

**Report on the Activities of  
The Legislative Council Commission  
2005 ~ 2006**

**Prepared for tabling in the Legislative Council  
in accordance with section 13(5) of  
The Legislative Council Commission Ordinance (Cap. 443)**

## The Legislative Council Commission

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## The Chairman's Review

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With the support of my colleagues in The Legislative Council Commission and a devoted and professional Secretariat, I am pleased to report that the year under review was another successful one.

I have mentioned in my previous reviews since 1998 that it has been the Commission's long term target to have a purpose-built building for the Legislative Council. We are pleased that the proposed development of a new Legislative Council Complex has finally got off the ground. The target is to complete the construction works in late 2010. We anxiously look forward to the new accommodation for the Legislative Council, as the present accommodation is grossly inadequate and unsatisfactory.

Increased environmental awareness leads to greater emphasis on green efforts. Concerted efforts have been made this year on energy conservation measures. Despite a substantial increase in the number of meetings in 2005-06 as compared with 2004-05, we managed to achieve a slight reduction in electricity consumption. Much as we want to, we have found it not feasible to adopt some energy saving measures. Due to the design of the historical Legislative Council Building (which was erected in 1912) and the limitation of its old air-conditioning system, the Building, in particular the Chamber, would be too warm, stuffy and uncomfortable if the indoor temperature were set at the international standard of 25.5°C in the summer months. It is therefore only desirable for the temperature in the Building to be set as close as possible to this standard. Members, government officials and members of the

public attending meetings of the Council and its committees are free to dress down during these months. Also, replacement of the major equipment of the air-conditioning system is scheduled for the summer of 2007-08. According to the Electrical and Mechanical Services Department, this would help improve the air-conditioning in the Building and further reduce electricity consumption. As regards paper consumption, Members will be urged to use softcopies of documents as far as possible, and recycled paper will be used for all hardcopies of documents. We shall continue to make every endeavour in protecting our environment.

It has always been our policy to enhance transparency and promote better understanding of our work. A record high of 3 575 visitors were received on the 2005 Legislative Council Open Day. In view of the overwhelming support to this annual event, the opening hours will be extended in future Open Days. A new audio webcast system will be launched in October 2006 whereby members of the public can listen to all open meetings of the Council and its committees live via the Legislative Council website. Audio records of past open meetings will also be accessible.

As recommended by the Independent Commission Against Corruption, a compliance audit system is being set up to ensure Members' compliance with the principles and procedures for claiming operating expenses reimbursements. This measure will further reinforce the present reimbursement system.

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In closing, I wish to thank most sincerely once again my colleagues on the Commission and staff of the Secretariat for their continued support.

A handwritten signature in black ink, appearing to read 'R. FAN', with a long horizontal stroke extending to the right.

**Rita FAN**  
Chairman  
The Legislative Council Commission

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## **The Legislative Council**

The third Legislative Council of the Hong Kong Special Administrative Region (HKSAR) consists of 60 Members, of whom 30 are returned by direct elections in geographical constituencies and 30 from functional constituencies. The term of office of Members is four years.

The President of the Legislative Council is elected by and from amongst Members of the Council.

The main functions of the Legislative Council are to enact laws, control public expenditure and monitor government policies. The Council normally meets every Wednesday in the Chamber of the Legislative Council Building. In addition, Council meetings are held at which the Chief Executive answers questions from Members. The Council's proceedings are recorded verbatim in the Official Record of Proceedings of the Legislative Council.

Apart from attending Council meetings, Members also perform their duties through a system of committees. There are three standing committees under the Council -

- Finance Committee, which scrutinizes proposals for public expenditure;
- Public Accounts Committee, which examines reports of the Director of Audit on the accounts of the Government and the results of value for money audits; and

- Committee on Members' Interests, which considers matters relating to Members' declaration of interests and matters of ethics in relation to their conduct.

The House Committee deals with matters relating to the business of the Council. The Committee on Rules of Procedure examines matters of practice and procedure relating to the Council and its committees.

Bills Committees and subcommittees are formed by the House Committee, as the need arises, to study bills and subsidiary legislation. During the period under review, 24 Bills Committees and 14 subcommittees were formed.

There are 18 Panels under the Council which receive regular briefings from government officials on issues within their respective policy areas, and monitor government policies and performance. The Panels also examine major legislative and financial proposals before they are introduced into the Council and the Finance Committee respectively.

The Council operates a redress system to receive representations from members of the public on issues relating to government policies, decisions, practices and procedures. The system also covers complaints relating to non-government bodies providing services for the general public.

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## **The Legislative Council Commission**

Administrative support and services to the Legislature are provided by a secretariat which operates under the Commission. The Commission is established under The Legislative Council Commission Ordinance (Cap. 443). The Ordinance, which was enacted in April 1994, provides the legal framework for the Commission and the independent Legislative Council Secretariat to operate with managerial and financial autonomy.

### **Members of the Commission**

As provided in the Ordinance, The Legislative Council Commission can have not more than 13 members, including the Chairman.

For 2005-06, the Commission comprises ten members, namely -

- the President of the Council, who is also the Chairman of the Commission;
- the Chairman of the House Committee of the Council, who is also the Deputy Chairman of the Commission;
- the Deputy Chairman of the House Committee; and
- seven other members elected by and from amongst Members of the Legislative Council.

### **Term of Office of Commission Members**

Unless otherwise determined by the Council by resolution, the term of office of members elected under section 4(1)(e) of the Ordinance shall be one year from the date of election or until the next House Committee meeting held for the election of Commission members, or until the next dissolution of the Legislative Council, whichever is the earlier.

### **Functions of the Commission**

The main functions of the Commission, as set out in section 9 of the Ordinance, are -

- providing through the Secretariat administrative support and services to the Council;
- providing office accommodation to Members of the Council and staff of the Secretariat;
- supervising the operation of the Secretariat;
- producing an official report of all proceedings in the Council and in any committee of the whole Council; and
- performing such other duties as the Council may by resolution determine.

### **Powers of the Commission**

As provided under section 10(1) of the Ordinance, the main powers of the Commission include -

- 
- determining the structure and functions of the Legislative Council Secretariat;
  - employing staff in the Secretariat, dismissing and disciplining such staff and determining their numbers, grading, duties, remuneration and other terms and conditions of service;
  - formulating and executing managerial and financial policies expedient to the performance of the Commission's functions;
  - preparing the annual estimates of income and expenditure and programme of activities of the Commission; and
  - receiving, expending and investing funds.

#### **Committees of the Commission**

Three committees and one subcommittee have been appointed by the Commission to carry out certain delegated functions. These are -

- **Committee on Personnel Matters**, which deals with appointment and other personnel matters;
- **Committee on Members' Operating Expenses**, which advises on administrative matters relating to Members' operating expenses;
- **Committee on Facilities and Services**, which looks after the provision of accommodation and facilities to the Council and the Secretariat; and

- **Subcommittee on Information Technology Services of the Committee on Facilities and Services**, which advises on the information technology services provided by the Legislative Council Secretariat.

The terms of reference and membership of the three committees and the subcommittee are set out in **Appendix 1**.

#### **The Legislative Council Secretariat**

The mission of the Legislative Council Secretariat is to provide efficient administrative, secretariat and research support for the Council, enhance community understanding of the activities of the Council and ensure an effective avenue for redress.

The Secretary General is the Clerk to the Legislative Council and the chief executive of the Legislative Council Secretariat. He is responsible to the Chairman of the Commission for the administration of the Secretariat.

As at 31 March 2006, there were 316 posts on the establishment of the Secretariat. The staff establishment by number and rank is set out in **Appendix 2**. Administrative support and services are provided for the Council and its committees through the following nine divisions -

- Council Business Division 1
- Council Business Division 2
- Council Business Division 3
- Legal Service Division

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- Research and Library Services Division
  - Complaints Division
  - Public Information Division
  - Translation and Interpretation Division
  - Administration Division

The organization of the Secretariat is shown in **Appendix 3**.

## **Functions and Services of the Legislative Council Secretariat**

### **Council Business Divisions**

Servicing of meetings of the Council and its committees is undertaken separately by three divisions: Council Business Divisions 1, 2 and 3. The three divisions are each headed by an Assistant Secretary General. Their respective responsibilities are described below -

#### ***Division 1***

Council Business Division 1 provides secretariat and administrative services for the Finance Committee and its two subcommittees, nine Panels as well as the Bills Committees and subcommittees dealing with proposed legislation and policy issues relating to the terms of reference of these Panels.

During the period from 1 April 2005 to 31 March 2006, the division serviced a total of 306 meetings. A total of 107 information briefs were prepared for Panels to facilitate their discussion with the Government on various subjects. In addition, the division also provided service to 10 local and two overseas duty visits, including a visit to the Pearl River

Delta by the Panel on Transport to observe the latest development in cross-boundary transport infrastructure and exchange views on traffic and transport matters of mutual concern.

The visit to Bilbao in Spain by the Subcommittee on West Kowloon Cultural District Development in September 2005 was part of the study to keep members abreast of overseas experiences in undertaking major capital projects. The Subcommittee commenced its study in February 2005 and published its findings in two stages, in July 2005 and January 2006, on issues related to the planning and implementation of the West Kowloon Cultural District Development. While the manner in which the work of the Subcommittee was conducted was very similar to that of a select committee, the division only redeployed its existing resources to cope with the workload. Nevertheless, the workload was monitored closely with a view to assessing the optimum use of manpower resources for coping with work of this nature.

In February 2006, the Panel on Information Technology and Broadcasting decided to conduct a detailed study on the development of public service broadcasting in Hong Kong. In order to make reference to overseas experience in the development of public broadcasting, the Panel also conducted an overseas visit. Research and background services were provided to prepare the Panel for this visit and to facilitate the Panel's deliberation with a view to finalising its findings by July 2006.

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In the 2005-06 session, the division fine-tuned the administration of the meetings of the Finance Committee, including formalizing the requests for inviting public officers to attend meetings of the Finance Committee so as to respond to questions relating to financial proposals already endorsed by the two subcommittees. Also, the division conducted a survey on the meeting time of Finance Committee and put forward a proposal to change the meeting time to meet the operational needs of both the Finance Committee and the House Committee.

As far as supporting services are concerned, the 2005-06 session witnessed a significant change in the way services were provided for committees, in particular in the extent of research and background support provided for the study of public policies. Committees generally welcomed the extensive services provided by the Secretariat staff. In early 2006, subsequent to a successful bid in the 2005 Resource Allocation Exercise, an extra team was created in each of Council Business Divisions 1 and 2 to cope with the increased workload.

The Database on Policy Issues was put on the Legislative Council website with a total of 173 topics available for public access. The hit rate in March 2006 reached 23 379 as compared to 10 320 in April 2005.

The Legislative Assistants Scheme was officially launched in the division on 1 October 2005. Eleven staff members formerly working in the clerical and secretarial grades in the division were appointed as Legislative Assistants.

The division, as well as other divisions with staff in the Council Secretary grade, provided services to meetings-cum-luncheons held between Members and District Council members. Matters which required follow-up actions after the meetings were often referred to the Panels concerned or dealt with in case conferences serviced by the Complaints Division. Since the 2005-06 session, the research work on the topics to be raised for discussion at these meetings was taken up by Council Secretaries (Committees), a new rank created in Council Business Divisions 1 and 2, after the success of a trial scheme in 2004-05.

### ***Division 2***

Council Business Division 2 provides secretariat and administrative services to the House Committee, nine Panels as well as Bills Committees and subcommittees dealing with proposed legislation and policy issues relating to the terms of reference of these Panels.

