

Loan Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission

The Government of the Hong Kong Special Administrative Region

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 92 to 99, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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.

John Chu
Director of Audit

8 September 2021

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Loans Outstanding	3		
Housing loans		3,743,230	3,420,503
Education loans		19,795,981	17,949,149
Other loans		10,597,269	10,516,414
		34,136,480	31,886,066
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,359,129	4,664,835
Cash and bank balances		2,201	12,300
		4,361,330	4,677,135
Current Liabilities			
Deposits	5	(105,876)	(32,194)
		4,255,454	4,644,941
		38,391,934	36,531,007
Representing:			
Total Fund Balance			
Applied Fund	6	34,136,480	31,886,066
Available Fund	7		
Balance at beginning of year		4,644,941	3,534,867
(Deficit)/Surplus for the year		(389,487)	1,110,074
Balance at end of year		4,255,454	4,644,941
	8	38,391,934	36,531,007

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		12,300	12,339
Receipts	9	2,347,361	3,458,827
Payments	10	(2,736,848)	(2,348,753)
(Deficit)/Surplus for the year		(389,487)	1,110,074
Other cash movements	11	379,388	(1,110,113)
Cash and bank balances at end of year		2,201	12,300

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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

	2021			2020		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,420,503	17,949,149	10,516,414	3,025,540	17,910,590	10,475,776
Additions						
Loan payments	385,671	2,254,988	96,189	428,544	1,797,122	123,087
Capitalised interest	31	436	222,661	36	122,848	194,167
	385,702	2,255,424	318,850	428,580	1,919,970	317,254
Deductions						
Loan repayments	(62,975)	(407,893)	(217,925)	(33,617)	(1,881,116)	(255,564)
Loans written off	-	(699)	(20,070)	-	(295)	(21,052)
	(62,975)	(408,592)	(237,995)	(33,617)	(1,881,411)	(276,616)
Balance at end of year	3,743,230	19,795,981	10,597,269	3,420,503	17,949,149	10,516,414

Further analysis of loans appears on pages 222 to 224 of the Supporting Statements.

Loan Fund

4. Investments with the Exchange Fund

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

	2021	2020
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	4,355,881	4,662,805
Deposits	3,248	2,030
	<u>4,359,129</u>	<u>4,664,835</u>

(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 government bond (replacing the three-year Exchange Fund Notes 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 2020 was 3.7% (2019: 2.9%). 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:

	2021	2020
	\$'000	\$'000
Students	105,759	32,045
Others	117	149
	<u>105,876</u>	<u>32,194</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. Commitments

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

	2021	2020
	\$'000	\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	2,441,201	1,331,881
Balance of approved loans operating on revolving basis available for granting of new loans	10,699,992	10,813,071
	<u>13,141,193</u>	<u>12,144,952</u>

Loan Fund

9. Receipts

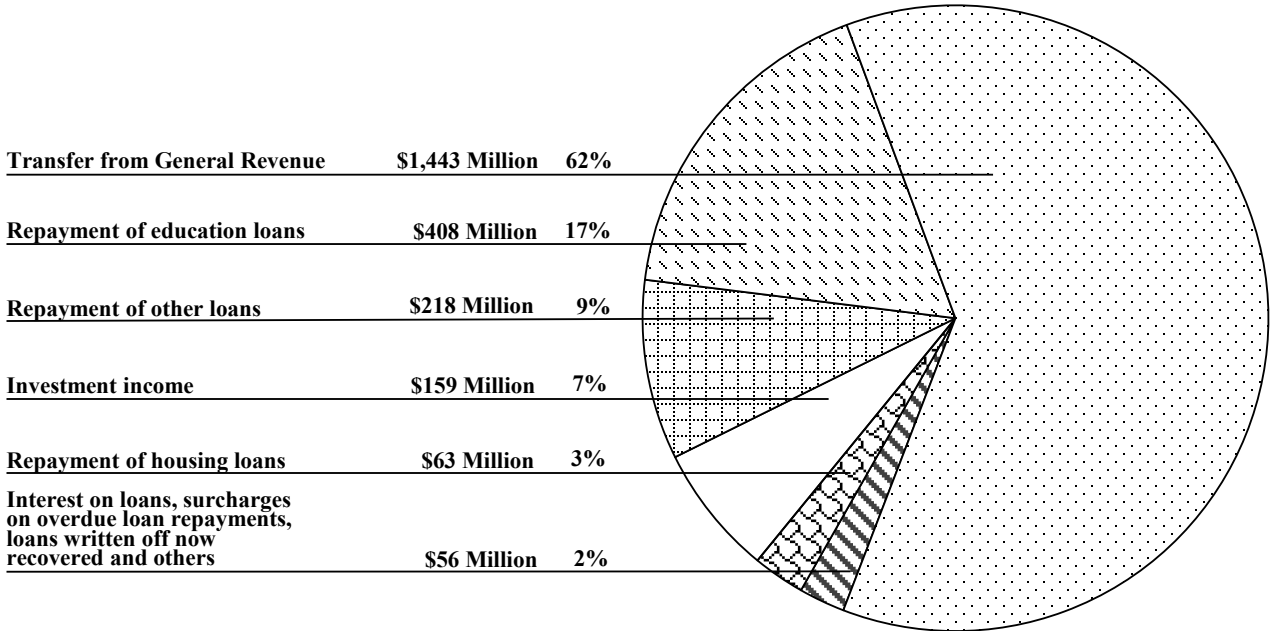
	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	103,920	62,975	33,617
Education loans	1,772,471	407,893	1,881,116
Other loans	283,237	217,925	255,564
	2,159,628	688,793	2,170,297
Interest on loans	180,363	52,370	180,381
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	159,140	103,153
Others	-	18	87
	146,000	159,158	103,240
Surcharges on overdue loan repayments	4,784	3,559	4,388
Loans written off now recovered	-	-	506
Others	-	31	15
Transfer from General Revenue	-	1,443,450	1,000,000
	<u>2,490,775</u>	<u>2,347,361</u>	<u>3,458,827</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). The accumulated investment return was \$35 million up to 31 December 2020 (2019: \$28 million), including the investment return for the calendar year 2020 amounting to \$7 million (2019: \$6 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$190 million from the Fund) was earmarked for public housing development.

