

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 2009, 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 2009 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

27 October 2009

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2009

	Note	2009 \$'000	2008 \$'000
Assets			
Loans Outstanding	3		
Housing Loans		3,184,514	3,214,559
Education Loans		11,407,911	10,677,657
Other Loans		3,722,452	3,850,095
		18,314,877	17,742,311
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	1,526,132	1,650,028
Cash and bank balances		26,091	38,695
		1,552,223	1,688,723
Current Liabilities			
Deposits	5	(6,391)	(4,132)
		1,545,832	1,684,591
		19,860,709	19,426,902
Representing:			
Total Fund Balance			
Applied Fund	6	18,314,877	17,742,311
Available Fund	7		
Balance at 1 April 2008		1,684,591	2,138,810
Deficit for the year		(138,759)	(454,219)
Balance at 31 March 2009		1,545,832	1,684,591
	8	19,860,709	19,426,902

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

LI Kwok-tso
Director of Accounting Services
14 August 2009



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 \$'000	2008 \$'000
Cash and bank balances at 1 April 2008		38,695	24,316
Revenue	9	2,101,121	2,598,299
Expenditure	10	(2,239,880)	(3,052,518)
Deficit for the year		(138,759)	(454,219)
Other cash movements	11	126,155	468,598
Cash and bank balances at 31 March 2009		26,091	38,695

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

LI Kwok-tso
Director of Accounting Services
14 August 2009



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

	2009			2008		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at 1 April 2008	3,214,559	10,677,657	3,850,095	3,279,161	10,040,967	3,063,977
Additions:						
Loan payments	103,685	2,051,133	85,033	89,612	1,917,459	1,045,447
Capitalized interest	875	-	69,310	1,365	-	27,864
	104,560	2,051,133	154,343	90,977	1,917,459	1,073,311
Deductions:						
Loan repayments	(62,231)	(1,320,129)	(264,122)	(90,907)	(1,280,126)	(269,411)
Loans written off	(4,304)	(750)	(17,864)	(1,380)	(643)	(17,782)
Proceeds from sale of loans	(68,070)	-	-	(63,292)	-	-
	(134,605)	(1,320,879)	(281,986)	(155,579)	(1,280,769)	(287,193)
Balance at 31 March 2009	3,184,514	11,407,911	3,722,452	3,214,559	10,677,657	3,850,095

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:

	2009	2008
	\$'000	\$'000
Investments (see (ii) and (iii) below)	1,512,880	1,631,020
Deposits	13,252	19,008
	<u>1,526,132</u>	<u>1,650,028</u>

(ii) The investments represent the cost of investments together with interest of \$137 million received in the year ended 31 March 2009.

(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:

	2009	2008
	\$'000	\$'000
Students	6,289	4,042
Others	102	90
	<u>6,391</u>	<u>4,132</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.

