

KADOORIE AGRICULTURAL AID LOAN FUND REPORT
FOR THE PERIOD 1 APRIL 2015 TO 31 MARCH 2016

This Report is submitted in accordance with Section 12(3) of the Kadoorie Agricultural Aid Loan Fund Ordinance, Cap. 1080.

2. The Fund was established in 1955 under the Kadoorie Agricultural Aid Loan Fund Ordinance with a capital of \$500,000. Half of this sum was donated by the Hong Kong Government and the other half by Lord KADOORIE, L.L.D., J.P. and Sir Horace KADOORIE, J.P. Government further donated \$750,000 in 1957, \$500,000 in 1960 and \$500,000 in 1971. The Kadoorie brothers also generously donated another \$500,000 in 1971, bringing the capital of the Fund to \$2,750,000.

3. Loans from this Fund are normally granted to farmers and fish farmers to meet their development and working capital needs. Loan purposes include the purchase of necessary inputs for production such as stocks, feed, fertilizers; and the improvement of farm facilities for enhancing productivity and meeting environmental protection requirements.

4. The Fund is vested in the Director of Agriculture, Fisheries and Conservation as the Trustee and administered by a Committee which meets biannually. Apart from receiving and endorsing various cash statements and loan schedules, the Committee reviews loan interest rates in accordance with the prevailing bank lending rates and the prevailing economic situation of the agricultural and fisheries sectors.

5. During 2015/16, a total of 41 normal loans amounting to \$4,274,000 were approved to farmers and fish farmers as working capital. As at 31 March 2016, the outstanding balance of normal loans was \$5,011,831.

6. In 1998, the Government made available \$200 million to help mariculturists affected by the red-tide incident to re-establish their business. A total of 832 loans amounting to \$130,189,000 were issued to affected mariculturists. As at 31 March 2016, the total outstanding balance of special loans to mariculturists stood at \$1,456,500. Repayments and accrued interest arising from the special loans schemes were returned to the Government.

7. The Fund, including accumulated surplus of the original \$2,750,000 capital and the additional funding provided by the Government to assist farmers affected by the red-tide incident stood at \$16,611,062 as at 31 March 2016.

8. A copy of the signed and audited Statement of Accounts of the Fund for the year is attached herewith.

For and on behalf of the
Kadoorie Agricultural Aid Loan Fund Committee
Dr LEUNG Siu-fai
Trustee

Encl.

Kadoorie Agricultural Aid Loan Fund

Financial Statements for the year ended 31 March 2016

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Legislative Council

I certify that I have audited the financial statements of the Kadoorie Agricultural Aid Loan Fund set out on pages 3 to 12, which comprise the balance sheet as at 31 March 2016, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Agriculture, Fisheries and Conservation's Responsibility for the Financial Statements

The Director of Agriculture, Fisheries and Conservation is responsible for the preparation of these financial statements in accordance with section 12(1) of the Kadoorie Agricultural Aid Loan Fund Ordinance (Cap. 1080) and the accounting policies set out in note 2 to the financial statements, and for such internal control as the Director of Agriculture, Fisheries and Conservation determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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(2) of the Kadoorie Agricultural Aid Loan Fund Ordinance 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 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 and the reasonableness of accounting estimates made by the Director of Agriculture, Fisheries and Conservation, 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 Kadoorie Agricultural Aid Loan Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with section 12(1) of the Kadoorie Agricultural Aid Loan Fund Ordinance and the accounting policies set out in note 2 to the financial statements.

