

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 76 to 82, which comprise the statement of assets and liabilities as at 31 March 2010, 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 2010 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

25 October 2010

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Loans Outstanding	3		
Housing Loans		3,185,309	3,184,514
Education Loans		11,801,729	11,407,911
Other Loans		3,609,766	3,722,452
		18,596,804	18,314,877
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	1,654,708	1,526,132
Cash and bank balances		23,444	26,091
		1,678,152	1,552,223
Current Liabilities			
Deposits	5	(6,406)	(6,391)
		1,671,746	1,545,832
		20,268,550	19,860,709
Representing:			
Total Fund Balance			
Applied Fund	6	18,596,804	18,314,877
Available Fund	7		
Balance at 1 April 2009		1,545,832	1,684,591
Surplus/(Deficit) for the year		125,914	(138,759)
Balance at 31 March 2010		1,671,746	1,545,832
	8	20,268,550	19,860,709

Notes 1 to 11 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		26,091	38,695
Revenue	9	2,275,648	2,101,121
Expenditure	10	(2,149,734)	(2,239,880)
Surplus/(Deficit) for the year		125,914	(138,759)
Other cash movements	11	(128,561)	126,155
Cash and bank balances at 31 March 2010		23,444	26,091

Notes 1 to 11 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



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, 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 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

	2010			2009		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at 1 April 2009	3,184,514	11,407,911	3,722,452	3,214,559	10,677,657	3,850,095
Additions:						
Loan payments	222,995	1,835,986	90,744	103,685	2,051,133	85,033
Capitalised interest	(26)	-	75,069	875	-	69,310
	222,969	1,835,986	165,813	104,560	2,051,133	154,343
Deductions:						
Loan repayments	(50,171)	(1,439,745)	(261,933)	(62,231)	(1,320,129)	(264,122)
Loans written off	(452)	(2,423)	(16,566)	(4,304)	(750)	(17,864)
Proceeds from sale of loans	(171,551)	-	-	(68,070)	-	-
	(222,174)	(1,442,168)	(278,499)	(134,605)	(1,320,879)	(281,986)
Balance at 31 March 2010	3,185,309	11,801,729	3,609,766	3,184,514	11,407,911	3,722,452

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:

	2010	2009
	\$'000	\$'000
Investments (see (ii) and (iii) below)	1,654,471	1,512,880
Deposits	237	13,252
	<u>1,654,708</u>	<u>1,526,132</u>

(ii) The investments represent the cost of investments together with interest of \$120 million received in the year ended 31 March 2010.

(iii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

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:

	2010	2009
	\$'000	\$'000
Students	6,324	6,289
Others	82	102
	<u>6,406</u>	<u>6,391</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 2010 indicated in brackets:

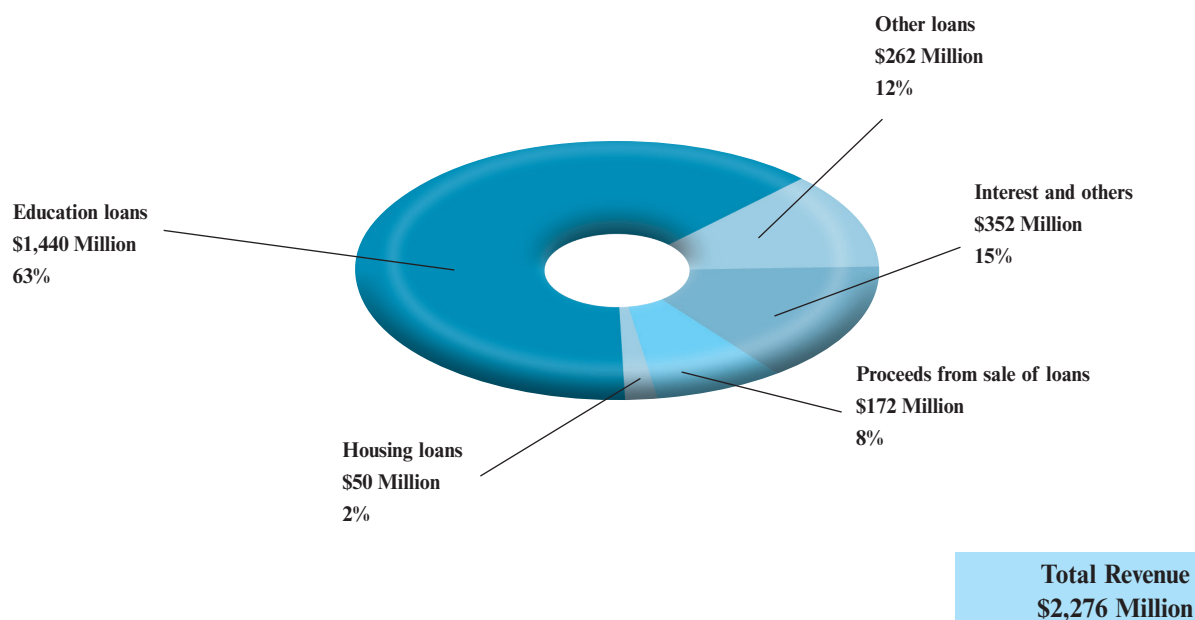
- (i) Guarantee provided for commercial loan of the Ocean Park Corporation (\$1,388 million); and
- (ii) Guarantee provided under a special finance scheme for small and medium enterprises (\$18 million).