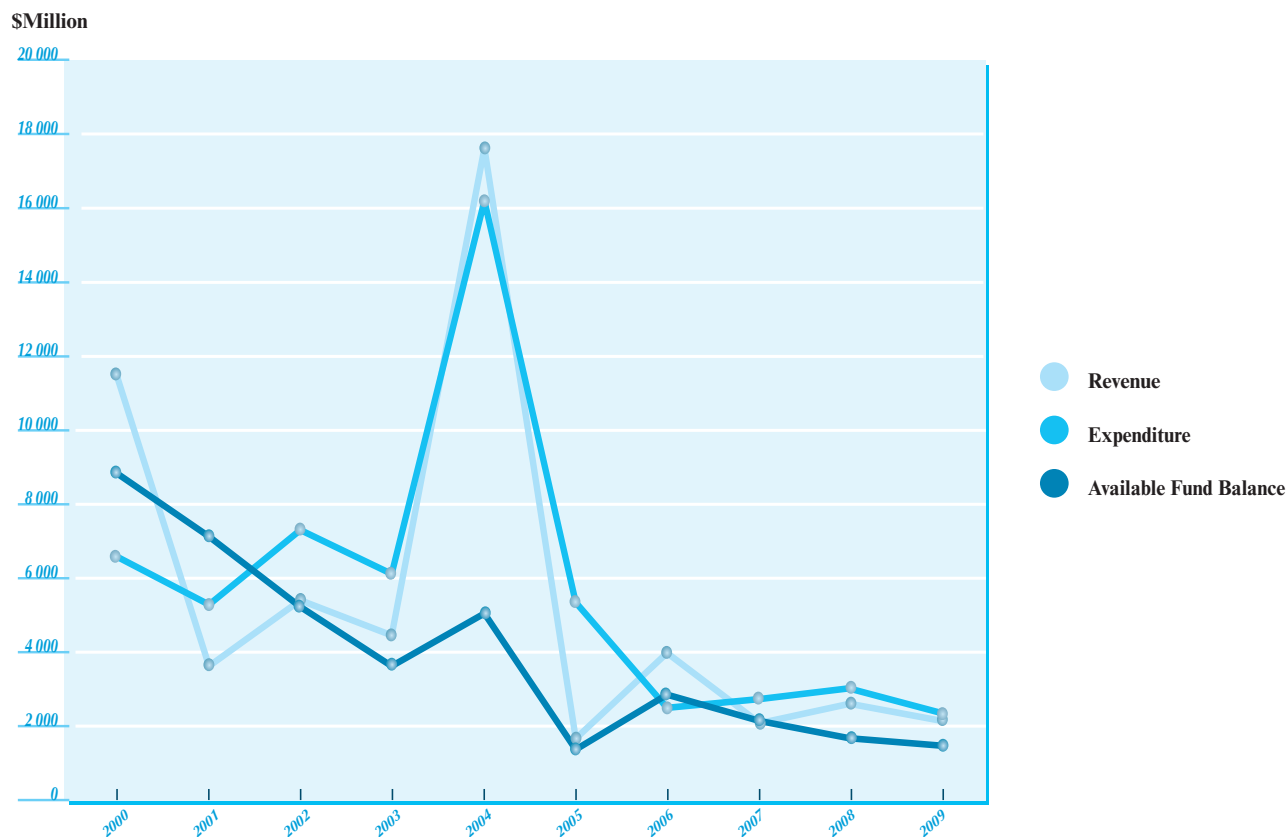
8. Contingent Liabilities

There are contingent liabilities as listed below, with the maximum amount of each liability as at 31 March 2009 indicated in brackets:

- (i) Guarantee provided for commercial loan of the Ocean Park Corporation (\$1,190 million); and
- (ii) Guarantee provided under a special finance scheme for small and medium enterprises (\$18 million).