TEO Wing-on
Principal Auditor
for Director of Audit

15 June 2016

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

KADOORIE AGRICULTURAL AID LOAN FUND

Balance Sheet as at 31 March 2016

	Note	2016 HK\$	2015 HK\$
ASSETS			
Non-current Assets			
Loans receivable	3	280,000	762,000
Current Assets			
Loans receivable	3	6,188,331	6,425,631
Interest receivable	4	1,584,834	1,893,649
Deposits with the Department of Justice	5	329,776	82,000
Bank deposits		6,392,144	8,542,471
Cash and cash equivalents	6	3,640,202	727,332
		18,135,287	17,671,083
LIABILITIES			
Loan interest payable to the Government Loan Fund	7	(1,804,225)	(1,822,770)
		16,611,062	16,610,313
KADOORIE AGRICULTURAL AID LOAN FUND			
Capital		2,750,000	2,750,000
Accumulated surplus		12,376,662	12,310,913
FUNDS ALLOCATED FROM THE GOVERNMENT LOAN FUND			
	8		
Mariculturist Scheme	9	1,484,400	1,549,400
		16,611,062	16,610,313

The accompanying notes 1 to 13 form part of these financial statements.

(Dr LEUNG Siu-fai)
Director of Agriculture, Fisheries and Conservation
Trustee of the Kadoorie Agricultural Aid Loan Fund
15 June 2016

KADOORIE AGRICULTURAL AID LOAN FUND

Income and Expenditure Account for the year ended 31 March 2016

	2016 HK\$	2015 HK\$
INCOME		
Loan interest	29	4,351
Bank interest	65,720	99,180
Provision for bad/doubtful debts written back	-	40
	<hr/>	<hr/>
	65,749	103,571
 EXPENDITURE	 -	 -
	<hr/>	<hr/>
SURPLUS FOR THE YEAR	65,749	103,571
 OTHER COMPREHENSIVE INCOME	 -	 -
	<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	65,749	103,571
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The accompanying notes 1 to 13 form part of these financial statements.

KADOORIE AGRICULTURAL AID LOAN FUND

Statement of Changes in Equity for the year ended 31 March 2016

	Kadoorie Agricultural Aid Loan Fund		Funds allocated from Government Loan Fund	
	Capital	Accumulated Surplus	Mariculturist Scheme	Total
	HK\$	HK\$	HK\$	HK\$
Balance at 1 April 2014	2,750,000	12,207,342	1,683,945	16,641,287
Capital refunded to Government Loan Fund for 2014-15	-	-	(84,500)	(84,500)
Bad debts written off for 2014-15	-	-	(50,045)	(50,045)
Total comprehensive income for 2014-15	-	103,571	-	103,571
Balance at 31 March 2015	2,750,000	12,310,913	1,549,400	16,610,313
Capital refunded to Government Loan Fund for 2015-16	-	-	(65,000)	(65,000)
Bad debts written off for 2015-16	-	-	-	-
Total comprehensive income for 2015-16	-	65,749	-	65,749
Balance at 31 March 2016	2,750,000	12,376,662	1,484,400	16,611,062

The accompanying notes 1 to 13 form part of these financial statements.

KADOORIE AGRICULTURAL AID LOAN FUND

Statement of Cash Flows for the year ended 31 March 2016

	Note	2016 HK\$	2015 HK\$
Cash flows from operating activities			
Surplus for the year		65,749	103,571
Loan interest		(29)	(4,351)
Bank interest		(65,720)	(99,180)
Provision for bad/doubtful debts written back		-	(40)
Loan interest received		298	1,342
Decrease/(Increase) in loans		719,300	(581,100)
Decrease in interest receivable in respect of loans issued under the Mariculturist Scheme		297,921	41,165
(Increase)/Decrease in deposits with the Department of Justice		(247,776)	42,614
Decrease in loan interest payable to the Government Loan Fund		(18,545)	(63,279)
Net cash from/(used in) operating activities		<u>751,198</u>	<u>(559,258)</u>
Cash flows from investing activities			
Net decrease in bank deposits with original maturity over three months		2,150,327	28,544
Bank interest received		76,345	100,475
Net cash from investing activities		<u>2,226,672</u>	<u>129,019</u>
Cash flows from financing activities			
Refund to the Government Loan Fund		(65,000)	(84,500)
Net cash used in financing activities		<u>(65,000)</u>	<u>(84,500)</u>
Net increase/(decrease) in cash and cash equivalents		2,912,870	(514,739)
Cash and cash equivalents at beginning of year		<u>727,332</u>	<u>1,242,071</u>
Cash and cash equivalents at end of year	6	<u>3,640,202</u>	<u>727,332</u>

The accompanying notes 1 to 13 form part of these financial statements.

