

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Loan Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 88 to 95, which comprise the statement of assets and liabilities as at 31 March 2017, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Loan Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit 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 have fulfilled the independence and 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.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2017 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, 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 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 Loan Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

David Sun
Director of Audit

27 October 2017

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Assets			
Loans Outstanding	3		
Housing loans		3,070,889	3,122,638
Education loans		17,353,286	16,763,924
Other loans		6,427,960	4,267,875
		26,852,135	24,154,437
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,191,834	4,470,666
Cash and bank balances		13,814	15,067
		4,205,648	4,485,733
Current Liabilities			
Deposits	5	(22,100)	(18,200)
		4,183,548	4,467,533
		31,035,683	28,621,970
Representing:			
Total Fund Balance			
Applied Fund	6	26,852,135	24,154,437
Available Fund	7		
Balance at beginning of year		4,467,533	2,471,882
(Deficit)/Surplus for the year		(283,985)	1,995,651
Balance at end of year		4,183,548	4,467,533
	8	31,035,683	28,621,970

Notes 1 to 11 form part of these financial statements.

Martin SIU
Director of Accounting Services
28 August 2017



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Cash and bank balances at beginning of year		15,067	17,057
Receipts	9	4,385,497	5,185,601
Payments	10	(4,669,482)	(3,189,950)
(Deficit)/Surplus for the year		(283,985)	1,995,651
Other cash movements	11	282,732	(1,997,641)
Cash and bank balances at end of year		13,814	15,067

Notes 1 to 11 form part of these financial statements.

Martin SIU
Director of Accounting Services
28 August 2017



Loan Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

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.

3. Loans Outstanding

	2017			2016		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,122,638	16,763,924	4,267,875	3,121,128	15,951,654	3,804,839
Additions						
Loan payments	242,551	2,156,277	2,270,654	230,113	2,350,924	608,913
Capitalised interest	78	-	124,739	130	-	119,985
	242,629	2,156,277	2,395,393	230,243	2,350,924	728,898
Deductions						
Loan repayments	(124,708)	(1,565,085)	(235,308)	(19,454)	(1,537,211)	(260,899)
Loans written off	(84)	(1,830)	-	-	(1,443)	(4,963)
Proceeds from sale of loans	(169,586)	-	-	(209,279)	-	-
	(294,378)	(1,566,915)	(235,308)	(228,733)	(1,538,654)	(265,862)
Balance at end of year	3,070,889	17,353,286	6,427,960	3,122,638	16,763,924	4,267,875

Loan Fund

4. Investments with the Exchange Fund

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

	2017	2016
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	4,190,965	4,469,548
Deposits	869	1,118
	4,191,834	4,470,666

(ii) The investments represent the cost of investments together with the investment income received in the year being reported.

(iii) 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 2016 was 3.3% (2015: 5.5%). The annual investment income is receivable on 31 December each year.

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:

	2017	2016
	\$'000	\$'000
Students	21,962	18,059
Others	138	141
	22,100	18,200

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. Commitments

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

	2017	2016
	\$'000	\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	5,610,481	7,771,481
Balance of approved loans operating on revolving basis available for granting of new loans	11,350,387	11,525,559
	16,960,868	19,297,040

