



Report of the Director of Audit
on the Accounts of the Government of
the Hong Kong Special Administrative Region
for the year ended 31 March 2019

October 2019

REPORT
OF
THE DIRECTOR OF AUDIT
ON THE ACCOUNTS OF THE GOVERNMENT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
FOR THE YEAR ENDED
31 MARCH 2019



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30 October 2019

The President of the Legislative Council,
Legislative Council Complex,
Hong Kong.

Sir,

In accordance with section 12(1) of the Audit Ordinance (Cap. 122), I have the honour to submit the Report on my examination and audit of the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019, and on matters relating to the performance of my duties and the exercise of my powers under the Ordinance, together with a copy of the following statements duly certified by me:

- the Statement of Assets and Liabilities of the Government and the Statement of Receipts and Payments by the Government; and
- the Statement of Assets and Liabilities of each fund, and the Statement of Receipts and Payments by each fund, other than the Lotteries Fund, established in accordance with section 29 of the Public Finance Ordinance (Cap. 2).

Yours faithfully,

John Chu

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Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

General Revenue Account

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the General Revenue Account set out on pages 10 to 22, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the General Revenue Account are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the General Revenue Account's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services and the reasonableness of accounting estimates and related disclosures.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

General Revenue Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	727,669,260	640,740,747
Deposits with banks	4	491,826	532,753
Cash and bank balances	5	4,509,675	4,226,983
Advances	6	3,255,025	2,901,276
		735,925,786	648,401,759
Liabilities			
Deposits	7	(23,419,273)	(20,093,160)
Suspense Accounts	8	(52,424)	(55,407)
		(23,471,697)	(20,148,567)
		<u>712,454,089</u>	<u>628,253,192</u>
Representing:			
General Revenue Balance			
Balance at beginning of year		628,253,192	563,394,868
Surplus for the year		84,200,897	64,858,324
Balance at end of year	9, 10	<u>712,454,089</u>	<u>628,253,192</u>

Notes 1 to 13 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



General Revenue Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		4,226,983	4,341,392
Revenue	11	544,949,290	444,331,070
Expenditure	12	(460,748,393)	(379,472,746)
Surplus for the year		84,200,897	64,858,324
Other cash movements	13	(83,918,205)	(64,972,733)
Cash and bank balances at end of year		4,509,675	4,226,983

Notes 1 to 13 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



General Revenue Account

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

- (i) The Public Finance Ordinance (Cap. 2) provides for the control and management of the public finances of Hong Kong and for incidental and connected purposes. The General Revenue Account records moneys raised or received for the purposes of the Government (except where provided otherwise in other Ordinances) and appropriations of expenditure in accordance with the Appropriation Ordinance and the Supplementary Appropriation Ordinance.
- (ii) The Statement of Assets and Liabilities and the Statement of Receipts and Payments of the General Revenue Account constitute the statement of the assets and liabilities and the annual statement of the receipts and payments of the Government as specified in section 11(1)(a) and (b) of the Audit Ordinance (Cap. 122). These Statements exclude the assets and liabilities and the receipts and payments of the Funds established under section 29 of the Public Finance Ordinance, viz Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund, Lotteries Fund and Bond Fund, for which separate financial statements are prepared.

2. Accounting Policies

- (i) The General Revenue Account is kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities does not include fixed assets, loans, investments other than those made under section 26 of the Public Finance Ordinance, and debtors and creditors other than those covered by sections 20, 21, 22, 23, 24, 27 and 30 of the Public Finance Ordinance.
- (ii) For the purposes of these financial statements, a contingent liability is defined as:
 - (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
 - (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.
- (iii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Foreign currency balances are translated into Hong Kong dollars at weighted average cost.

3. Investments with the Exchange Fund

- (i) These are investments and deposits held under section 26 of the Public Finance Ordinance:

	2019	2018
	\$'000	\$'000
Investments (Notes (ii) to (iv) below)	727,663,996	640,723,961
Deposits	5,264	16,786
	<u>727,669,260</u>	<u>640,740,747</u>

General Revenue Account

3. Investments with the Exchange Fund *(Continued)*

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Pursuant to the Financial Secretary's decision announced in the 2016-17 Budget, as from 1 July 2016, a top-up allocation of \$4.8 billion was made from the General Revenue Account to the Future Fund. The Future Fund was established on 1 January 2016 as a notional savings account within the fiscal reserves. Together with the top-up allocation, it was placed with the Exchange Fund for securing higher investment returns over a ten-year investment period in accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015. Investment return on the Future Fund placement is determined annually based on a composite rate (6.1% and 9.6% for the calendar years 2018 and 2017 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iv) below) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. In respect of the General Revenue Account portion of \$4.8 billion, such accumulated investment return not received as revenue amounted to \$1.15 billion as at 31 December 2018 (*2017: \$0.79 billion*), including the investment return for the calendar year 2018 of \$0.36 billion (*2017: \$0.71 billion*).
- (iv) The part of the fiscal reserves outside the Future Fund (Note (iii) above) is referred to as Operating and Capital Reserves. Investment income on the Operating and Capital Reserves placement with the Exchange Fund is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (*2017: 2.8%*). The annual investment income is receivable on 31 December each year.

4. Deposits with Banks

These are Hong Kong dollar and foreign currency deposits placed with licensed banks in Hong Kong for investment under section 26 of the Public Finance Ordinance:

	2019	2018
	\$'000	\$'000
Hong Kong dollar	90,421	89,836
Foreign currency	401,405	442,917
	491,826	532,753

5. Cash and Bank Balances

These balances cover cash in hand, in transit, with banks and agents, and with public officers for operating standing or special imprest accounts as provided under section 22 of the Public Finance Ordinance.

General Revenue Account

6. Advances

Advances are paid under the authority of warrants issued under section 20 of the Public Finance Ordinance for a variety of reasons and are either recoverable or chargeable to expenditure upon authority being given:

	2019	2018
	\$'000	\$'000
Advances to Government officers	1,366,715	996,105
Expenditure on Vietnamese migrants (Note (i) below)	1,161,991	1,161,991
Payments on behalf of non-departmental public bodies, trading funds and non-statutory corporations wholly-owned by Government	441,760	423,210
Others	284,559	319,970
	3,255,025	2,901,276

- (i) The sum of \$1,161.991 million is the outstanding balance of expenditure on Vietnamese migrants recoverable from the United Nations High Commissioner for Refugees (UNHCR). The last repayment, amounting to \$3.865 million, was received in February 1998. In January 1998, the High Commissioner for Refugees informed the Government of the Hong Kong Special Administrative Region (HKSAR) that in the absence of further funding prospects, the repayment in February 1998 was the last reimbursement that the UNHCR could realistically foresee. If the UNHCR defaults on repayment of the outstanding advances, the Government of the HKSAR will not be able to enforce repayment through legal means as the UNHCR is immune from suit under the International Organizations and Diplomatic Privileges Ordinance (Cap. 190). Consequently, the full recovery of the amount due is doubtful.

During the financial year 2018-19, the Government of the HKSAR continued to pursue the repayment of the outstanding advances from the UNHCR and to urge it to make renewed efforts to look for donations with a view to settling the amount. So far, the Government of the HKSAR has not received any further repayments.

Efforts to press the UNHCR for early settlement of the outstanding advances will continue.

7. Deposits

These are moneys received from time to time from individuals or organisations under sections 23 and 24 of the Public Finance Ordinance for a variety of reasons and are in due course either repayable or transferable to General Revenue:

	2019	2018
	\$'000	\$'000
Tax reserve certificates	14,671,210	11,983,233
Tenancy deposits	1,964,837	1,798,708
Water deposits	1,896,033	1,843,157
Legal aid deposits	1,066,115	997,501
Tax overpayments	972,079	816,342
Private works	354,930	379,290
Others	2,494,069	2,274,929
	23,419,273	20,093,160

General Revenue Account

8. Suspense Accounts

These Suspense Accounts are established under Resolutions passed by the Legislative Council under section 30 of the Public Finance Ordinance:

	2019	2018
	\$'000	\$'000
Correctional Services Industries (Note (i) below)	28,759	28,627
Government Logistics Department — Unallocated Stores (Note (i) below)	7,243	7,837
The Special Coin (Note (ii) below)	(88,477)	(87,921)
The Financial Secretary Incorporated (Note (iii) below)	51	(3,950)
	(52,424)	(55,407)

- (i) The balances on the Correctional Services Industries Suspense Account and the Government Logistics Department — Unallocated Stores Suspense Account represent the cost of stocks in hand.
- (ii) The balance on The Special Coin Suspense Account represents the unutilised balance of net proceeds arising from issuing and dealing with special and commemorative coins.
- (iii) The balance on The Financial Secretary Incorporated Suspense Account represents the net amount arising from dealing with the regrant or renewal of Government Leases and managing the properties comprised therein.

9. Contingent Liabilities

As at 31 March 2019, the Government had the following contingent liabilities:

- (i) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$37,289 million (2018: \$39,881 million);
- (ii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$18,275 million (2018: \$19,763 million);
- (iii) legal claims, disputes and proceedings amounting to \$7,981 million (2018: \$8,215 million);
- (iv) guarantees provided under the SME Loan Guarantee Scheme amounting to \$4,104 million (2018: \$4,234 million); and
- (v) guarantees provided under the Special Loan Guarantee Scheme amounting to \$449 million (2018: \$654 million).

10. Commitments

The balances of non-recurrent and capital funding approvals that were unspent were as follows:

	2019	2018
	\$'000	\$'000
Non-recurrent expenditure	68,522,334	29,303,955
Plant, vehicles and equipment	8,517,328	7,101,505
Capital subventions	2,610,303	2,000,471
Capital works	355,759	133,183
	80,005,724	38,539,114

General Revenue Account

11. Revenue

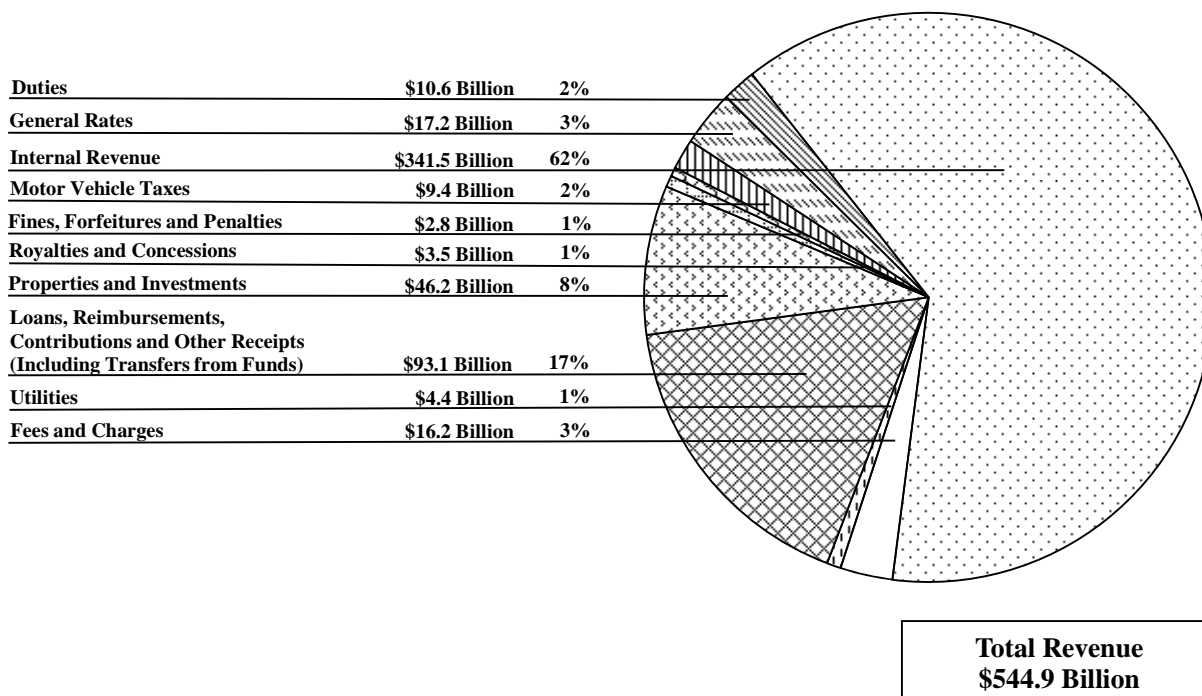
Analysis of total revenue by Head:

Head	2019				2018
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
1 Duties	11,164,740	10,635,632	(529,108)	(4.7)	10,700,965
2 General Rates	15,014,000	17,166,545	2,152,545	14.3	22,203,177
3 Internal Revenue					
Profits tax	155,143,000	166,619,646	11,476,646	7.4	139,100,219
Salaries tax	54,835,000	60,145,881	5,310,881	9.7	60,838,782
Stamp duties	100,000,000	79,978,723	(20,021,277)	(20.0)	95,172,761
Other internal revenue	32,546,000	34,752,040	2,206,040	6.8	33,517,557
	342,524,000	341,496,290	(1,027,710)	(0.3)	328,629,319
4 Motor Vehicle Taxes	8,910,747	9,432,181	521,434	5.9	8,594,290
5 Fines, Forfeitures and Penalties	1,435,211	2,836,758	1,401,547	97.7	2,327,192
6 Royalties and Concessions	3,677,033	3,500,655	(176,378)	(4.8)	3,241,957
7 Properties and Investments					
Income from Investments with the Exchange Fund (Note (i) below)	-	27,605,127	-	-	15,524,061
Others	-	18,557,364	-	-	27,747,214
	50,147,593	46,162,491	(3,985,102)	(7.9)	43,271,275
9 Loans, Reimbursements, Contributions and Other Receipts	92,830,230	93,050,345	220,115	0.2	5,097,517
10 Utilities	4,407,347	4,440,110	32,763	0.7	4,372,380
11 Fees and Charges	16,212,275	16,228,283	16,008	0.1	15,892,998
Total	546,323,176	544,949,290	(1,373,886)	(0.3)	444,331,070

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the General Revenue Account for the calendar years 2014 and 2015 totalling \$40.99 billion (comprising \$14.84 billion for 2014 and \$26.15 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iv). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$5.45 billion up to 31 December 2018 (2017: \$3.41 billion), including the investment return for the calendar year 2018 amounting to \$2.04 billion (2017: \$1.21 billion). Together with the accumulated investment return, the sums not received as revenue of the General Revenue Account and earmarked as Housing Reserve totalled \$46.44 billion (2017: \$44.4 billion).

General Revenue Account

Analysis of Revenue for the year ended 31 March 2019



12. Expenditure

Analysis of total expenditure by Head:

Head	2019				2018
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
21 Chief Executive's Office	117,007	116,977	(30)	-	116,930
22 Agriculture, Fisheries and Conservation Department	1,648,525	1,604,858	(43,667)	(2.6)	1,356,295
25 Architectural Services Department	2,177,714	2,231,487	53,773	2.5	2,065,436
24 Audit Commission	173,725	177,274	3,549	2.0	169,548
23 Auxiliary Medical Service	100,803	95,936	(4,867)	(4.8)	94,253
82 Buildings Department	1,570,642	1,556,788	(13,854)	(0.9)	1,394,062
26 Census and Statistics Department	672,580	665,522	(7,058)	(1.0)	644,351
27 Civil Aid Service	116,899	112,147	(4,752)	(4.1)	109,414
28 Civil Aviation Department	1,088,247	1,062,930	(25,317)	(2.3)	1,003,054
33 Civil Engineering and Development Department	2,979,134	2,578,131	(401,003)	(13.5)	2,542,264
30 Correctional Services Department	3,969,152	4,061,087	91,935	2.3	3,864,785
31 Customs and Excise Department	4,426,311	4,135,699	(290,612)	(6.6)	3,630,607
37 Department of Health	11,080,699	10,229,445	(851,254)	(7.7)	8,323,910
92 Department of Justice	2,290,902	1,740,755	(550,147)	(24.0)	1,641,631
39 Drainage Services Department	2,821,876	2,828,600	6,724	0.2	2,646,928

General Revenue Account

12. Expenditure (Continued)

Head	2019				2018
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
42 Electrical and Mechanical Services Department	915,771	858,717	(57,054)	(6.2)	651,289
44 Environmental Protection Department	6,167,198	5,212,695	(954,503)	(15.5)	5,251,677
45 Fire Services Department	6,676,723	6,503,011	(173,712)	(2.6)	5,894,000
49 Food and Environmental Hygiene Department	7,589,878	7,551,598	(38,280)	(0.5)	6,779,014
46 General Expenses of the Civil Service	3,825,939	3,550,272	(275,667)	(7.2)	3,388,492
166 Government Flying Service	622,890	1,054,694	431,804	69.3	517,348
48 Government Laboratory	489,331	502,972	13,641	2.8	473,326
59 Government Logistics Department	574,635	540,544	(34,091)	(5.9)	619,377
51 Government Property Agency	2,041,673	1,963,245	(78,428)	(3.8)	1,936,292
143 Government Secretariat: Civil Service Bureau	652,846	619,882	(32,964)	(5.0)	589,318
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	2,633,651	2,238,919	(394,732)	(15.0)	1,966,189
55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)	526,430	475,934	(50,496)	(9.6)	366,364
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	676,072	679,064	2,992	0.4	696,082
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	689,936	601,017	(88,919)	(12.9)	382,624
159 Government Secretariat: Development Bureau (Works Branch)	583,330	1,514,029	930,699	159.5	461,670
156 Government Secretariat: Education Bureau	63,702,930	67,645,260	3,942,330	6.2	60,087,809
137 Government Secretariat: Environment Bureau	91,794	360,449	268,655	292.7	76,721
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	770,232	522,094	(248,138)	(32.2)	271,973

General Revenue Account

12. Expenditure (Continued)

Head	2019				2018
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch)	304,311	304,738	427	0.1	309,529
139 Government Secretariat: Food and Health Bureau (Food Branch)	165,583	161,195	(4,388)	(2.7)	150,432
140 Government Secretariat: Food and Health Bureau (Health Branch)	63,342,179	65,282,861	1,940,682	3.1	57,060,922
53 Government Secretariat: Home Affairs Bureau	2,057,808	8,994,386	6,936,578	337.1	1,981,368
135 Government Secretariat: Innovation and Technology Bureau	590,202	402,888	(187,314)	(31.7)	51,706
155 Government Secretariat: Innovation and Technology Commission	691,955	677,900	(14,055)	(2.0)	618,339
141 Government Secretariat: Labour and Welfare Bureau	849,047	842,244	(6,803)	(0.8)	821,610
47 Government Secretariat: Office of the Government Chief Information Officer	777,508	769,490	(8,018)	(1.0)	759,680
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	885,635	785,528	(100,107)	(11.3)	941,270
96 Government Secretariat: Overseas Economic and Trade Offices	425,335	349,102	(76,233)	(17.9)	370,943
151 Government Secretariat: Security Bureau	773,518	702,046	(71,472)	(9.2)	467,774
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	293,494	301,694	8,200	2.8	278,504
60 Highways Department	3,862,156	3,289,940	(572,216)	(14.8)	2,870,321
63 Home Affairs Department	2,902,836	2,809,705	(93,131)	(3.2)	2,571,893
168 Hong Kong Observatory	338,539	338,248	(291)	(0.1)	302,784
122 Hong Kong Police Force	19,662,158	20,036,201	374,043	1.9	18,785,027
62 Housing Department	322,650	322,579	(71)	-	304,574
70 Immigration Department	5,683,240	5,109,614	(573,626)	(10.1)	4,457,514
72 Independent Commission Against Corruption	1,120,424	1,147,380	26,956	2.4	1,080,262
121 Independent Police Complaints Council	76,841	79,199	2,358	3.1	74,673

General Revenue Account

12. Expenditure (Continued)

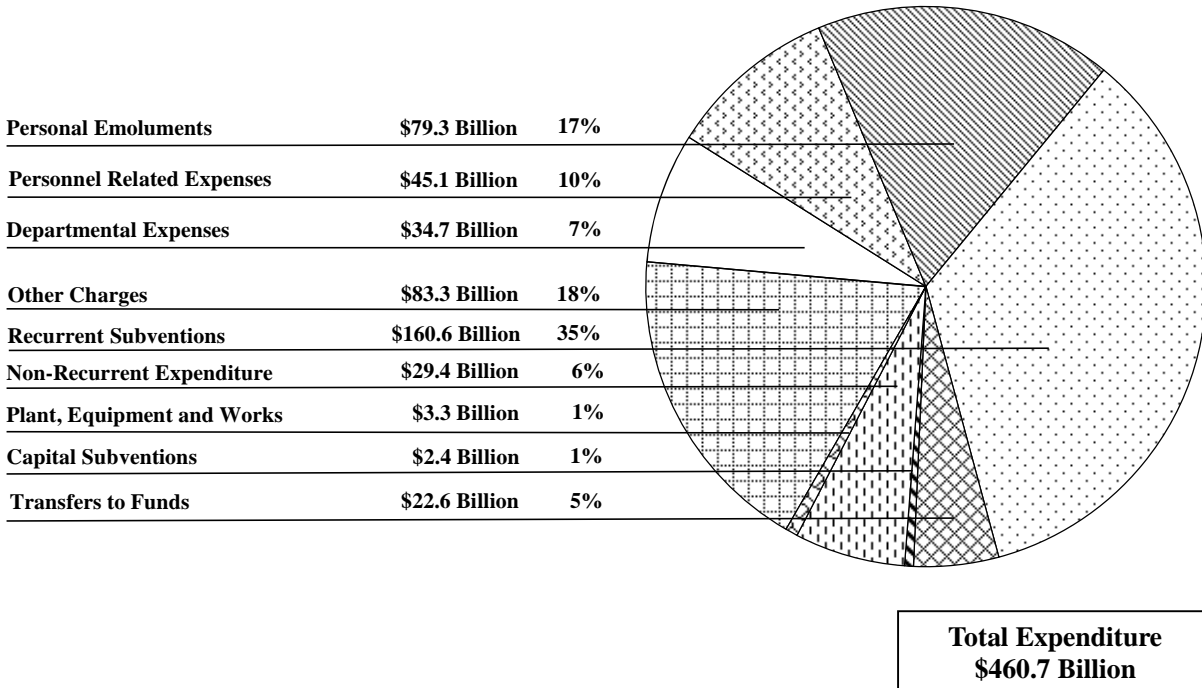
Head	2019				2018
	Original	Actual	Over/(Under)	Variance	Actual
	Estimate		the Estimate		
	\$'000	\$'000	\$'000	%	\$'000
74 Information Services Department	499,386	521,502	22,116	4.4	512,111
76 Inland Revenue Department	1,633,897	1,605,078	(28,819)	(1.8)	1,541,401
78 Intellectual Property Department	167,172	177,484	10,312	6.2	157,372
79 Invest Hong Kong	139,008	143,986	4,978	3.6	134,652
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	33,757	37,206	3,449	10.2	32,823
80 Judiciary	1,901,759	1,801,888	(99,871)	(5.3)	1,663,915
90 Labour Department	2,148,376	1,978,118	(170,258)	(7.9)	1,927,367
91 Lands Department	2,750,380	2,753,754	3,374	0.1	2,509,354
94 Legal Aid Department	1,116,769	1,132,580	15,811	1.4	1,005,841
112 Legislative Council Commission	890,077	886,963	(3,114)	(0.3)	853,524
95 Leisure and Cultural Services Department	9,091,340	9,080,260	(11,080)	(0.1)	8,657,462
100 Marine Department	1,540,054	1,531,814	(8,240)	(0.5)	1,381,427
106 Miscellaneous Services	16,921,008	445,685	(16,475,323)	(97.4)	162,522
180 Office for Film, Newspaper and Article Administration	50,316	49,622	(694)	(1.4)	48,232
114 Office of The Ombudsman	117,139	121,546	4,407	3.8	116,644
116 Official Receiver's Office	343,556	335,660	(7,896)	(2.3)	180,819
120 Pensions	37,934,730	36,783,768	(1,150,962)	(3.0)	34,409,640
118 Planning Department	731,245	712,284	(18,961)	(2.6)	686,300
136 Public Service Commission Secretariat	27,074	27,442	368	1.4	29,519
160 Radio Television Hong Kong	1,012,461	1,037,585	25,124	2.5	1,008,400
162 Rating and Valuation Department	555,395	548,747	(6,648)	(1.2)	531,459
163 Registration and Electoral Office	711,357	410,120	(301,237)	(42.3)	351,820
169 Secretariat, Commissioner on Interception of Communications and Surveillance	24,573	23,845	(728)	(3.0)	20,186
170 Social Welfare Department	84,204,368	85,058,369	854,001	1.0	66,195,562
181 Trade and Industry Department	775,251	780,652	5,401	0.7	736,986
186 Transport Department	4,485,915	3,804,756	(681,159)	(15.2)	2,913,421
188 Treasury	406,795	413,063	6,268	1.5	396,473
190 University Grants Committee	22,207,113	22,888,646	681,533	3.1	18,999,780