During the financial year 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$203 million (2020: \$196 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2021



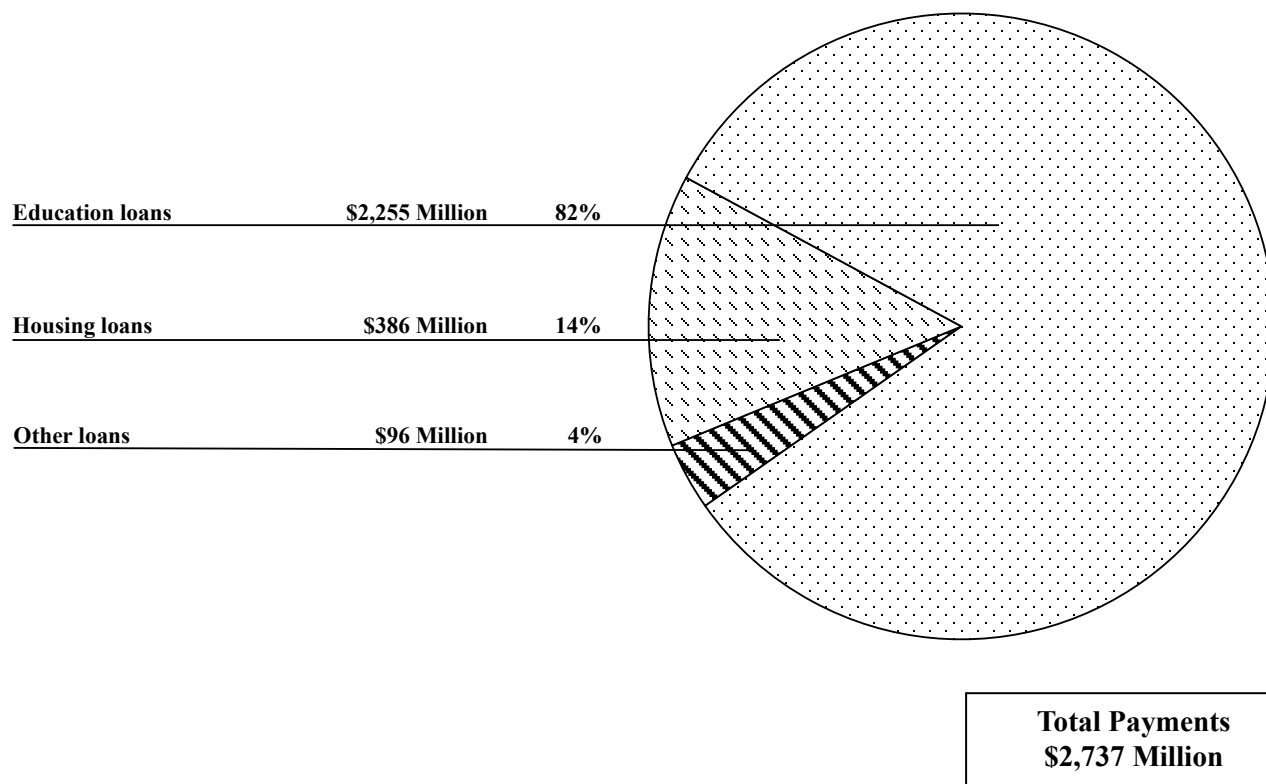
**Total Receipts
\$2,347 Million**

10. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	691,700	385,671	428,544
Education loans	2,048,436	2,254,988	1,797,122
Other loans	140,190	96,189	123,087
	<u>2,880,326</u>	<u>2,736,848</u>	<u>2,348,753</u>

Loan Fund

Analysis of Payments for the year ended 31 March 2021



11. Other Cash Movements

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

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	305,706	(1,115,121)
Increase in Liabilities		
Deposits	73,682	5,008
	379,388	(1,110,113)

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2012 to 2021

\$Million

