

KADOORIE AGRICULTURAL AID LOAN FUND REPORT
FOR THE PERIOD 1 APRIL 2016 TO 31 MARCH 2017

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 2016/17, a total of 42 normal loans amounting to \$4,575,000 were approved to farmers and fish farmers as working capital. As at 31 March 2017, the outstanding balance of normal loans was \$4,418,328.

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 2017, 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 \$16,640,128 as at 31 March 2017.

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 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 have audited the financial statements of the Kadoorie Agricultural Aid Loan Fund set out on pages 4 to 14, 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 Kadoorie Agricultural Aid Loan Fund for the year ended 31 March 2017 are prepared, in all material respects, 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.

Basis for opinion

I conducted my audit in accordance with section 12(2) of the Kadoorie Agricultural Aid Loan 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 Kadoorie Agricultural Aid Loan 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 12(1) of the Kadoorie Agricultural Aid Loan 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 Kadoorie Agricultural Aid Loan 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 Kadoorie Agricultural Aid Loan 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 Kadoorie Agricultural Aid Loan 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 Kadoorie Agricultural Aid Loan 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

KADOORIE AGRICULTURAL AID LOAN FUND

Balance Sheet as at 31 March 2017

	Note	2017 HK\$	2016 HK\$
ASSETS			
Non-current Assets			
Loans receivable	3	605,000	280,000
Current Assets			
Loans receivable	3	5,269,828	6,188,331
Interest receivable	4	1,309,875	1,584,834
Deposits with the Department of Justice	5	27,500	329,776
Bank deposits		10,640,211	6,392,144
Cash and cash equivalents	6	47,324	3,640,202
		17,294,738	18,135,287
LIABILITIES			
Loan interest payable to the Government Loan Fund	7	(1,259,610)	(1,804,225)
		<u>16,640,128</u>	<u>16,611,062</u>
KADOORIE AGRICULTURAL AID LOAN FUND			
Capital		2,750,000	2,750,000
Accumulated surplus		12,433,628	12,376,662
FUNDS ALLOCATED FROM THE GOVERNMENT LOAN FUND			
Mariculturist Scheme	8	1,456,500	1,484,400
		<u>16,640,128</u>	<u>16,611,062</u>

The accompanying notes 1 to 12 form part of these financial statements.

(Dr LEUNG Siu-fai)
Director of Agriculture, Fisheries and Conservation
Trustee of the Kadoorie Agricultural Aid Loan Fund
19 June 2017

KADOORIE AGRICULTURAL AID LOAN FUND

Income and Expenditure Account for the year ended 31 March 2017

	2017 HK\$	2016 HK\$
INCOME		
Loan interest	1,409	29
Bank interest	67,575	65,720
	<hr/>	<hr/>
	68,984	65,749
 EXPENDITURE		
Bad debt written off	(12,018)	-
	<hr/>	<hr/>
SURPLUS FOR THE YEAR	56,966	65,749
 OTHER COMPREHENSIVE INCOME	<hr/>	<hr/>
	-	-
 TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<hr/> <hr/>	<hr/> <hr/>
	56,966	65,749

The accompanying notes 1 to 12 form part of these financial statements.

KADOORIE AGRICULTURAL AID LOAN FUND

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

	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 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)
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
Capital refunded to Government Loan Fund for 2016-17	-	-	(27,900)	(27,900)
Total comprehensive income for 2016-17	-	56,966	-	56,966
Balance at 31 March 2017	2,750,000	12,433,628	1,456,500	16,640,128

The accompanying notes 1 to 12 form part of these financial statements.

