

Hong Kong Rotary Club Students' Loan Fund

Financial Statements for the year ended 31 August 2014

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report

To the Permanent Secretary for Education Incorporated

I certify that I have audited the financial statements of the Hong Kong Rotary Club Students' Loan Fund set out on pages 3 to 12, which comprise the balance sheet as at 31 August 2014, 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.

Permanent Secretary for Education Incorporated's Responsibility for the Financial Statements

The Permanent Secretary for Education Incorporated is responsible for the preparation of financial statements that give a true and fair view in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) and Hong Kong Financial Reporting Standards, 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.

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 8(5) of the Permanent Secretary for Education Incorporation 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 that give a true and fair view 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 Permanent Secretary for Education Incorporated, 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 give a true and fair view of the financial position of the Hong Kong Rotary Club Students' Loan Fund as at 31 August 2014, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with section 8(3) of the Permanent Secretary for Education Incorporation Ordinance.



Frederick T C WONG
Principal Auditor
for Director of Audit

6 February 2015

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

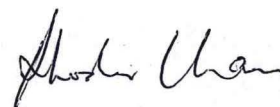
HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
BALANCE SHEET AS AT 31 AUGUST 2014

	Note	2014	2013
		HK\$	HK\$
Non-current assets			
Interest-free loans	3	<u>94,953</u>	<u>69,222</u>
Current assets			
Interest-free loans	3	11,905	18,286
Bank interest receivable		2,389	671
Fixed deposits		260,000	340,000
Cash at banks		<u>87,907</u>	<u>31,126</u>
		<u>362,201</u>	<u>390,083</u>
Total assets		<u><u>457,154</u></u>	<u><u>459,305</u></u>
Accumulated fund		<u><u>457,154</u></u>	<u><u>459,305</u></u>

The accompanying notes 1 to 6 form part of these financial statements.



(Mrs Marion Lai)
Permanent Secretary for Education Incorporated
Trustee,



(Ms Rhoda Chan)
Treasurer,

Hong Kong Rotary Club Students' Loan Fund

Date: 6 FEBRUARY 2015

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2014**

	Note	2014	2013
		HK\$	HK\$
Income			
Interest on bank deposits		<u>3,424</u>	<u>2,878</u>
Expenditure			
Amortisation charge on interest-free loans	3	(5,450)	(6,055)
Bank charge		<u>(125)</u>	<u>-</u>
		<u>(5,575)</u>	<u>(6,055)</u>
Deficit for the year		(2,151)	(3,177)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive expense for the year		<u>(2,151)</u>	<u>(3,177)</u>

The accompanying notes 1 to 6 form part of these financial statements.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2014

	Accumulated fund
	HK\$
Balance at 1 September 2012	462,482
Total comprehensive expense for 2012-13	<u>(3,177)</u>
Balance at 31 August 2013	459,305
Total comprehensive expense for 2013-14	<u>(2,151)</u>
Balance at 31 August 2014	<u><u>457,154</u></u>

The accompanying notes 1 to 6 form part of these financial statements.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2014

	2014	2013
	HK\$	HK\$
Cash flows from operating activities		
Deficit for the year	(2,151)	(3,177)
Interest income	(3,424)	(2,878)
Amortisation charge on interest-free loans	5,450	6,055
Increase in interest-free loans	(24,800)	(23,100)
Net cash used in operating activities	<u>(24,925)</u>	<u>(23,100)</u>
Cash flows from investing activities		
Net decrease/(increase) in bank deposits with original maturity over 3 months	80,000	(80,000)
Interest received	1,706	5,272
Net cash from/(used in) investing activities	<u>81,706</u>	<u>(74,728)</u>
Net increase/(decrease) in cash and cash equivalents	56,781	(97,828)
Cash and cash equivalents at beginning of year	31,126	128,954
Cash and cash equivalents at end of year	<u><u>87,907</u></u>	<u><u>31,126</u></u>
Analysis of the balances of cash and cash equivalents		
Cash at banks	<u><u>87,907</u></u>	<u><u>31,126</u></u>

The accompanying notes 1 to 6 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 except that interest-free loans are stated at amortised cost using the effective interest method less impairment losses, if any (note 2(g)).

The effective interest method is a method of calculating the amortised cost of a 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.

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

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.

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

(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 included in non-current assets, except for maturities less than 12 months after the balance sheet date which are classified as current assets.

(e) Revenue recognition

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

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, 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.

(g) 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

	2014	2013
	HK\$	HK\$
Balance at beginning of year	100,800	77,700
Loans granted during the year	<u>43,500</u>	<u>42,900</u>
	144,300	120,600
Loans repaid during the year	<u>(18,700)</u>	<u>(19,800)</u>
	----- 125,600	----- 100,800
Amortisation charge at beginning of year	(13,292)	(7,237)
Amortisation charge for the year	<u>(5,450)</u>	<u>(6,055)</u>
Amortisation charge at end of year	----- (18,742)	----- (13,292)
Balance at end of year	<u>106,858</u>	<u>87,508</u>
Classified as :		
Non-current assets	94,953	69,222
Current assets	<u>11,905</u>	<u>18,286</u>
	<u>106,858</u>	<u>87,508</u>

4. Financial Risk Management

The Fund's major financial instruments include interest-free loans and bank deposits. 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.

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

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 the bank deposits by transacting with reputable licensed banks in Hong Kong. For the 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 deficit and equity.

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 it has no major floating-rate investments other than cash at banks.

(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.

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

5. 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.

6. 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.