

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

FINANCIAL STATEMENTS

FOR THE PERIOD FROM 31 MARCH 2016

(DATE OF FUNDING RECEIVED FROM THE GOVERNMENT) TO 31 MARCH 2017



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE HOSPITAL AUTHORITY**

Opinion

What we have audited

The financial statements of the Hospital Authority ("HA") Public-Private Partnership Fund (the "Fund") set out on pages 3 to 16, which comprise:

- the balance sheet as at 31 March 2017;
- the statement of income and expenditure for the period from 31 March 2016 (date of funding received from the Government) to 31 March 2017;
- the statement of changes in fund balances for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2017, and of its financial performance and its cash flows for the period then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of HA in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of Members of HA for the Financial Statements

The members of HA are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the members of HA determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members of HA are responsible for assessing HA's ability to continue the Fund as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are events or conditions that have caused or may cause HA to cease the Fund to continue as a going concern.



**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE HOSPITAL AUTHORITY (CONTINUED)**

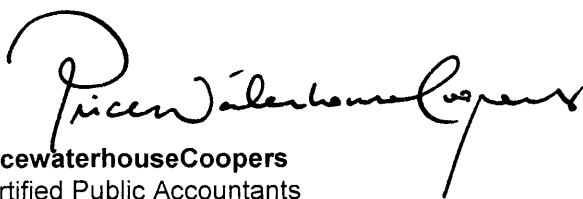
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members of HA.
- Conclude on the appropriateness of the members of HA's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on HA's ability to continue the Fund as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause HA to cease the Fund to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the members of HA regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 September 2017

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

BALANCE SHEET
AS AT 31 MARCH 2017

	Note	At 31 March 2017 HK\$'000
Non-Current Assets		
Placement with the Exchange Fund	4	10,000,000
		<u>10,000,000</u>
Current Assets		
Inventories		65
Prepayments		251
Other receivables		1,386
Placement with the Exchange Fund	4	226,102
Cash and bank balances	5	299,063
		<u>526,867</u>
Current Liabilities		
Creditors and accrued charges	6	(22,881)
Deferred income – PPP Fund	7	(503,986)
		<u>(526,867)</u>
Net Current Assets		<u>-</u>
Total Assets Less Current Liabilities		<u>10,000,000</u>
Non-Current Liabilities		
Endowment Fund	4	(10,000,000)
Net Assets		<u>-</u>
Fund		
Accumulated Fund		<u>-</u>
Total Fund		<u>-</u>


Dr CHEUNG Wai-lun
Director (Cluster Services)


Ms Anita CHAN Shuk-yu
Director (Finance)

The notes on pages 7 to 16 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF INCOME AND EXPENDITURE FOR THE PERIOD FROM 31 MARCH 2016 (DATE OF FUNDING RECEIVED FROM THE GOVERNMENT) TO 31 MARCH 2017

		For the period from 31 March 2016 to 31 March 2017 HK\$'000
Income	Note	
Transfer from deferred income – PPP Fund	7	181,712
		<hr/>
		181,712
		<hr/>
Expenditure		
Fees to participating service providers		(131,426)
Staff costs	8	(37,163)
Computer equipment and IT maintenance		(4,688)
Drugs, medical supplies and equipment		(2,835)
Audit fee		(60)
Other operating expenses		(5,540)
		<hr/>
		(181,712)
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Surplus for the period		-
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The Fund had no components of comprehensive income other than “surplus for the period” in the period presented. Accordingly, no separate statement of comprehensive income is presented as the Fund’s “total comprehensive income” was the same as the “surplus for the period”.

The notes on pages 7 to 16 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

**STATEMENT OF CHANGES IN FUND BALANCES
FOR THE PERIOD FROM 31 MARCH 2016 (DATE OF FUNDING RECEIVED FROM THE
GOVERNMENT) TO 31 MARCH 2017**

**For the period from
31 March 2016 to
31 March 2017
HK\$'000**

Total fund at the beginning of the period	-
Surplus for the period	-
Total fund at the end of the period	-

The notes on pages 7 to 16 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 31 MARCH 2016 (DATE OF FUNDING RECEIVED FROM THE GOVERNMENT) TO 31 MARCH 2017

	Note	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Net cash used in operating activities	9	(157,390)
Investing activities		
Increase in bank deposits with original maturity over three months		(193,847)
Net cash used in investing activities		(193,847)
Financing activities		
Remaining balance of one-off funding to HA designated for PPP programmes		441,960
Interest received		14,493
Net cash generated from financing activities		456,453
Net increase in cash and cash equivalents		105,216
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	5	105,216

Note:

The cash flow for the HK\$10 billion placement with the Exchange Fund was netted off with the HK\$10 billion Endowment Fund and the detailed arrangement is disclosed in note 4.

The notes on pages 7 to 16 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

1. Background

In line with the Government's healthcare reform proposals, the Hospital Authority ("HA") has launched a variety of clinical public-private partnership ("PPP") initiatives on a pilot basis since 2008 with the designated one-off funding from the Government.

