

J.E. JOSEPH TRUST FUND REPORT
FOR THE PERIOD 1 APRIL 2016 TO 31 MARCH 2017

This Report is submitted in accordance with Section 6(3) of the J.E. Joseph Trust Fund Ordinance, Cap. 1067.

2. The Fund was established in 1954 under J.E. Joseph Trust Fund Ordinance for the purpose of encouraging and improving agriculture in the New Territories. It issues loans to farmers' co-operative societies and farmers for use either as development or working capital. The societies may re-lend the money to their members at low interest rates. The Fund is vested in the Registrar of Co-operative Societies (currently the Director of Agriculture, Fisheries and Conservation) as the Trustee and administered by the Agriculture, Fisheries and Conservation Department.

3. The Fund has a capital of \$4,261,107 with \$459,554 being the original amount paid to the Trustee in 1954, \$1,553 being a further payment made by the Hong Kong and Shanghai Banking (Trustee) Ltd. in 1961, \$750,000 contributed by the Hong Kong Government in July 1957 as a special relief fund following the disastrous floods in May that year, \$3,000,000 donated by a private individual in 1991 and \$50,000 donated by the agricultural industry in 1996/97. Income derived from interest on loans and on bank deposits during the year under review amounted to \$147,937. The Fund, including the aggregate surpluses of \$15,196,467 stood at \$19,457,574 on 31 March 2017.

4. Since the inception of the Fund, 16,168 loans had been issued to 60 610 borrowers. The accumulated total amount of loans issued up to 31 March 2017 stood at \$191,749,199. A total of 11 loans amounting to \$1,420,000 were approved and lent to farmers in 2016/17. As at 31 March 2017, the total outstanding balance stood at \$910,000.

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

Dr LEUNG Siu-fai
Registrar of Co-operative Societies
Trustee, J.E. Joseph Trust Fund

Encl.

J. E. Joseph Trust Fund

Financial Statements for the year ended 31 March 2017

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I certify that I have audited the financial statements of the J. E. Joseph Trust Fund set out on pages 4 to 11, which comprise the balance sheet as at 31 March 2017, and the income and expenditure account, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the J. E. Joseph Trust Fund for the year ended 31 March 2017 are prepared, in all material respects, in accordance with section 6(1) of the J. E. Joseph Trust Fund Ordinance (Cap. 1067) and the accounting policies set out in note 2 to the financial statements.

Basis for opinion

I conducted my audit in accordance with section 6(2) of the J. E. Joseph Trust Fund Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the J. E. Joseph Trust Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Director of Agriculture, Fisheries and Conservation for the financial statements

The Director of Agriculture, Fisheries and Conservation is responsible for the preparation of the financial statements in accordance with section 6(1) of the J. E. Joseph Trust Fund Ordinance 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.

In preparing the financial statements, the Director of Agriculture, Fisheries and Conservation is responsible for assessing the J. E. Joseph Trust Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 J. E. Joseph Trust Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director of Agriculture, Fisheries and Conservation; and
- conclude on the appropriateness of the Director of Agriculture, Fisheries and Conservation's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the J. E. Joseph Trust Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion.

My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the J. E. Joseph Trust Fund to cease to continue as a going concern.

LIANG Kar-lun, Ken
Acting Principal Auditor
for Director of Audit

19 June 2017

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

J. E. JOSEPH TRUST FUND

Balance Sheet as at 31 March 2017

| | Note | 2017 HK\$ | 2016 HK\$ |
|---------------------------|-------------|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Loans receivable | 3 | 910,000 | 723,000 |
| Interest receivable | 4 | 51,083 | 40,786 |
| Bank deposits | | 18,188,622 | 17,951,156 |
| Cash and cash equivalents | 5 | 307,869 | 594,695 |
| | | <u>19,457,574</u> | <u>19,309,637</u> |
| FUND BALANCE | | | |
| Capital | | 4,261,107 | 4,261,107 |
| Accumulated surplus | | 15,196,467 | 15,048,530 |
| | | <u>19,457,574</u> | <u>19,309,637</u> |

The accompanying notes 1 to 9 form part of these financial statements.

(Dr LEUNG Siu-fai)
Director of Agriculture, Fisheries and Conservation
Trustee of the J. E. Joseph Trust Fund
19 June 2017

J. E. JOSEPH TRUST FUND

**Income and Expenditure Account
for the year ended 31 March 2017**

| | 2017 HK\$ | 2016 HK\$ |
|--|----------------------|----------------------|
| INCOME | | |
| Loan interest | 44 | 72 |
| Bank interest | 147,893 | 138,411 |
| | <hr/> | <hr/> |
| | 147,937 | 138,483 |
| EXPENDITURE | <hr/> | <hr/> |
| | - | - |
| SURPLUS FOR THE YEAR | 147,937 | 138,483 |
| OTHER COMPREHENSIVE INCOME | <hr/> | <hr/> |
| | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <hr/> | <hr/> |
| | 147,937 | 138,483 |

The accompanying notes 1 to 9 form part of these financial statements.

