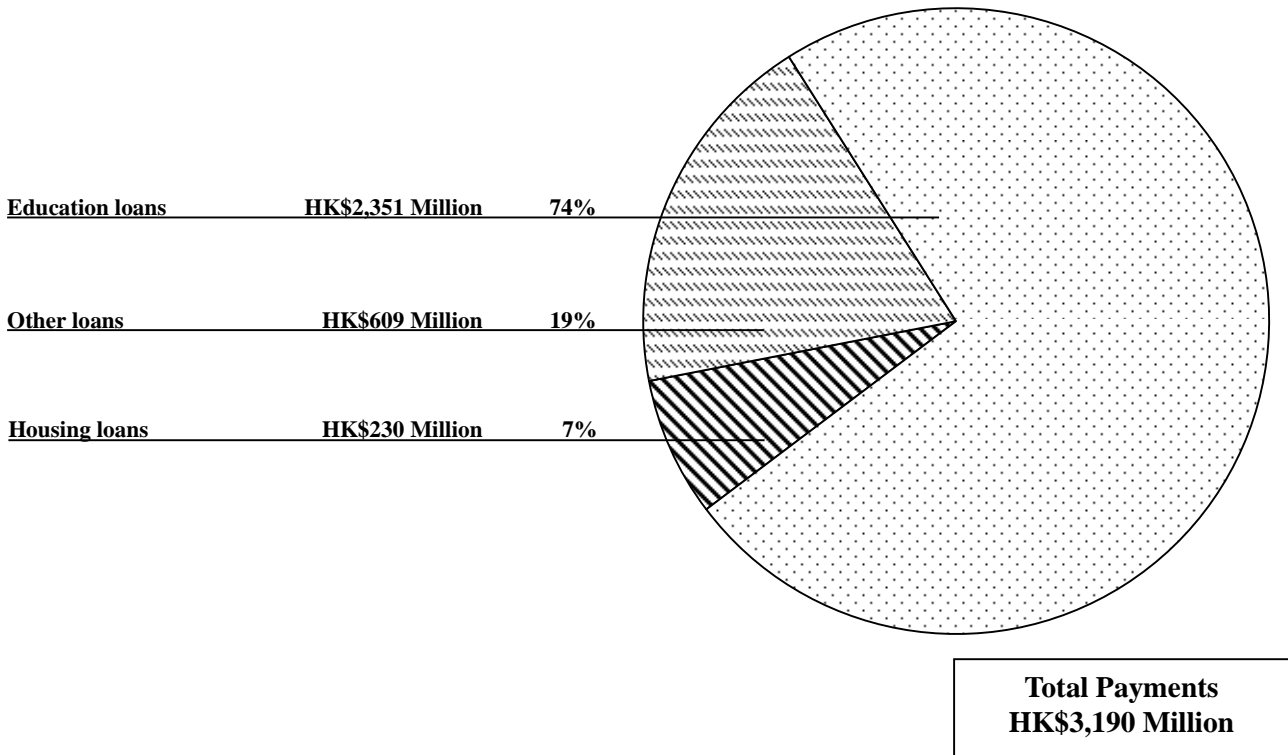


11. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan payments			
Housing loans	264,500	230,113	201,252
Education loans	2,238,584	2,350,924	2,732,248
Other loans	2,132,765	608,913	558,978
	4,635,849	3,189,950	3,492,478
Additional commitments	650,000	-	-
	5,285,849	3,189,950	3,492,478

Loan Fund

Analysis of Payments for the year ended 31 March 2016



12. Other Cash Movements

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

	2016 HK\$'000	2015 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	(1,998,466)	(1,098,157)
Increase in Liabilities		
Deposits	825	1,299
	<u>(1,997,641)</u>	<u>(1,096,858)</u>

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2007 to 2016

HK\$Million