General Revenue Account

12. Expenditure (Continued)

Head	2019				2018
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
194 Water Supplies Department	8,403,976	8,475,139	71,163	0.8	8,322,096
173 Working Family and Student Financial Assistance Agency	19,223,849	6,281,861	(12,941,988)	(67.3)	5,363,480
	459,638,990	438,148,393	(21,490,597)	(4.7)	375,122,746
184 Transfers to Funds	2,590,000	22,600,000	20,010,000	772.6	4,350,000
Total	462,228,990	460,748,393	(1,480,597)	(0.3)	379,472,746

Analysis of Expenditure for the year ended 31 March 2019



General Revenue Account

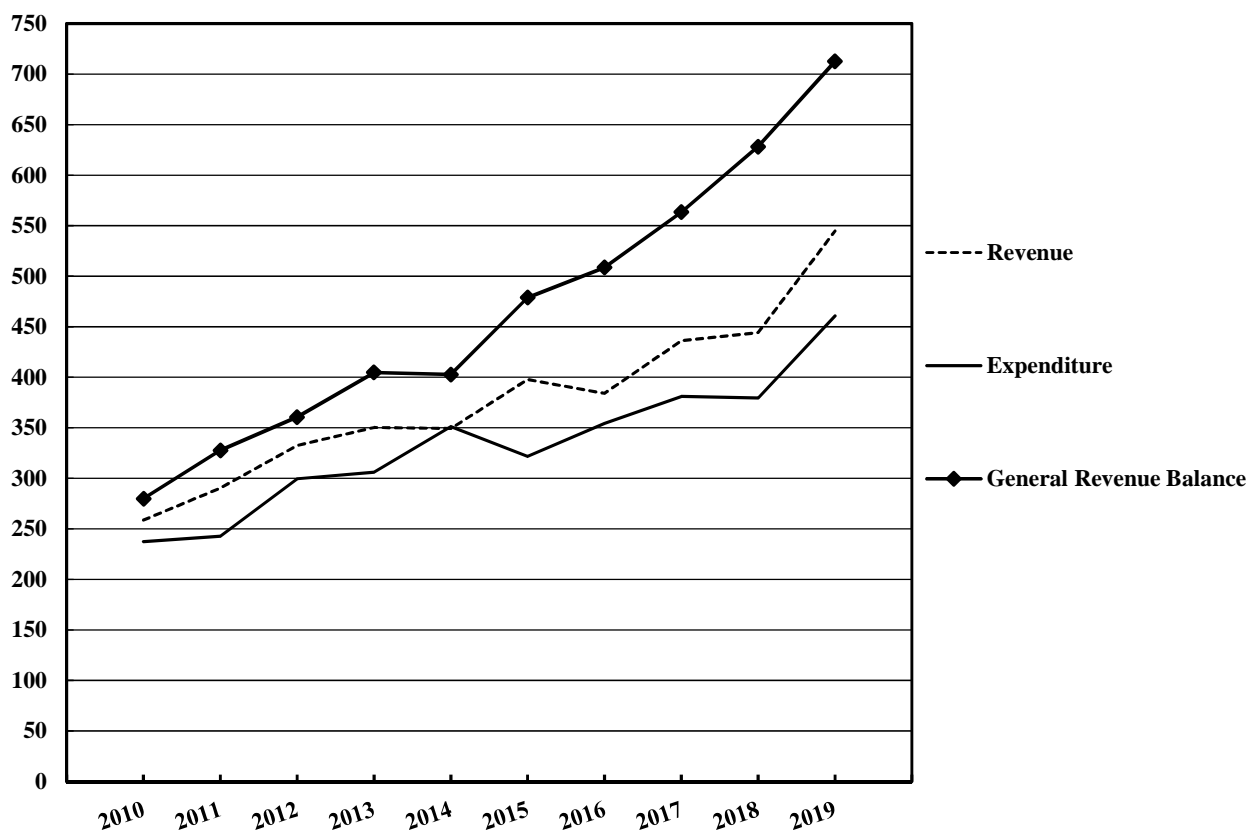
13. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(86,928,513)	(68,359,806)
Deposits with banks	40,927	9,560
Advances	(353,749)	95,356
	(87,241,335)	(68,254,890)
Increase/(Reduction) in Liabilities		
Deposits	3,326,113	3,277,155
Suspense Accounts	(2,983)	5,002
	3,323,130	3,282,157
	(83,918,205)	(64,972,733)

Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2010 to 2019

\$Billion



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Works Reserve Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 26 to 35, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Capital Works Reserve Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Capital Works Reserve Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services and the reasonableness of accounting estimates and related disclosures.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Capital Works Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	148,640,017	184,696,141
Cash and bank balances		2,084	5,292
		148,642,101	184,701,433
Liabilities			
Deposits	4	(1,950,222)	(1,947,802)
		146,691,879	182,753,631
Representing:			
Fund Balance			
Balance at beginning of year		182,753,631	100,873,337
(Deficit)/Surplus for the year		(36,061,752)	81,880,294
Balance at end of year	5, 6, 7	146,691,879	182,753,631

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		5,292	1
Receipts	8	125,848,798	168,767,863
Payments	5, 9	(161,910,550)	(86,887,569)
(Deficit)/Surplus for the year		(36,061,752)	81,880,294
Other cash movements	10	36,058,544	(81,875,003)
Cash and bank balances at end of year		2,084	5,292

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Capital Works Reserve Fund was set up to finance public works programmes, acquisitions of land, capital subventions and major systems and equipment items. It was initially established on 1 April 1982 by a Resolution of the Legislative Council passed on 20 January 1982 and subsequently deemed to have been established under section 29(3) of the Public Finance Ordinance (Cap. 2). Since 1 January 1998, it has been reconstituted under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

2. Accounting Policies

- (i) The accounts of the Capital Works Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes fixed assets, loans, investments other than those made under paragraph (d)(iii) of the Resolution, and debtors and creditors other than those deposits referred to in Note 4 below.
- (ii) For the purposes of these financial statements, a contingent liability is defined as:
 - (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
 - (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.
- (iii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates.

3. Investments with the Exchange Fund

- (i) These are investments and deposits held under paragraph (d)(iii) of the Resolution:

	2019	2018
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	148,590,477	184,651,906
Deposits	49,540	44,235
	<u>148,640,017</u>	<u>184,696,141</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

Capital Works Reserve Fund

4. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable for credit to the Fund:

	2019	2018
	\$'000	\$'000
Contract retention money	1,729,715	1,655,906
Others	220,507	291,896
	<u>1,950,222</u>	<u>1,947,802</u>

5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Capital Works Reserve Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (b)(v) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraph (d)(ii) of the Resolution.

Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling \$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollars. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2019	2018
	\$'000	\$'000
Outstanding government bonds and notes	<u>1,500,000</u>	<u>1,500,000</u>

The outstanding bonds and notes were notes denominated in Hong Kong dollars and were repaid at maturity in July 2019. During the financial year, there were payments of interest of \$77 million on the notes.

6. Contingent Liabilities

As at 31 March 2019, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,395 million (2018: \$2,611 million).

Capital Works Reserve Fund

7. Commitments

The balances of the approved project estimates that were unspent were as follows:

Head		2019	2018
		\$'000	\$'000
Land acquisition			
701	Land acquisition	18,395,581	5,649,880
	Sub-total	18,395,581	5,649,880
Capital works – Public Works Programme			
702	Port and airport development	81,880	125,021
703	Buildings	120,095,793	87,107,253
704	Drainage	21,261,840	15,156,426
705	Civil engineering	47,711,928	53,216,280
706	Highways	105,356,256	131,316,746
707	New towns and urban area development	70,380,235	64,997,430
709	Waterworks	11,911,456	10,817,227
711	Housing	10,005,924	9,089,744
	Sub-total	386,805,312	371,826,127
Capital subventions			
708 (part)	Capital subventions	38,396,289	25,079,020
	Sub-total	38,396,289	25,079,020
Systems and equipment			
708 (part)	Major systems and equipment	8,493,350	6,099,767
710	Computerisation	12,190,239	9,331,144
	Sub-total	20,683,589	15,430,911
		464,280,771	417,985,938

Capital Works Reserve Fund

8. Receipts

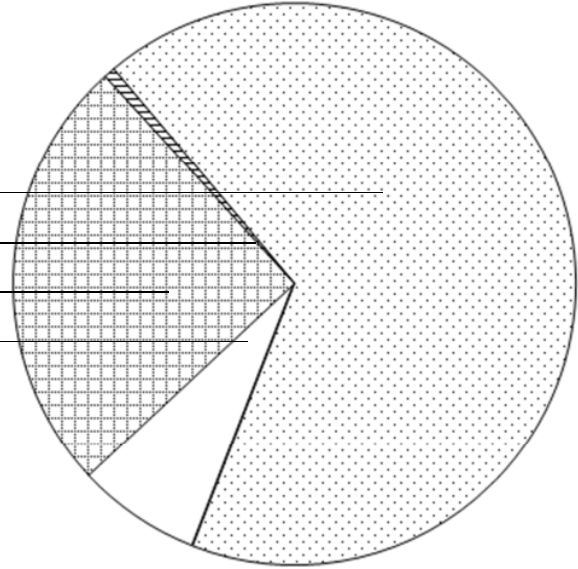
	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	84,254,576	114,588,712
Private treaty grants	-	64,513	74,187
Modification of existing leases, exchanges and extensions	-	31,733,381	49,318,984
Fees received in respect of short term waivers	-	808,131	829,413
	121,000,000	116,860,601	164,811,296
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	8,928,354	3,830,897
Others	-	1,416	1,437
	8,899,000	8,929,770	3,832,334
Other receipts			
Donations and contributions	10,017	19,408	22,359
Others	-	39,019	101,874
	10,017	58,427	124,233
	<u>129,909,017</u>	<u>125,848,798</u>	<u>168,767,863</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$0.93 billion up to 31 December 2018 (2017: \$0.59 billion), including the investment return for the calendar year 2018 amounting to \$0.34 billion (2017: \$0.21 billion). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$7.79 billion (2017: \$7.45 billion).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2019

Sales by public auction and tender	\$84.3 Billion	67%
Private treaty grants and fees received in respect of short term waivers	\$0.8 Billion	1%
Modification of existing leases, exchanges and extensions	\$31.7 Billion	25%
Investment income and other receipts	\$9.0 Billion	7%