J. E. JOSEPH TRUST FUND

**Statement of Changes in Equity
for the year ended 31 March 2017**

| | Capital HK\$ | Accumulated Surplus HK\$ | Total HK\$ |
|---|-------------------------|---|-----------------------|
| Balance at 1 April 2015 | 4,261,107 | 14,910,047 | 19,171,154 |
| Total comprehensive income for 2015-16 | - | 138,483 | 138,483 |
| Balance at 31 March 2016 | 4,261,107 | 15,048,530 | 19,309,637 |
| Total comprehensive income for 2016-17 | - | 147,937 | 147,937 |
| Balance at 31 March 2017 | 4,261,107 | 15,196,467 | 19,457,574 |

The accompanying notes 1 to 9 form part of these financial statements.

J. E. JOSEPH TRUST FUND
Statement of Cash Flows
for the year ended 31 March 2017

| | Note | 2017 HK\$ | 2016 HK\$ |
|---|------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Surplus for the year | | 147,937 | 138,483 |
| Adjustments for: | | | |
| Loan interest | | (44) | (72) |
| Bank interest | | (147,893) | (138,411) |
| Loan interest received | | 174 | 153 |
| (Increase) / Decrease in loans | | (187,000) | 1,338,990 |
| Net cash (used in) / generated from operating activities | | <u>(186,826)</u> | <u>1,339,143</u> |
| Cash flows from investing activities | | | |
| Net increase in bank deposits with original maturity over 3 months | | (237,466) | (1,155,298) |
| Bank interest received | | 137,466 | 155,297 |
| Net cash used in investing activities | | <u>(100,000)</u> | <u>(1,000,001)</u> |
| Net (decrease) / increase in cash and cash equivalents | | (286,826) | 339,142 |
| Cash and cash equivalents at beginning of year | | <u>594,695</u> | <u>255,553</u> |
| Cash and cash equivalents at end of year | 5 | <u><u>307,869</u></u> | <u><u>594,695</u></u> |

The accompanying notes 1 to 9 form part of these financial statements.

J. E. JOSEPH TRUST FUND

Notes to the financial statements

1. GENERAL

The J. E. Joseph Trust Fund (the Fund) was established for the purpose of encouraging and improving agriculture in the New Territories by making loans to Farmers' Co-operative Societies in accordance with section 5 of the J. E. Joseph Trust Fund Ordinance (Cap. 1067) and to individual farmers in accordance with the direction made by the then Secretary for Economic Services under delegated authority under section 8 of the J. E. Joseph Trust Fund Ordinance.

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.

(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.

(e) Financial assets

The Fund's financial assets include bank deposits, loans receivable, interest receivable and cash and cash equivalents. Loans receivable are stated at cost. Other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets, and subsequently measured at amortised cost using the effective interest method, less impairment losses, if any.

Where the repayment of a loan becomes doubtful, a provision is made and charged to the income and expenditure account. A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Fund has transferred substantially all the risks and rewards of ownership of the asset.

(f) Cash and cash equivalents

Cash and 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

| | 2017 HK\$ | 2016 HK\$ |
|------------------------------|----------------------------|----------------------------|
| Balance at beginning of year | 723,000 | 2,061,990 |
| Loans issued during the year | 1,420,000 | 1,030,000 |
| | <u>2,143,000</u> | <u>3,091,990</u> |
| Loans repaid during the year | (1,233,000) | (2,368,990) |
| Balance at end of year | <u>910,000</u> | <u>723,000</u> |
| Classified as current assets | <u>910,000</u> | <u>723,000</u> |

In 2016-17, there was no such case where a loan was approved on or before 31 March 2017 but its loan agreement and payment were effected after the balance sheet date (2015-16: HK\$130,000).

4. INTEREST RECEIVABLE

| | 2017 HK\$ | 2016 HK\$ |
|--------------------------|----------------------------|----------------------------|
| Loan interest receivable | 12 | 142 |
| Bank interest receivable | 51,071 | 40,644 |
| | <u>51,083</u> | <u>40,786</u> |

5. CASH AND CASH EQUIVALENTS

| | 2017 HK\$ | 2016 HK\$ |
|--------------|----------------------------|----------------------------|
| Cash at bank | <u>307,869</u> | <u>594,695</u> |

6. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

The Fund's maximum exposure to credit risk at the balance sheet date in relation to the financial instruments is the carrying amount of these assets as stated in the balance sheet. The Fund limits its exposure to credit risk arising from the bank deposits by transacting with reputable licensed banks in Hong Kong. The Fund considers that adequate provision has been made, where necessary, for loan amounts which are expected to be irrecoverable. Applicants for loans above HK\$130,000 (2015-16: HK\$130,000) are

usually required to provide land-based properties as security. No loan was past due at the balance sheet date (2015-16: Nil).

(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. 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

In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is considered adequate to finance its operations and mitigate the effect of fluctuations in cash flows.

7. CAPITAL MANAGEMENT

The capital structure of the Fund consists of the capital and accumulated surplus. The Fund's objectives when managing capital are:

- (a) to comply with the J. E. Joseph Trust Fund Ordinance; and
- (b) to maintain a strong capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund manages its capital to ensure that the capital level is adequate to fund future issue of loans and expenditure, taking into account the projected cash flow requirements, future financial obligations and commitments.

8. 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 4 of the J. E. Joseph Trust Fund Ordinance.

9. FAIR VALUES OF FINANCIAL ASSETS

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