



Hong Kong Rotary Club Students' Loan Fund

Financial statements for the year ended 31 August 2020

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 15, which comprise the balance sheet as at 31 August 2020, 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 2020, 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.



S. M. CHOI
Principal Auditor
for Director of Audit

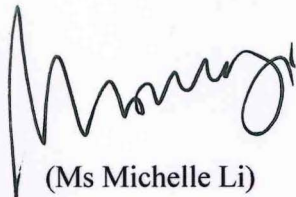
24 February 2021

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 2020

	Note	2020	2019
		HK\$	HK\$
Non-current assets			
Interest-free loans	3	60,109	39,792
Current assets			
Interest-free loans	3	49,594	-
Bank interest receivable		6,462	8,472
Fixed deposits		280,000	305,000
Cash and cash equivalents	4	97,145	138,359
		433,201	451,831
Current liabilities			
Accounts payable		(300)	-
Net current assets		432,901	451,831
Net assets		493,010	491,623
Accumulated fund		493,010	491,623

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



(Ms Michelle Li)
Permanent Secretary for Education Incorporated
Trustee,



(Ms Cora Wong)
Treasurer,

Hong Kong Rotary Club Students' Loan Fund

Date: 24 FEB 2021

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2020**

	Note	2020	2019
		HK\$	HK\$
Income			
Interest on bank deposits		<u>6,841</u>	<u>8,689</u>
Expenditure			
Amortisation charge on interest-free loans	3	(5,089)	(367)
Bank charge		<u>(365)</u>	<u>(570)</u>
		<u>(5,454)</u>	<u>(937)</u>
Surplus for the year		1,387	7,752
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>1,387</u></u>	<u><u>7,752</u></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 2020

	Accumulated fund
	HK\$
Balance at 1 September 2018	483,871
Total comprehensive income for 2018-19	<u>7,752</u>
Balance at 31 August 2019	491,623
Total comprehensive income for 2019-20	<u>1,387</u>
Balance at 31 August 2020	<u><u>493,010</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 2020

	Note	2020	2019
		HK\$	HK\$
Cash flows from operating activities			
Surplus for the year		1,387	7,752
Adjustments for :			
Interest on bank deposits		(6,841)	(8,689)
Amortisation charge on interest-free loans		5,089	367
(Increase)/Decrease in interest-free loans		(75,000)	6,000
Increase in accounts payable		300	-
Net cash (used in)/from operating activities		<u>(75,065)</u>	<u>5,430</u>
Cash flows from investing activities			
Net decrease/(increase) in bank deposits with original maturities over 3 months		25,000	(27,050)
Interest received		8,851	4,104
Net cash from/(used in) investing activities		<u>33,851</u>	<u>(22,946)</u>
Net decrease in cash and cash equivalents		(41,214)	(17,516)
Cash and cash equivalents at beginning of year		138,359	155,875
Cash and cash equivalents at end of year	4	<u>97,145</u>	<u>138,359</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 (HKICPA).

(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 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

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS

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 reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Impact of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs which are effective for the current accounting period. There have been no changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

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) Financial assets and financial liabilities

(i) Initial recognition

Financial assets and financial liabilities are recognised on the date the Fund becomes a party to the contractual provisions of the financial instrument. They are initially stated at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS

(ii) Categorisation and subsequent measurement

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)(iv)). 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.

Financial liabilities measured at amortised cost

This category comprises accounts payable. They are subsequently measured at amortised cost.

(iii) 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. A financial liability is derecognised when the obligation specified in the contract is discharged, is cancelled or expires.

(iv) Impairment of financial assets

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:

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS

- 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 for a financial asset (excluding interest-free loans) occurs 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 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.

For a financial asset with lifetime expected credit losses recognised in the previous reporting period, if its credit quality improves and reverses the previously assessed significant increase in credit risk, then the loss allowance reverts from lifetime expected credit losses to 12-month expected credit losses.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(e) Revenue recognition

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

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

(f) Cash and cash equivalents

Cash and cash equivalents include cash at banks and other 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 placed or acquired.

3. Interest-free Loans

	2020	2019
	HK\$	HK\$
Balance at beginning of year	44,400	50,400
Loans granted during the year	75,000	22,400
Loans repaid during the year	<u>-</u>	<u>(28,400)</u>
	<u>119,400</u>	<u>44,400</u>
Amortisation charge at beginning of year	(4,608)	(4,241)
Amortisation charge for the year	<u>(5,089)</u>	<u>(367)</u>
Amortisation charge at end of year	<u>(9,697)</u>	<u>(4,608)</u>
Balance at end of year	<u>109,703</u>	<u>39,792</u>
Classified as :		
Non-current assets	60,109	39,792
Current assets	<u>49,594</u>	<u>-</u>
	<u>109,703</u>	<u>39,792</u>

As at the reporting date, there were no overdue instalments (2019: Nil).

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

4. Cash and Cash Equivalents

	2020	2019
	HK\$	HK\$
Cash at banks	<u>97,145</u>	<u>138,359</u>

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 major 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 at the reporting date in relation to each class of the financial assets is the carrying amounts of those assets as stated in the balance sheet.

To minimise the credit risk 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.

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:

	2020	2019
	HK\$	HK\$
Fixed deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	377,145	138,359
A1 to A3	<u>-</u>	<u>305,000</u>
	<u>377,145</u>	<u>443,359</u>

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND

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As such, the credit risk on these financial assets 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 considers that no loss allowance is required.

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) 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 fixed deposits with banks bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all 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 is not exposed to material cash flow interest rate risk because interest income from financial instruments bearing interest at a floating rate is not significant.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

HONG KONG ROTARY CLUB STUDENTS' LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS

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 effects of fluctuations in cash flows. Hence, the Fund does not have significant exposure to liquidity risk.

As at 31 August 2020, the remaining contractual maturities of all financial liabilities, based on contractual undiscounted cash flows and the earliest date on which the Fund can be required to pay, were three months or less (2019: Nil).

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 and Financial Liabilities

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