Total Receipts
\$125.8 Billion

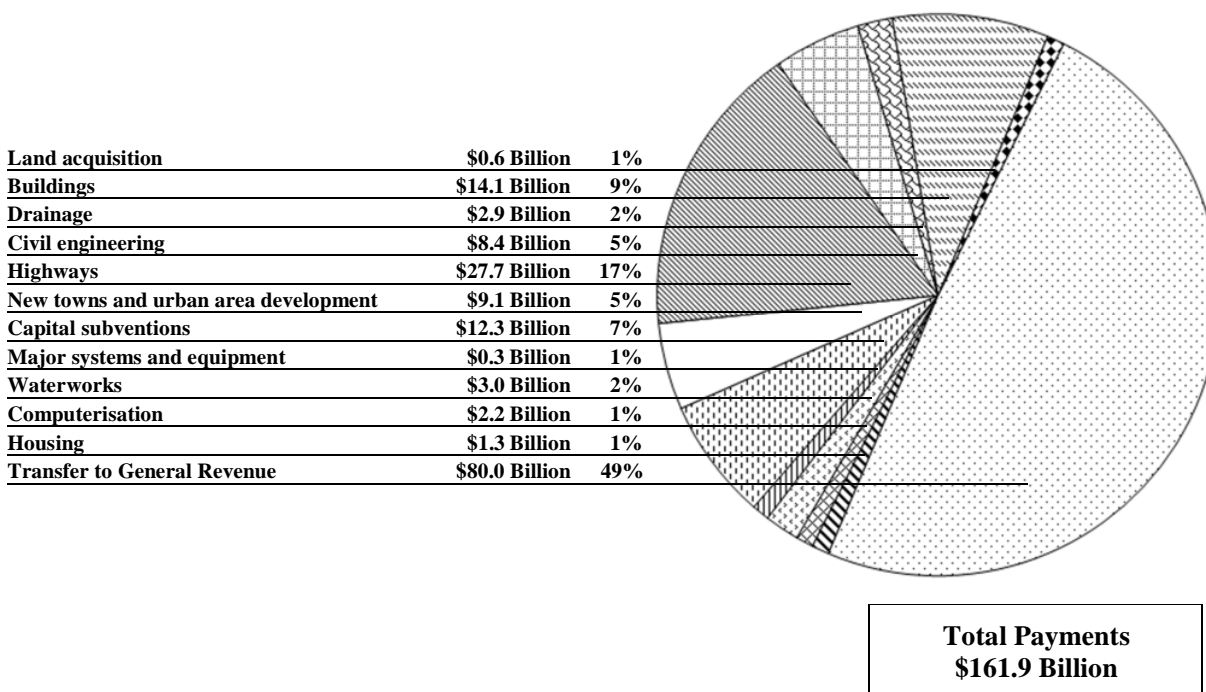
Capital Works Reserve Fund

9. Payments

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	1,616,190	580,874	440,579
Public Works Programme			
Port and airport development	988	972	777
Buildings	14,870,255	14,053,765	11,288,836
Drainage	2,783,932	2,840,242	3,039,320
Civil engineering	9,680,927	8,396,699	7,414,564
Highways	30,880,805	27,662,667	44,097,127
New towns and urban area development	10,109,599	9,082,415	6,346,873
Waterworks	4,083,140	2,995,969	3,018,506
Housing	1,783,102	1,276,645	993,336
	74,192,748	66,309,374	76,199,339
Capital subventions and major systems and equipment			
Capital subventions	19,065,765	12,345,715	7,639,572
Major systems and equipment	813,846	300,111	516,808
	19,879,611	12,645,826	8,156,380
Computerisation	2,526,800	2,227,272	1,961,797
Government bonds and notes issued in July 2004			
Interest and other expenses	76,881	76,880	76,880
Transfer to General Revenue	80,000,000	80,000,000	-
Other payments			
Refund of overpayment of land premium	-	70,324	52,594
	<u>178,292,230</u>	<u>161,910,550</u>	<u>86,887,569</u>

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2019*



* Actual payments on “Port and airport development”, “Refund of overpayment of land premium” and “Interest and other expenses on government bonds and notes” are not shown as it is less than \$0.1 billion each.

10. Other Cash Movements

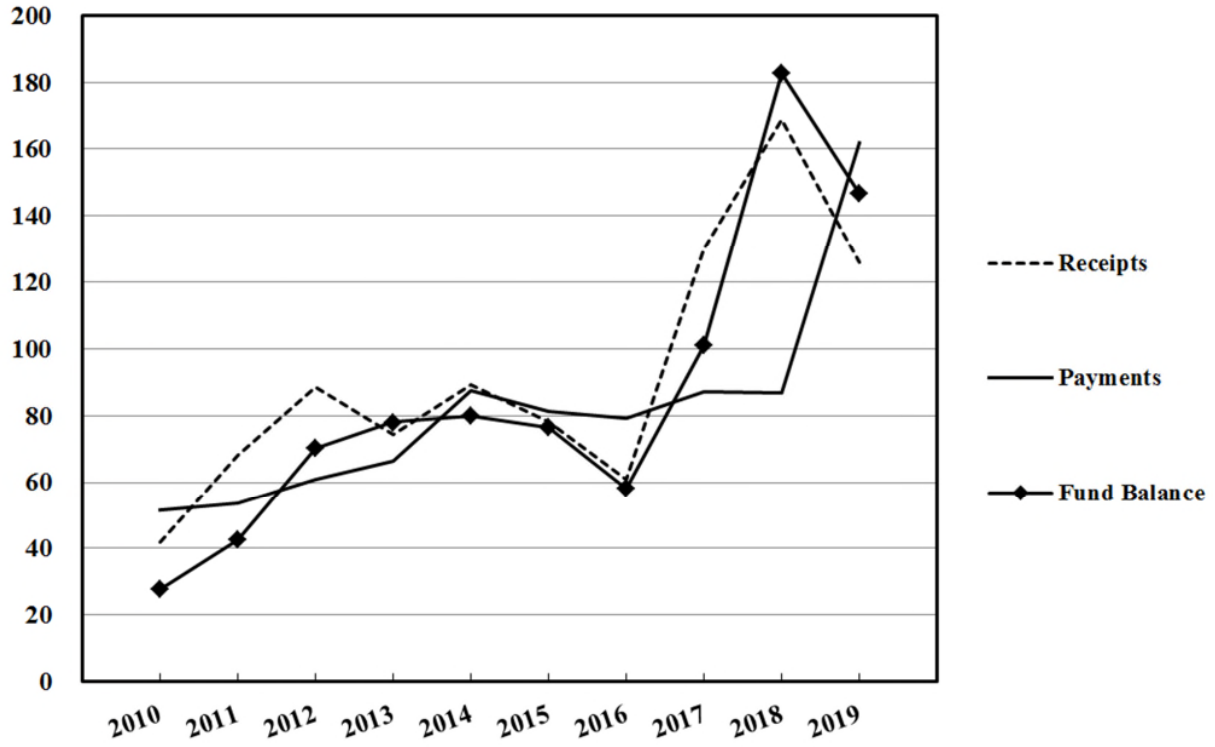
These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	36,056,124	(82,043,471)
Increase in Liabilities		
Deposits	2,420	168,468
	36,058,544	(81,875,003)

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2019

\$Billion



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Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Capital Investment Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Capital Investment Fund set out on pages 40 to 46, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Capital Investment Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Capital Investment Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services and the reasonableness of accounting estimates and related disclosures.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments	3		
Equity holdings		147,449,916	138,381,137
Other investments		565,183,137	518,693,108
		712,633,053	657,074,245
Loans Outstanding	4	1,656,579	2,085,028
		714,289,632	659,159,273
Current Assets			
Investments with the Exchange Fund	5	331,598	2,917,526
Cash and bank balances		1	1
		331,599	2,917,527
		714,621,231	662,076,800
Representing:			
Total Fund Balance			
Applied Fund	6	714,289,632	659,159,273
Available Fund	7		
Balance at beginning of year		2,917,527	3,078,306
Deficit for the year		(2,585,928)	(160,779)
Balance at end of year		331,599	2,917,527
	8, 9	714,621,231	662,076,800

Notes 1 to 12 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		1	-
Receipts	10	1,401,518	895,340
Payments	11	(3,987,446)	(1,056,119)
Deficit for the year		(2,585,928)	(160,779)
Other cash movements	12	2,585,928	160,780
Cash and bank balances at end of year		1	1

Notes 1 to 12 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Capital Investment Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Capital Investment Fund finances investments in and loans to public sector bodies which are not part of the Government structure and such other bodies as the Finance Committee may specify. It was established with effect from 1 April 1990 by a Resolution passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 14 March 1990. Amendments to this Resolution were passed by the Legislative Council on 6 November 1991 (The Resolution as amended is hereinafter referred to as the Resolution).

2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Capital Investment Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.
- (ii) The Statement of Assets and Liabilities is structured to include investments acquired and loans made by way of cash, waived land premium, donated works or other similar transactions.
- (iii) For the purposes of these financial statements, a contingent liability is defined as:
 - (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
 - (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

3. Investments (at cost/original valuation)

	2019			2018		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at beginning of year	138,381,137	518,693,108	657,074,245	134,288,685	492,371,319	626,660,004
Additions						
Cash acquisitions	3,987,446	-	3,987,446	456,119	-	456,119
Non-cash acquisitions	5,081,333	46,490,029	51,571,362	3,636,333	26,321,789	29,958,122
	9,068,779	46,490,029	55,558,808	4,092,452	26,321,789	30,414,241
Balance at end of year	147,449,916	565,183,137	712,633,053	138,381,137	518,693,108	657,074,245

Capital Investment Fund

4. Loans Outstanding

	2019 \$'000	2018 \$'000
Balance at beginning of year	2,085,028	1,545,829
Additions		
Loan payments	-	600,000
Capitalised interest	29,201	36,219
	29,201	636,219
Deductions		
Loan repayments	(457,650)	(97,020)
Balance at end of year	1,656,579	2,085,028

5. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

6. Applied Fund

This represents the sum of investments acquired and outstanding loans made from the Fund under paragraph 5 of the Resolution.

7. Available Fund

This represents funds available for acquiring investments or making loans under paragraph 5 of the Resolution.

8. Contingent Liabilities

As at 31 March 2019, the Government had the following contingent liabilities:

- (i) subscription to callable shares in the Asian Development Bank amounting to \$5,985 million (2018: \$6,265 million);
- (ii) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2018: \$4,800 million) with commitment approved; and
- (iii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,866 million (2018: \$1,911 million).

Capital Investment Fund

9. Commitments

The approved investments and loans that were unpaid were as follows:

	2019	2018
	\$'000	\$'000
Investments (Note (i) below)	17,920,446	11,607,892
Loans	2,270,000	2,378,500
	<u>20,190,446</u>	<u>13,986,392</u>

- (i) These included an approved commitment of \$4,800 million (2018: \$4,800 million) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 8(ii)).

