



## Hong Kong Rotary Club Students' Loan Fund

Financial statements for the year ended 31 August 2022

# 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 2022, 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 2022, 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.

I communicate with the Permanent Secretary for Education Incorporated regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

*S.M.C.*

S. M. CHOI  
Principal Auditor  
for Director of Audit

15 February 2023

Audit Commission  
6th Floor, High Block  
Queensway Government Offices  
66 Queensway  
Hong Kong

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND  
BALANCE SHEET AS AT 31 AUGUST 2022**

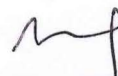
	Note	2022	2021
		HK\$	HK\$
<b>Non-current assets</b>			
Interest-free loans	3	<u>23,287</u>	<u>51,120</u>
<b>Current assets</b>			
Interest-free loans	3	33,428	43,572
Bank interest receivable		892	1,918
Time deposits with original maturities over three months		300,000	250,000
Cash and cash equivalents	4	<u>142,500</u>	<u>149,419</u>
		<u>476,820</u>	<u>444,909</u>
<b>Net assets</b>		<u>500,107</u>	<u>496,029</u>
<b>Accumulated fund</b>		<u>500,107</u>	<u>496,029</u>

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: 15 FEB 2023

**HONG KONG ROTARY CLUB STUDENTS' LOAN FUND  
INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 AUGUST 2022**

	Note	2022	2021
		HK\$	HK\$
<b>Income</b>			
Interest on bank deposits		975	2,195
Amortisation credit on interest-free loans	3	<u>3,423</u>	<u>1,389</u>
		4,398	3,584
<b>Expenditure</b>			
Bank charges		<u>(320)</u>	<u>(565)</u>
<b>Surplus for the year</b>		4,078	3,019
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><u>4,078</u></u>	<u><u>3,019</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 2022**

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	<b>Accumulated fund</b>
	HK\$
Balance at 1 September 2020	493,010
Total comprehensive income for 2020-21	<u>3,019</u>
Balance at 31 August 2021	496,029
Total comprehensive income for 2021-22	<u>4,078</u>
Balance at 31 August 2022	<u><u>500,107</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 2022**

	Note	2022	2021
		HK\$	HK\$
<b>Cash flows from operating activities</b>			
Surplus for the year		4,078	3,019
Adjustments for :			
Interest on bank deposits		(975)	(2,195)
Amortisation credit on interest-free loans		(3,423)	(1,389)
Decrease in interest-free loans		41,400	16,400
Decrease in accounts payable		-	(300)
<b>Net cash from operating activities</b>		<u>41,080</u>	<u>15,535</u>
<b>Cash flows from investing activities</b>			
Net (increase)/decrease in time deposits with original maturities over three months		(50,000)	30,000
Interest received		2,001	6,739
<b>Net cash (used in)/from investing activities</b>		<u>(47,999)</u>	<u>36,739</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(6,919)	52,274
<b>Cash and cash equivalents at beginning of year</b>		<u>149,419</u>	<u>97,145</u>
<b>Cash and cash equivalents at end of year</b>	4	<u><u>142,500</u></u>	<u><u>149,419</u></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**

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**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 12<sup>th</sup> 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), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). A summary of the significant accounting policies adopted by the Fund is set out below.

(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.

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

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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 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 certain new or revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Fund. 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 financial statements.

(d) Financial assets

(i) Initial recognition and measurement

Financial assets 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 transaction costs that are directly attributable to the acquisition of financial assets.

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

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(ii) Classification and subsequent measurement

*Financial assets measured at amortised cost*

These comprise interest-free loans, bank interest receivable, time 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 using the effective interest method. The measurement of loss allowances for these financial assets is based on the expected credit loss model as described in 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows by considering all contractual terms of the financial instrument but does not consider the expected credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(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.

(iv) Impairment of financial assets

For financial assets measured at amortised cost, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

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

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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 instruments.

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 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**

	<b>2022</b>	<b>2021</b>
	HK\$	HK\$
<b>Principal balance</b>		
Balance at beginning of year	103,000	119,400
Loans granted during the year	-	25,000
Loans repaid during the year	<u>(41,400)</u>	<u>(41,400)</u>
Balance at end-of year	<u>61,600</u>	<u>103,000</u>
<b>Amortisation</b>		
Amortisation charge at beginning of year	(8,308)	(9,697)
Amortisation credit for the year	<u>3,423</u>	<u>1,389</u>
Amortisation charge at end of year	<u>(4,885)</u>	<u>(8,308)</u>
 Balance at end of year	 <u>56,715</u>	 <u>94,692</u>
<b>Classified as :</b>		
Non-current assets	23,287	51,120
Current assets	<u>33,428</u>	<u>43,572</u>
	<u>56,715</u>	<u>94,692</u>

As at the reporting date, there were no overdue instalments (2021: Nil).

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

**4. Cash and Cash Equivalents**

	<b>2022</b>	<b>2021</b>
	HK\$	HK\$
Cash at banks	<u>142,500</u>	<u>149,419</u>

**5. Financial Risk Management**

The Fund's major financial instruments include interest-free loans, bank interest receivable, time 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 maximum exposure to credit risk of the financial assets of the Fund at the reporting date is equal to their carrying amounts.

To minimise the credit risk arising from time deposits and cash and cash equivalents, all time deposits and bank balances are placed with reputable licensed banks in Hong Kong. Hence, the credit risk of these financial assets is considered to be low.

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

	<b>2022</b>	<b>2021</b>
	HK\$	HK\$
Time deposits and cash and cash equivalents, by credit rating		
Aa1 to Aa3	<u>442,500</u>	<u>399,419</u>

While these financial assets measured at amortised cost are subject to the impairment requirements, the Fund has estimated that their expected credit losses are immaterial

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

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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 fair value of a financial instrument will fluctuate because of changes in market interest rates. Since the Fund's time 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.

**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.



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

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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.