Loan Fund

9. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments:			
Housing loans	50,636	50,171	62,231
Education loans	1,532,615	1,439,745	1,320,129
Other loans	269,390	261,933	264,122
	1,852,641	1,751,849	1,646,482
Interest on loans	276,242	230,148	247,399
Investment income	86,000	119,730	136,910
Surcharges on overdue loan repayments	2,200	2,296	2,250
Proceeds from sale of loans	85,000	171,551	68,070
Repayments waived now recovered	-	71	-
Others	-	3	10
Appropriation from General Revenue	400,000	-	-
	<u>2,702,083</u>	<u>2,275,648</u>	<u>2,101,121</u>

Analysis of Revenue for the year ended 31 March 2010

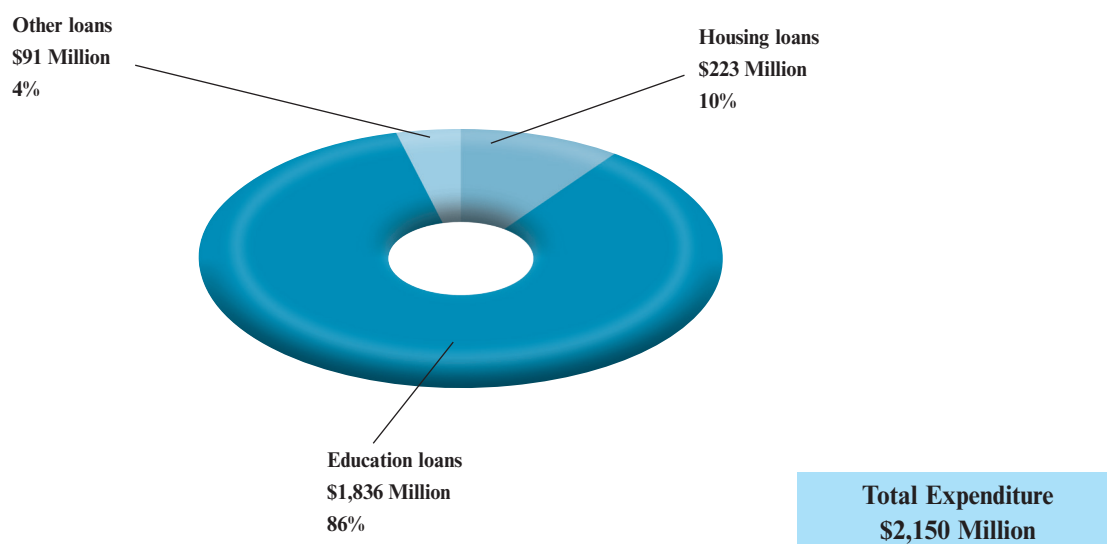


Loan Fund

10. Expenditure

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments:			
Housing loans	98,600	222,995	103,685
Education loans	2,372,281	1,835,986	2,051,133
Other loans	121,887	90,744	85,033
	2,592,768	2,149,725	2,239,851
Others	-	9	29
	<u>2,592,768</u>	<u>2,149,734</u>	<u>2,239,880</u>

Analysis of Expenditure for the year ended 31 March 2010



Loan Fund

11. Other Cash Movements

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

	2010 \$'000	2009 \$'000
(Increase)/Reduction in Assets:		
Investments with the Exchange Fund	(128,576)	123,896
Increase in Liabilities:		
Deposits	15	2,259
	(128,561)	126,155

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2001 to 2010

\$Million

