

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 80 to 86, which comprise the statement of assets and liabilities as at 31 March 2012, 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 2012 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2012

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
Assets			
Loans Outstanding	3		
Housing Loans		3,084,860	3,136,946
Education Loans		12,361,535	12,119,397
Other Loans		3,434,893	3,504,463
		18,881,288	18,760,806
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	2,235,441	1,909,424
Cash and bank balances		24,655	20,396
		2,260,096	1,929,820
Current Liabilities			
Deposits	5	(10,350)	(7,744)
		2,249,746	1,922,076
		21,131,034	20,682,882
Representing:			
Total Fund Balance			
Applied Fund	6	18,881,288	18,760,806
Available Fund	7		
Balance at beginning of year		1,922,076	1,671,746
Surplus for the year		327,670	250,330
Balance at end of year		2,249,746	1,922,076
	8	21,131,034	20,682,882

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2012



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
Cash and bank balances at beginning of year		20,396	23,444
Revenue	9	2,388,641	2,237,205
Expenditure	10	(2,060,971)	(1,986,875)
Surplus for the year		327,670	250,330
Other cash movements	11	(323,411)	(253,378)
Cash and bank balances at end of year		<u>24,655</u>	<u>20,396</u>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2012



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

	2012			2011		
	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	3,136,946	12,119,397	3,504,463	3,185,309	11,801,729	3,609,766
Additions						
Loan payments	94,243	1,874,893	91,835	156,014	1,745,426	85,435
Capitalised interest	74	-	82,862	467	-	78,870
	94,317	1,874,893	174,697	156,481	1,745,426	164,305
Deductions						
Loan repayments	(28,530)	(1,630,760)	(238,967)	(48,979)	(1,424,524)	(254,470)
Loans written off	-	(1,995)	(5,300)	(1,423)	(3,234)	(15,138)
Proceeds from sale of loans	(117,873)	-	-	(154,442)	-	-
	(146,403)	(1,632,755)	(244,267)	(204,844)	(1,427,758)	(269,608)
Balance at end of year	3,084,860	12,361,535	3,434,893	3,136,946	12,119,397	3,504,463

Further analysis of loans appears on pages 211 to 213 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:

	2012	2011
	HK\$'000	HK\$'000
Investments (Notes (ii) and (iii) below)	2,235,291	1,909,323
Deposits	150	101
	<u>2,235,441</u>	<u>1,909,424</u>

(ii) The investments represent the cost of investments together with interest of HK\$131 million received in the year ended 31 March 2012.

(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:

	2012	2011
	HK\$'000	HK\$'000
Students	10,225	7,617
Others	125	127
	<u>10,350</u>	<u>7,744</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

As at 31 March 2012, the Government had the following contingent liabilities:

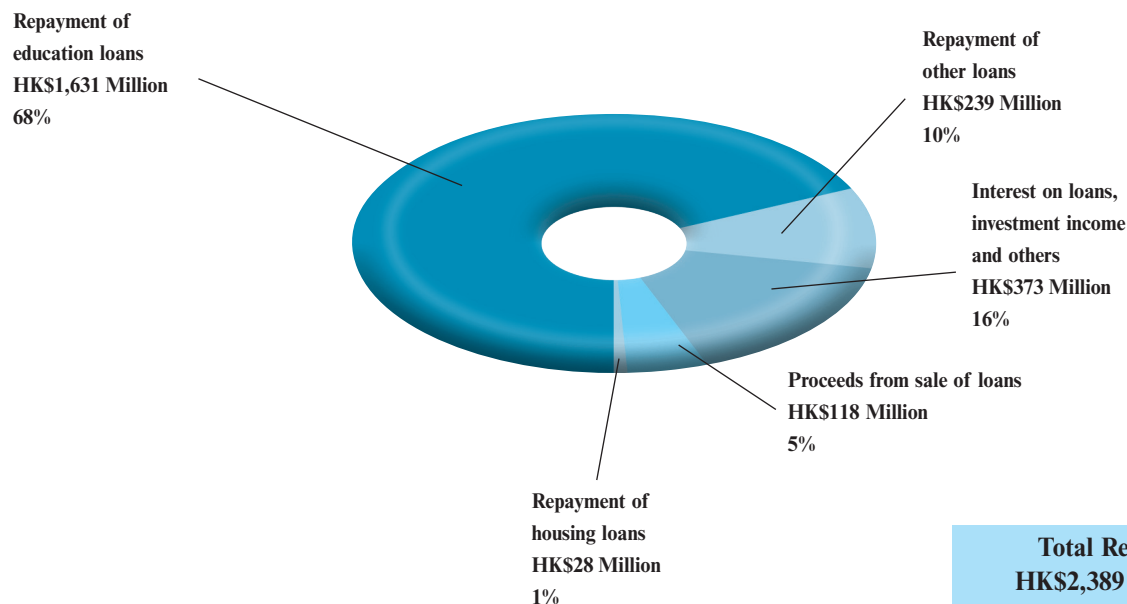
- (i) guarantees provided for a commercial loan of the Ocean Park Corporation amounting to HK\$1,388 million (2011: HK\$1,388 million); and
- (ii) guarantees provided under a special finance scheme for small and medium enterprises amounting to HK\$16 million (2011: HK\$16 million).