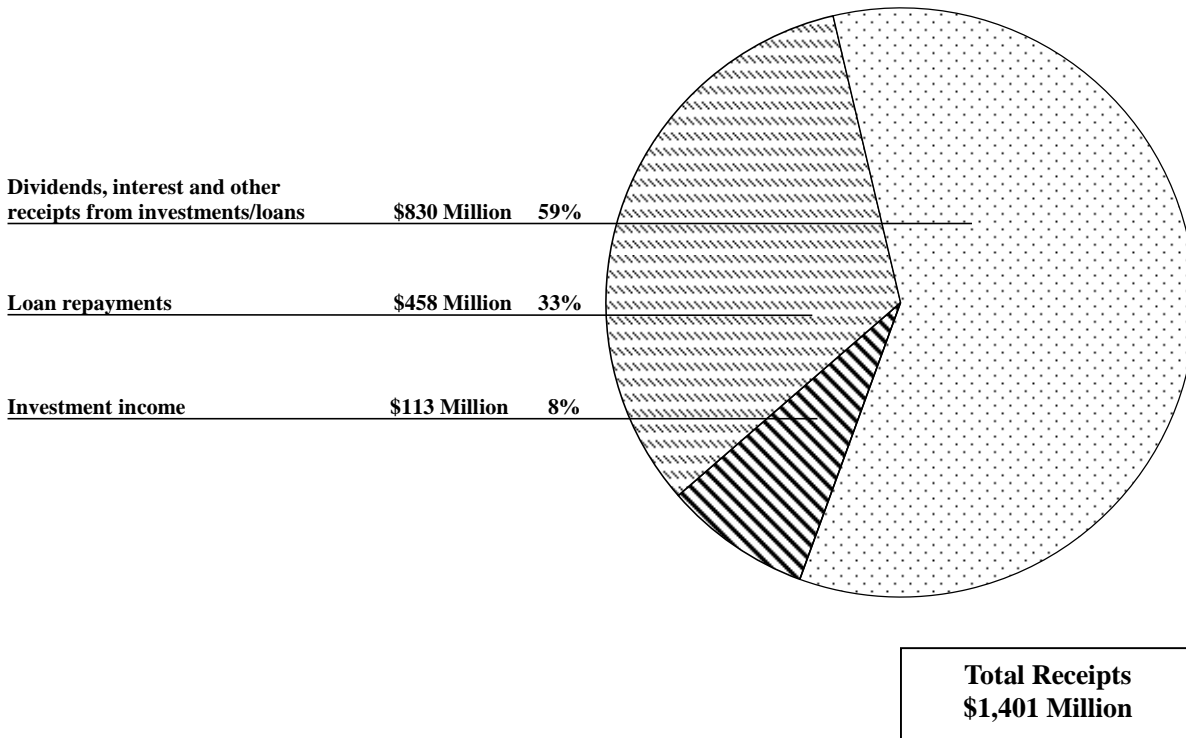
10. Receipts

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	814,981	830,407	719,344
Loan repayments	422,525	457,650	97,020
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	113,460	78,976
Others	-	1	-
	<u>122,000</u>	<u>113,461</u>	<u>78,976</u>
	<u>1,359,506</u>	<u>1,401,518</u>	<u>895,340</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$177 million (comprising \$79 million for 2014 and \$98 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 5(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$24 million up to 31 December 2018 (2017: \$15 million), including the investment return for the calendar year 2018 amounting to \$9 million (2017: \$5 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$201 million (2017: \$192 million).

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2019



11. Payments

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments			
Equity holdings	1,694,025	3,987,446	456,119
Loan payments	-	-	600,000
	<u>1,694,025</u>	<u>3,987,446</u>	<u>1,056,119</u>

12. Other Cash Movements

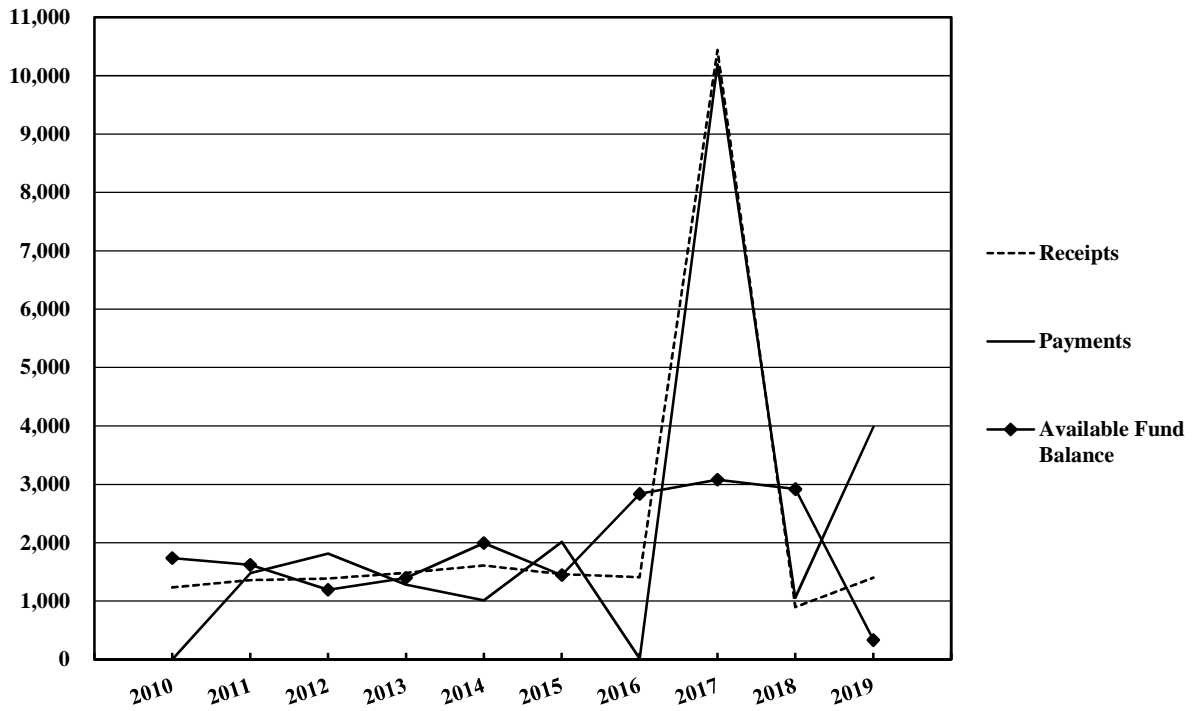
These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
Reduction in Assets		
Investments with the Exchange Fund	<u>2,585,928</u>	<u>160,780</u>

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2010 to 2019

\$Million



Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Civil Service Pension Reserve Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Civil Service Pension Reserve Fund set out on pages 50 to 53, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Civil Service Pension Reserve Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Civil Service Pension Reserve Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Civil Service Pension Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	<u>38,315,321</u>	<u>35,129,267</u>
Representing:			
Fund Balance			
Balance at beginning of year		35,129,267	31,899,385
Surplus for the year		<u>3,186,054</u>	<u>3,229,882</u>
Balance at end of year		<u>38,315,321</u>	<u>35,129,267</u>

Notes 1 to 5 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	3,186,054	3,229,882
Payments		-	-
Surplus for the year		3,186,054	3,229,882
Other cash movements	5	(3,186,054)	(3,229,882)
Cash and bank balances at end of year		-	-

Notes 1 to 5 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Civil Service Pension Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Civil Service Pension Reserve Fund is intended to meet payment of civil service pensions in the most unlikely event that the Government cannot meet such liabilities from the General Revenue. It was established with effect from 27 January 1995 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 25 January 1995.

2. Accounting Policy

The accounts of the Civil Service Pension Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (f) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

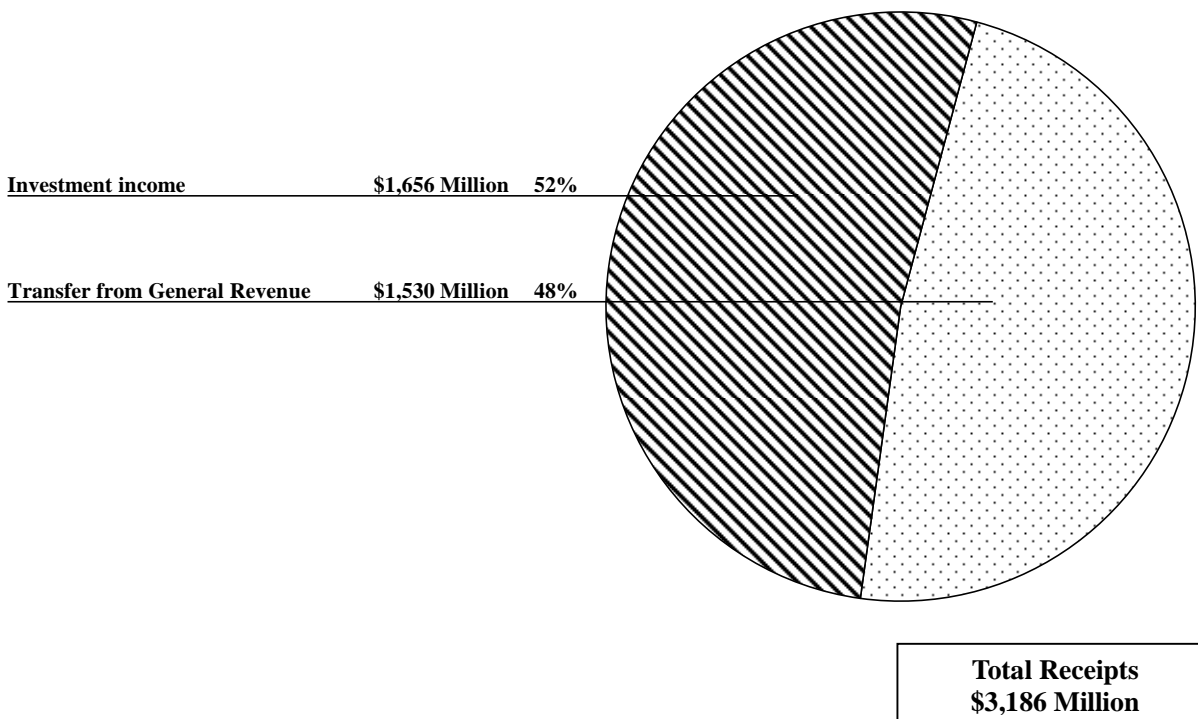
4. Receipts

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	1,657,000	1,656,054	929,882
Transfer from General Revenue	1,530,000	1,530,000	2,300,000
	3,187,000	3,186,054	3,229,882

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$2.46 billion (comprising \$0.97 billion for 2014 and \$1.49 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$0.33 billion up to 31 December 2018 (2017: \$0.21 billion), including the investment return for the calendar year 2018 amounting to \$0.12 billion (2017: \$0.07 billion). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$2.79 billion (2017: \$2.67 billion).

Civil Service Pension Reserve Fund

Analysis of Receipts for the year ended 31 March 2019



5. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
Increase in Assets		
Investments with the Exchange Fund	<u>3,186,054</u>	<u>3,229,882</u>

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Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Disaster Relief Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Disaster Relief Fund set out on pages 58 to 63, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Disaster Relief Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Disaster Relief Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Disaster Relief Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	<u>24,123</u>	<u>16,417</u>
Representing:			
Fund Balance			
Balance at beginning of year		16,417	27,743
Surplus/(Deficit) for the year		<u>7,706</u>	<u>(11,326)</u>
Balance at end of year		<u>24,123</u>	<u>16,417</u>

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Disaster Relief Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	73,286	52,957
Payments	5	(65,580)	(64,283)
Surplus/(Deficit) for the year		7,706	(11,326)
Other cash movements	6	(7,706)	11,326
Cash and bank balances at end of year		-	-

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Disaster Relief Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Disaster Relief Fund provides a ready mechanism for Hong Kong to respond swiftly to international appeals for humanitarian aid in relief of disasters that occur outside Hong Kong. It was established with effect from 1 December 1993 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on the same date.

2. Accounting Policy

The accounts of the Disaster Relief Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (i) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

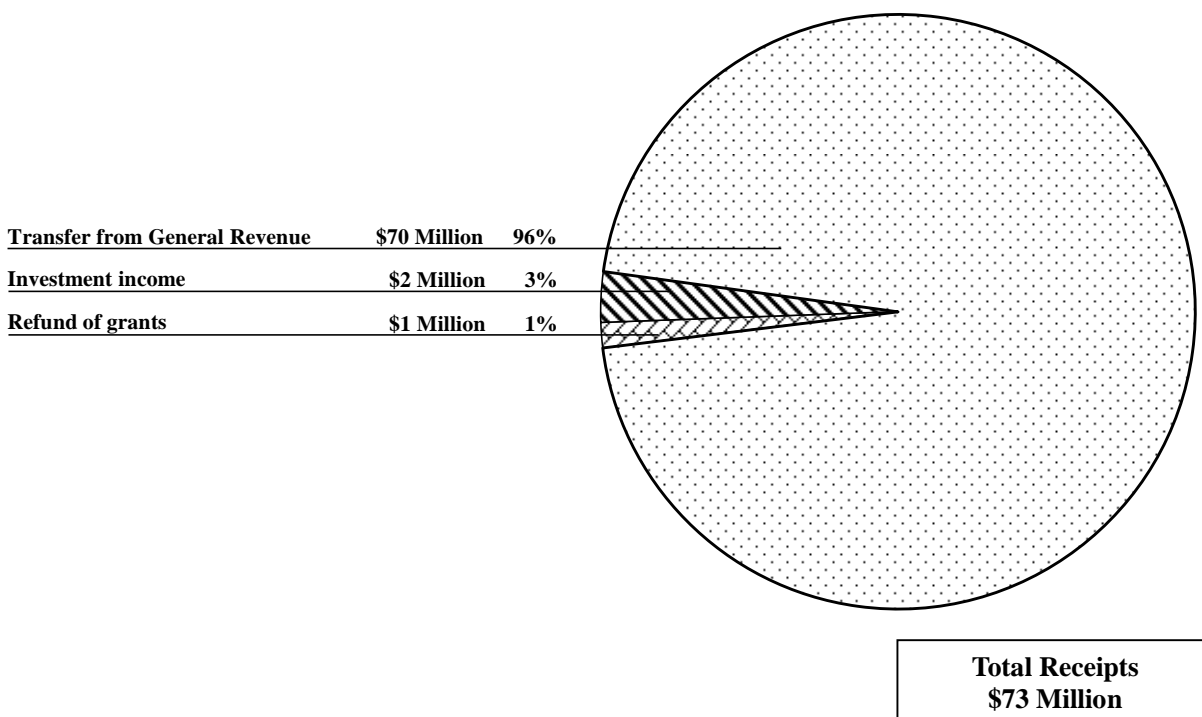
4. Receipts

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	3,000	1,988	1,026
Transfer from General Revenue	60,000	70,000	50,000
Refund of grants	-	1,298	1,931
	63,000	73,286	52,957

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$2.32 million (comprising \$1.06 million for 2014 and \$1.26 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$0.32 million up to 31 December 2018 (2017: \$0.21 million), including the investment return for the calendar year 2018 amounting to \$0.11 million (2017: \$0.07 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$2.64 million (2017: \$2.53 million).