During the period from 1 April 2005 to 31 March 2006, the division serviced a total of 399 meetings as well as eight local and two overseas duty visits.

In August 2005, a delegation of the Panel on Health Services visited Bangkok in Thailand, Oslo in Norway and Dublin in Ireland to study how these countries implemented the anti-smoking ban. The delegation considered that the respective experiences of these countries served as very useful reference for members in considering the Smoking (Public Health) (Amendment) Bill 2005.

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In September 2005, the Subcommittee to Study the Subject of Combating Poverty visited London in the United Kingdom and Dublin in Ireland to obtain first-hand information on how these countries formulated and implemented anti-poverty strategies to cope with the impact of economic restructuring. The information obtained provided useful reference for the Subcommittee in studying the problems of the working poor and women in poverty in Hong Kong. The Subcommittee issued its report on working poverty on 10 February 2006 and a motion on the report was debated at the Council meeting on 15 February 2006. The Subcommittee is working on its report on women in poverty, which will be issued in June 2006.

Other major items and issues dealt with by the division in the 2005-06 session included the Government's comprehensive plan to deal with the global problem of avian influenza, methods for selecting the Chief Executive in 2007 and for forming the Legislative Council in 2008, security arrangements for the Sixth Ministerial Conference of the World Trade Organization held in Hong Kong in December 2005, legislation on the regulation of interception of communications and covert surveillance, and proposed reforms to the betting duty system on horse racing bets.

During the period from 1 April 2005 to 31 March 2006, a total of 111 background briefs and 43 discussion papers to facilitate Members' consideration of specific items and issues were prepared. In servicing committees, the division also assisted in researching and analysing information,

collating and analysing public views, as well as setting out procedural guidelines and practices.

The Chief Council Secretaries of the division, with the support of Senior Council Secretaries and Council Secretaries on a rotation basis, provided services for meetings-cum-luncheons held between Members and District Council members. The division also provided service for Members' meeting with Councillors of Heung Yee Kuk. Research work was undertaken by designated Senior Council Secretaries and Council Secretaries on each of the topics to be raised for discussion at these meetings. Matters which required follow-up actions were often referred to the Panels concerned or dealt with in case conferences serviced by the Complaints Division.

### ***Division 3***

Council Business Division 3 provides support services for the conduct of meetings of the Legislative Council. During the period from 1 April 2005 to 31 March 2006, the division serviced 38 meetings of the Council, including five meetings devoted to the Chief Executive's Question and Answer Session.

The division also services two standing committees of the Council, namely, the Public Accounts Committee and the Committee on Members' Interests, and the Committee on Rules of Procedure. During the report period, the Public Accounts Committee held 10 public hearings and 31 meetings, and submitted to the Council two reports on its examination of the Director of Audit's value

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for money audit reports. Besides holding five open meetings, the Committee on Members' Interests held a closed meeting to meet a delegation from its counterpart in the House of Representatives of the Parliament of Ireland. The Committee on Rules of Procedure held nine meetings.

In addition, the division services the Parliamentary Liaison Subcommittee of the House Committee. The Subcommittee maintained contacts with the friendship groups which the Council had formed with the legislatures of Australia, Canada, the European Union, Japan and Singapore respectively, and with other legislatures. Together with other Members of the Council, members of the Subcommittee received visiting parliamentarians and dignitaries from other territories. Senior staff members of the Secretariat also received visitors to the Council. A total of 100 meetings with visitors were arranged by the division during the report period.

The two Chief Council Secretaries of the division, with the support of Senior Council Secretaries, provided services for meetings-cum-luncheons held between Members and District Council members. Research work was undertaken by designated Senior Council Secretaries on the topics to be raised for discussion at these meetings. Matters which required follow-up actions by Members were referred to the Panels concerned or dealt with in case conferences serviced by the Complaints Division.

### **Legal Service Division**

Legal Service Division provides legal advice and support for all committees of the Council on bills, subsidiary legislation and other legal matters. The division also renders legal advice to individual Members on matters relating to the business of the Legislative Council. In addition, the division provides in-house legal service for The Legislative Council Commission and the Legislative Council Secretariat. It is the division's mission to provide comprehensive and reliable legal advice, analysis, research, and information services that are timely, objective, non-partisan, and where necessary, confidential; thereby contributing to an informed legislature.

Apart from being head of the Legal Service Division, the Legal Adviser is also the Counsel to the Legislature. Under the Rules of Procedure, the Counsel to the Legislature has the general duty of advising the President and the Clerk to the Legislative Council on legal issues in relation to the business or administration of the Council.

### **Research and Library Services Division**

Research and Library Services Division provides research support for the Council and its committees. During the period under review, a total of 76 research studies were completed, and nine reports, 43 information notes and 24 fact sheets were published. Major subjects studied were -

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- Poverty Combating Strategies
  - Social Security System in Support of the Elderly in Poverty
  - Benchmarks for Granting Subsidies or Financial Assistance to People in Need in Hong Kong
  - Licensing of Food Premises
  - Social Security System for Retirement Protection
  - Smoke-free Workplace Legislation
  - Prevention of Corruption and Impeachment of Head of State/Government in the United Kingdom, the United States and Korea
  - Special Education
  - Operation of Toll Roads, Bridges and Tunnels
  - Setting Up a Subcommittee under Two or More Committees
  - Arrangements for Moving Motions and Asking Oral Questions
  - Determination of the Time and Place of a Committee Meeting in Overseas Legislatures
  - Legislative Council Elections
  - Regulation of Claims and Advertising of Medicines in the United Kingdom and the United States
  - Regulation of Health Food
  - Management of Municipal Solid Waste
  - Mechanisms for Handling Complaints concerning Members' Operating Expenses Reimbursement Claims in the United Kingdom and Canada
  - Regulatory Framework of Political Parties in Germany, the United Kingdom, New Zealand and Singapore
  - Registration Requirements for Remunerated Directorships in Selected Legislatures
  - Sanctions against Substantiated Cases of Abusive Claims of Public Funds by Members of Selected Overseas Legislatures
  - Board Composition of Selected Statutory Bodies, the Hong Kong Monetary Authority and the Mass Transit Railway Corporation Limited
  - Ownership, Management and Funding of Selected Cultural Facilities in Overseas Places
  - Board Composition of Statutory Bodies for the Arts in Selected Places

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- Regulations for the Import of Live Fish for Human Consumption in Singapore
  - A Comparison of Financial Assistance for Comprehensive Social Security Assistance and Low-Income Households
  - Digital Audio Broadcasting
  - Remuneration Package of the Heads of Statutory Bodies for the Arts in Selected Places
  - Health Care Financing Systems in Selected Places: Classification and Reform
  - The Regulatory Framework of Food Safety in Singapore
  - Authorities Responsible for Food Safety Regulation and Agriculture/Fisheries Promotion in Selected Places
  - Public Service Broadcasting in Canada, Germany, the United Kingdom and the United States
  - The Adoption of the Build-Operate-Transfer Model and its Variants in Developing Transport Infrastructures in Selected Places
  - Toll Increase of the Eastern Harbour Crossing
  - Food Safety Regulatory Authorities in Selected Places
  - Income Shortfall of a Low-Income Non-Comprehensive Social Security Assistance Household Living in a Private Domestic Unit
  - Summary of Electoral Systems in Selected Places
  - Land Supply in Hong Kong
  - Unemployment in Ireland
  - Historical Development of Retirement Schemes in Hong Kong
  - Recent Developments in Clinical Waste Treatment Technologies
  - Causes of Women's Poverty
  - Representation of Members and Civil Servants in Disciplinary Inquiries
- The Legislative Council Library provides reference support for Members, their personal assistants and Secretariat staff. Library holdings and publications are open to members of the public, with Council papers and records, and official publications forming the core collection. Other reference materials include parliamentary publications, directories, books on political and constitutional subjects, CD-ROM databases, video tapes of Council meetings as well as newspapers and journals. An electronic press cuttings reference service is available to Members and Secretariat staff. In addition, the Library is linked to a number of external

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databases and provides access to the audio records of Council and committee meetings through the Digital Recording System.

In 2005-06, the Library received a total of 18 608 enquiries and 97 search tasks which involved requests requiring more in-depth information and searches over various sources. The Library collection reached 38 074 items. The number of visits made to the Library was 8 791. The number of books loaned out was 9 831.

### **Complaints Division**

Complaints Division provides support service for Members to enable them to deal with complaints and representations lodged with the redress system of the Council. The division assists Members in processing cases to redress grievances and bring to light the need for improvement in government policies and procedures where appropriate.

The work of the division includes meeting and corresponding with complainants, examining the cases lodged and communicating with relevant organizations and government departments, assisting Members in determining suitable courses of action, as well as scheduling and servicing interviews with complainants and case conferences with government officials.

In 2005-06, the division assisted Members in handling 989 cases, which comprised 175 group representations and 814 individuals' cases. The more topical issues dealt with included those related to the redevelopment and management of public housing estates,

comprehensive social security assistance, planning and land use issues, and views on the Policy Address of the Chief Executive and the governance of the HKSAR.

During this period, the division took the following measures to optimize the use of staff resources and improve efficiency -

- enhancing the proficiency of staff through the organization of Putonghua workshop and training courses on Chinese word processing skills; and
- encouraging staff to participate in seminars on subject matters which had high potential for views and complaints, such as seminars on the Sixth Ministerial Conference.

### **Public Information Division**

Public Information Division provides public relations opinion and advice for the Legislative Council and is responsible for organizing media activities and civic education programmes to promote the work of the Council.

The division handles press and public enquiries received by telephone, mail, e-mail and fax, and issues press releases on behalf of the Council. It liaises closely with media representatives and facilitates their coverage of Council activities and events, assists in press briefings by committees, and provides press marshalling services on official occasions, such as the delivery of Policy Address and Budget Speech. It also provides a daily newspaper clipping service to keep

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Members abreast of media reports and public opinion on topical issues.

The division produces Council publications, including the Legislative Council Annual Report and a variety of fact-sheets and booklets designed to inform the public of the work of the Council. Apart from the Legislative Council website, the division provides an automated fax-on-demand service through which members of the media and the public are able to access up-to-date Council information at all times.

As part of its on-going civic education programme, the division co-ordinates guided tours of the Legislative Council Building. During the period under review, it arranged 394 tours, of which 90 were conducted by Members. Members' enthusiasm to conduct tours has made these visits increasingly interesting, educational and popular. During the role-playing game which forms an important part of these tours, division staff assists students and other young people in playing the roles of various political parties and groups in the debates, thereby enhancing the participants' political awareness.

Following the Commission's decision in 2004, the division has taken on a co-ordinating role for non-profit-making organizations to hold mock Council debates in the Legislative Council Building. These mock debates provide training opportunities for young people to enhance their understanding of the work of the Council and the legislative process. Six mock debates were held during the period under review.

To further enhance its civic education services, the division will shortly organize teachers' workshops in which teachers will be given an introduction on the services currently provided for students by the Secretariat. The division will also increase the number of time slots for guided tours so as to provide more opportunities for students and young people to know about the work of the Council.

### **Translation and Interpretation Division**

Translation and Interpretation Division provides translation, interpretation and Chinese transcription services for the Council and its committees.

The division is responsible for the production of the Official Record of Proceedings of the Legislative Council, also known as the Hansard, which is the verbatim report of proceedings of the Council. The Official Record is published, in the first instance, in the language of the speeches delivered on the floor, and then translated into two versions, one in Chinese and the other in English. Both the verbatim and translated versions of the Official Record can be viewed on the Council's website. For the 38 Council meetings held during the period under review, the division produced 7 681 pages of the "floor" version of the Official Record. The "floor" version was subsequently rendered into 10 530 pages of English text and 7 111 pages of Chinese text.