With approval given by the Finance Committee of the Legislative Council ("LegCo"), the Government allocated to HA a sum of HK\$10 billion on 31 March 2016 as an endowment fund to generate investment returns for regularising and enhancing ongoing clinical PPP programmes, as well as developing new clinical PPP initiatives in future. HA can make use of the investment returns together with the remaining balance of the one-off designated funding provided previously to support the ongoing operation of the PPP programmes. The HA PPP Fund (the "Fund") was accordingly established, comprising the HK\$10 billion endowment fund and HK\$442 million from the remaining balance of the designated one-off PPP funding.

Under the agreed governance arrangement, the annual audited financial statements of the Fund should be submitted to the LegCo via the Food and Health Bureau. Therefore, a first set of financial statements of the Fund is required since its receipt of the endowment fund from the Government and up to 31 March 2017. Accordingly, these financial statements are presented for the period from 31 March 2016 (date of funding received from the Government) to 31 March 2017 which covers a period longer than one year.

The address of the principal office of HA is Hospital Authority Building, 147B Argyle Street, Kowloon, Hong Kong.

2. Principal accounting policies

(a) Basis of preparation

The financial statements of the Fund have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. However, there are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

2. Principal accounting policies (Continued)

(b) Adoption of new/revised HKFRSs

The HKICPA has issued a number of new/revised HKFRSs, including interpretations, amendments or improvements to the existing standards, which become effective in the current period. These new/revised HKFRSs are not relevant to the Fund and have no effect on the Fund's financial statements.

The HKICPA also issued a number of amendments, new standards and interpretations which are effective for accounting periods beginning on or after 1 April 2017. HA has not early adopted these amendments, new standards and interpretations in the financial statements of the Fund for the period from 31 March 2016 (date of funding received from the Government) to 31 March 2017. HA is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be, if any, in the period of initial adoption. So far, it has concluded that the adoption of these amendments, new standards and interpretations is unlikely to have a significant impact on the Fund's results of operations and financial position.

(c) Recognition of income

The Government allocated HK\$10 billion to HA to establish an endowment fund for PPP initiatives. The investment returns of the endowment fund, together with the remaining balance of the one-off designated funding for HA's PPP programmes as at 31 March 2016 are recognised as deferred income – PPP Fund.

Government recurrent subvention to HA for annual pay adjustment of staff deployed on PPP initiatives is transferred to the Fund each year and is recognised in deferred income – PPP Fund when the subvention is received.

Each year, the amount spent on the PPP initiatives is transferred from deferred income to the statement of income and expenditure.

(d) Inventories

Inventories, which comprise of drugs, are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Where applicable, provision is made for obsolete and slow-moving items. Inventories are stated net of such provision in the balance sheet. Net realisable value is determined with reference to the replacement cost.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

2. Principal accounting policies (Continued)

(e) Cash and cash equivalents

Cash and cash equivalents comprise short-term bank deposits with original maturity within three months.

(f) Financial assets at fair value through profit or loss

HA has designated the placement with the Exchange Fund as a "financial asset at fair value through profit or loss". HA determines the classification of its financial assets at initial recognition, and such classification depends on the purpose for which the financial assets were acquired. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of income and expenditure. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and HA has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

(g) Employee benefits

Employee benefits, including salary, allowances, retirement benefits and contract-end gratuity, are accounted for as they accrue.

(h) Related parties

Parties are considered to be related to the Fund if the party has the ability, directly or indirectly, to control the Fund or exercise significant influence over the Fund in making financial and operating decisions, or vice versa. Related parties also include key management personnel having authority and responsibility for planning, directing and controlling the activities of the Fund.

For the purpose of these financial statements, transactions between the Fund and Government departments, agencies or Government controlled entities are also considered to be related party transactions.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management

(a) Financial risk factors

The Fund's investment activity is the primary area of financial risk. This risk is mitigated by the Fund's financial risk management process.

With regard to investments, in accordance with the prevailing policies and guidelines, the primary objectives are to meet liquidity requirements, to protect capital and to provide a reasonable return. The investment portfolio as at 31 March 2017 consisted of bank deposits and placement with the Exchange Fund. Based on the risk control measures as summarised below, the risk of default by the counterparties is considered minimal. Besides, the Fund has no currency risk because all financial assets and liabilities are denominated in Hong Kong dollar, the Fund's functional and presentation currency.

Credit risk

Credit risk of the Fund is primarily relating to the risk that counterparties may default on the bank deposits and the placement with the Exchange Fund.

Bank deposits are placed with HA's approved banks which are of investment grade as determined by Moody's or Standard and Poor's with minimum credit rating not lower than Moody's Baa3 or equivalent.

The placement with the Exchange Fund is entered into between HA and the Hong Kong Monetary Authority ("HKMA") and it is expected that the HKMA can fulfill its contractual obligations to HA in respect of the placement.

