



Hong Kong Rotary Club Students' Loan Fund

Financial statements for the year ended 31 August 2017

Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report **To the Permanent Secretary for Education Incorporated**

Opinion

I certify that I have audited the financial statements of the Hong Kong Rotary Club Students' Loan Fund set out on pages 4 to 13, which comprise the balance sheet as at 31 August 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 give a true and fair view of the financial position of the Hong Kong Rotary Club Students' Loan Fund as at 31 August 2017, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098).

Basis for opinion

I conducted my audit in accordance with section 8(5) of the Permanent Secretary for Education Incorporation 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 Hong Kong Rotary Club Students' 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 Permanent Secretary for Education Incorporated for the financial statements

The Permanent Secretary for Education Incorporated is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the

HKICPA and section 8(3) of the Permanent Secretary for Education Incorporation Ordinance, and for such internal control as the Permanent Secretary for Education Incorporated 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 Permanent Secretary for Education Incorporated is responsible for assessing the Hong Kong Rotary Club Students' 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 Hong Kong Rotary Club Students' Loan Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Permanent Secretary for Education Incorporated;
- conclude on the appropriateness of the Permanent Secretary for Education Incorporated'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 Hong Kong Rotary Club Students' 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 Hong Kong Rotary Club Students' Loan Fund to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.


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

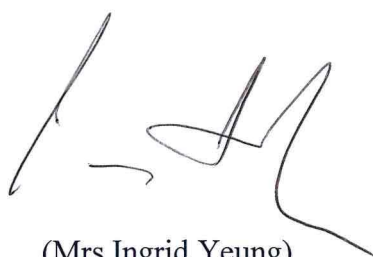
21 February 2018

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

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
BALANCE SHEET AS AT 31 AUGUST 2017**

	Note	2017	2016
		HK\$	HK\$
Non-current assets			
Interest-free loans	3	20,434	42,180
Current assets			
Interest-free loans	3	34,305	32,267
Bank interest receivable		3,597	2,678
Fixed deposits		274,221	271,445
Cash and cash equivalents	4	147,853	126,122
		459,976	432,512
Total assets		480,410	474,692
 Accumulated fund		 480,410	 474,692

The accompanying notes 1 to 7 form part of these financial statements.



(Mrs Ingrid Yeung)

Permanent Secretary for Education Incorporated
Trustee,



(Ms Rhoda Chan)

Treasurer,

Hong Kong Rotary Club Students' Loan Fund

Date: 21 FEBRUARY 2018

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2017**

	Note	2017 HK\$	2016 HK\$
Income			
Interest on bank deposits		3,696	2,781
Amortisation credit on interest-free loans	3	<u>2,172</u>	<u>2,187</u>
		<u>5,868</u>	<u>4,968</u>
Expenditure			
Bank charge		<u>(150)</u>	<u>(250)</u>
		<u>(150)</u>	<u>(250)</u>
Surplus for the year		5,718	4,718
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>5,718</u>	<u>4,718</u>

The accompanying notes 1 to 7 form part of these financial statements.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2017

	Accumulated fund
	HK\$
Balance at 1 September 2015	469,974
Total comprehensive income for 2015-16	<u>4,718</u>
Balance at 31 August 2016	474,692
Total comprehensive income for 2016-17	<u>5,718</u>
Balance at 31 August 2017	<u><u>480,410</u></u>

The accompanying notes 1 to 7 form part of these financial statements.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2017

	Note	2017	2016
		HK\$	HK\$
Cash flows from operating activities			
Surplus for the year		5,718	4,718
Adjustments for :			
Interest		(3,696)	(2,781)
Amortisation credit on interest-free loans		(2,172)	(2,187)
Decrease/(Increase) in interest-free loans		21,880	(1,600)
Net cash from/(used in) operating activities		<u>21,730</u>	<u>(1,850)</u>
Cash flows from investing activities			
Net increase in bank deposits with original maturity over 3 months		(2,776)	(1,445)
Interest received		2,777	1,447
Net cash from investing activities		<u>1</u>	<u>2</u>
Net increase/(decrease) in cash and cash equivalents		21,731	(1,848)
Cash and cash equivalents at beginning of year		126,122	127,970
Cash and cash equivalents at end of year	4	<u>147,853</u>	<u>126,122</u>

The accompanying notes 1 to 7 form part of these financial statements.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS

1. General

The Hong Kong Rotary Club Students' Loan Fund (the Fund) was established for the purpose of granting interest-free loans to assist certain persons resident in Hong Kong in pursuing courses of study in places of higher education in Hong Kong in accordance with the Trust Deed made by the then Director of Education Incorporated on 1 February 1964.

The address of the Fund's principal place of business is 12th Floor Cheung Sha Wan Government Offices, 303 Cheung Sha Wan Road, Kowloon.

2. Significant Accounting Policies

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) and all applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

(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.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS

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) Interest-free loans

Interest-free loans are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are stated at amortised cost using the effective interest method less impairment losses, if any (note 2(h)), and are classified as non-current assets, except for those with maturities less than 12 months after the balance sheet date which are classified as current assets.

(e) Other financial assets

Other financial assets include bank interest receivable, fixed deposits and cash and cash equivalents. Other financial assets are carried at amortised cost using the effective interest method, less impairment losses (if any).

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS

(f) Revenue recognition

Interest income is recognised as it accrues using the effective interest method.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

(h) Impairment of financial assets

An impairment of interest-free loans is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of loans. An impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Impairment losses are recognised in the income and expenditure account.

For loans which have been overdue for more than six months, provision for bad and doubtful debts will be made at the end of the financial year for an amount of 50% of the outstanding balances of these loans.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS

3. Interest-free Loans

	2017	2016
	HK\$	HK\$
Balance at beginning of year	81,000	79,400
Loans granted during the year	<u>12,000</u>	<u>22,100</u>
	93,000	101,500
Loans repaid during the year	<u>(33,880)</u>	<u>(20,500)</u>
	----- 59,120	----- 81,000
Amortisation charge at beginning of year	(6,553)	(8,740)
Amortisation credit for the year	<u>2,172</u>	<u>2,187</u>
Amortisation charge at end of year	----- (4,381)	----- (6,553)
Balance at end of year	<u>54,739</u>	<u>74,447</u>
Classified as :		
Non-current assets	20,434	42,180
Current assets	<u>34,305</u>	<u>32,267</u>
	<u>54,739</u>	<u>74,447</u>

4. Cash and Cash Equivalents

	2017	2016
	HK\$	HK\$
Cash at banks	<u>147,853</u>	<u>126,122</u>

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS

5. Financial Risk Management

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

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund's maximum exposure to credit risk as 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 bank deposits and cash at banks by transacting with reputable licensed banks in Hong Kong. For interest-free loans, the Fund considers that adequate provision has been made, where necessary, for amounts which are expected to be irrecoverable.

(b) Market risk

The Fund is exposed to market risk due to changes in interest rates.

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 deposits with banks bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as deposits with banks are stated at amortised cost, changes in market interest rates will not affect their carrying amounts and the Fund's surplus and other comprehensive income.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's exposure to cash flow interest rate risk is small as interest income from financial instruments bearing interest at a floating rate is not significant.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
NOTES TO THE FINANCIAL STATEMENTS

(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.

6. Capital Management

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

- (a) to comply with the Permanent Secretary for Education Incorporation 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 capital to ensure that its level is sufficient to fund future loans and expenditure, taking into account its projected cash flow requirements, future financial obligations and commitments.

7. 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.