Disaster Relief Fund

Analysis of Receipts for the year ended 31 March 2019

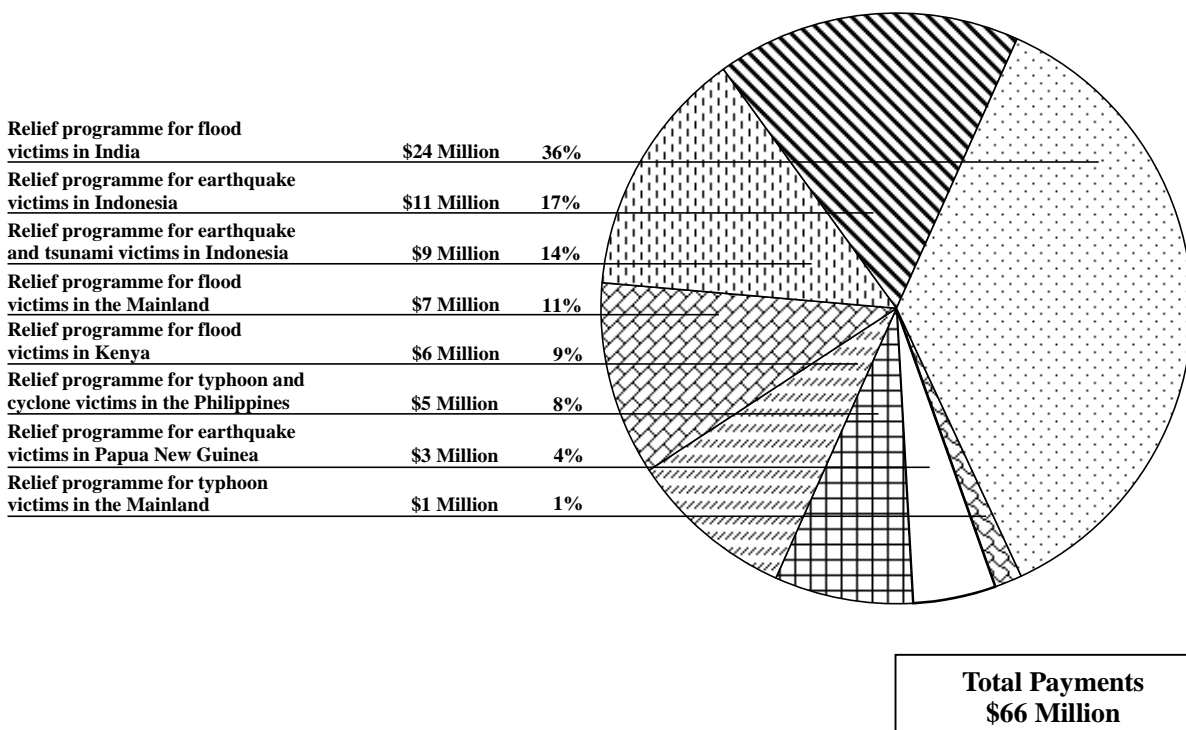


5. Payments

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Relief programmes for			
flood victims in India	-	23,986	14,765
earthquake victims in Indonesia	-	10,419	-
earthquake and tsunami victims in Indonesia	-	8,800	-
flood victims in the Mainland	-	7,015	11,769
flood victims in Kenya	-	6,217	-
typhoon and cyclone victims in the Philippines	-	5,399	1,196
earthquake victims in Papua New Guinea	-	3,207	-
typhoon victims in the Mainland	-	537	-
drought victims in Ethiopia	-	-	13,651
flood victims in Sri Lanka	-	-	9,786
drought victims in Somalia	-	-	4,934
flood victims in Nepal	-	-	3,599
flood victims in Bangladesh	-	-	2,674
cyclone victims in Bangladesh	-	-	1,909
	-	65,580	64,283

Disaster Relief Fund

Analysis of Payments for the year ended 31 March 2019



6. Other Cash Movements

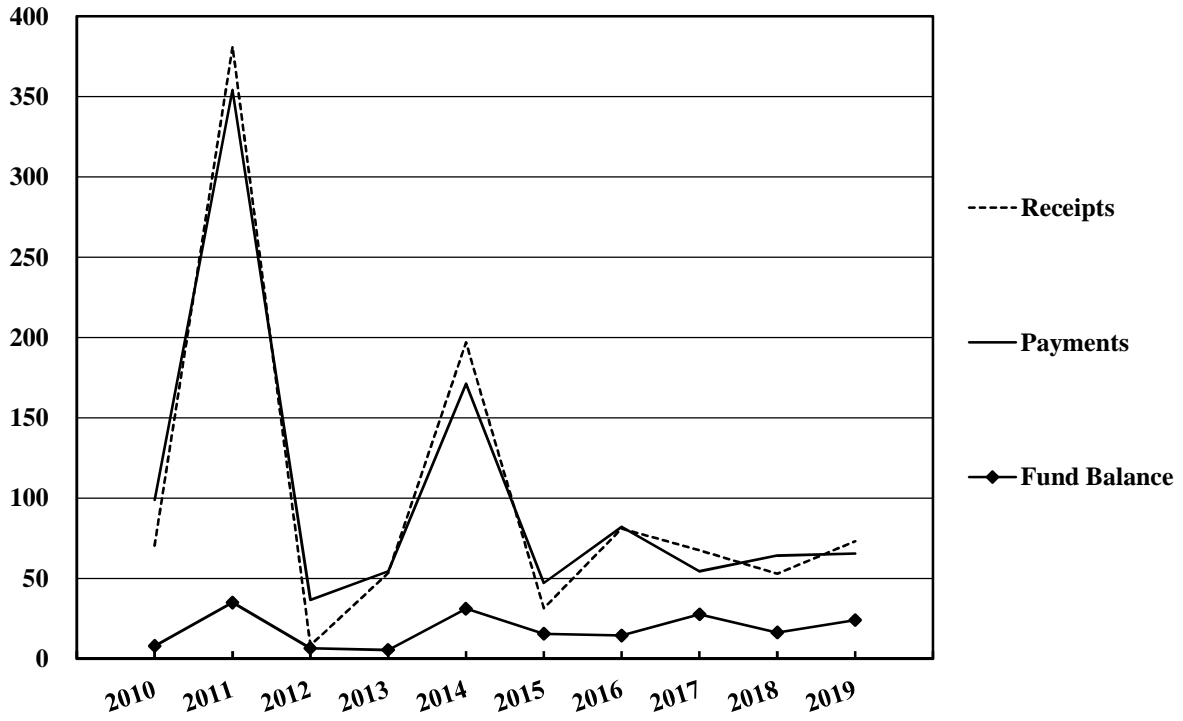
These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(7,706)	11,326

Disaster Relief Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2019

\$Million



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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Innovation and Technology Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Innovation and Technology Fund set out on pages 68 to 73, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Innovation and Technology Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Innovation and Technology Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Innovation and Technology Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	25,938,662	6,795,328
Cash and bank balances		303	1,044
		<u>25,938,965</u>	<u>6,796,372</u>
Representing:			
Fund Balance			
Balance at beginning of year		6,796,372	7,991,465
Surplus/(Deficit) for the year		19,142,593	(1,195,093)
Balance at end of year	4	<u>25,938,965</u>	<u>6,796,372</u>

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Innovation and Technology Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		1,044	2,485
Receipts	5	20,717,384	288,225
Payments	6	(1,574,791)	(1,483,318)
Surplus/(Deficit) for the year		19,142,593	(1,195,093)
Other cash movements	7	(19,143,334)	1,193,652
Cash and bank balances at end of year		303	1,044

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Innovation and Technology Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Innovation and Technology Fund finances projects that contribute to innovation and technology upgrading in the manufacturing and service industries, as well as those that contribute to the upgrading and development of the manufacturing and service industries. It was established with effect from 30 June 1999 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on the same date.

2. Accounting Policy

The accounts of the Innovation and Technology Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 6 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

4. Commitments

The approved grants that were unpaid were as follows:

	2019	2018
	\$'000	\$'000
Grants	<u>14,577,010</u>	<u>4,106,649</u>

Innovation and Technology Fund

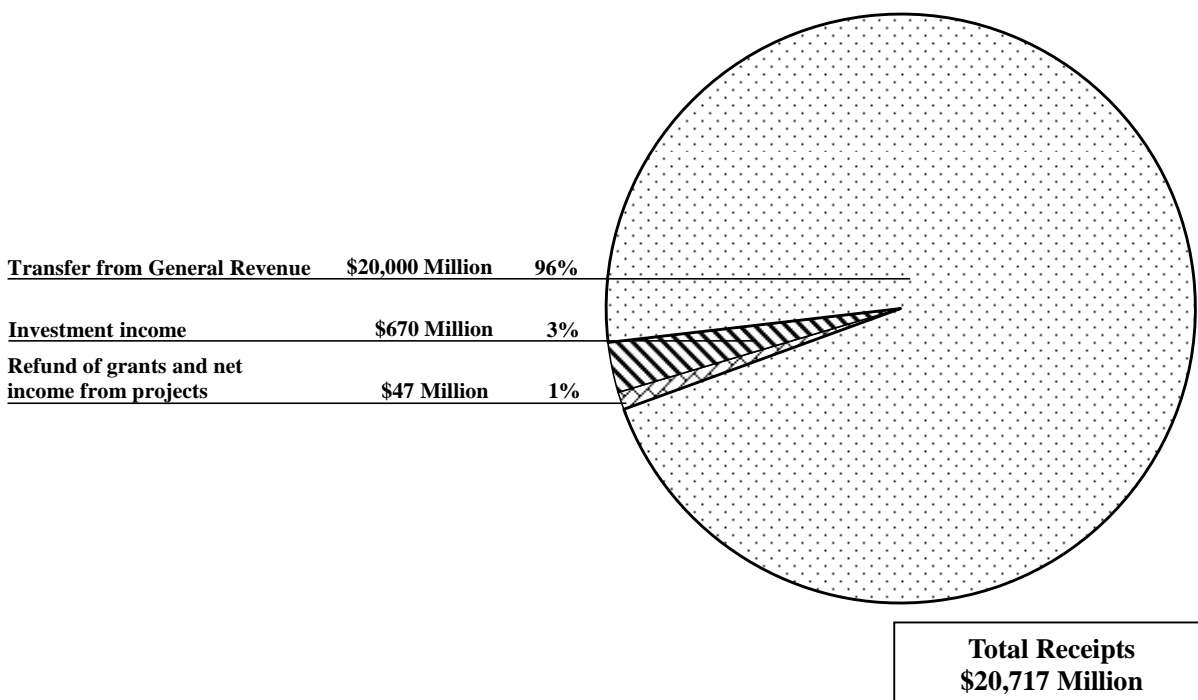
5. Receipts

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	668,268	215,955
Others	-	2,017	2,713
	284,000	670,285	218,668
Net income from projects	4,465	1,220	7,327
Refund of grants	-	45,879	62,230
Transfer from General Revenue	-	20,000,000	-
	<u>288,465</u>	<u>20,717,384</u>	<u>288,225</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$97 million (comprising \$57 million for 2014 and \$40 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$14 million up to 31 December 2018 (2017: \$9 million), including the investment return for the calendar year 2018 amounting to \$5 million (2017: \$3 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$111 million (2017: \$106 million).