The division also translates questions, motions, committee papers, minutes of meetings and other Council papers. During the year, the

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total translation output increased by about 7% to 10 758 520 words.

The division continued to strive for productivity gains through re-engineering of work processes, re-distribution of duties among translation staff and flexible deployment of staff under pooling arrangements. Following the success of a trial scheme in 2005, a new Assistant Translation Officer rank was formalized in the division to achieve more cost-effective delivery of service.

### **Administration Division**

Administration Division provides secretariat service for the Commission and internal administrative support for other divisions of the Secretariat. The division also administers Members' remuneration and operating expenses reimbursements, and organizes the Council's corporate social functions.

The division assists the Secretary General in executing the administrative, financial and personnel policies of the Commission. It also provides building management and security services in Council premises, and supervises the development and application of information technology in the Secretariat.

During the year, the division serviced six meetings of the Commission and its committees. The division also serviced two subcommittees under the House Committee, namely the Subcommittee on Members' Remuneration and Operating Expenses Reimbursement and the Subcommittee to Consider a Mechanism for Handling

Complaints and Allegations Concerning Members' Operating Expenses Reimbursement Claims. These two Subcommittees held four meetings during the period under review. The division also provides support in servicing a meeting-cum-luncheon held between Members and District Council members. In addition, the division organized a total of 52 social functions for Members.

### **Financial Arrangement and Audit**

Through a separate head of expenditure in the HKSAR Government's annual Estimates, the Commission is provided with funds to support the work of the Legislative Council. Recurrent funding is provided through an Operating Expenditure Envelope (OEE), which sets the ceiling for each year's funding. The OEE is sub-divided into two subheads in the Estimates: one for Members' remuneration and operating expenses reimbursements, and the other for Secretariat expenses, which comprise staff emoluments and general expenses. Basically, the funding for Members' remuneration and operating expenses reimbursements is adjusted annually according to the movement of Consumer Price Index (C), while that for Secretariat expenses is adjusted according to the target expenditure level of the Government. Only savings in the subhead for Secretariat expenses may be put into an operating reserve for future deployment at the discretion of the Commission. In addition, non-recurrent funding is obtainable for one-off activities and capital projects.

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Where additional resources are required for the introduction of new and improved services, the Commission has to compete for funding with government policy bureaux and departments through the Government's annual Resource Allocation Exercise.

For the purposes of the Public Finance Ordinance (Cap. 2), the Secretary General is designated as the Controlling Officer responsible for the financial resources afforded to the Commission.

The Commission's accounts are subject to examination by the Director of Audit. The Director is empowered to conduct value-for-money audits and examinations into the economy, efficiency and effectiveness with which the Commission expends its resources in performing its functions and exercising its powers.

The net financial provisions obtained for the Commission in 2005-06 amounted to \$334.1 million, which comprised \$123.9 million for Members' remuneration and operating expenses reimbursements, and \$210.2 million for the Secretariat's staff emoluments and general expenses. The audited accounts are shown on pages 25 to 54.

### **Efficiency Savings Targets**

The Commission has participated in the following austerity programmes launched in recent years by the Government, resulting in progressively less government funding since 2000-01 -

- in 2000-01 to 2002-03, \$21.6 million of savings in Secretariat expenses was achieved under the Enhanced Productivity Programme (EPP). The savings measures implemented under EPP reduced the Commission's annual funding by \$12.2 million from 2002-03 onwards;
- to support the Government's initiative to lower its recurrent expenditure by 1.8% in 2003-04 and an additional 1% in each of the subsequent three years (i.e. 2.8% in 2004-05, 3.8% in 2005-06 and 4.8% in 2006-07), the Commission agreed in October 2002 to reduce the size of its OEE for Secretariat expenses by \$4.4 million, \$6.8 million, \$9.3 million and \$11.9 million in the four years concerned. In addition, the Commission agreed to absorb additional expenditures which were hitherto separately funded by the Government, such as those for fulfilling contractual obligations to award salary increments to staff and for servicing select committees. In 2005-06, the reduction in funding and the absorption of additional expenditures under the OEE for Secretariat expenses amounted to \$14.5 million;
- at the request of the Government, the Commission agreed in November 2003 that the OEE for Secretariat expenses would be further reduced by \$7.3 million in 2004-05, \$14.5 million in 2005-06, and \$21.8 million in each of the years 2006-07 to 2008-09; and

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- as the finances of the Government improved, the incremental reduction in size of the OEE for Secretariat expenses scheduled for 2006-07 is no longer necessary; in other words, apart from absorbing the additional expenditures mentioned above, the Commission will continue to have its financial provision from the Government reduced by \$36 million in each of the coming years.

To accomplish the above savings targets, which amounted to \$33.4 million, \$41.2 million and \$43 million (including absorption of additional expenditures) in the years 2004-05 to 2006-07 respectively, the following major measures will continue to be taken -

- freezing of the post of Deputy Secretary General;
- re-engineering of work processes and re-distribution of staff duties, aiming at a slimmer organization through job enlargement, job enrichment and natural wastage;
- stopping the payment of allowance for taking up temporarily additional responsibilities;
- encouraging the provision of time-off in lieu of overtime allowance as far as possible;
- undertaking additional work during peak seasons as far as possible by redeploying existing staff, so as to reduce the expenditure on hiring temporary staff or outside services;
- rationalizing existing support facilities, such as using more cost-effective telecommunication lines and computer systems, and re-structuring the mode of document delivery service;
- utilizing more environmentally friendly and technology-driven means for day-to-day operations, communication and information sharing, such as reducing printed copies of reports, producing annual reports in CD-ROMs rather than in paper form, and reducing the variety and copies of newspapers; and
- enhancing the return on the Commission's surplus cash by investing in foreign-currency deposits, medium-term debt securities and structured financial products, under the guiding principle that such investments should be principal-protected.

The Commission has agreed to use its reserve, after implementing various efficiency savings measures, to meet any shortfalls of financial provisions from the Government in order to maintain the present service level provided for the Legislative Council.

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## **Appointment of Staff**

Appointment of Secretariat staff is normally on a three-year agreement. Grading, remuneration and other terms and conditions of service of staff are broadly in line with those applicable to civil servants. Remuneration comprises a basic salary paid in accordance with the salary scale applicable to civil servants holding comparable jobs, a cash allowance in lieu of certain fringe benefits enjoyed by civil servants, and an end-of-agreement gratuity. Staff of the Commission are required to serve the Council with complete political impartiality.

During the year, a total of 12 recruitment exercises were conducted and 21 new staff were appointed as a result. In addition, nine internal recruitment exercises were held.

## **Re-engineering of Staff**

During the period under review, the Commission approved the formalization of the new ranks of Council Secretary (Committees), Assistant Translation Officer and the new grade of Legislative Assistant following the successful completion of the trial schemes for these new ranks and grade.

### **Regrading of Clerical and Secretarial Staff**

Due to the advancement of technologies and the increasing demand for more comprehensive service from supporting clerical and secretariat staff, fundamental changes have taken place in the nature and scope of duties undertaken by these staff in

recent years. Having regard to these changes, the Secretariat has reviewed the grade structure, titles and job requirements of supporting staff in the Clerical Officer, Personal Secretary, Clerical Assistant and Typist grades with a view to simplifying the existing grade structure and developing a multi-skilled support service.

In May 2004, the Commission endorsed the Secretariat's recommendation to regrade those clerical and secretarial staff who would not be transferred to the Legislative Assistant grade to the new Administrative Assistant grade and Clerical Assistant grade on a cost-neutral basis.

All serving Clerical Assistants and Typists were regraded to the new Clerical Assistant grade in June 2004. Those Clerical Officers and Personal Secretaries who were not appointed to the Legislative Assistant grade were regraded to the Administrative Assistant grade in October 2005.

## **Staff Development**

In 2005-06, arrangements were made for 213 attendances in local courses and workshops on National Studies, language and communication, information technology, customer service, management and leadership organized by the Civil Service Training and Development Institute and General Grades Office of the Civil Service Bureau. 30 attendances in seminars on legal matters and current affairs organized by other local training organizations were also arranged. In addition, in-house training

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courses, workshops and seminars were organized. These included workshops on Putonghua conversation and English writing skills, seminars on Chinese language, information technology and occupational health and safety, presentation on communication skills, and other job-related training workshops and courses.

A number of staff members also attended the following overseas staff development programmes -

- the Legal Adviser participated in the Commonwealth Association of Legislative Counsel Conference and the Commonwealth Law Conference in the United Kingdom (UK);
- the Head (Research and Library Services) was on attachment to the UK Parliament;
- a Senior Assistant Legal Adviser attended the “Parliamentary Officers’ Study Program” in Canada;
- two Chief Council Secretaries attended the National Studies Courses at the Tsinghua University and Peking University;
- a Chief Translation Officer participated in the Eighth Triennial Conference of the Commonwealth Hansard Editors Association in Canada;
- a Chief Translation Officer attended the Training Course on Translation and Chinese Language in Beijing Normal University;

- the Information Technology Manager attended the Annual Meeting of the National Conference of State Legislatures in the United States, followed by visits to various legislatures to study their information technology systems; and
- a Senior Council Secretary attended the “When citizens complain : The role of the Ombudsman in improving public service” study programme in UK.

### **Staff Consultative Committee**

The Staff Consultative Committee, comprising 19 elected representatives of various grades of staff of the Secretariat and chaired by the Secretary General, provides a channel for staff to express their views on matters affecting them. The committee held three meetings during the year.

### **Staff Recreation**

A Staff Recreation Club is formed to promote friendship and mutual help among staff of the Secretariat, and to organize recreational activities for them. During the period under review, the Club organized a series of recreational activities, such as outings, interest classes, health talks, as well as a Christmas party for the staff of the Secretariat.

### **Accommodation**

Apart from the Legislative Council Building, facilities and offices of the Council were

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scattered in three other locations: third, fourth and fifth floors of Central Government Offices (West Wing); third, fourth, fifth and sixth floors of Citibank Tower; and fourth floor of Prince's Building. Each Member is provided with a 40m<sup>2</sup> office within Council premises. Forty-six Members' offices are housed in the Central Government Offices (West Wing), whilst the Citibank Tower premises accommodate the remaining 14 Members' offices and most of the staff of the Secretariat.

### **New Legislative Council Complex**

It has been the Commission's long term target to have a purpose-built building for the Legislative Council and the Secretariat. The Commission has actively pursued this target since 1998. In April 2002, the Government decided to proceed with the development of the Tamar site for a new Legislative Council Complex together with a Central Government Complex and other compatible community facilities. A prequalification exercise took place in December 2002.

The funding proposal for the project was endorsed by the Public Works Subcommittee on 7 May 2003, and was originally scheduled to be considered by the Finance Committee on 30 May 2003. However, on 26 May 2003, the Government decided to put the project temporarily on hold in order to review its spending priorities following the Severe Acute Respiratory Syndrome outbreak.

On 19 November 2003, the Chief Secretary for Administration informed the Commission

that having taken into account the prevailing political climate and its financial position, the Government decided to defer the Tamar project and terminate the procurement exercise for the Design-and-Build Contract for the Tamar project. Following the recovery of Hong Kong's economy in 2004-05 and the much improved financial position of the Government, the Commission requested the Government in June 2005 to explore the ways, including identifying alternative sites, to provide a purpose-built complex for the Legislative Council.

