



Hong Kong Rotary Club Students' Loan Fund

Financial statements for the year ended 31 August 2019

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 16, which comprise the balance sheet as at 31 August 2019, 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 2019, 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.



Frankie Lau
Acting Principal Auditor
for Director of Audit


14 February 2020

Audit Commission
26th Floor
Immigration Tower
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Wanchai, Hong Kong

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
BALANCE SHEET AS AT 31 AUGUST 2019**

	Note	2019	2018
		HK\$	HK\$
Non-current assets			
Interest-free loans	3	39,792	19,111
Current assets			
Interest-free loans	3	-	27,048
Bank interest receivable		8,472	3,887
Fixed deposits		305,000	277,950
Cash and cash equivalents	4	138,359	155,875
		451,831	464,760
Total assets		491,623	483,871
Accumulated fund		491,623	483,871

The accompanying notes 1 to 8 form part of these financial statements.



(Mrs Ingrid Yeung)
Permanent Secretary for Education Incorporated
Trustee,



(Ms Cora Wong)
Treasurer,

Hong Kong Rotary Club Students' Loan Fund

Date: 14 FEB 2020

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2019**

	Note	2019	2018
		HK\$	HK\$
Income			
Interest on bank deposits		8,689	4,021
Amortisation credit on interest-free loans	3	<u>-</u>	<u>140</u>
		<u>8,689</u>	<u>4,161</u>
Expenditure			
Amortisation charge on interest-free loans	3	(367)	-
Bank charge		<u>(570)</u>	<u>(700)</u>
		<u>(937)</u>	<u>(700)</u>
Surplus for the year		7,752	3,461
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>7,752</u>	<u>3,461</u>

The accompanying notes 1 to 8 form part of these financial statements.

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2019**

	Accumulated fund
	HK\$
Balance at 1 September 2017	480,410
Total comprehensive income for 2017-18	<u>3,461</u>
Balance at 31 August 2018	483,871
Total comprehensive income for 2018-19	<u>7,752</u>
Balance at 31 August 2019	<u><u>491,623</u></u>

The accompanying notes 1 to 8 form part of these financial statements.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2019

	Note	2019	2018
		HK\$	HK\$
Cash flows from operating activities			
Surplus for the year		7,752	3,461
Adjustments for :			
Interest		(8,689)	(4,021)
Amortisation charge/(credit) on interest-free loans		367	(140)
Decrease in interest-free loans		6,000	8,720
Net cash from operating activities		<u>5,430</u>	<u>8,020</u>
Cash flows from investing activities			
Net increase in bank deposits with original maturities over 3 months		(27,050)	(3,729)
Interest received		4,104	3,731
Net cash (used in)/from investing activities		<u>(22,946)</u>	<u>2</u>
Net (decrease)/increase in cash and cash equivalents		(17,516)	8,022
Cash and cash equivalents at beginning of year		<u>155,875</u>	<u>147,853</u>
Cash and cash equivalents at end of year	4	<u>138,359</u>	<u>155,875</u>

The accompanying notes 1 to 8 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 (HKICPA).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

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

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) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 "Financial Instruments" from 1 September 2018.

HKFRS 9 replaces Hong Kong Accounting Standard (HKAS) 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to items that existed as at 1 September 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items as at 1 September 2018 have not been impacted by the initial application of HKFRS 9.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets

HKFRS 9 categorises financial assets into three principal classification categories: measured (i) at amortised cost; (ii) at fair value through other comprehensive income; and (iii) at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
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The Fund's financial assets, comprising interest-free loans, bank interest receivable, fixed deposits and cash and cash equivalents, were previously classified as loans and receivables carried at amortised cost under HKAS 39. They were reclassified to financial assets measured at amortised cost under HKFRS 9. The carrying amounts of the Fund's financial assets as at 1 September 2018 were the same as those as at 31 August 2018.

(ii) Credit losses and impairment

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the "incurred loss" accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost. The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets as at 1 September 2018.

(d) Financial assets

(i) Initial recognition

Financial assets are recognised on the date the Fund becomes party to the contractual provisions of the financial instruments. They are initially stated at fair value plus transaction costs that are directly attributable to the acquisition of financial assets.