Loan Fund

9. Revenue

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan repayments			
Housing loans	54,111	28,530	48,979
Education loans	1,614,805	1,630,760	1,424,524
Other loans	264,131	238,967	254,470
	1,933,047	1,898,257	1,727,973
Interest on loans	275,886	238,657	232,702
Investment income	99,000	131,285	119,740
Surcharges on overdue loan repayments	2,200	2,536	2,309
Proceeds from sale of loans	158,350	117,873	154,442
Repayments waived now recovered	-	8	9
Others	-	25	30
	<u>2,468,483</u>	<u>2,388,641</u>	<u>2,237,205</u>

Analysis of Revenue for the year ended 31 March 2012

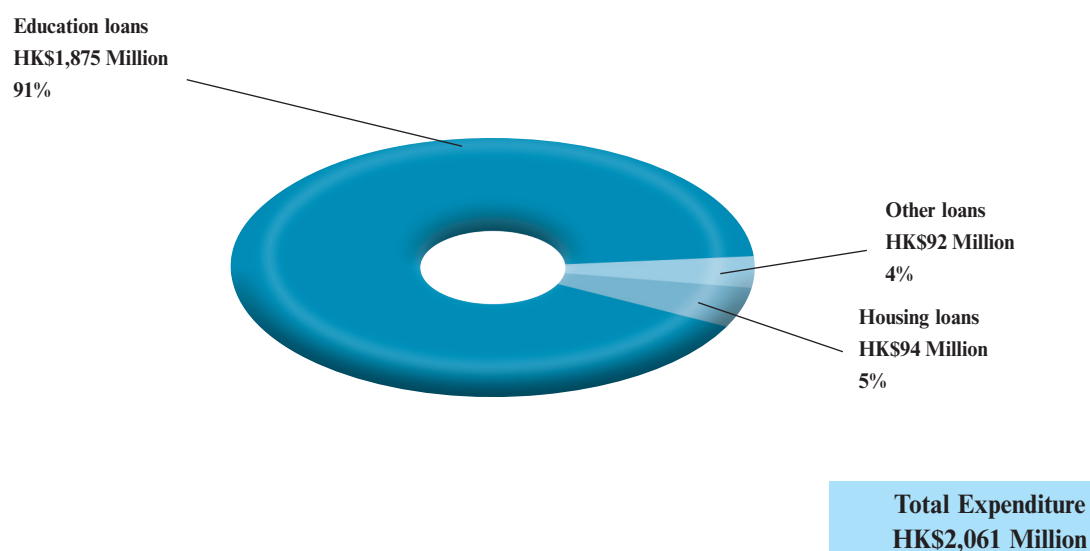


Loan Fund

10. Expenditure

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan payments			
Housing loans	190,400	94,243	156,014
Education loans	2,196,183	1,874,893	1,745,426
Other loans	168,588	91,835	85,435
	2,555,171	2,060,971	1,986,875
Additional commitments	257,700	-	-
	<u>2,812,871</u>	<u>2,060,971</u>	<u>1,986,875</u>

Analysis of Expenditure for the year ended 31 March 2012



Loan Fund

11. Other Cash Movements

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

	2012 HK\$'000	2011 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	(326,017)	(254,716)
Increase in Liabilities		
Deposits	2,606	1,338
	<u>(323,411)</u>	<u>(253,378)</u>

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2003 to 2012

HK\$Million

