

# Loan Fund

## REPORT OF THE DIRECTOR OF AUDIT



**Audit Commission**  
The Government of the Hong Kong Special Administrative Region

### **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 74 to 80, which comprise the statement of assets and liabilities as at 31 March 2008, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **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 as to 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 and proper presentation 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 properly present the assets and liabilities of the Loan Fund as at 31 March 2008 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

(Benjamin Tang)  
Director of Audit

23 October 2008

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

# Loan Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2008

	Note	2008 \$'000	2007 \$'000
<b>Assets</b>			
<b>Loans Outstanding</b>	<b>3</b>		
Housing Loans		3,214,559	3,279,161
Education Loans		10,677,657	10,040,967
Other Loans		3,850,095	3,063,977
		<b>17,742,311</b>	<b>16,384,105</b>
<b>Net Current Assets</b>			
<b>Current Assets</b>			
Investments with the Exchange Fund	<b>4</b>	1,650,028	2,118,090
Cash and bank balances		38,695	24,316
		<b>1,688,723</b>	<b>2,142,406</b>
<b>Current Liabilities</b>			
Deposits	<b>5</b>	(4,132)	(3,596)
		<b>1,684,591</b>	<b>2,138,810</b>
		<b>19,426,902</b>	<b>18,522,915</b>
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>17,742,311</b>	<b>16,384,105</b>
<b>Available Fund</b>	<b>7</b>		
Balance at 1 April 2007		2,138,810	2,829,842
Deficit for the year		(454,219)	(691,032)
Balance at 31 March 2008		<b>1,684,591</b>	<b>2,138,810</b>
	<b>8</b>	<b>19,426,902</b>	<b>18,522,915</b>

The accompanying Notes 1 to 11 form part of these accounts.

**Mrs. Lucia LI**  
Director of Accounting Services  
15 August 2008



# Loan Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008 \$'000	2007 \$'000
Cash and bank balances at 1 April 2007		24,316	18,505
<b>Revenue</b>	<b>9</b>	<b>2,598,299</b>	<b>2,059,011</b>
<b>Expenditure</b>	<b>10</b>	<b>(3,052,518)</b>	<b>(2,750,043)</b>
Deficit for the year		(454,219)	(691,032)
<b>Other cash movements</b>	<b>11</b>	<b>468,598</b>	<b>696,843</b>
<b>Cash and bank balances at 31 March 2008</b>		<b>38,695</b>	<b>24,316</b>

The accompanying Notes 1 to 11 form part of these accounts.

**Mrs. Lucia LI**  
Director of Accounting Services  
15 August 2008



# Loan Fund

## NOTES ON THE ACCOUNTS

### 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, whether they relate to recurrent or capital transactions.
- (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 accounts, 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

	2008			2007		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at 1 April 2007	3,279,161	10,040,967	3,063,977	3,381,490	9,125,256	2,807,514
<b>Additions:</b>						
Loan payments	89,612	1,917,459	1,045,447	90,603	2,109,889	549,534
Capitalized interest	1,365	-	27,864	1,073	-	231
	90,977	1,917,459	1,073,311	91,676	2,109,889	549,765
<b>Deductions:</b>						
Loan repayments	(90,907)	(1,280,126)	(269,411)	(86,731)	(1,192,821)	(243,376)
Loans written off	(1,380)	(643)	(17,782)	(58)	(1,357)	(49,926)
Proceeds from sale of loans	(63,292)	-	-	(107,216)	-	-
	(155,579)	(1,280,769)	(287,193)	(194,005)	(1,194,178)	(293,302)
<b>Balance at 31 March 2008</b>	<b>3,214,559</b>	<b>10,677,657</b>	<b>3,850,095</b>	<b>3,279,161</b>	<b>10,040,967</b>	<b>3,063,977</b>

Further analysis of loans appears in the Supporting Statements.

# Loan Fund

## 4. Investments with the Exchange Fund

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

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Investments (see (ii) and (iii) below)	<b>1,631,020</b>	-
Deposits	<b>19,008</b>	2,118,090
	<b><u>1,650,028</u></b>	<b><u>2,118,090</u></b>

(ii) The investments represent the cost of investments together with interest of \$102 million received in the year ended 31 March 2008.

(iii) Effective from 1 April 2007, the return on the investments is calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past six years, subject to the annual investment return in any year being guaranteed to be not lower than the average yield of three-year Exchange Fund Notes for the previous 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 to revenue:

	<b>2008</b>	2007
	<b>\$'000</b>	\$'000
Students	<b>4,042</b>	3,531
Others	<b>90</b>	65
	<b><u>4,132</u></b>	<b><u>3,596</u></b>

## 6. Applied Fund

This represents the outstanding loans made from the Fund under paragraph 6 of the Resolution.

