

# 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 78 to 84, which comprise the statement of assets and liabilities as at 31 March 2011, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **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 about 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 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 of the Loan Fund for the year ended 31 March 2011 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang  
Director of Audit

25 October 2011

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

# Loan Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
<b>Assets</b>			
<b>Loans Outstanding</b>	<b>3</b>		
Housing Loans		3,136,946	3,185,309
Education Loans		12,119,397	11,801,729
Other Loans		3,504,463	3,609,766
		<b>18,760,806</b>	<b>18,596,804</b>
<b>Net Current Assets</b>			
<b>Current Assets</b>			
Investments with the Exchange Fund	4	1,909,424	1,654,708
Cash and bank balances		20,396	23,444
		<b>1,929,820</b>	<b>1,678,152</b>
<b>Current Liabilities</b>			
Deposits	5	(7,744)	(6,406)
		<b>1,922,076</b>	<b>1,671,746</b>
		<b>20,682,882</b>	<b>20,268,550</b>
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>18,760,806</b>	<b>18,596,804</b>
<b>Available Fund</b>			
	<b>7</b>		
Balance at beginning of year		1,671,746	1,545,832
Surplus for the year		250,330	125,914
Balance at end of year		<b>1,922,076</b>	<b>1,671,746</b>
	<b>8</b>	<b>20,682,882</b>	<b>20,268,550</b>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG  
Director of Accounting Services  
25 August 2011



# Loan Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
Cash and bank balances at beginning of year		23,444	26,091
Revenue	9	2,237,205	2,275,648
Expenditure	10	(1,986,875)	(2,149,734)
Surplus for the year		250,330	125,914
Other cash movements	11	(253,378)	(128,561)
Cash and bank balances at end of year		<u>20,396</u>	<u>23,444</u>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG  
Director of Accounting Services  
25 August 2011



# 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.
- (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

	2011			2010		
	Housing Loans HK\$'000	Education Loans HK\$'000	Other Loans HK\$'000	Housing Loans HK\$'000	Education Loans HK\$'000	Other Loans HK\$'000
Balance at beginning of year	3,185,309	11,801,729	3,609,766	3,184,514	11,407,911	3,722,452
<b>Additions:</b>						
Loan payments	156,014	1,745,426	85,435	222,995	1,835,986	90,744
Capitalised interest	467	-	78,870	(26)	-	75,069
	156,481	1,745,426	164,305	222,969	1,835,986	165,813
<b>Deductions:</b>						
Loan repayments	(48,979)	(1,424,524)	(254,470)	(50,171)	(1,439,745)	(261,933)
Loans written off	(1,423)	(3,234)	(15,138)	(452)	(2,423)	(16,566)
Proceeds from sale of loans	(154,442)	-	-	(171,551)	-	-
	(204,844)	(1,427,758)	(269,608)	(222,174)	(1,442,168)	(278,499)
<b>Balance at end of year</b>	<b>3,136,946</b>	<b>12,119,397</b>	<b>3,504,463</b>	<b>3,185,309</b>	<b>11,801,729</b>	<b>3,609,766</b>

Further analysis of loans appears on pages 213 to 215 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Investments (see (ii) and (iii) below)	<b>1,909,323</b>	1,654,471
Deposits	<b>101</b>	237
	<b><u>1,909,424</u></b>	<u>1,654,708</u>

(ii) The investments represent the cost of investments together with interest of HK\$120 million received in the year ended 31 March 2011.

(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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Students	<b>7,617</b>	6,324
Others	<b>127</b>	82
	<b><u>7,744</u></b>	<u>6,406</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 2011 indicated in brackets:

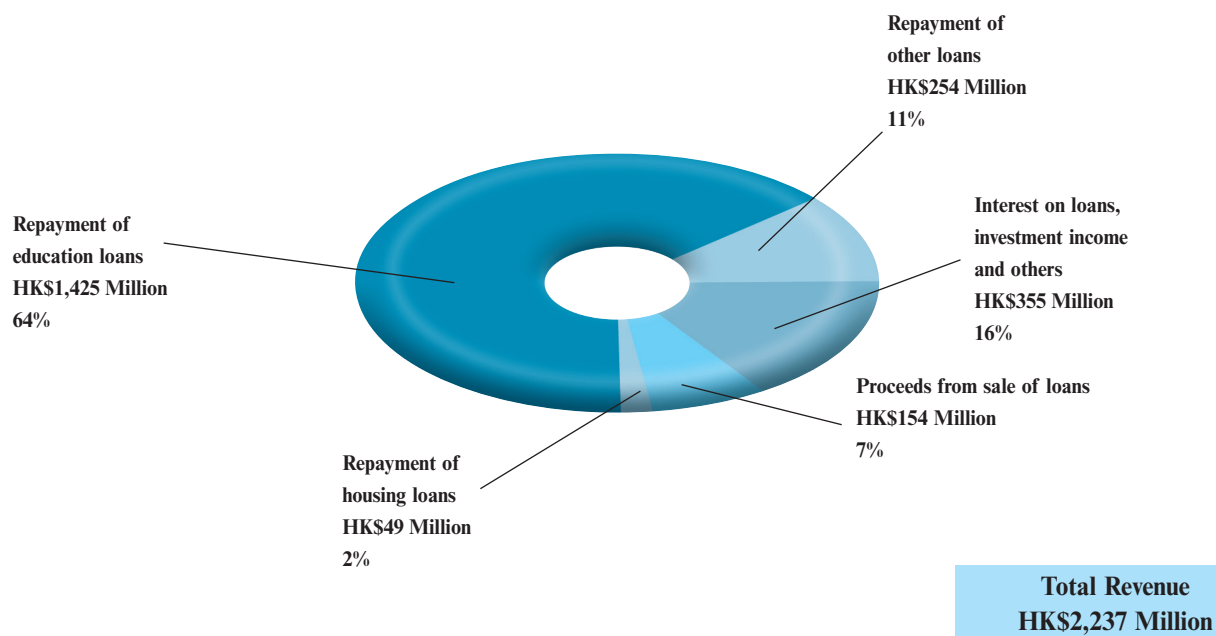
- (i) Guarantees provided for a commercial loan of the Ocean Park Corporation (HK\$1,388 million); and
- (ii) Guarantees provided under a special finance scheme for small and medium enterprises (HK\$16 million).