Innovation and Technology Fund

Analysis of Receipts for the year ended 31 March 2019



6. Payments

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	2,085,236	1,574,791	1,483,318

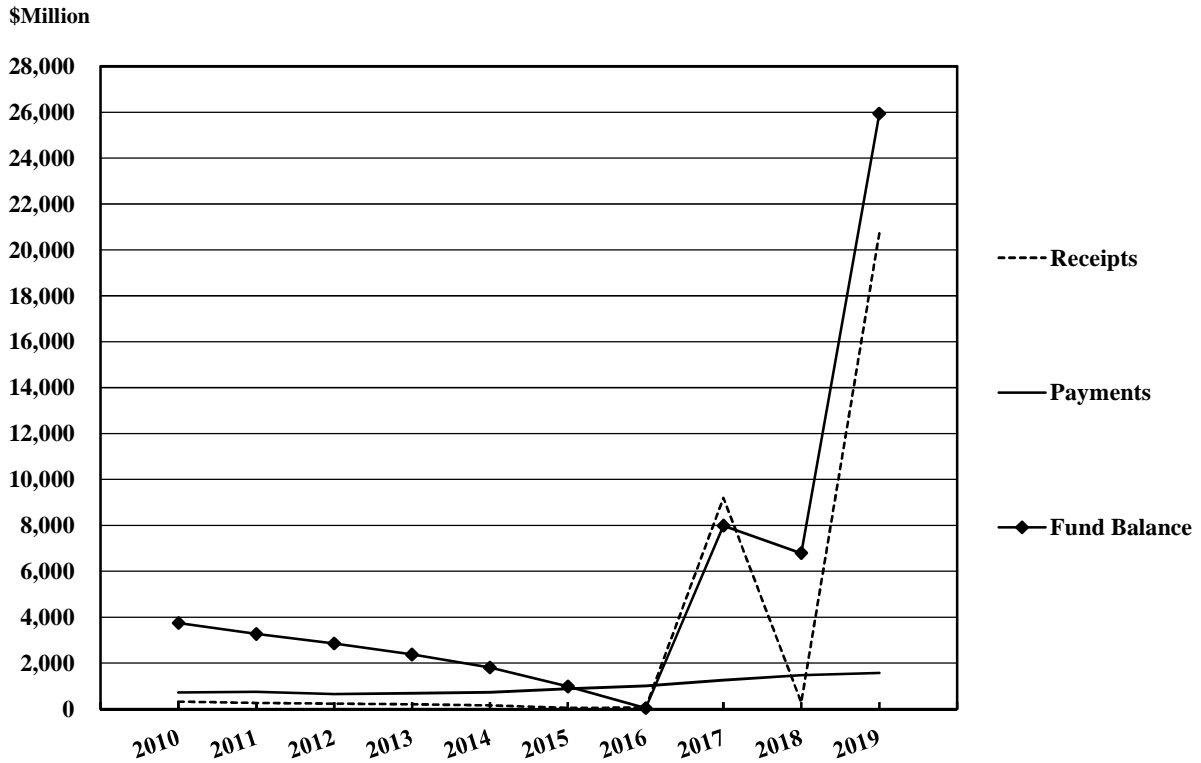
7. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(19,143,334)	1,193,652

Innovation and Technology Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2019



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Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Land Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Land Fund set out on pages 78 to 81, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Land Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Land Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Land Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	<u>219,729,659</u>	<u>219,729,659</u>
Representing:			
Fund Balance			
Balance at beginning of year		219,729,659	219,729,659
Surplus for the year		-	-
Balance at end of year	3	<u>219,729,659</u>	<u>219,729,659</u>

Notes 1 to 4 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Land Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	-	-
Payments		-	-
Surplus for the year		-	-
Other cash movements		-	-
Cash and bank balances at end of year		-	-

Notes 1 to 4 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Land Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Land Fund was set up with effect from 1 July 1997 by a Resolution (hereinafter referred to as the Resolution) passed by the then Provisional Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) in July 1997. The Hong Kong Monetary Authority has been directed by the Financial Secretary to manage the investment of the Fund's assets. From 1 July 1997 to 31 October 1998, the assets of the Fund were managed as a separate portfolio. From 1 November 1998 to 31 December 2015, the assets of the Fund were merged into the Exchange Fund and invested in the same way as the other fiscal reserves placed with the Exchange Fund. With effect from 1 January 2016, the assets of the Fund have been held as a notional savings account within the fiscal reserves called the Future Fund which is placed with the Exchange Fund for securing higher investment returns over a ten-year investment period (Note 3(iv)).

2. Accounting Policy

The accounts of the Land Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Between 1 April 2007 and 31 December 2015, the investment income was calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever was the higher.
- (iv) With effect from 1 January 2016, the assets of the Fund have been held as a notional savings account within the fiscal reserves called the Future Fund. In accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015, investment return on the Future Fund placement is determined annually based on a composite rate (6.1% and 9.6% for the calendar years 2018 and 2017 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iii) above) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. In respect of the Land Fund portion of \$219.73 billion, such accumulated investment return not received as revenue amounted to \$48.03 billion as at 31 December 2018 (2017: \$32.01 billion), including the investment return for the calendar year 2018 of \$16.02 billion (2017: \$22.02 billion).

Land Fund

4. Receipts

Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$19.99 billion (comprising \$7.91 billion for 2014 and \$12.08 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The rate of investment return for the calendar year 2018 was 4.6% (2017: 2.8%). The accumulated investment return not received was \$2.71 billion up to 31 December 2018 (2017: \$1.71 billion), including the investment return for the calendar year 2018 amounting to \$1 billion (2017: \$0.59 billion). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$22.7 billion (2017: \$21.7 billion).

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Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Loan Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 86 to 93, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Loan Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Loan Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Loans Outstanding	3		
Housing loans		3,025,540	3,030,699
Education loans		17,910,590	17,678,138
Other loans		10,475,776	8,639,340
		31,411,906	29,348,177
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	3,549,714	4,105,254
Cash and bank balances		12,339	12,489
		3,562,053	4,117,743
Current Liabilities			
Deposits	5	(27,186)	(23,356)
		3,534,867	4,094,387
		34,946,773	33,442,564
Representing:			
Total Fund Balance			
Applied Fund	6	31,411,906	29,348,177
Available Fund	7		
Balance at beginning of year		4,094,387	4,183,548
Deficit for the year		(559,520)	(89,161)
Balance at end of year		3,534,867	4,094,387
	8	34,946,773	33,442,564

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		12,489	13,814
Receipts	9	3,851,999	4,700,862
Payments	10	(4,411,519)	(4,790,023)
Deficit for the year		(559,520)	(89,161)
Other cash movements	11	559,370	87,836
Cash and bank balances at end of year		12,339	12,489

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Loan Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Loan Fund finances loans and advances for schemes of developments in Hong Kong and loans to students under schemes approved by the Finance Committee. It was established with effect from 1 April 1990 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 14 March 1990.

2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Loan Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.
- (ii) The Statement of Assets and Liabilities is structured to show the overall financial position of the Fund including the total outstanding loans.

3. Loans Outstanding

	2019			2018		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,030,699	17,678,138	8,639,340	3,070,889	17,353,286	6,427,960
Additions						
Loan payments	297,840	2,194,076	1,919,603	286,088	2,149,970	2,353,945
Capitalised interest	35	-	193,750	51	-	135,247
	297,875	2,194,076	2,113,353	286,139	2,149,970	2,489,192
Deductions						
Loan repayments	(21,920)	(1,960,998)	(259,102)	(32,877)	(1,824,463)	(262,632)
Loans written off	(244)	(626)	(17,815)	(639)	(655)	(15,180)
Proceeds from sale of loans	(280,870)	-	-	(292,813)	-	-
	(303,034)	(1,961,624)	(276,917)	(326,329)	(1,825,118)	(277,812)
Balance at end of year	3,025,540	17,910,590	10,475,776	3,030,699	17,678,138	8,639,340

Loan Fund

4. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 8 of the Resolution:

	2019	2018
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	3,547,945	4,103,778
Deposits	1,769	1,476
	<u>3,549,714</u>	<u>4,105,254</u>

(ii) The investments represent the cost of investments together with the investment income received in the year being reported.

(iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

5. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable for credit to the Fund:

	2019	2018
	\$'000	\$'000
Students	27,066	23,217
Others	120	139
	<u>27,186</u>	<u>23,356</u>

6. Applied Fund

This represents the outstanding loans made from the Fund under paragraph 6 of the Resolution.

7. Available Fund

This represents funds available for making loans under paragraph 6 of the Resolution.

8. Commitments

The commitments under loan schemes operating on revolving and non-revolving bases were as follows:

	2019	2018
	\$'000	\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	1,331,881	3,373,981
Balance of approved loans operating on revolving basis available for granting of new loans	11,199,455	11,253,338
	<u>12,531,336</u>	<u>14,627,319</u>

Loan Fund

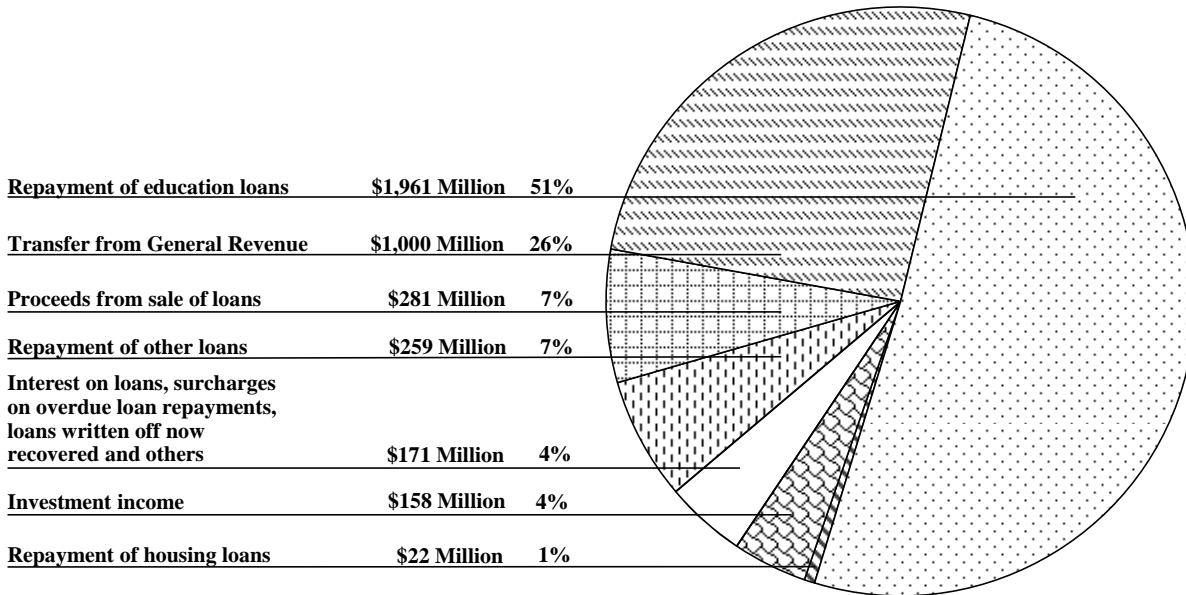
9. Receipts

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	64,744	21,920	32,877
Education loans	1,751,223	1,960,998	1,824,463
Other loans	285,844	259,102	262,632
	2,101,811	2,242,020	2,119,972
Interest on loans	166,221	165,951	162,055
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	157,760	121,142
Others	-	62	9
	134,000	157,822	121,151
Surcharges on overdue loan repayments	4,722	5,312	4,847
Proceeds from sale of loans	370,950	280,870	292,813
Loans written off now recovered	-	4	-
Others	-	20	24
Transfer from General Revenue	1,000,000	1,000,000	2,000,000
	<u>3,777,704</u>	<u>3,851,999</u>	<u>4,700,862</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$168 million (comprising \$52 million for 2014 and \$116 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 4(iii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The accumulated investment return not received was \$22 million up to 31 December 2018 (2017: \$14 million), including the investment return for the calendar year 2018 amounting to \$8 million (2017: \$5 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$190 million (2017: \$182 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2019