In his 2005-06 Policy Address, the Chief Executive announced his plan to re-activate the reprovisioning of the Central Government Offices and Legislative Council Building at the Tamar site. In November 2005, the Commission submitted an updated design brief for the new Legislative Council Complex for the prequalification exercise for the Tamar project to be conducted in December 2005. Thereafter, the Legislative Council Secretariat worked with the relevant government project team to update the schedule of accommodation, architectural requirements and building services requirements for the new Legislative Council Complex for inclusion into the tender document. The funding proposal for the Tamar development project was approved by the Finance Committee on 23 June 2006. The Government planned to invite tenders from the prequalified applicants for the Design-and-Build Contract in the third quarter of 2006. The target is to complete the construction works around late 2010.

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## **Development of Information Technology**

The Legislative Council network backbone integrates all computer systems in use by the Council and the Secretariat to enable the sharing of computer resources by Members and Secretariat staff. They can access information kept in individual application systems from their desks and communicate with each other in an efficient manner. About 60 servers and 400 workstations are in use. Apart from common office automation software applications and administrative systems, the Council is equipped with business support systems, such as Digital Recording System, Electronic Voting System, Legislative Council Business System, Legislative Council Events Scheduling System, Schedule Display System and Research and Library Information System. The e-mail system allows Secretariat staff to communicate with outsiders electronically through the Internet in a fast and effective manner. The website of the Legislative Council contains information on the business transacted in the Council and its committees.

During the year under review, the following projects were undertaken to enhance the use of information technology in the Council -

- completion of the project to replace the Document Management System by the Millennium Media Management System, which is a supplementary module to the Library System;
- continuation of the project to replace the Electronic Voting System and Public Address / Simultaneous Interpretation Systems by an advanced integrated system with richer functionality;
- commencement of the project to install an audio webcast system so that members of the public can listen, via the LegCo website, to all open meetings of the Legislative Council and its committees held in the Chamber, Conference Room A and Conference Room B;
- commencement of the project to install a software, which is able to convert Traditional Chinese web pages on the website of the Legislative Council into Simplified Chinese; and
- commencement of the project to enhance the Human Resources Information System.

## **Environmental Protection**

The Legislative Council Secretariat is committed to conducting all its activities and operations in an environmentally responsible manner. A report covering the environmental goal, policy and management adopted by the Secretariat is in **Appendix 4**.

All staff are required to make efforts to protect the environment through the green measures shown in the report. Special efforts to reduce electricity consumption were made during the year under review.

# Report of the Director of Audit to The Legislative Council Commission

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I have audited the statement of accounts on pages 25 to 54 which has been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **Respective responsibilities of The Legislative Council Commission and the Director of Audit**

Under section 13(3)(a) of The Legislative Council Commission Ordinance (Cap. 443), The Legislative Council Commission is responsible for the preparation of the statement of accounts, which shall include an income and expenditure account and a balance sheet. In preparing the statement of accounts, The Legislative Council Commission has to select appropriate accounting policies and to apply them consistently.

It is my responsibility to form an independent opinion, based on my audit, on that statement of accounts and to report my opinion to you.

## **Basis of opinion**

I have audited the statement of accounts referred to above in accordance with sections 13(3)(b) and 13(4) of The Legislative Council Commission Ordinance, section 15(1)(a) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts. It also includes an assessment of the significant estimates and judgements made by The Legislative Council Commission in the preparation of the statement of accounts, and of whether the accounting policies are appropriate to the circumstances of The Legislative Council Commission, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance as to whether the statement of accounts is free from material misstatement. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the statement of accounts. I believe that my audit provides a reasonable basis for my opinion.

## **Opinion**

In my opinion the statement of accounts gives a true and fair view of the state of affairs of The Legislative Council Commission as at 31 March 2006 and of the results of its operations and cash flows for the year then ended and has been properly prepared in accordance with section 13(3)(a) of The Legislative Council Commission Ordinance.

Audit Commission  
Hong Kong  
27 June 2006



(Benjamin Tang)  
Director of Audit

# The Legislative Council Commission Income and Expenditure Account for the Year Ended 31 March 2006

(Expressed in thousands of Hong Kong dollars)

	Note	2006	2005 (restated)
<b>Income</b>			
Financial provisions from Government	4(a)	334,156	350,506
Investment income	4(b)	6,805	3,235
Gain on sale of fixed assets		4	652
Other income		44	359
		<u>341,009</u>	<u>354,752</u>
<b>Expenditure</b>			
<b>Recurrent</b>			
Members' remuneration	5(a)	39,317	39,834
Members' operating expenses reimbursements	5(a)	86,936	75,662
Staff emoluments	5(b)	195,250	198,228
General expenses	5(c)	27,570	28,281
<b>Non-recurrent</b>			
Members' non-recurrent expenses reimbursements	5(d)	2,970	4,351
Other non-recurrent expenses	5(e)	103	384
		<u>352,146</u>	<u>346,740</u>
<b>(Deficit)/Surplus for the year</b>	12	<u>(11,137)</u>	<u>8,012</u>

The notes on pages 29 to 54 form part of these accounts.

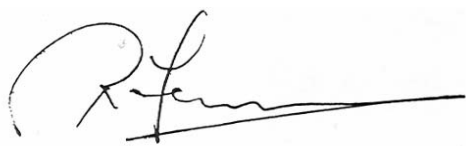
# The Legislative Council Commission

## Balance Sheet as at 31 March 2006

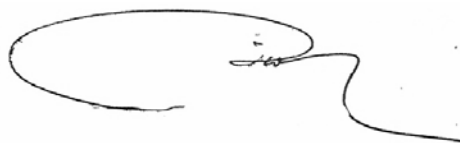
(Expressed in thousands of Hong Kong dollars)

	Note	2006	2005 (restated)
<b>Non-current assets</b>			
Fixed assets	6	4,375	6,554
Operating funds advanced to Members		9,570	9,570
Held-to-maturity securities	7	33,164	26,016
Structured deposits	8	48,535	23,399
Available-for-sale securities	9	40	-
		<u>95,684</u>	<u>65,539</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	10	2,719	4,014
Held-to-maturity securities	7	18,749	-
Bank deposits		99,253	142,053
Cash at bank and in hand		3,516	1,745
		<u>124,237</u>	<u>147,812</u>
<b>Current liabilities</b>			
Payables and accrued charges	11	24,588	22,237
Contract gratuities accrued		44,179	9,931
		<u>68,767</u>	<u>32,168</u>
<b>Net current assets</b>		<u>55,470</u>	<u>115,644</u>
<b>Total assets less current liabilities</b>		<u>151,154</u>	<u>181,183</u>
<b>Non-current liabilities</b>			
Contract gratuities accrued		<u>12,664</u>	<u>31,570</u>
<b>Net assets</b>		<u>138,490</u>	<u>149,613</u>
<b>Accumulated funds</b>			
Operating reserve	12	131,255	131,262
Investment revaluation reserve	12	14	-
Accumulated surplus	12	7,221	18,351
		<u>138,490</u>	<u>149,613</u>

Approved and authorized for issue by The Legislative Council Commission on 27 June 2006



Hon Mrs Rita Fan, GBS, JP  
Chairman



Mr Ricky C C Fung, JP  
Secretary General

# The Legislative Council Commission

## Statement of Changes in Accumulated Funds

### for the Year Ended 31 March 2006

(Expressed in thousands of Hong Kong dollars)

	Note	2006	2005 (restated)
<b>Total accumulated funds at beginning of year</b>			
As previously reported:			
Operating reserve		131,262	127,268
Capital assets subvention reserve		6,554	6,607
Accumulated surplus		11,797	7,726
		<b>149,613</b>	141,601
Prior year adjustments arising from change in accounting policy for fixed assets:			
Decrease in capital assets subvention reserve	12	(6,554)	(6,607)
Increase in accumulated surplus	12	6,554	6,607
As restated:			
Operating reserve		131,262	127,268
Accumulated surplus		18,351	14,333
		<b>149,613</b>	141,601
<b>Net income recognized directly in investment revaluation reserve</b>			
Change in fair value of available-for-sale securities	12	14	-
<b>(Deficit)/Surplus for the year</b>			
As previously reported			12,250
Prior year adjustments arising from change in accounting policy for fixed assets	12		(4,238)
(Deficit)/Surplus for the year (2005: as restated)	12	(11,137)	8,012
<b>Total accumulated funds at end of year</b>	12	<b>138,490</b>	<b>149,613</b>

The notes on pages 29 to 54 form part of these accounts.

# The Legislative Council Commission Cash Flow Statement for the Year Ended 31 March 2006

(Expressed in thousands of Hong Kong dollars)

	Note	2006	2005
<b>Cash flows from operating activities</b>			
Financial provisions received from Government	4(a)	334,156	350,506
Other income received		47	178
Payments to and on behalf of Members		(127,931)	(120,112)
Payments to staff		(177,756)	(193,581)
Payment of operating expenses		(24,102)	(23,668)
<b>Net cash from operating activities</b>		<b>4,414</b>	<b>13,323</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(917)	(4,607)
Proceeds from sale of fixed assets		4	652
Purchase of held-to-maturity securities		(25,842)	(25,980)
Purchase of available-for-sale securities		(25)	-
Increase in structured deposits			
Placements		(25,383)	(30,358)
Deposits called prior to maturity		-	7,000
		(25,383)	(23,358)
Decrease in bank deposits with original maturity over three months			
Uplifts		265,763	271,965
Placements		(206,062)	(239,158)
		59,701	32,807
Interest received		6,976	2,014
<b>Net cash from/(used in) investing activities</b>		<b>14,514</b>	<b>(18,472)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>18,928</b>	<b>(5,149)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>8,124</b>	<b>13,273</b>
<b>Effect of foreign exchange rate changes</b>		<b>15</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	13	<b>27,067</b>	<b>8,124</b>

The notes on pages 29 to 54 form part of these accounts.

# Notes to the Accounts

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(Amounts expressed in thousands of Hong Kong dollars unless otherwise stated)

## 1 GENERAL

The Legislative Council Commission (“the Commission”) is a financially and administratively autonomous body corporate established by The Legislative Council Commission Ordinance (Cap. 443). It provides administrative support and services for the Legislative Council (“LegCo”) of the Hong Kong Special Administrative Region (“HKSAR”) through the Legislative Council Secretariat.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of compliance

These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). A summary of the significant accounting policies adopted by the Commission is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these accounts is provided in note 3.

### 2.2 Basis of preparation of the accounts

The measurement basis used in the preparation of these accounts is historical cost except that trading financial instruments (note 2.3.2.1) and available-for-sale securities (note 2.3.2.4) are stated at their fair value as explained in the accounting policies set out below.

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical 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 carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 Commission's accounting policies. There are also no key assumptions concerning the future, and 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.

## **2.3 Financial assets and financial liabilities**

### **2.3.1 Initial recognition**

The Commission classifies its financial assets and financial liabilities into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: trading financial instruments, loans and receivables, held-to-maturity securities, available-for-sale securities and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value, which normally equals to the transaction prices, plus transaction costs for loans and receivables, held-to-maturity securities, available-for-sale securities and other financial liabilities that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on trading financial instruments are expensed immediately.

The Commission recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted for at settlement date.

### **2.3.2 Categorization**

#### **2.3.2.1 Trading financial instruments**

The Commission does not engage in active trading of financial instruments. However, the derivatives embedded in certain structured deposits (note 2.3.6) are categorized as "trading" under HKAS 39, "Financial Instruments: Recognition and Measurement".