# Loan Fund

## 9. Revenue

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
<b>Loan repayments:</b>			
Housing loans	49,751	48,979	50,171
Education loans	1,534,979	1,424,524	1,439,745
Other loans	287,885	254,470	261,933
	1,872,615	1,727,973	1,751,849
<b>Interest on loans</b>	275,636	232,702	230,148
<b>Investment income</b>	115,000	119,740	119,730
<b>Surcharges on overdue loan repayments</b>	2,400	2,309	2,296
<b>Proceeds from sale of loans</b>	183,215	154,442	171,551
<b>Repayments waived now recovered</b>	-	9	71
<b>Others</b>	-	30	3
	<u>2,448,866</u>	<u>2,237,205</u>	<u>2,275,648</u>

### Analysis of Revenue for the year ended 31 March 2011

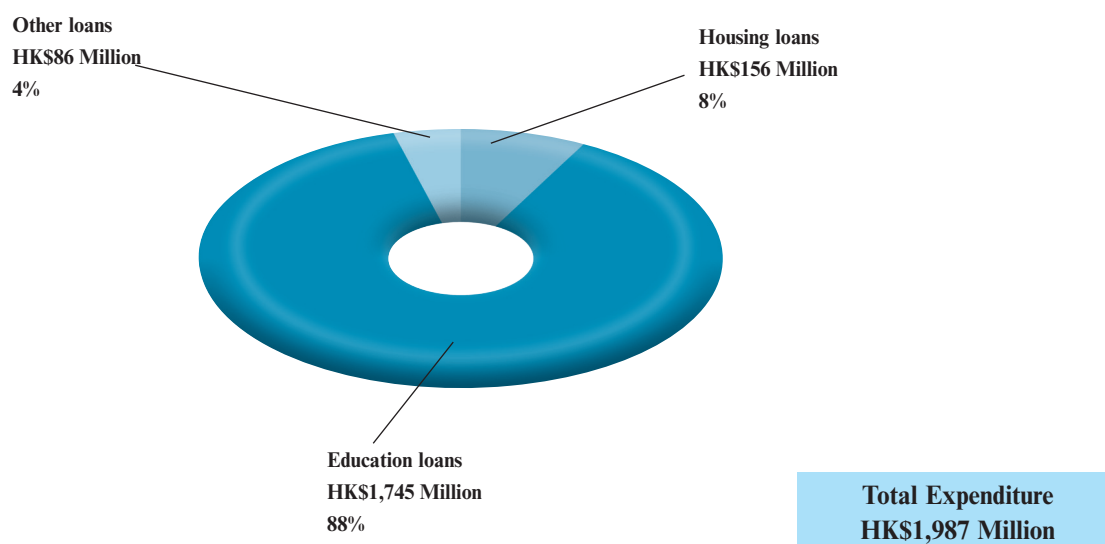


# Loan Fund

## 10. Expenditure

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
<b>Loan payments:</b>			
Housing loans	208,600	<b>156,014</b>	222,995
Education loans	1,933,569	<b>1,745,426</b>	1,835,986
Other loans	147,934	<b>85,435</b>	90,744
	2,290,103	<b>1,986,875</b>	2,149,725
<b>Others</b>	-	-	9
	<u>2,290,103</u>	<u><b>1,986,875</b></u>	<u>2,149,734</u>

### Analysis of Expenditure for the year ended 31 March 2011





# Loan Fund

## 11. Other Cash Movements

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

	2011 HK\$'000	2010 HK\$'000
<b>Increase in Assets:</b>		
Investments with the Exchange Fund	(254,716)	(128,576)
<b>Increase in Liabilities:</b>		
Deposits	1,338	15
	<u>(253,378)</u>	<u>(128,561)</u>

## Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2002 to 2011

HK\$Million