KADOORIE AGRICULTURAL AID LOAN FUND

Notes to the financial statements

1. GENERAL

The Kadoorie Agricultural Aid Loan Fund (the Fund) was established for the purpose of encouraging or improving agriculture in Hong Kong by the issue of loans to farmers in accordance with section 6 of the Kadoorie Agricultural Aid Loan Fund Ordinance (Cap. 1080).

The address of the Fund's principal place of business is 5th Floor, Cheung Sha Wan Government Offices, 303 Cheung Sha Wan Road, Kowloon.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial reporting framework

The Fund has adopted a financial reporting framework incorporating the accounting policies approved by the Kadoorie Agricultural Aid Loan Fund Committee and applicable requirements of Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Adoption of new/revised HKFRSs

The Fund has adopted all new/revised HKFRSs which are effective and relevant to the Fund for the current accounting period.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

(d) Recognition of income

- (i) Interest income from loans is recognised in accordance with the terms set out in the individual loan agreements.
- (ii) Interest income from bank deposits is recognised as it accrues using the effective interest method. The effective interest method is a method of calculating the amortised cost of financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset.

(e) Loans and receivables

Loans and receivables are stated at cost. This is different from the accounting treatment required under the HKAS 39 *Financial instruments : Recognition and measurement* where loans and receivables are carried at amortised cost.

For those loans utilising funds provided by the Fund, where the repayment of a loan becomes doubtful, a provision is made and charged to the income and expenditure account.

For those loans issued under the schemes utilising funds provided by the Government Loan Fund, interest on the loans and repayments of the loans by the borrowers are not kept by the Fund but refunded to the Government Loan Fund. No provision is made when the repayment of a loan becomes doubtful. Bad debts arising from such loans are written off against the fund balances of the respective schemes under "Funds allocated from the Government Loan Fund" in the statement of changes in equity. This is different from the accounting treatment required under the HKAS 39 *Financial instruments : Recognition and measurement* where the carrying amount of a loan is reduced by the impairment loss.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. LOANS RECEIVABLE

	2016 HK\$	2015 HK\$
THE FUND		
Balance at end of year	5,011,831	5,698,231
MARICULTURIST SCHEME		
Loans receivable before write-off	1,456,500	1,539,445
Bad debts written off during the year	-	(50,045)
Balance at end of year	1,456,500	1,489,400
Total balance at end of year	6,468,331	7,187,631
Classified as :		
Non-current assets		
The Fund	280,000	762,000
Current assets		
The Fund	4,731,831	4,936,231
Mariculturist Scheme	1,456,500	1,489,400
	6,188,331	6,425,631
	6,468,331	7,187,631

A loan of HK\$60,000 (2015 : nil) was approved on or before 31 March 2016 under the Fund but the loan agreement and payment were effected after the balance sheet date.

4. INTEREST RECEIVABLE

	2016 HK\$	2015 HK\$
THE FUND		
Loan interest receivable before provision and write-off	66,844	67,113
Provision for doubtful debts	(11,032)	(11,032)
Bank interest receivable	19,172	29,797
Balance at end of year	74,984	85,878
MARICULTURIST SCHEME		
Loan interest receivable before write-off	1,509,850	1,843,357
Written off during the year	-	(35,586)
Balance at end of year	1,509,850	1,807,771
Total balance at end of year	1,584,834	1,893,649