Trading financial instruments are carried at fair value. Changes in the fair value are included in the income and expenditure account in the period in which they arise.

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#### 2.3.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Commission has no intention of trading. This category includes operating funds advanced to Members (note 2.4), structured deposits, receivables, bank deposits and cash.

Loans and receivables are carried at amortised cost using the effective interest method less impairment losses, if any (note 2.3.7).

#### 2.3.2.3 Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Commission has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables.

Held-to-maturity securities are carried at amortised cost using the effective interest method less impairment losses, if any (note 2.3.7).

#### 2.3.2.4 Available-for-sale securities

Available-for-sale securities are non-derivative securities that are designated as available for sale or are not classified in any of the other categories above. They include securities intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale securities are carried at fair value. Unrealized gains and losses arising from changes in the fair value are recognized directly in the investment revaluation reserve, except for foreign exchange gains and losses which are recognized in the income and expenditure account.

When available-for-sale securities are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying amount, together with the accumulated fair value adjustments released from the investment revaluation reserve to the income and expenditure account.

#### 2.3.2.5 Other financial liabilities

Other financial liabilities are measured at amortised cost using the effective interest method.

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### 2.3.3 Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognized stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the financial asset or financial liability is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

### 2.3.4 Derecognition

A financial asset is derecognized 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.

The Commission uses the weighted average method to determine realized gains and losses to be recognized in the income and expenditure account on derecognition.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

### 2.3.5 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### 2.3.6 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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An embedded derivative is separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in the income and expenditure account. Where the embedded derivative is separated, the host contract is accounted for according to its category (note 2.3.2).

The derivatives embedded in certain structured deposits are separated from the deposits and accounted for as derivatives because the economic characteristics and risks of the embedded derivatives are not closely related to those of the deposits (note 2.3.2.1).

#### 2.3.7 Impairment of financial assets

The carrying amount of loans and receivables, held-to-maturity securities and available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

For loans and receivables and held-to-maturity securities, if any impairment evidence exists, a loss is recognized in the income and expenditure account as 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. If in a subsequent period, the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income and expenditure account.

For available-for-sale securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income and expenditure account – is removed from the investment revaluation reserve and recognized in the income and expenditure account. Such impairment losses are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses for debt securities are recognized in the income and expenditure account. Reversals of impairment losses for equity securities are recognized directly in the investment revaluation reserve.

#### 2.4 Operating funds advanced to Members

Members may apply for advance of funds to finance the setting up, equipping and operation of their offices. The ceilings of advance are set by the Commission.

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For setting up Members' offices and equipping them with information technology and communication facilities, the ceilings of advance for each Member as at 31 March 2006 were \$150,000 and \$100,000 (2005: \$150,000 and \$100,000) respectively. Funds advanced in these respects have to be settled within three months with expenses actually incurred and any excess returned to the Commission. They are classified as current assets under prepayments, deposits and other receivables.

For recurrent operating expenses, the ceiling of advance is equivalent to two months' office operation, entertainment and travelling expenses. As at 31 March 2006, the ceiling was \$247,875 (2005: \$246,887). Funds advanced in this respect have to be returned to the Commission when the Member concerned leaves office. They are classified as non-current assets.

## **2.5 Fixed assets**

### **2.5.1 Measurement of fixed assets**

Fixed assets include motor vehicles, computers and software, office equipment, furniture and fixtures costing \$1,000 or more with estimated useful lives longer than one year. Capital projects under development are included as work in progress under fixed assets and are reclassified when the projects are completed.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and any impairment losses (note 2.5.2). Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, on a straight line basis over the estimated useful lives as follows:

- Furniture and fixtures	10 years
- Motor vehicles and office equipment	5 years
- Computers and software	3 years
- Work in progress is not depreciated	

Gains or losses arising from the disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the income and expenditure account at the date of disposal.

### **2.5.2 Impairment of fixed assets**

The carrying amounts of fixed assets are reviewed at each balance sheet date to identify any indication of impairment. If there is an indication of impairment, an impairment loss is recognized in the income and expenditure account whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use.

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## **2.6 Cash equivalents**

For the purpose of the cash flow statement, cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

## **2.7 Staff benefits**

### **2.7.1 Contract gratuities**

All full-time staff employed by the Commission are on fixed agreement terms, mainly for three years with a gratuity payable upon satisfactory completion of each term. Staff gratuities incurred but not yet due for payment are fully accrued in the accounts. Those gratuities payable within one year from the balance sheet date are classified as current liabilities, while others are classified as non-current liabilities.

### **2.7.2 Contributions to Mandatory Provident Fund**

The Commission has set up a Mandatory Provident Fund (“MPF”) Scheme by participating in a master trust scheme provided by an independent MPF service provider to comply with the requirements under the MPF Schemes Ordinance. Contributions paid and payable by the Commission to the Scheme are charged to the income and expenditure account.

### **2.7.3 Staff leave entitlements**

Staff’s unexpired entitlements to paid annual leave as a result of services rendered up to the balance sheet date are accrued in the accounts according to each individual staff member’s remuneration package.

## **2.8 Revenue and expenditure recognition**

### **2.8.1 Financial provisions from Government**

Financial provisions from the HKSAR Government are recognized in the period when receivable.

### **2.8.2 Interest income**

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

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

#### 2.8.3 Other investment income

Dividend income from listed securities is recognized when the share price of the investment is quoted ex-dividend.

Realized gains or losses on financial instruments are recognized in the income and expenditure account when the financial instruments are derecognized.

Changes in fair value of trading financial instruments are recognized as revaluation gains or losses in the income and expenditure account.

#### 2.8.4 Expenses

Members' remuneration, staff emoluments and the Secretariat's operating expenses are accounted for as they are incurred. Members' reimbursable expenses are accounted for as they are claimed.

### 2.9 Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income and expenditure account.

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Commission after the adoption of these new and revised HKFRSs have been summarized in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

The Commission has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 19).

### 3.1 Restatement of prior year and opening balances

The following tables disclose the adjustments that have been made to each of the line items in the income and expenditure account and balance sheet as previously reported for the year ended 31 March 2005. The effects of the changes in accounting policies on accumulated funds at 1 April 2004 and 2005 are disclosed in note 12.

#### 3.1.1 Effect on the income and expenditure account for the year ended 31 March 2005

	2005 (as previously reported)	Effect of new policy HKAS 16 (note 3.4)	2005 (restated)
<b>Income</b>			
Financial provisions from Government	350,506	-	350,506
Investment income	3,235	-	3,235
Gain on sale of fixed assets	652	-	652
Other income	178	181	359
	<u>354,571</u>	<u>181</u>	<u>354,752</u>
<b>Expenditure</b>			
<b><i>Recurrent</i></b>			
Members' remuneration	39,834	-	39,834
Members' operating expenses			
reimbursements	75,662	-	75,662
Staff emoluments	198,228	-	198,228
General expenses	23,862	4,419	28,281
<b><i>Non-recurrent</i></b>			
Members' non-recurrent expenses			
reimbursements	4,351	-	4,351
Other non-recurrent expenses	384	-	384
	<u>342,321</u>	<u>4,419</u>	<u>346,740</u>
<b>Surplus for the year</b>	<u>12,250</u>	<u>(4,238)</u>	<u>8,012</u>

3.1.2 Effect on the balance sheet as at 31 March 2005

	2005 (as previously reported)	Effect of new policy HKAS 16 (note 3.4)	2005 (restated)
<b>Non-current assets</b>			
Fixed assets	6,554	-	6,554
Operating funds advanced to Members	9,570	-	9,570
Held-to-maturity securities	26,016	-	26,016
Structured deposits	23,399	-	23,399
	<u>65,539</u>	-	<u>65,539</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	4,014	-	4,014
Bank deposits	142,053	-	142,053
Cash at bank and in hand	1,745	-	1,745
	<u>147,812</u>	-	<u>147,812</u>
<b>Current liabilities</b>			
Payables and accrued charges	22,237	-	22,237
Contract gratuities accrued	9,931	-	9,931
	<u>32,168</u>	-	<u>32,168</u>
<b>Net current assets</b>	<u>115,644</u>	-	<u>115,644</u>
<b>Total assets less current liabilities</b>	181,183	-	181,183
<b>Non-current liabilities</b>			
Contract gratuities accrued	31,570	-	31,570
<b>Net assets</b>	<u>149,613</u>	-	<u>149,613</u>
<b>Accumulated funds</b>			
Capital assets subvention reserve	6,554	(6,554)	-
Operating reserve	131,262	-	131,262
Accumulated surplus	11,797	6,554	18,351
	<u>149,613</u>	-	<u>149,613</u>

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### **3.2 Estimated effect of changes in accounting policies on the current year**

The extent to which each of the line items in the income and expenditure account and the balance sheet for the year ended 31 March 2006 is higher or lower than it would have been had the previous policies still been applied in the year is as follows:

(a) Effect on the income and expenditure account for the year ended 31 March 2006

The new policies (HKAS 16 – note 3.4) result in a decrease of \$2,924 in other income, an increase of \$3,584,054 in general expenses and an increase of \$3,586,978 in deficit for the year.

(b) Effect on the balance sheet as at 31 March 2006

The new policies (HKAS 16 – note 3.4) result in a decrease of \$4,375,483 in capital assets subvention reserve and an increase of \$4,375,483 in accumulated surplus.

### **3.3 Financial instruments (HKASs 32 and 39, Financial instruments)**

With effect from 1 April 2005, in order to comply with HKAS 32, the Commission has provided additional disclosures of terms, conditions, accounting policies, risk and fair values of financial assets and financial liabilities throughout the notes to the accounts and, in particular, in note 17. In order to comply with HKAS 39, the Commission has changed its accounting policies relating to financial assets and financial liabilities to those set out in note 2.3. Details of the changes are as follows:

(a) Financial instruments

In prior years, all financial assets were carried at cost or amortised cost less provision for diminution in value. All financial liabilities were carried at cost.

With effect from 1 April 2005 and in accordance with HKAS 39, financial instruments are recognized according to the following categories: trading financial instruments, loans and receivables, held-to-maturity securities, available-for-sale securities and other financial liabilities as set out in note 2.3.2.

(b) Embedded derivatives

In prior years, embedded derivatives that were not closely related to the host contracts were not separately accounted for and they were carried as part of the host contracts.

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With effect from 1 April 2005, an embedded derivative that is not closely related to the host contract and where the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in the income and expenditure account is accounted for separately from the host contract (note 2.3.6).

(c) Impairment of financial assets

In prior years, provisions were made by the Commission against financial assets when evidence showed that a diminution in value was other than temporary.

With effect from 1 April 2005, in order to comply with HKAS 39, the Commission has changed its accounting policies relating to impairment of financial assets to those set out in note 2.3.7.

(d) Description of transitional provisions and effect of adjustments

According to the transitional provisions in HKAS 39, the changes in accounting policies of the above items should be adopted by way of opening balance adjustments to reserves and restatement of comparative amounts is prohibited.

The Commission has found that no opening balance adjustments are required and that the changes in accounting policies have no effect on the line items on the face of the accounts for the year ended 31 March 2006.

### 3.4 Fixed assets (HKAS 16, Property, plant and equipment)

In prior years, assets transferred from the Government and Members were capitalized as fixed assets and a corresponding amount credited to the capital assets subvention reserve. For assets acquired with government funding, an equivalent amount was transferred to the reserve from accumulated surplus. Depreciation on fixed assets was charged to the reserve. The balance in the reserve represented the net amount, after depreciation, of the Commission's resources already invested in fixed assets.