KADOORIE AGRICULTURAL AID LOAN 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		56,966	65,749
Loan interest		(1,409)	(29)
Bank interest		(67,575)	(65,720)
Bad debt written off		12,018	-
Loan interest received		1,380	298
Decrease in loans		593,000	719,300
Decrease in interest receivable in respect of loans issued under the Mariculturist Scheme		272,740	297,921
Decrease / (Increase) in deposits with the Department of Justice		302,276	(247,776)
Decrease in loan interest payable to the Government Loan Fund		(544,615)	(18,545)
Net cash from operating activities		<u>624,781</u>	<u>751,198</u>
Cash flows from investing activities			
Net (increase) / decrease in bank deposits with original maturity over three months		(4,248,067)	2,150,327
Bank interest received		58,308	76,345
Net cash (used in) / from investing activities		<u>(4,189,759)</u>	<u>2,226,672</u>
Cash flows from financing activities			
Refund to the Government Loan Fund		(27,900)	(65,000)
Net cash used in financing activities		<u>(27,900)</u>	<u>(65,000)</u>
Net (decrease) / increase in cash and cash equivalents		(3,592,878)	2,912,870
Cash and cash equivalents at beginning of year		<u>3,640,202</u>	<u>727,332</u>
Cash and cash equivalents at end of year	6	<u><u>47,324</u></u>	<u><u>3,640,202</u></u>

The accompanying notes 1 to 12 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.

(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 and financial liabilities

The Fund's financial assets and financial liabilities include bank deposits, loans receivable, cash and cash equivalents, other receivables and payables. 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 the financial assets, and subsequently measured at amortised cost using the effective interest method, less impairment losses, if any. Financial liabilities are measured at amortised cost using the effective interest method.

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.

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. A financial liability is derecognised when the relevant obligation is discharged, cancelled or expires.

(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\$
The Fund		
Loans receivable before write-off	4,418,831	5,011,831
Loans written off during the year	(503)	-
Balance at end of year	4,418,328	5,011,831
Mariculturist Scheme		
Balance at end of year	1,456,500	1,456,500
	<u>5,874,828</u>	<u>6,468,331</u>
 Classified as :		
Non-current assets		
The Fund	605,000	280,000
Current assets		
The Fund	3,813,328	4,731,831
Mariculturist Scheme	1,456,500	1,456,500
	<u>5,269,828</u>	<u>6,188,331</u>
	<u>5,874,828</u>	<u>6,468,331</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\$60,000).

4. INTEREST RECEIVABLE

	2017 HK\$	2016 HK\$
The Fund		
Loan interest receivable before provision and write-off	66,873	66,844
Written off during the year	(11,515)	-
Provision for bad / doubtful debts	(11,032)	(11,032)
Bank interest receivable	28,439	19,172
Balance at end of year	72,765	74,984

	2017	2016
	HK\$	HK\$
Mariculturist Scheme		
Balance at end of year	1,237,110	1,509,850
	<u>1,309,875</u>	<u>1,584,834</u>
5. DEPOSITS WITH THE DEPARTMENT OF JUSTICE	2017	2016
	HK\$	HK\$
The Fund	5,000	7,500
Mariculturist Scheme	22,500	322,276
	<u>27,500</u>	<u>329,776</u>
6. CASH AND CASH EQUIVALENTS	2017	2016
	HK\$	HK\$
Cash at bank	47,324	3,640,202
	<u>47,324</u>	<u>3,640,202</u>
7. LOAN INTEREST PAYABLE TO THE GOVERNMENT LOAN FUND	2017	2016
	HK\$	HK\$
Mariculturist Scheme	1,259,610	1,804,225
	<u>1,259,610</u>	<u>1,804,225</u>
8. FUNDS ALLOCATED FROM THE GOVERNMENT LOAN FUND – MARICULTURIST SCHEME		

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

9. 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.

10. 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 (2015-16: 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:

	2017 HK\$	2016 HK\$
The Fund		
Loans that were past due for :		
Less than 1 year	42,500	5,000
1 year to less than 2 years	-	-
2 years to less than 3 years	-	20,000
3 years or above	48,328	39,831
	90,828	64,831

	2017 HK\$	2016 HK\$
Mariculturist Scheme		
Loans that were past due for :		
3 years or above	1,456,500	1,456,500
	<u>1,547,328</u>	<u>1,521,331</u>

Ageing analyses of interest receivable that was past due at the balance sheet date are as follows:

	2017 HK\$	2016 HK\$
The Fund		
Interest receivable that was past due for:		
Less than 1 year	8	11
1 year to less than 2 years	-	-
2 years to less than 3 years	-	17
3 years or above	55,169	66,525
	55,177	66,553

Mariculturist Scheme		
Interest receivable that was past due for:		
3 years or above	1,237,110	1,509,850
	<u>1,292,287</u>	<u>1,576,403</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.

11. 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.

12. 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.