Loan Fund

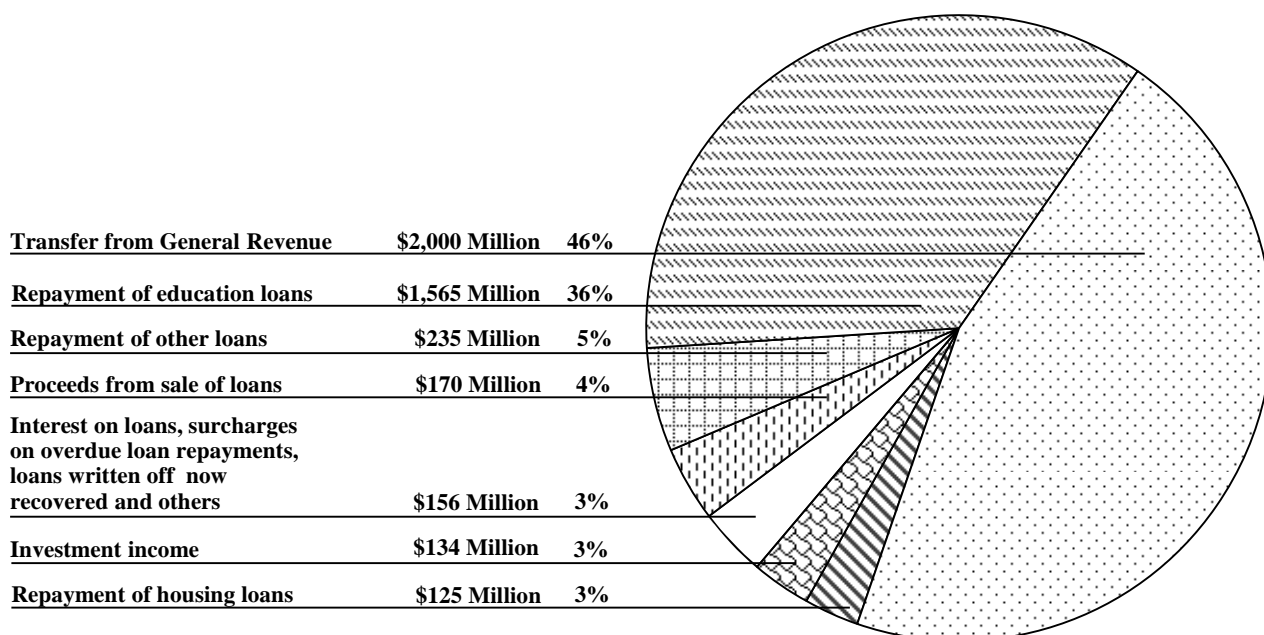
9. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	46,944	124,708	19,454
Education loans	1,775,331	1,565,085	1,537,211
Other loans	255,309	235,308	260,899
	2,077,584	1,925,101	1,817,564
Interest on loans	131,267	151,436	154,942
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	134,594	-
Others	-	4	2
	93,000	134,598	2
Surcharges on overdue loan repayments	4,130	4,730	3,786
Proceeds from sale of loans	224,500	169,586	209,279
Loans written off now recovered	-	1	5
Others	-	45	23
Transfer from General Revenue	2,000,000	2,000,000	3,000,000
	<u>4,530,481</u>	<u>4,385,497</u>	<u>5,185,601</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$168 million (comprising \$52 million for 2014 and \$116 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. 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(iii) and shall be received on a date as determined by the Financial Secretary. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$6 million (2015: \$3 million), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$177 million (2015: \$171 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2017