With effect from 1 April 2005, the Commission has changed its accounting policy for fixed assets in order to reflect in the income and expenditure account the consumption of the economic benefits embodied in the fixed assets. Assets transferred from the Government and Members are capitalized as fixed assets and a corresponding amount recognized as other income in the income and expenditure account. For assets acquired with government funding, the Commission no longer makes any transfer to reserve. Depreciation on fixed assets is charged to the income and expenditure account.

The new accounting policy has been applied retrospectively with comparatives restated. The adjustments for each financial statement line affected for the years ended 31 March 2005 and 2006 are set out in notes 3.1 and 3.2.

### 3.5 Changes in presentation (HKAS 1, Presentation of financial statements)

With effect from 1 April 2005, in order to take into account the measurement basis that has been applied and for better understanding of the Commission's financial position, the Commission has changed its presentation of certain items on the face of the balance sheet. Investments are split between "held-to-maturity securities", "structured deposits" and "available-for-sale securities". Cash and bank deposits are split between "bank deposits" and "cash at bank and in hand".

These changes in presentation have been applied retrospectively with comparatives reclassified as shown in note 3.1.2.

## 4 INCOME

### (a) Financial provisions from Government

	2006	2005
<b>Financial provisions from Government</b>		
Recurrent items		
Members' remuneration and operating expenses reimbursements	121,539	119,236
Secretariat operating expenses	207,990	223,006
Non-recurrent items		
Members' non-recurrent expenses reimbursements	2,400	4,488
Other non-recurrent expenses	2,218	3,745
	<u>334,147</u>	<u>350,475</u>
<b>Allocation warrants issued by government departments and utilized during the year</b>		
Recurrent items		
Secretariat operating expenses	9	31
<b>TOTAL</b>	<u>334,156</u>	<u>350,506</u>

### (b) Investment income

	2006	2005
Interest income	7,424	3,113
Net exchange (losses)/gains	(505)	122
Net realized and revaluation losses on derivatives embedded in structured deposits	(114)	-
<b>TOTAL</b>	<u>6,805</u>	<u>3,235</u>

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## 5. EXPENDITURE

### (a) Members' remuneration and operating expenses reimbursements

Members are provided with remuneration and reimbursements for expenses arising from LegCo duties. The rates of such remuneration and reimbursements are proposed by the Government and approved by the Finance Committee of LegCo.

Under the delegated authority from the Finance Committee, the rates for Members' monthly remuneration and recurrent operating expenses reimbursements are adjusted by the Government yearly in October according to the movement of Consumer Price Index (C). The relevant rates for each Member are as follows:

	Oct 2005 to Sept 2006 (\$)	Oct 2004 to Sept 2005 (\$)	Oct 2003 to Sept 2004 (\$)
<b>Monthly remuneration</b>			
President	108,770	108,340	110,440
President's Deputy and House Committee Chairman	81,600	81,270	82,840
Members not serving on the Executive Council of the Government	54,390	54,170	55,220
Members serving on the Executive Council of the Government	36,260	36,110	36,810
<b>Annual operating expenses reimbursement</b>			
Office expenses	1,336,490	1,331,160	1,356,940
Entertainment and travelling expenses	150,760	150,160	153,070
Entertainment expenses in the President's capacity	150,900	150,300	153,210

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<b>(b) Staff emoluments</b>	<b>2006</b>	<b>2005</b>
Salaries	139,462	143,621
Contract gratuities	28,537	29,171
Cash allowances	21,071	22,093
Other job-related allowances	478	968
MPF contributions	3,374	3,449
Increase/(Decrease) in accrued leave pay	2,328	(1,074)
<b>TOTAL</b>	<b>195,250</b>	<b>198,228</b>

<b>(c) General expenses</b>	<b>2006</b>	<b>2005</b> (restated)
Depreciation	3,584	4,419
Professional and other services	8,209	7,897
Utilities and building services	6,501	6,654
Office supplies	2,644	2,592
Information services	2,274	2,097
Repairs and maintenance	1,832	1,874
Others	2,526	2,748
<b>TOTAL</b>	<b>27,570</b>	<b>28,281</b>

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**(d) Members' non-recurrent expenses reimbursements**

	2006	2005
Members' setting up expenses		
- for the term 2000-2004	-	140
- for the term 2004-2008	1,619	1,102
Members' information technology and communication equipment expenses		
- for the term 2000-2004	-	222
- for the term 2004-2008	1,351	794
Members' winding up expenses	-	2,093
<b>TOTAL</b>	<b>2,970</b>	<b>4,351</b>

**(e) Other non-recurrent expenses**

	2006	2005
Electronic voting system	-	1
Enhancement of the LegCo business information system	-	49
Teaching kits for schools	-	92
Replacement of internal electronic mailing system	-	107
Digital recording system	-	70
Internet access to information systems on the LegCo network	19	2
Replacement of computing facilities	37	49
Microfilming of archival records	-	14
Replacement of old and worn out furniture in the LegCo Building	47	-
<b>TOTAL</b>	<b>103</b>	<b>384</b>

## 6 FIXED ASSETS

	Motor vehicles	Computers and software	Office equipment	Furniture and fixtures	Work in progress	Total
<b>Cost</b>						
At 1 April 2004	959	30,252	3,179	7,927	-	42,317
Additions	-	4,118	240	11	-	4,369
Disposals	-	(4,252)	(194)	(19)	-	(4,465)
At 31 March 2005	959	30,118	3,225	7,919	-	42,221
At 1 April 2005	959	30,118	3,225	7,919	-	42,221
Additions	-	335	259	256	559	1,409
Disposals	-	(2,619)	(223)	(94)	-	(2,936)
At 31 March 2006	959	27,834	3,261	8,081	559	40,694
<b>Accumulated depreciation</b>						
At 1 April 2004	959	26,446	2,749	5,556	-	35,710
Additions	-	3,492	238	689	-	4,419
Disposals	-	(4,252)	(194)	(16)	-	(4,462)
At 31 March 2005	959	25,686	2,793	6,229	-	35,667
At 1 April 2005	959	25,686	2,793	6,229	-	35,667
Additions	-	2,698	211	675	-	3,584
Disposals	-	(2,618)	(222)	(92)	-	(2,932)
At 31 March 2006	959	25,766	2,782	6,812	-	36,319
<b>Net book value</b>						
At 31 March 2006	-	2,068	479	1,269	559	4,375
At 31 March 2005	-	4,432	432	1,690	-	6,554

7	<b>HELD-TO-MATURITY SECURITIES</b>	2006	2005
	At amortised cost		
	<b>Debt securities</b>		
	Listed in Hong Kong	16,066	16,026
	Unlisted	35,847	9,990
		<u>51,913</u>	<u>26,016</u>
	Portion classified as current assets	(18,749)	-
	Non-current portion	<u>33,164</u>	<u>26,016</u>
8	<b>STRUCTURED DEPOSITS</b>	2006	2005
	At amortised cost		
	<b>Unlisted structured deposits with interest receivable</b>		
	- at predetermined variable rates	15,520	15,599
	- at rates determined by reference to the London Interbank Offered Rate	22,927	7,800
	- at rates determined by reference to the exchange rate between United States dollar and Hong Kong dollar	10,088	-
	<b>TOTAL</b>	<u>48,535</u>	<u>23,399</u>

The structured deposits with interest receivable at predetermined variable rates or at rates determined by reference to the London Interbank Offered Rate are subject to call option to be exercised at the discretion of the banks before maturity date.

For the structured deposits with interest receivable at rates determined by reference to the exchange rate between United States dollar and Hong Kong dollar, the embedded derivatives are separated from the deposits and accounted for as derivatives. As at 31 March 2006, the separated derivatives were included in the balance sheet at their fair value of \$107,641 (note 10, 2005: Nil).

9	<b>AVAILABLE-FOR-SALE SECURITIES</b>	2006	2005
	At fair value		
	<b>Equity securities</b>		
	Listed in Hong Kong	<u>40</u>	<u>-</u>
10	<b>PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES</b>	2006	2005
	Prepayments to:		
	Government	-	40
	Others	676	427
	Deposits	16	18
	Receivable from:		
	Members	85	1,876
	Staff	305	292
	Accrued interest from structured deposits:		
	Accrued interest income	368	192
	Negative fair value of embedded derivatives (Note 8)	(108)	-
		260	192
	Other accrued interest	1,377	1,168
	Other receivables	-	1
	<b>TOTAL</b>	<u>2,719</u>	<u>4,014</u>
11	<b>PAYABLES AND ACCRUED CHARGES</b>	2006	2005
	Payable to:		
	Government	1,373	599
	Members	2,648	3,207
	Staff		
	- accrued emoluments and reimbursements	100	264
	- accrued leave pay	19,143	16,815
	Others	1,324	1,352
	<b>TOTAL</b>	<u>24,588</u>	<u>22,237</u>

12 ACCUMULATED FUNDS

	2006	2005 (restated)
<b>Operating reserve</b>		
At beginning of year	131,262	127,268
Transfer (to)/from accumulated surplus	(7)	3,994
At end of year	<u>131,255</u>	<u>131,262</u>
<b>Capital assets subvention reserve</b>		
At beginning of year, as previously reported	6,554	6,607
Prior year adjustments arising from change in accounting policy for fixed assets (note 3.1.2)	(6,554)	(6,607)
At beginning and end of year, as restated	<u>-</u>	<u>-</u>
<b>Investment revaluation reserve</b>		
At beginning of year	-	-
Change in fair value of available-for-sale securities	14	-
At end of year	<u>14</u>	<u>-</u>
<b>Accumulated surplus</b>		
At beginning of year, as previously reported	11,797	7,726
Prior year adjustments arising from change in accounting policy for fixed assets (note 3.1.2)	6,554	6,607
At beginning of year, as restated	<u>18,351</u>	14,333
Surplus for the year, as previously reported		12,250
Prior year adjustments arising from change in accounting policy for fixed assets (note 3.1.1)		(4,238)
(Deficit)/Surplus for the year (2005: as restated)	(11,137)	8,012
Transfer from/(to) operating reserve	7	(3,994)
At end of year	<u>7,221</u>	<u>18,351</u>
<b>TOTAL</b>	<u><u>138,490</u></u>	<u><u>149,613</u></u>

Surpluses in recurrent financial provisions for staff emoluments and general expenses are credited to the operating reserve at the discretion of the Commission for future use on LegCo business.

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 2.3.2.4 and 2.3.7.

### 13 CASH AND CASH EQUIVALENTS

	2006	2005
Cash at bank and in hand	3,516	1,745
Bank deposits with original maturity within three months	23,551	6,379
<b>TOTAL</b>	<b><u>27,067</u></b>	<b><u>8,124</u></b>

### 14 NON-CASH TRANSACTIONS WITH GOVERNMENT

Offices and certain government-operated services used by the Secretariat are either provided by the Government free of charge or funded by the respective government departments. They are not accounted for in these accounts.

### 15 TAXATION

The Commission is exempt from Hong Kong taxation.

### 16 CAPITAL COMMITMENTS

Outstanding commitments for acquisitions of fixed assets at 31 March 2006 not provided for in the accounts were as follows:

	2006	2005
Authorized but not yet contracted for	11,416	2,352
Authorized and contracted for	732	676
<b>TOTAL</b>	<b><u>12,148</u></b>	<b><u>3,028</u></b>

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## **17 FINANCIAL INSTRUMENTS**

### **17.1 Investment policy**

To provide an ancillary source of income, surplus cash is invested in a portfolio of financial instruments according to a target ratio set by the Commission. The portfolio includes fixed deposits, structured deposits, debt securities, equities and trust funds. It is the Commission's policy that all investments in financial instruments, except equities and trust funds, should be principal-protected.