(ii) Categorisation and subsequent measurement from 1 September 2018

Financial assets measured at amortised cost

These comprise interest-free loans, bank interest receivable, fixed deposits and cash and cash equivalents. They are held for the collection of contractual cash flows which represent solely payments of principal and interest. They are subsequently measured at amortised cost, net of loss allowance, if any (note 2(d)(v)). For interest-free loans, they are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are classified as non-current assets, except for those with maturities less than 12 months after the reporting date which are classified as current assets.

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

(iii) Categorisation and subsequent measurement before 1 September 2018

The Fund's financial assets included interest-free loans, bank interest receivable, fixed deposits and cash and cash equivalents. They were carried at amortised cost using the effective interest method less impairment losses, if any (note 2(d)(vi)).

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

(v) Impairment of financial assets from 1 September 2018

For interest-free loans, bank interest receivable, fixed deposits and cash and cash equivalents, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

Expected credit losses are a probability-weighted estimate of credit losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following bases: -

- 12-month expected credit losses (for financial instruments for which there has not been a significant increase in credit risk since initial recognition): these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime expected credit losses (for financial instruments for which there has been a significant increase in credit risk since initial recognition): these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Fund considers that a default event occurs for a financial asset (excluding interest-free loans) when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the contractual payments are 90 days past due; and for interest-free loans, a default event occurs when the borrower is unable to settle the overdue instalments

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

for more than six months. The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vi) Impairment of financial assets before 1 September 2018

An impairment of interest-free loans was established when there was objective evidence that the Fund would not be able to collect all amounts due according to the original terms of loans. An impairment loss was 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 were recognised in the income and expenditure account.

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

(e) Revenue recognition

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

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and deposits with banks with original maturities of three months or less from the date of placement.

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

3. Interest-free Loans

	2019	2018
	HK\$	HK\$
Balance at beginning of year	50,400	59,120
Loans granted during the year	22,400	31,900
Loans repaid during the year	<u>(28,400)</u>	<u>(40,620)</u>
	<u>44,400</u>	<u>50,400</u>
Amortisation charge at beginning of year	(4,241)	(4,381)
Amortisation (charge) / credit for the year	<u>(367)</u>	<u>140</u>
Amortisation charge at end of year	<u>(4,608)</u>	<u>(4,241)</u>
Balance at end of year	<u>39,792</u>	<u>46,159</u>
Classified as :		
Non-current assets	39,792	19,111
Current assets	<u>-</u>	<u>27,048</u>
	<u>39,792</u>	<u>46,159</u>

As at the reporting date, there were no overdue instalments (2018: Nil).

4. Cash and Cash Equivalents

	2019	2018
	HK\$	HK\$
Cash at banks	<u>138,359</u>	<u>155,875</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 interest receivable, fixed deposits and cash and cash equivalents. 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 maximum exposure to credit risk of the financial assets of the Fund is equal to their carrying amounts at the reporting date.

To minimise the credit risks arising from fixed deposits and cash and cash equivalents, all bank balances are placed with reputable licensed banks in Hong Kong. Hence, the credit risk associated with these financial instruments is considered to be low. As such, the credit risk on these financial instruments is assessed as not having increased significantly since initial recognition and the Fund determines the loss allowance required to be recognised based on 12-month expected credit losses. The Fund has estimated that 12-month expected credit losses on these financial assets are immaterial and considered that no loss allowance is required.

The credit quality of fixed deposits and cash and cash equivalents, analysed by the ratings designated by Moody's, at the reporting date is shown below:

	2019	2018
	HK\$	HK\$
Fixed deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	138,359	433,825
A1 to A3	305,000	-
	443,359	433,825

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
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For interest-free loans, the Fund closely monitors the granting of credit. The interest-free loans have been reviewed by the Fund to assess expected credit losses which are based on an evaluation of collectability, ageing analysis of accounts and past collection statistics of individual accounts and are adjusted for forward-looking information that is available without undue cost. The Fund considers that no provision for loss allowance is required.

(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 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 interest income from financial instruments bearing interest at a floating rate is not significant.

(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

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.

8. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 August 2019

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 August 2019 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.