(b) Fair values estimation

(i) Financial assets carried at fair values

The Fund's financial instruments that are measured at fair value are categorised by level of the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (Continued)

(b) Fair values estimation (Continued)

(i) Financial assets carried at fair values (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. None of the instruments of the Fund is included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. None of the instruments of the Fund is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The placement with the Exchange Fund is included in level 3. The following table presents the changes in level 3 instruments for the period ended 31 March 2017:

	For the period from 31 March 2016 to 31 March 2017 HK\$'000
At the beginning of the period	-
Addition	10,000,000
Interest	226,102
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At the end of the period (note 4)	10,226,102
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THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (Continued)

(b) Fair values estimation (Continued)

- (ii) All other financial assets and liabilities are stated in the balance sheet at amounts that approximate their fair values and accordingly, no disclosure of fair values for these items is presented.

4. Placement with the Exchange Fund

On 31 March 2016, the Government allocated HK\$10 billion to HA to establish an endowment fund for PPP initiatives. As approved by the Government, the endowment fund has been placed with the Exchange Fund for a period of six years commencing from 12 July 2016.

HA has designated the placement with the Exchange Fund as a “financial asset at fair value through profit or loss”. The valuation technique and significant unobservable inputs used in the fair value measurements are the discounted cash flow and discount rate respectively. The placement is denominated in Hong Kong dollar. Its fair value is determined with reference to the estimated rates of investment return for future years.

The interest on the placement is at a fixed rate determined annually in January and payable annually in arrears on 31 December. Currently, the rate of return is calculated on the basis of the average annual rate of return on certain investment portfolio of the Exchange Fund over the past six years or the average annual yield of three-year government bond in the previous year (subject to a minimum of zero percent), whichever is the higher. This rate of return has been fixed at 3.3% and 2.8% per annum for January to December 2016 and January to December 2017, respectively. The interest earned up to 31 December 2016 has not been withdrawn and it continues to accrue interest at the same rate payable for the principal amount.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

4. Placement with the Exchange Fund (Continued)

The placement with the Exchange Fund is analysed as follows:

	At 31 March 2017 HK\$'000
Principal amount	10,000,000
Interest earned but not withdrawn at the end of the reporting period	155,984
Accrued interest	70,118
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	10,226,102
Less: non-current portion	(10,000,000)
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Current portion	226,102
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5. Cash and bank balances

	At 31 March 2017 HK\$'000
Bank deposits with original maturity within three months	105,216
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Cash and cash equivalents	105,216
Bank deposits with original maturity over three months	193,847
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	299,063
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The effective interest rate on short term bank deposits is between 0.50% and 1.14%. These deposits have an average maturity of 73 days.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

6. Creditors and accrued charges

	At 31 March 2017 HK\$'000
Accruals for fees to participating service providers	18,948
Other accruals and payables	3,933
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	22,881
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7. Deferred income - PPP Fund

Movements of the deferred income - PPP Fund are shown below:

	For the period from 31 March 2016 to 31 March 2017 HK\$'000
At the beginning of the period	-
Remaining balance of one-off funding to HA designated for PPP programmes	441,960
Interest earned from the placement with the Exchange Fund	226,102
Interest earned from bank deposits	15,879
Government recurrent subvention for annual pay adjustment	1,757
Transfer to statement of income and expenditure	(181,712)
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At the end of the period	503,986
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"Interest earned from bank deposits" included the accrued interest of HK\$1,386,000 which was included in other receivables in the balance sheet as at 31 March 2017.

8. Staff costs

	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Salaries and other short term employee benefits	34,763
Contributions to HA Provident Fund and Mandatory Provident Fund Schemes	2,400
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	37,163
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THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

9. Net cash used in operating activities

(a) Reconciliation of surplus for the period to net cash used in operating activities

	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Surplus for the period	-
Decrease in deferred income – PPP Fund	(179,955)
Increase in inventories	(65)
Increase in prepayments	(251)
Increase in creditors and accrued charges	22,881
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Net cash used in operating activities	(157,390)
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(b) Non-cash transaction

The interest earned from the placement with the Exchange Fund of HK\$226,102,000 was a non-cash transaction with a corresponding increase in deferred income – PPP Fund.

10. Expenditure by programme

Programme	For the period from 31 March 2016 to 31 March 2017 HK\$'000
(a) Cataract Surgeries Programme	2,430
(b) Colon Assessment PPP Programme	11,421
(c) General Outpatient Clinic PPP Programme	25,553
(d) Haemodialysis PPP Programme	48,438
(e) Patient Empowerment Programme	21,463
(f) Project on Enhancing Radiological Investigation Services through Collaboration with the Private Sector	42,550
(g) Provision of Infirmity Service through PPP	9,814
(h) Tin Shui Wai Primary Care Partnership Project	3,725
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IT and administration support	165,394
	16,318
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	181,712
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THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

During the period, the Fund entered into the following significant related party transactions:

- (a) Expenditure of HK\$181,712,000 was recharged by HA to the Fund.
- (b) Other significant related party transactions entered by the Fund with the Government included the endowment fund allocated (note 4) and recurrent subvention for annual pay adjustment (note 7).
- (c) As at 31 March 2017, the HK\$10 billion Endowment Fund represented outstanding balance with the Government (note 4).
- (d) As at 31 March 2017, the amount due to HA included in creditors and accrued charges was HK\$1,968,000. The balance was unsecured, interest-free and had no fixed term of repayment.

12. Approval of financial statements

The financial statements were approved by members of HA on 28 September 2017.