### **17.2 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.

To minimize credit risks, all fixed deposits and structured deposits are placed with licensed banks in Hong Kong. For investments in debt securities, only those classified under the investment grade by Moody's or Standard & Poor's are considered.

At the balance sheet date, the Commission does not have significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### **17.3 Liquidity risk**

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This results from amount and maturity mismatches of assets and liabilities.

The Commission employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the Commission to ensure that all liabilities due and known funding requirements could be met.

### **17.4 Interest rate risk**

Interest rate risk refers to 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. The Commission is exposed to fair value interest rate risk since a significant portion of its investments is in fixed rate debt securities. These securities are subject to interest rate risk as their fair values will fall when market interest rates increase. However, as all fixed rate debt securities are classified as held-to-maturity securities and stated at amortised cost, their carrying amounts will not be affected by changes in market interest rates.

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 Commission is exposed to cash flow interest rate risk because for a significant portion of its structured deposits, interest is receivable at rates determined by reference to the London Interbank Offered Rate. In addition, most of the structured deposits are callable by the banks before maturity date. Changes in market interest rates may lead to the exercise of the call option by the banks and therefore affect the future cash flows of such structured deposits.

The table below sets out the Commission's exposure to interest rate risk, based on the major interest bearing assets stated at carrying amounts and categorized by the earlier of contractual re-pricing dates or maturity dates and stating the effective interest rate for each group of assets. For structured deposits with embedded derivatives not separated, it is assumed that the call option would not be exercised by the banks before maturity date and future interest would be received at the highest possible rates under the contract terms. For structured deposits with embedded derivatives separated, the effective interest rate is the applicable market interest rate at initial recognition.

	Effective interest rate	Up to 3 months	3 months to 1 year	1-2 years	2-5 years	Total
<b>2006</b>						
Held-to-maturity securities	3.94%	2,502	16,247	10,006	23,158	51,913
Structured deposits	4.34%	-	-	48,535	-	48,535
Bank deposits	4.31%	23,551	75,702	-	-	99,253
		<u>26,053</u>	<u>91,949</u>	<u>58,541</u>	<u>23,158</u>	<u>199,701</u>
<b>2005</b>						
Held-to-maturity securities	3.58%	-	-	2,901	23,115	26,016
Structured deposits	4.40%	-	-	-	23,399	23,399
Bank deposits	1.96%	6,379	135,674	-	-	142,053
		<u>6,379</u>	<u>135,674</u>	<u>2,901</u>	<u>46,514</u>	<u>191,468</u>

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## 17.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

According to the Commission's policy, any financial instrument denominated in a currency other than the Hong Kong dollar or the United States dollar ("USD") has to be covered by a back-to-back forward exchange contract for converting back the funds invested into Hong Kong dollars. Moreover, the amount of USD-denominated financial instruments, as well as its weighting in the portfolio, has to be maintained under a pre-determined level.

At the balance sheet date, financial assets totalling \$101 million (2005: \$99 million) were denominated in USD. The remaining financial assets and all financial liabilities were denominated in Hong Kong dollar.

## 17.6 Fair values

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. In the absence of such quoted market prices, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions existing at the balance sheet date.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2006 and 2005 except as follows:

	Carrying value		Fair value	
	2006	2005	2006	2005
Held-to-maturity securities	51,913	26,016	51,317	25,907

## 18 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 3.

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**19 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006**

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2006 and which have not been adopted in these accounts:

	<b><u>Effective for accounting periods beginning on or after</u></b>
HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards (revised)	1 January 2006
HKFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC)-Int 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC)-Int 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
HK(IFRIC)-Int 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC)-Int 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC)-Int 9, Reassessment of embedded derivatives	1 June 2006
Amendment to HKAS 19, Employee benefits – Actuarial gains and losses, group plans and disclosures	1 January 2006
Amendment to HKAS 21, The effects of changes in foreign exchange rate – Net investment in a foreign operation	1 January 2006

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**Effective for accounting  
periods beginning on or after**

Amendments to HKAS 39, Financial instruments:  
Recognition and measurement:

- |  |                |
|--|----------------|
| - Cash flow hedge accounting of forecast intragroup transactions | 1 January 2006 |
| - The fair value option  | 1 January 2006 |
| - Financial guarantee contracts                                  | 1 January 2006 |

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

- |   |                |
|---|----------------|
| - HKAS 1, Presentation of financial statements            | 1 January 2006 |
| - HKAS 27, Consolidated and separate financial statements | 1 January 2006 |
| - HKFRS 3, Business combinations                          | 1 January 2006 |

HKFRS 7, Financial instruments: disclosures	1 January 2007
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Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007
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The Commission 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 HK(IFRIC)-Int 4, HK(IFRIC)-Int 9, HKFRS 7 and the amendment to HKAS 1 is unlikely to have a significant impact on the Commission's results of operations and financial position. The other amendments, new standards and interpretations are not applicable to the Commission's operations.

# Appendix 1

## Committees of The Legislative Council Commission

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### Committee on Personnel Matters

#### *Terms of Reference*

- (1) To consider personnel matters including staffing resources, appointment, promotion, dismissal, grading, duties, remuneration and other terms and conditions of service of staff of the Secretariat which require the attention of the Commission;
- (2) To approve appointments including acting appointments with a view to promotion of officers at Chief Council Secretary level and above; and
- (3) To monitor progress of appointment and personnel matters delegated to the Secretary General.

#### *Membership*

Hon Mrs Rita FAN HSU Lai-tai, GBS, JP (Chairman)

Hon Miriam LAU Kin-yee, GBS, JP

Hon Margaret NG

Hon Jasper TSANG Yok-sing, GBS, JP

Hon Emily LAU Wai-hing, JP

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## Committee on Members' Operating Expenses

### ***Terms of Reference***

- (1) To advise on administrative matters relating to Members' operating expenses; and
- (2) To review the Legislative Council Secretariat's decisions on Members' claims for operating expenses reimbursements.

### ***Membership***

Hon Mrs Rita FAN HSU Lai-tai, GBS, JP (Chairman)

Hon Miriam LAU Kin-yee, GBS, JP

Hon Fred LI Wah-ming, JP

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## Committee on Facilities and Services

### ***Terms of Reference***

- (1) To consider the accommodation requirements of the Council and the Secretariat;
- (2) To assess the needs of the Council and of individual Members for services and facilities for the conduct of Council business;
- (3) To formulate solutions for meeting needs identified at (1) and (2);
- (4) To consider financial matters relating to (1) to (3) above, and approve procurement of fixed assets costing above \$500,000 but not exceeding \$2,000,000; and
- (5) To monitor the progress and developments relating to the above items.

### ***Membership***

Hon Mrs Rita FAN HSU Lai-tai, GBS, JP (Chairman)

Hon Emily LAU Wai-hing, JP

Hon Andrew LEUNG Kwan-yuen, SBS, JP

Hon WONG Ting-kwong, BBS

Hon Patrick LAU Sau-shing, SBS, JP

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## **Subcommittee on Information Technology Services of the Committee on Facilities and Services**

### ***Terms of Reference***

To advise on the information technology services provided by the Legislative Council Secretariat.

### ***Membership***

Hon Andrew LEUNG Kwan-yuen, SBS, JP

Hon Patrick LAU Sau-shing, SBS, JP

## Appendix 2

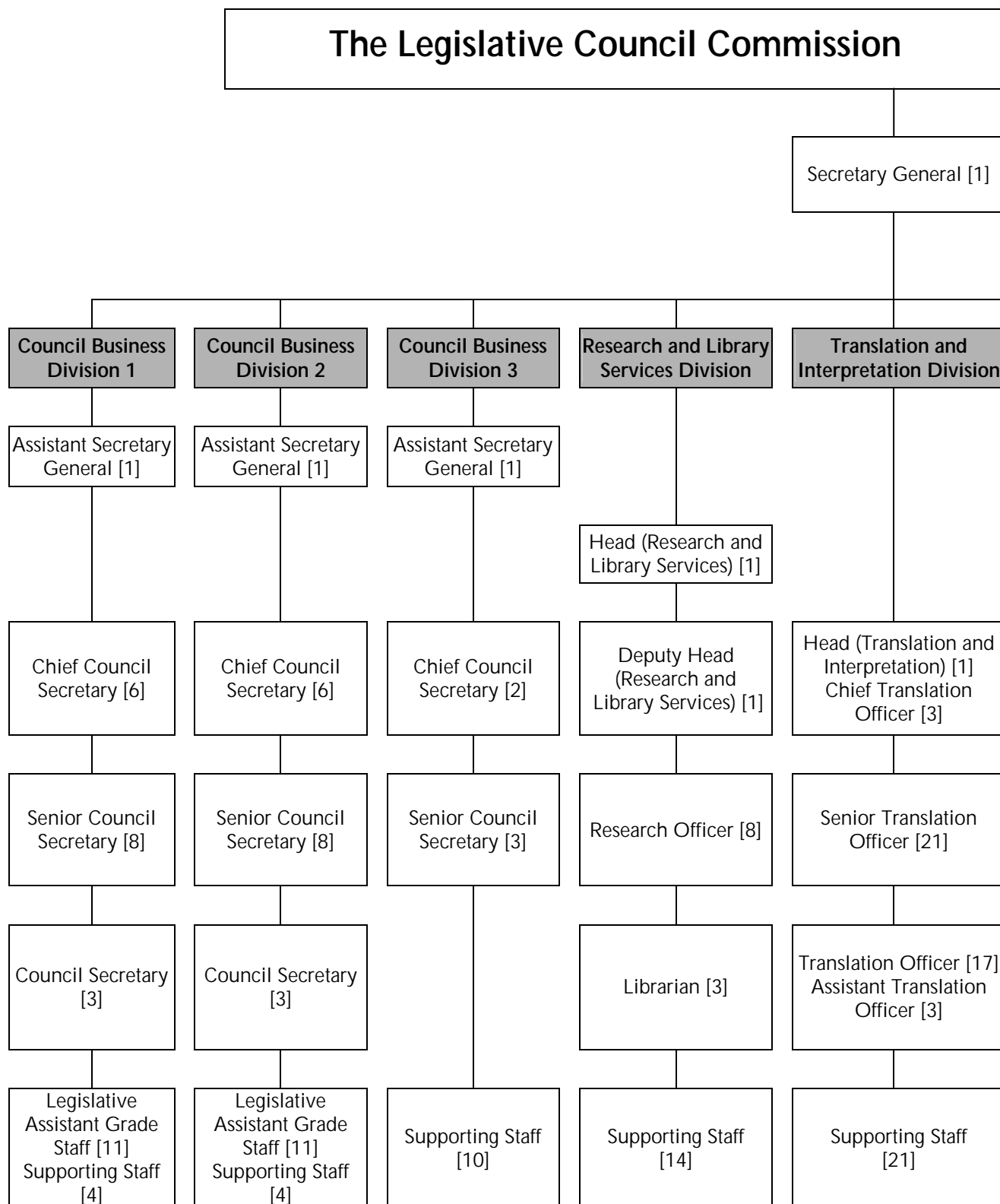
### Staff Establishment of the Legislative Council Secretariat