## 7. Available Fund

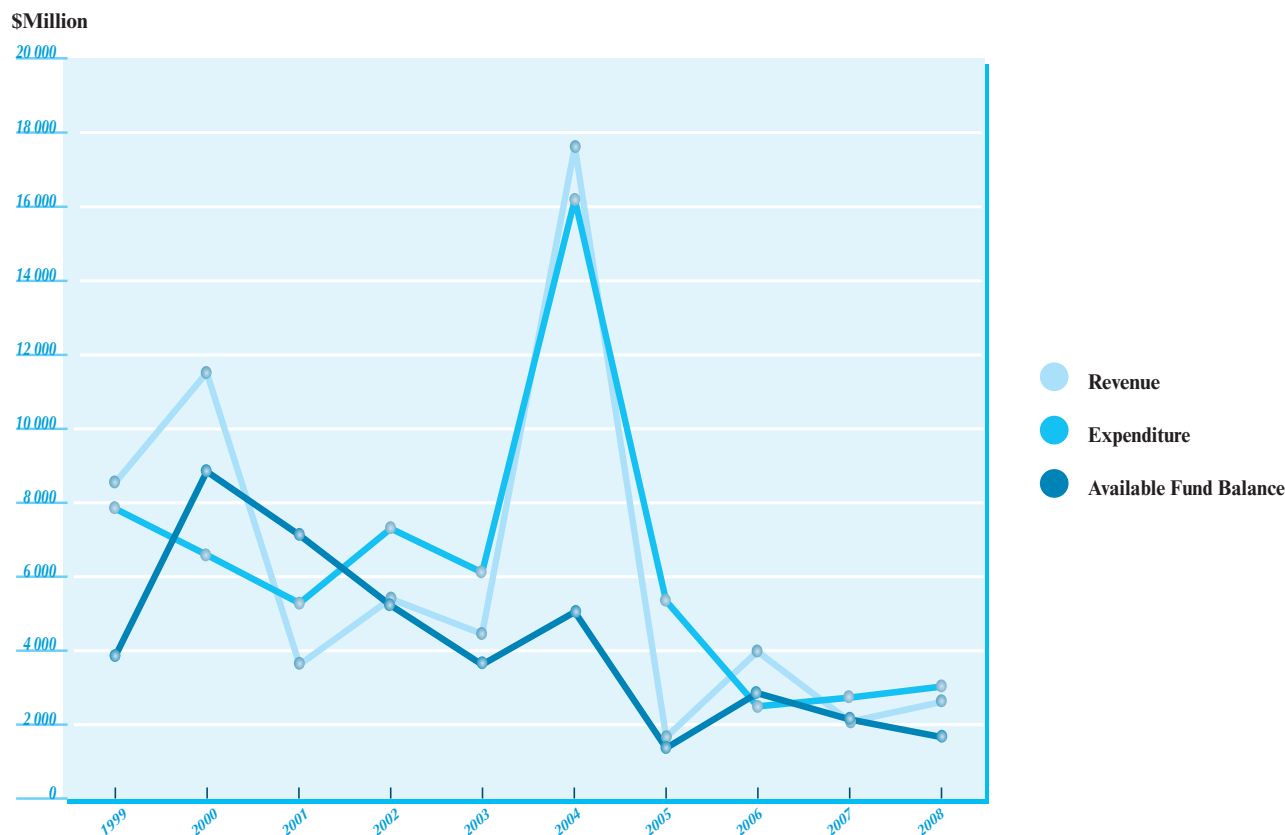
This represents funds available for making loans under paragraph 6 of the Resolution.

## 8. Contingent Liabilities

As at 31 March 2008, the amount of guarantees provided under a special finance scheme for small and medium enterprises was \$34 million.