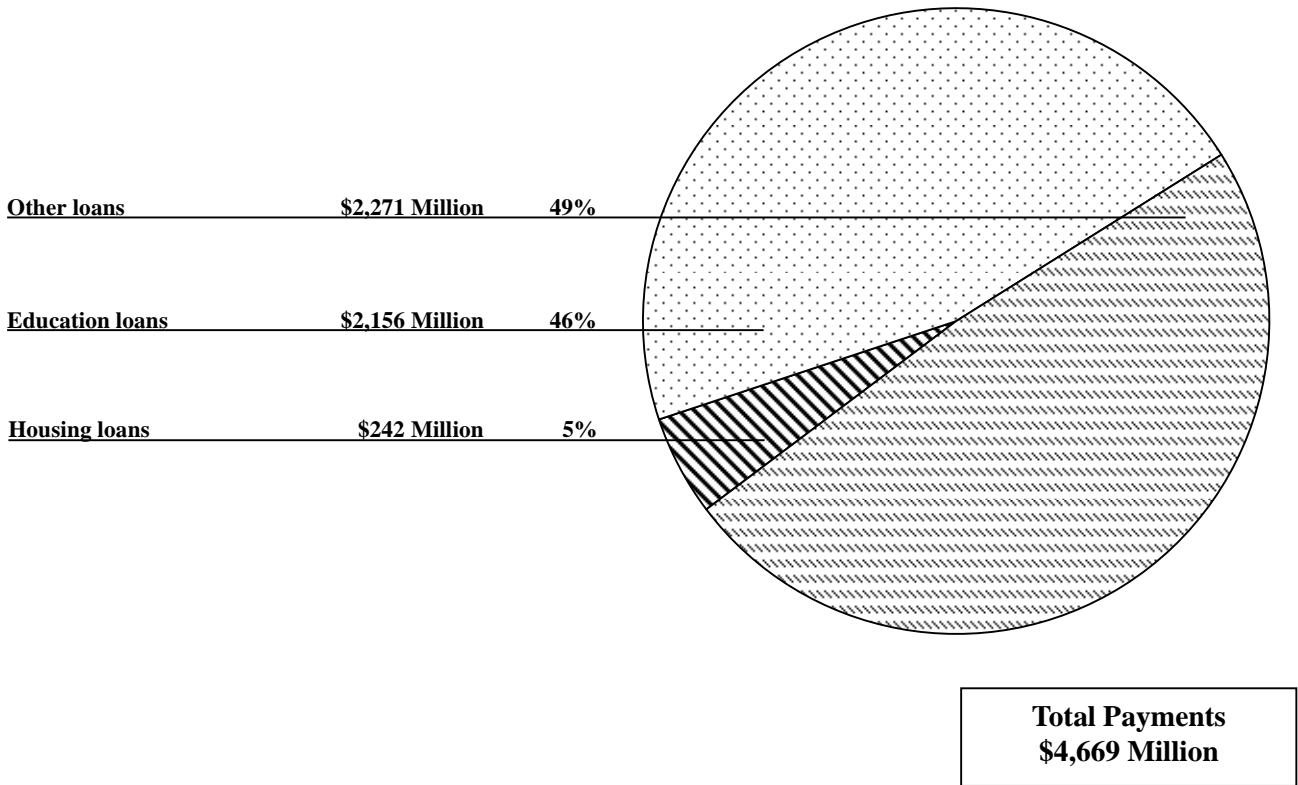
**Total Receipts
\$4,385 Million**

10. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	276,700	242,551	230,113
Education loans	2,423,592	2,156,277	2,350,924
Other loans	3,990,220	2,270,654	608,913
	<u>6,690,512</u>	<u>4,669,482</u>	<u>3,189,950</u>

Loan Fund

Analysis of Payments for the year ended 31 March 2017



11. Other Cash Movements

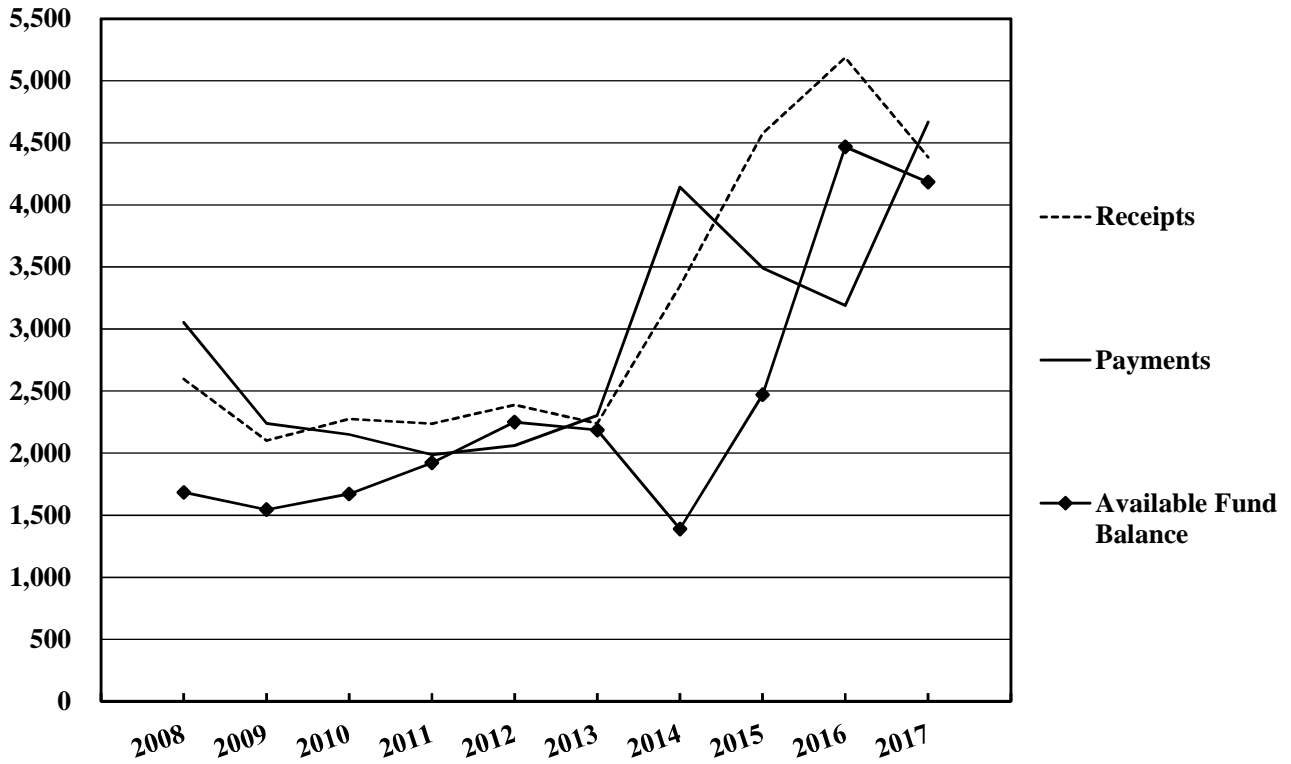
These are cash movements arising from changes in other assets and liabilities:

	2017	2016
	\$'000	\$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	278,832	(1,998,466)
Increase in Liabilities		
Deposits	3,900	825
	282,732	(1,997,641)

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2008 to 2017

\$Million



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