Post	As at 31.3.2006
Secretary General	1
Legal Adviser	1
Deputy Secretary General	1 *
Assistant Secretary General	3
Senior Assistant Legal Adviser	2
Chief Public Information Officer	1
Head (Research and Library Services)	1
Principal Council Secretary	2
Accountant	1
Assistant Legal Adviser	7
Chief Council Secretary	14
Chief Translation Officer	4
Deputy Head (Research and Library Services)	1
Information Technology Manager	1
Research Officer	8
Senior Council Secretary	26
Senior Public Information Officer	2
Senior Translation Officer	21
Assistant Accountant	2
Council Secretary	12
Information Technology Officer	2
Librarian	3
Public Information Officer	2
Translation Officer	17
Assistant Translation Officer	3
Security Officer	1
Senior Administrative Assistant	6
Senior Legislative Assistant	4
Senior Security Assistant	2
Accounting Clerk	4
Administrative Assistant I	15
Assistant Information Technology Officer	3
Senior Chinese Transcriber	2
Social Functions Assistant	1
Security Assistant	21
Legislative Assistant	18
Administrative Assistant II	46
Chinese Transcriber	5
Personal Chauffeur	1
Steward	5
Chauffeur	1
Motor Driver	1
Clerical Assistant	25
Office Assistant	14
Workman I	1
Workman II	2
<b>Total</b>	<b>316</b>

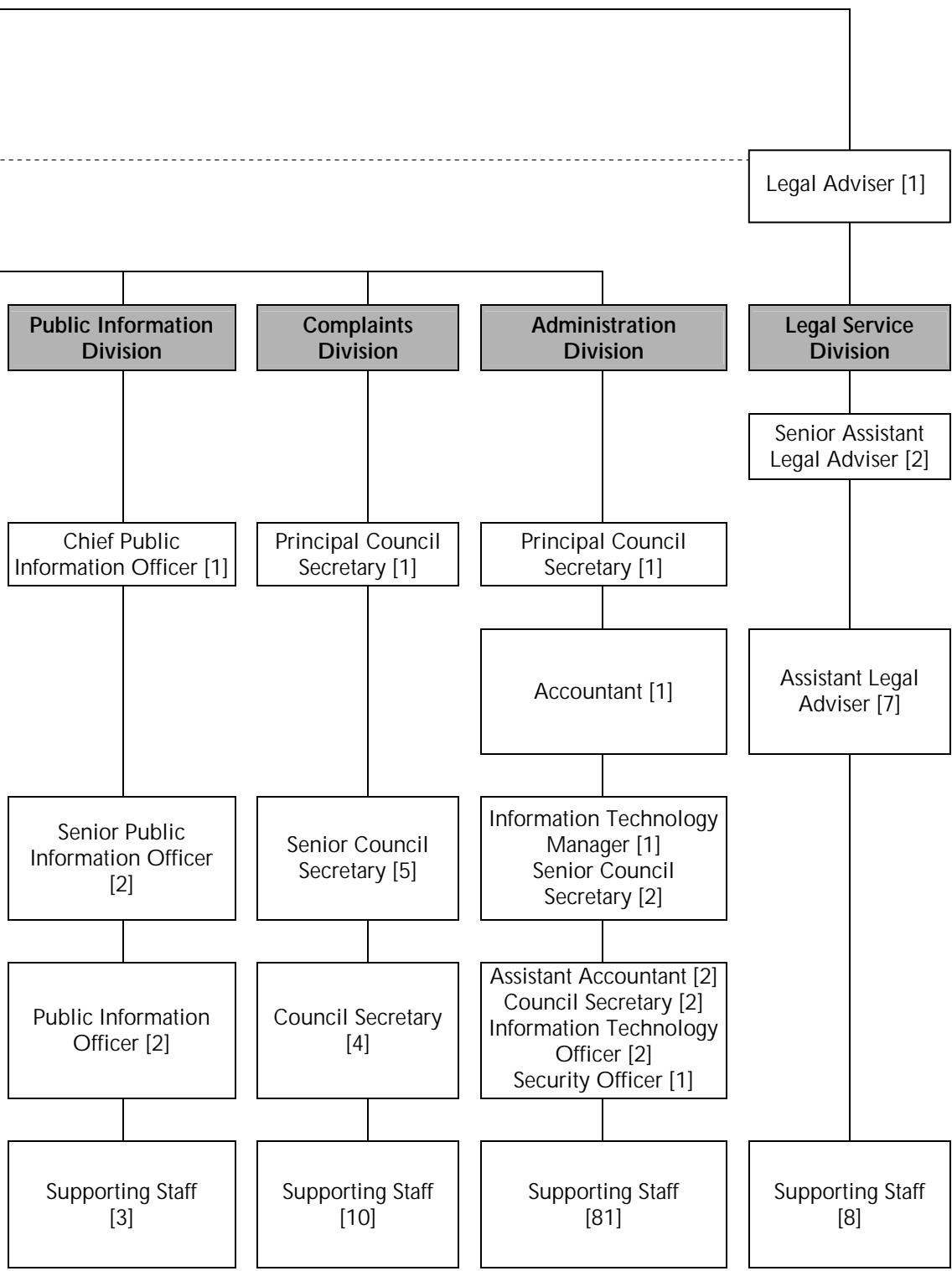
\* Post frozen with effect from 25.5.2004.

# Appendix 3

## Organization Structure of the Legislative Council Secretariat (as at 31.3.2006)



[ ] = Number of staffing position



## Appendix 4

# Secretary General's Environmental Report for the Year 2005-2006

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### ***Environmental Goal***

The Legislative Council Secretariat is committed to -

- Conducting all its activities and operations in an environmentally responsible manner
- Minimizing consumption of resources by efficient use of materials
- Minimizing negative impacts on the environment during the whole work cycle

### ***Environmental Policy***

The environmental policy of the Legislative Council Secretariat requires all staff to make a special effort to protect the environment through -

- **Saving resources**, particularly on paper and electricity
- **Reducing waste** by re-using paper, collecting recyclable materials and adopting green procurements where applicable
- **Preserving a pleasant indoor working environment** through maintenance of good indoor air quality and minimization of noisy works during office hours
- **Preventing and minimizing air pollution** through the choice of commuting modes and good driving behaviour

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### ***Environmental Management***

Under the chairmanship of Principal Council Secretary (Administration), a Green Effort Team with representatives from all divisions was set up in 1993 to develop the Secretariat's environmental objectives and oversee the implementation of the green programme in the Secretariat. The Team monitors the progress and reviews the overall strategy for green management in the Secretariat.

A description of the environmental measures and the performance of these measures are included in the following table. The targets on these measures for the year 2006-2007 are also given in the table.

## Environmental Management and Future Targets

Saving Resources	
<b>I. Environmental Measures Adopted</b>	<p><b>Economy in the use of paper</b></p> <ul style="list-style-type: none"> <li>• Use blank side of used paper for drafting</li> <li>• Print on both sides of paper</li> <li>• Use double side photocopiers</li> <li>• Use recycled paper</li> <li>• Minimize photocopies (e.g. not to make unnecessary spare and/or personal copies)</li> <li>• Minimize copies of circulars (e.g. circulate by electronic mail as far as possible; and if necessary, one copy to a group of staff)</li> <li>• Use old sets of documents for re-circulation</li> <li>• Adopt green measures at festive seasons (e.g. promote Green Christmas, re-use decorative materials)</li> <li>• Use plain paper fax machines</li> <li>• Avoid use of fax leader pages</li> <li>• Use blank side of used paper to print incoming fax message</li> <li>• Communicate by electronic mail</li> <li>• Request soft copies from senders to facilitate future processing by electronic means</li> <li>• Upload documents, including agenda, minutes, discussion papers, submissions, reports of all open meetings onto the LegCo website (<a href="http://www.legco.gov.hk">http://www.legco.gov.hk</a>)</li> <li>• Store documents in central information systems for common access by staff</li> <li>• Reduce subscription to newspapers and magazines by the use of electronic news platform</li> </ul> <p><b>Economy in the use of envelope</b></p> <ul style="list-style-type: none"> <li>• Stop using envelopes for unclassified documents</li> <li>• Reuse envelopes or use transit envelopes</li> </ul> <p><b>Energy conservation</b></p> <ul style="list-style-type: none"> <li>• Carry out routine checks to ensure that staff switch off lights, air conditioners and office equipment in unoccupied areas; and during lunch and after office hours when office is not in use</li> <li>• Modify group lighting switches to individual switches</li> <li>• Use high efficiency electric lamps/tubes</li> <li>• Reduce lighting to minimum required for illumination</li> <li>• Encourage the use of staircase for inter-floor traffic</li> <li>• Issue advice on a regular basis on the need to save energy e.g. attach stickers to all switches to remind users to turn off lights and air-conditioning when leaving</li> <li>• As far as practicable, set the room temperature at 25.5°C during summer months</li> <li>• Control fuel consumption (e.g. minimize the use of official vehicles)</li> <li>• Encourage the use of public transport</li> <li>• Turn off vehicle engines while waiting</li> </ul>
<b>II. Performance on the Environmental Measures</b>	<ul style="list-style-type: none"> <li>• Through various effective energy saving measures, consumption of electricity decreased by 0.5% from 2 005 177 kWh in 2004-05 to 1 995 080 kWh in 2005-06 despite an increase in the number of meetings</li> <li>• Consumption of paper increased by 8.02% from 24 266 reams in 2004-05 to 26 212 reams in 2005-06 due to an increase in the number of meetings</li> <li>• Consumption of envelopes also increased by 19.26% from 20 360 nos. in 2004-05 to 24 281 nos. in 2005-06 due to an increase in the number of meetings</li> </ul>
<b>III. Targets for Year 2006-07</b>	<ul style="list-style-type: none"> <li>• Decrease electricity consumption by 2%, subject to the number of meetings remaining more or less the same as in 2005-06</li> </ul>

Reducing Wastes	Preserving a Pleasant Indoor Working Environment
<ul style="list-style-type: none"> <li>• Reuse envelopes, loose minute jackets</li> <li>• Use refillable ball pens</li> <li>• Cease the use of wooden pencils</li> <li>• Use recycled pencils</li> <li>• Use recycled paper as far as possible</li> <li>• Use recycled printer and fax cartridges as far as possible</li> <li>• Urge staff to use their own cups instead of paper cups</li> <li>• Collect waste paper, used printer and fax cartridges, aluminum cans and plastic bottles for recycling</li> <li>• Use Digital Recording System to record meeting proceedings, thereby reducing consumption of cassette tapes</li> </ul>	<ul style="list-style-type: none"> <li>• Use low emission and ozone-free photocopiers</li> <li>• Use non-volatile correction fluid</li> <li>• Carry out renovation works outside office hours</li> <li>• Conduct annual air quality tests to monitor the air quality in offices</li> <li>• Clean air filters and outlets regularly</li> </ul>
<ul style="list-style-type: none"> <li>• Consumption of recycled pencils decreased by 3.29% from 1 125 nos. in 2004-05 to 1 088 nos. in 2005-06</li> <li>• Consumption of cassette tapes continued to decrease by 23.56% from 331 nos. in 2004-05 to 253 nos. in 2005-06 due to the use of Digital Recording System</li> <li>• Collection of waste paper increased by 57.87% from 9 025 kg in 2004-05 to 14 248 kg in 2005-06</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative Council Building designated as a smoke-free building in April 1999</li> <li>• Annual air quality tests indicate that the air quality in offices complied with the guideline recommended by the Environmental Protection Department</li> </ul>
<ul style="list-style-type: none"> <li>• Use recycled paper for all documents</li> <li>• Increase the use of recycled printer and fax cartridges, subject to higher quality and lower price</li> <li>• Increase collection of waste paper</li> </ul>	

**立法會行政管理委員會**  
**THE LEGISLATIVE COUNCIL**  
**COMMISSION**

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