

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**



**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 17, which comprise:

- the balance sheet as at 31 March 2018;
- the statement of income and expenditure for the year then ended;
- the statement of changes in fund balances for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of principal 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 HA for the Financial Statements

HA is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as HA determines 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, HA is responsible for assessing its 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 HA.
- Conclude on the appropriateness 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 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, 20 September 2018

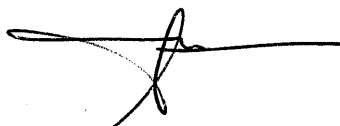
THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

BALANCE SHEET
AS AT 31 MARCH 2018

	Note	At 31 March 2018 HK\$'000	At 31 March 2017 HK\$'000
Non-Current Asset			
Placement with the Exchange Fund	4	10,000,000	10,000,000
		<u>10,000,000</u>	<u>10,000,000</u>
Current Assets			
Inventories		-	65
Prepayments		251	251
Other receivables		160	1,386
Placement with the Exchange Fund	4	558,770	226,102
Cash and bank balances	5	73,161	299,063
		<u>632,342</u>	<u>526,867</u>
Current Liabilities			
Creditors and accrued charges	6	(18,896)	(22,881)
Deferred income – PPP Fund	7	(613,446)	(503,986)
		<u>(632,342)</u>	<u>(526,867)</u>
Net Current Assets		-	-
Total Assets Less Current Liabilities		<u>10,000,000</u>	<u>10,000,000</u>
Non-Current Liability			
Endowment Fund		(10,000,000)	(10,000,000)
Net Assets		-	-
Fund			
Accumulated Fund		-	-
Total Fund		<u>-</u>	<u>-</u>



Dr. Ko Pat Sing, Tony
Director (Cluster Services)



Ms. Chan Shuk Yu, Anita
Director (Finance)

The notes on pages 7 to 17 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 2018

	Note	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Income			
Transfer from deferred income – PPP Fund	7	228,780	181,712
		<u>228,780</u>	<u>181,712</u>
Expenditure			
Fees to participating service providers		(162,332)	(131,426)
Staff costs	8	(54,615)	(37,163)
Computer equipment and IT maintenance		(5,659)	(4,688)
Drugs, medical supplies and equipment		(912)	(2,835)
Audit fee		(60)	(60)
Other operating expenses		(5,202)	(5,540)
		<u>(228,780)</u>	<u>(181,712)</u>
Surplus for the year/period		<u>-</u>	<u>-</u>

The Fund had no components of comprehensive income other than “surplus for the year/period” in the year/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 year/period”.

The notes on pages 7 to 17 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 31 MARCH 2018

	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Total fund at the beginning of the year/period	-	-
Surplus for the year/period	-	-
Total fund at the end of the year/period	-	-

The notes on pages 7 to 17 are an integral part of the financial statements.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Note	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Net cash used in operating activities	9(a)	(229,232)	(157,390)
Investing activities			
Decrease/(increase) in bank deposits with original maturity over three months		193,847	(193,847)
Net cash generated from/(used in) investing activities		193,847	(193,847)
Financing activities			
Interest received		3,330	14,493
Remaining balance of the one-off designated funding provided previously to support PPP programmes		-	441,960
Net cash generated from financing activities		3,330	456,453
Net (decrease)/increase in cash and cash equivalents		(32,055)	105,216
Cash and cash equivalents at the beginning of the year/period		105,216	-
Cash and cash equivalents at the end of the year/period	5	73,161	105,216

Note:

For the period from 31 March 2016 to 31 March 2017, 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 17 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. As approved by the Government, the endowment fund has been placed with the Exchange Fund managed by the Hong Kong Monetary Authority ("HKMA") for a period of six years commencing from 12 July 2016 (the "Placement"). 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 one-off designated funding as at 31 March 2016.

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.

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. The following amendments to standards which are effective for the Fund's financial year beginning 1 April 2017 are relevant to the Fund:

Amendments to HKAS 7, Disclosure Initiative

The adoption of these amendments has no impact on the results and financial position of the Fund.

The HKICPA has also issued a number of new/revised HKFRSs which are effective for accounting period beginning on or after 1 April 2018. HA has not early adopted these new/revised HKFRSs in the financial statements for the financial year ended 31 March 2018. HA is in the process of making an assessment but is not yet in a position to conclude the impact of these new/revised HKFRSs on the Fund's results of operations and financial position.

(c) Recognition of income

The investment returns from the Placement and bank deposits, 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 pay adjustment of staff deployed on PPP initiatives 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 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 2018 consisted of bank deposits and the Placement. 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.