# Loan Fund

## Revenue, Expenditure and Available Fund Balance for the years ended 31 March 1999 to 2008

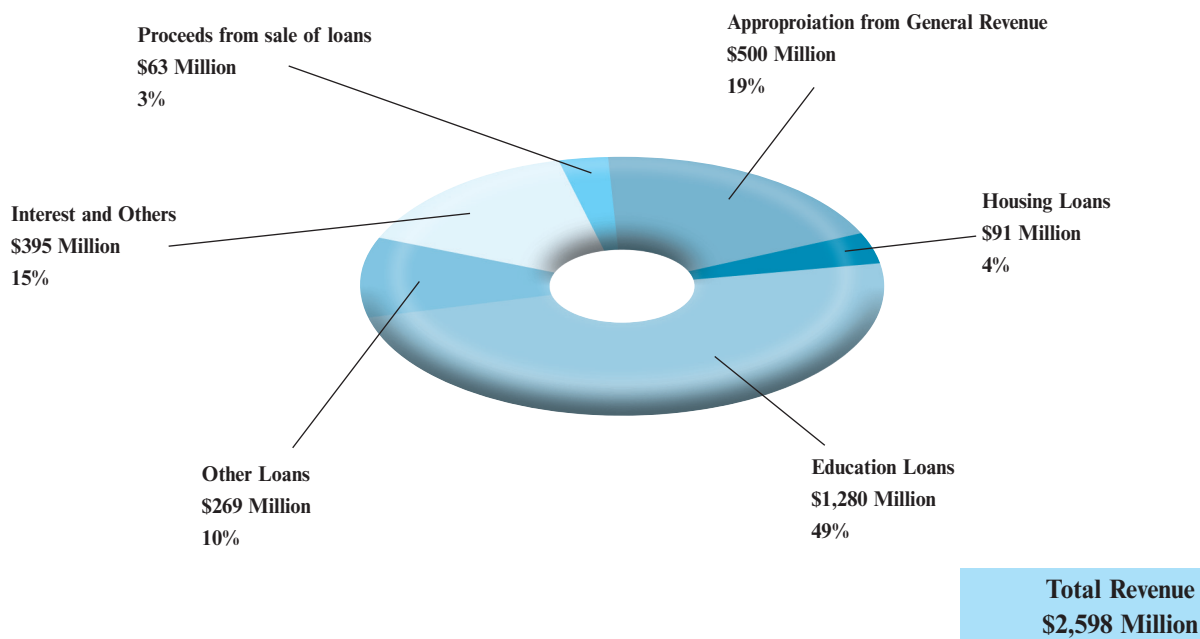


### 9. Revenue

	2008		2007
	Original Estimate \$'000	Actual \$'000	Actual \$'000
<b>Loan repayments:</b>			
Housing loans	61,030	<b>90,907</b>	86,731
Education loans	1,378,490	<b>1,280,126</b>	1,192,821
Other loans	299,607	<b>269,411</b>	243,376
	1,739,127	<b>1,640,444</b>	1,522,928
<b>Interest on loans</b>	341,968	<b>288,924</b>	267,878
<b>Investment income</b>	141,173	<b>103,195</b>	108,609
<b>Surcharges on overdue loan repayments</b>	2,200	<b>2,372</b>	2,346
<b>Proceeds from sale of loans</b>	165,329	<b>63,292</b>	107,216
<b>Repayments waived now recovered</b>	-	<b>61</b>	3
<b>Others</b>	-	<b>11</b>	31
<b>Appropriation from General Revenue</b>	1,600,000	<b>500,000</b>	50,000
	<u>3,989,797</u>	<u><b>2,598,299</b></u>	<u>2,059,011</u>

# Loan Fund

## Analysis of Revenue for the year ended 31 March 2008



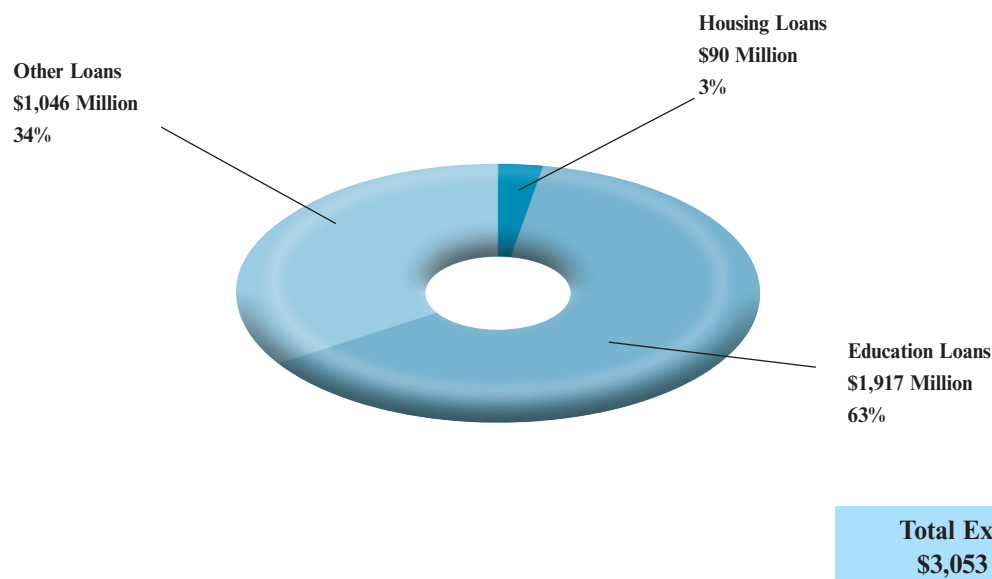
## 10. Expenditure

	2008		2007
	Original Estimate \$'000	Actual \$'000	Actual \$'000
<b>Loan payments:</b>			
Housing loans	248,000	<b>89,612</b>	90,603
Education loans	2,653,742	<b>1,917,459</b>	2,109,889
Other loans	1,230,084	<b>1,045,447</b>	549,534
	4,131,826	<b>3,052,518</b>	2,750,026
<b>Others</b>	-	-	17
	<b>4,131,826</b>	<b>3,052,518</b>	<b>2,750,043</b>



# Loan Fund

## Analysis of Expenditure for the year ended 31 March 2008



### 11. Other Cash Movements

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

	2008 \$'000	2007 \$'000
<b>Reduction in Assets:</b>		
Investments with the Exchange Fund	468,062	697,529
<b>Increase/(Reduction) in Liabilities:</b>		
Deposits	536	(686)
	<b>468,598</b>	<b>696,843</b>