5. DEPOSITS WITH THE DEPARTMENT OF JUSTICE	2016 HK\$	2015 HK\$
The Fund	7,500	7,000
Mariculturist Scheme	322,276	75,000
	<hr/> 329,776 <hr/>	<hr/> 82,000 <hr/>
6. CASH AND CASH EQUIVALENTS	2016 HK\$	2015 HK\$
Cash at bank	3,640,202	727,332
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7. LOAN INTEREST PAYABLE TO THE GOVERNMENT LOAN FUND	2016 HK\$	2015 HK\$
Mariculturist Scheme	1,804,225	1,822,770
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8. FUNDS ALLOCATED FROM THE GOVERNMENT LOAN FUND

These are loan capital drawn from the Government Loan Fund established under section 29 of the Public Finance Ordinance (Cap. 2).

9. MARICULTURIST SCHEME

The Mariculturist Scheme was implemented with effect from 23 April 1998 utilising funds provided from the Government Loan Fund established under section 29 of the Public Finance Ordinance. The purpose of the Scheme is to provide loans to mariculturists, who were affected by the bloom of marine algae (referred to as a “red tide”) that occurred in March/April 1998, to re-establish their businesses. The approved allocation from the Government Loan Fund for this Scheme is HK\$200 million. The loans made under this Scheme are repayable within two years from the date of draw down. Repayments and loan interest received from the mariculturists for loans made under this Scheme will be payable to the Government Loan Fund.

10. CAPITAL MANAGEMENT

The capital structure of the Fund consists of capital and its accumulated surplus. For the Mariculturist Scheme, the capital structures consist of funds allocated from the Government Loan Fund. The Fund’s objectives when managing capital are:

- (a) to comply with the Kadoorie Agricultural Aid Loan Fund Ordinance; and
- (b) to maintain a capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund is vested in the Director of Agriculture, Fisheries and Conservation as the Trustee and administered by the Kadoorie Agricultural Aid Loan Fund Committee. The Fund manages its capital to ensure that the capital level is adequate to fund future issue of loans and expenditure, taking into account its projected cash flow requirements, future financial obligations and commitments.

11. FINANCIAL RISK MANAGEMENT

The Fund's major financial instruments include loans, bank deposits, interest receivable, payables and cash at bank. The major risks associated with these financial instruments are set out below.

(a) Credit risk

The Fund is exposed to credit risk arising from deposits with banks and the issues of loans. In order to minimise the credit risk, the Fund's bank deposits are placed with reputable licensed banks in Hong Kong and the Fund closely monitors the granting of credit. The recoverable amount of each individual loan made under the Fund is reviewed at each balance sheet date to ensure that adequate provisions are made for doubtful amounts. Applicants for loans above HK\$130,000 (2015: HK\$130,000) are usually required to provide land-based properties as security. Ageing analyses of loans that were past due at the balance sheet date are as follows:

	2016 HK\$	2015 HK\$
The Fund		
Loans that were past due for :		
Less than 1 year	5,000	30,000
1 year to less than 2 years	-	-
2 years to less than 3 years	20,000	40,000
3 years and above	39,831	50,231
	64,831	120,231
Mariculturist Scheme		
Loans that were past due for :		
3 years and above	1,456,500	1,489,400
	<u>1,521,331</u>	<u>1,609,631</u>

(b) Interest rate risk

Interest rate risk is the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's bank deposits

bear interest at fixed rates, their fair value will fall when market interest rates increase. However, as they are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and equity.

Cash flow interest rate risk is the risk that future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Fund is not exposed to cash flow interest rate risk as it has no financial instruments bearing interest at floating rates.

(c) Liquidity risk

The Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effects of fluctuations in cash flows.

12. ADMINISTRATION COST

The cost of administering the Fund has been borne by the Government of the Hong Kong Special Administrative Region in accordance with section 13 of the Kadoorie Agricultural Aid Loan Fund Ordinance.

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

All financial assets and liabilities are stated in the balance sheet at amounts equal to or not materially different from their fair values.