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 is entered into between HA and the 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 is included in level 3. The following table presents the changes in level 3 instruments for the year ended 31 March 2018 and for the period from 31 March 2016 to 31 March 2017:

	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
At the beginning of the year/period	10,226,102	-
Addition	-	10,000,000
Interest	332,668	226,102
At the end of the year/period (note 4)	<u>10,558,770</u>	<u>10,226,102</u>

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

The Placement is initially fixed for a period of six years commencing from 12 July 2016, and HA has designated the Placement 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 2.8% and 4.6% per annum for January to December 2017 and January to December 2018, respectively. The interest earned up to 31 December 2017 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 is analysed as follows:

	At 31 March 2018 HK\$'000	At 31 March 2017 HK\$'000
Principal amount	10,000,000	10,000,000
Interest earned but not withdrawn at the end of the reporting year/period	440,351	155,984
Accrued interest	118,419	70,118
	<u>10,558,770</u>	<u>10,226,102</u>
Less: non-current portion	(10,000,000)	(10,000,000)
Current portion	<u>558,770</u>	<u>226,102</u>

5. Cash and bank balances

	At 31 March 2018 HK\$'000	At 31 March 2017 HK\$'000
Bank deposits with original maturity within three months	73,161	105,216
Cash and cash equivalents	73,161	105,216
Bank deposits with original maturity over three months	-	193,847
	<u>73,161</u>	<u>299,063</u>

The effective interest rate on short term bank deposits is between 0.80% and 1.22% (2017: 0.50% and 1.14%). These deposits have an average maturity of 61 days (2017: 73 days).

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

6. Creditors and accrued charges

	At 31 March 2018 HK\$'000	At 31 March 2017 HK\$'000
Accruals and accounts payables for fees to participating service providers	16,155	18,948
Other accruals and payables	2,741	3,933
	<u>18,896</u>	<u>22,881</u>

7. Deferred income – PPP Fund

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

	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
At the beginning of the year/period	503,986	-
Remaining balance of the one-off designated funding provided previously to support PPP programmes	-	441,960
Interest from the Placement (note 9(b))	332,668	226,102
Interest from bank deposits	1,997	15,879
Government recurrent subvention for pay adjustment	3,575	1,757
Transfer to statement of income and expenditure	(228,780)	(181,712)
At the end of the year/period	<u>613,446</u>	<u>503,986</u>

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

8. Staff costs

	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Salaries and other short term employee benefits	50,162	34,763
Contributions to HA Provident Fund and Mandatory Provident Fund Schemes	4,453	2,400
	<u>54,615</u>	<u>37,163</u>

9. Net cash used in operating activities

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

	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
Surplus for the year/period	-	-
Decrease in deferred income – PPP Fund	(225,205)	(179,955)
Decrease/(increase) in inventories	65	(65)
Increase in prepayments	-	(251)
Increase in other receivables (exclude interest receivables)	(107)	-
(Decrease)/increase in creditors and accrued charges	(3,985)	22,881
Net cash used in operating activities	<u>(229,232)</u>	<u>(157,390)</u>

(b) Non-cash transaction

The interest earned from the Placement of HK\$332,668,000 (for the period from 31 March 2016 to 31 March 2017: HK\$226,102,000) was a non-cash transaction with a corresponding increase in deferred income – PPP Fund.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

10. Expenditure by programme

Programme	For the year ended 31 March 2018 HK\$'000	For the period from 31 March 2016 to 31 March 2017 HK\$'000
(a) Cataract Surgeries Programme	3,326	2,430
(b) Colon Assessment PPP Programme	16,930	11,421
(c) General Outpatient Clinic PPP Programme	46,645	25,553
(d) Haemodialysis PPP Programme	50,392	48,438
(e) Patient Empowerment Programme	24,501	21,463
(f) Project on Enhancing Radiological Investigation Services through Collaboration with the Private Sector	37,227	42,550
(g) Provision of Infirmity Service through PPP	23,767	9,814
(h) Tin Shui Wai Primary Care Partnership Project	3,789	3,725
	<hr/>	<hr/>
	206,577	165,394
Information technology and administration support	22,203	16,318
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	228,780	181,712
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THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

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

- (a) Expenditure of HK\$228,780,000 (For the period from 31 March 2016 to 31 March 2017: 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 recurrent subvention for pay adjustment (note 7), and the endowment fund allocated in the last reporting period.
- (c) As at 31 March 2017 and 2018, the HK\$10,000,000,000 Endowment Fund represented outstanding balance with the Government.
- (d) As at 31 March 2018, the amount due from HA included in other receivables was HK\$107,000. As at 31 March 2017, the amount due to HA included in creditors and accrued charges was HK\$1,968,000. The balances with HA were 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 20 September 2018.