Loan Fund

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2000 to 2009

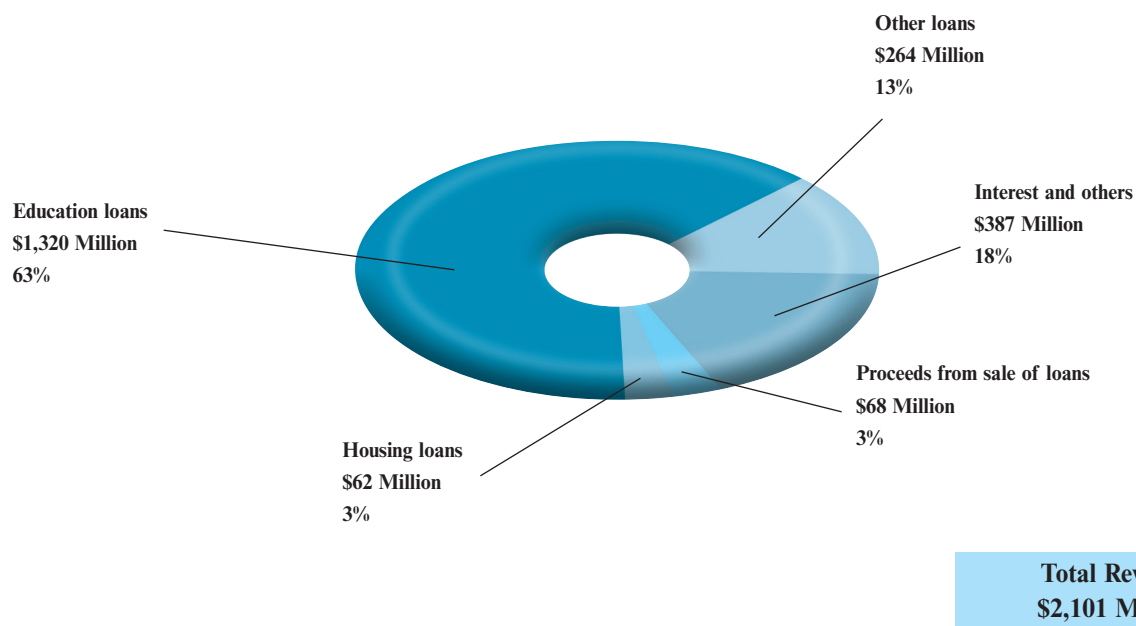


9. Revenue

	2009		2008
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments:			
Housing loans	60,004	62,231	90,907
Education loans	1,324,607	1,320,129	1,280,126
Other loans	280,639	264,122	269,411
	1,665,250	1,646,482	1,640,444
Interest on loans	336,754	247,399	288,924
Investment income	139,210	136,910	103,195
Surcharges on overdue loan repayments	2,100	2,250	2,372
Proceeds from sale of loans	87,397	68,070	63,292
Repayments waived now recovered	-	-	61
Others	-	10	11
Appropriation from General Revenue	700,000	-	500,000
	<u>2,930,711</u>	<u>2,101,121</u>	<u>2,598,299</u>

Loan Fund

Analysis of Revenue for the year ended 31 March 2009

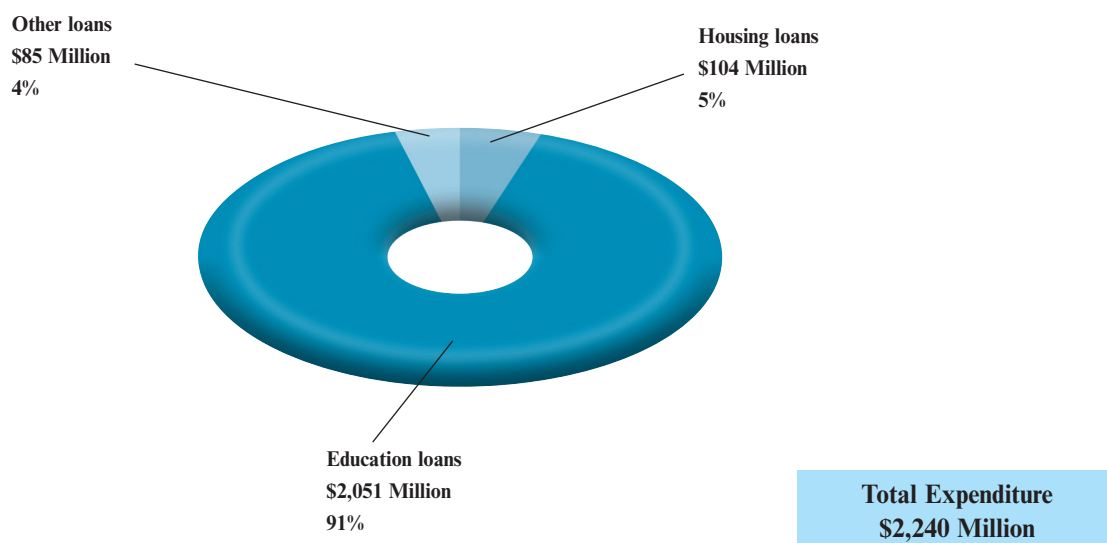


10. Expenditure

	2009		2008
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments:			
Housing loans	105,000	103,685	89,612
Education loans	2,713,892	2,051,133	1,917,459
Other loans	175,324	85,033	1,045,447
	2,994,216	2,239,851	3,052,518
Others	-	29	-
	<u>2,994,216</u>	<u>2,239,880</u>	<u>3,052,518</u>

Loan Fund

Analysis of Expenditure for the year ended 31 March 2009



11. Other Cash Movements

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

	2009 \$'000	2008 \$'000
Reduction in Assets:		
Investments with the Exchange Fund	123,896	468,062
Increase in Liabilities:		
Deposits	2,259	536
	<u>126,155</u>	<u>468,598</u>