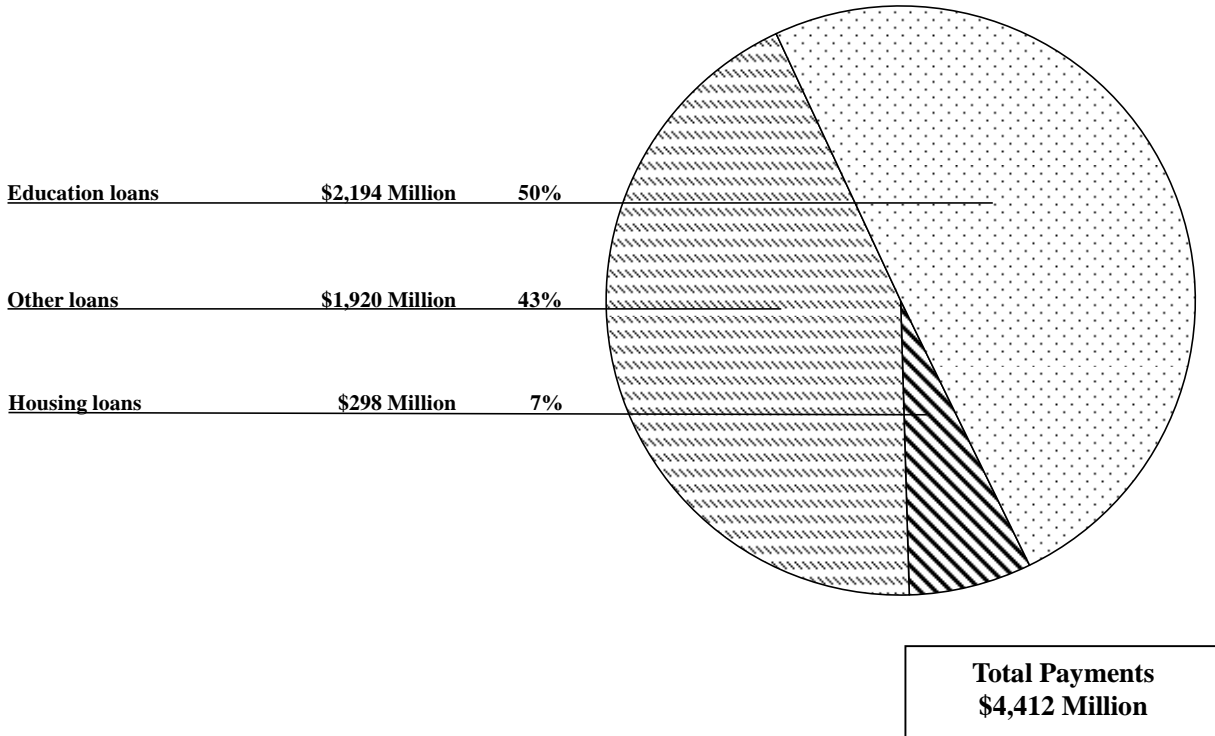
**Total Receipts
\$3,852 Million**

10. Payments

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	556,300	297,840	286,088
Education loans	2,460,369	2,194,076	2,149,970
Other loans	1,930,480	1,919,603	2,353,945
	4,947,149	4,411,519	4,790,003
Others	-	-	20
	4,947,149	4,411,519	4,790,023

Loan Fund

Analysis of Payments for the year ended 31 March 2019



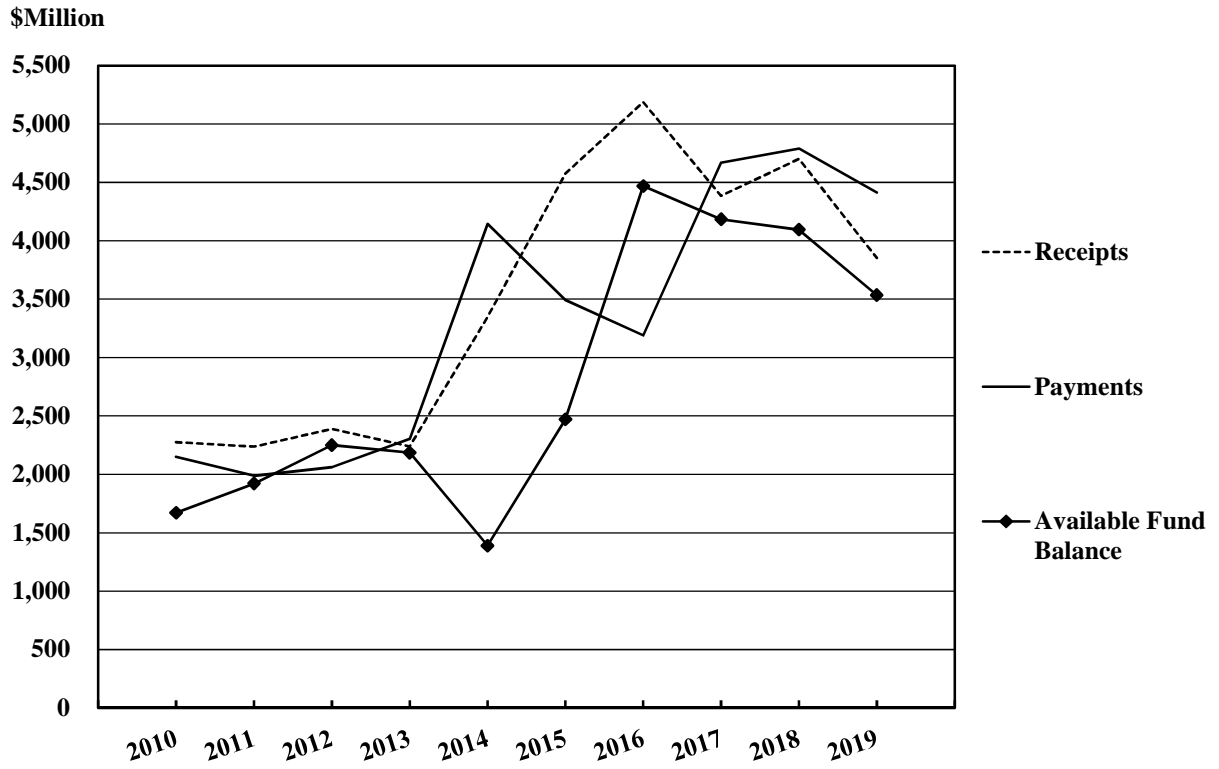
11. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
Reduction in Assets		
Investments with the Exchange Fund	555,540	86,580
Increase in Liabilities		
Deposits	3,830	1,256
	559,370	87,836

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2010 to 2019



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Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Bond Fund

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Bond Fund set out on pages 98 to 105, which comprise the statement of assets and liabilities as at 31 March 2019, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Bond Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2019 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bond Fund's internal control; and

- evaluate the appropriateness of accounting policies used by the Director of Accounting Services.

John Chu
Director of Audit

29 October 2019

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Assets			
Investments with the Exchange Fund	3	138,402,570	138,156,390
Liabilities			
Deposits	4	-	(1,247)
		<u>138,402,570</u>	<u>138,155,143</u>
Representing:			
Fund Balance			
Balance at beginning of year		138,155,143	141,378,989
Surplus/(Deficit) for the year		247,427	(3,223,846)
Balance at end of year	5, 6	<u>138,402,570</u>	<u>138,155,143</u>

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$'000	2018 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	25,923,255	23,377,083
Payments	8	(25,675,828)	(26,600,929)
Surplus/(Deficit) for the year		247,427	(3,223,846)
Other cash movements	9	(247,427)	3,223,846
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
26 August 2019



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

The Bond Fund was established with effect from 10 July 2009 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 8 July 2009. Sums raised under the Government Bond Programme are credited to the Bond Fund. The Hong Kong Monetary Authority has been directed by the Financial Secretary to, inter alia, assist in managing the investment concerning the Bond Fund.

2. Accounting Policies

- (i) The accounts of the Bond Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes outstanding liabilities in respect of sums borrowed under paragraph (c)(i) of the Resolution referred to in Note 5 below, and debtors and creditors other than those deposits referred to in Note 4 below.
- (ii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. The investment income is calculated, in accordance with a Memorandum of Understanding entered into with the Hong Kong Monetary Authority in 2014, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

4. Deposits

This represents the accrued interest received from successful bidders on reopened government bonds and is to be paid as part of bond interest on the next interest payment date of the bonds:

	2019 \$'000	2018 \$'000
Accrued interest received from successful bidders	-	1,247

5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (c)(i) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraphs (e)(i) and (ea)(i) of the Resolution. The liabilities totalling \$118.3 billion as at 31 March 2019 comprising the outstanding bonds with nominal value of \$94.75 billion and alternative bonds with nominal value of US\$3 billion (equivalent to \$23.55 billion as at 31 March 2019) are not included in the Statement of Assets and Liabilities (Note 6).

Bond Fund

6. Bonds Outstanding

In accordance with a resolution passed under section 3 of the Loans Ordinance in May 2013, the Government is authorized to borrow from any person from time to time for the purposes of the Bond Fund such sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all borrowings made under paragraph (a) of this resolution that may be outstanding by way of principal at any time. The outstanding liabilities in respect of the sums borrowed under the Government Bond Programme are as follows:

	2019 \$'000	2018 \$'000
Bonds		
Balance at beginning of year	98,193,880	103,078,440
Issuance of bonds under		
Tender to institutional investors	16,900,000	16,600,000
Subscription to retail investors	3,000,000	3,000,000
	19,900,000	19,600,000
Repayment of bonds issued under		
Tender to institutional investors	(13,200,000)	(14,400,000)
Subscription to retail investors	(10,146,500)	(10,084,560)
	(23,346,500)	(24,484,560)
Balance at end of year	94,747,380	98,193,880
Alternative bonds (Note (i) below)		
Balance at beginning of year	23,541,000	23,312,250
Foreign currency translation difference	9,000	228,750
Balance at end of year (Note (ii) below)	23,550,000	23,541,000
Total outstanding bonds	118,297,380	121,734,880

- (i) Alternative bonds are denominated in United States dollars.
- (ii) The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period.

Bond Fund

6. Bonds Outstanding (Continued)

(iii) The maturities of the outstanding bonds are as follows:

	2019 \$'000	2018 \$'000
Bonds		
Within one year (Note (iv) below)	32,256,330	23,200,000
After one year but within two years (Note (v) below)	12,394,920	32,323,730
After two years but within five years (Note (vi) below)	32,296,130	28,770,150
After five years	17,800,000	13,900,000
	94,747,380	98,193,880
Alternative bonds (Notes (i) and (ii) above)		
Within one year	7,850,000	-
After one year but within two years	7,850,000	7,847,000
After two years but within five years	-	7,847,000
After five years	7,850,000	7,847,000
	23,550,000	23,541,000
Total outstanding bonds	118,297,380	121,734,880

(iv) The outstanding bonds included Silver Bonds with nominal value of \$2.86 billion (2018: Nil) which might be redeemed before maturity upon request from bond holders.

(v) The outstanding bonds included Silver Bonds with nominal value of \$2.89 billion (2018: \$2.92 billion) which might be redeemed before maturity upon request from bond holders.

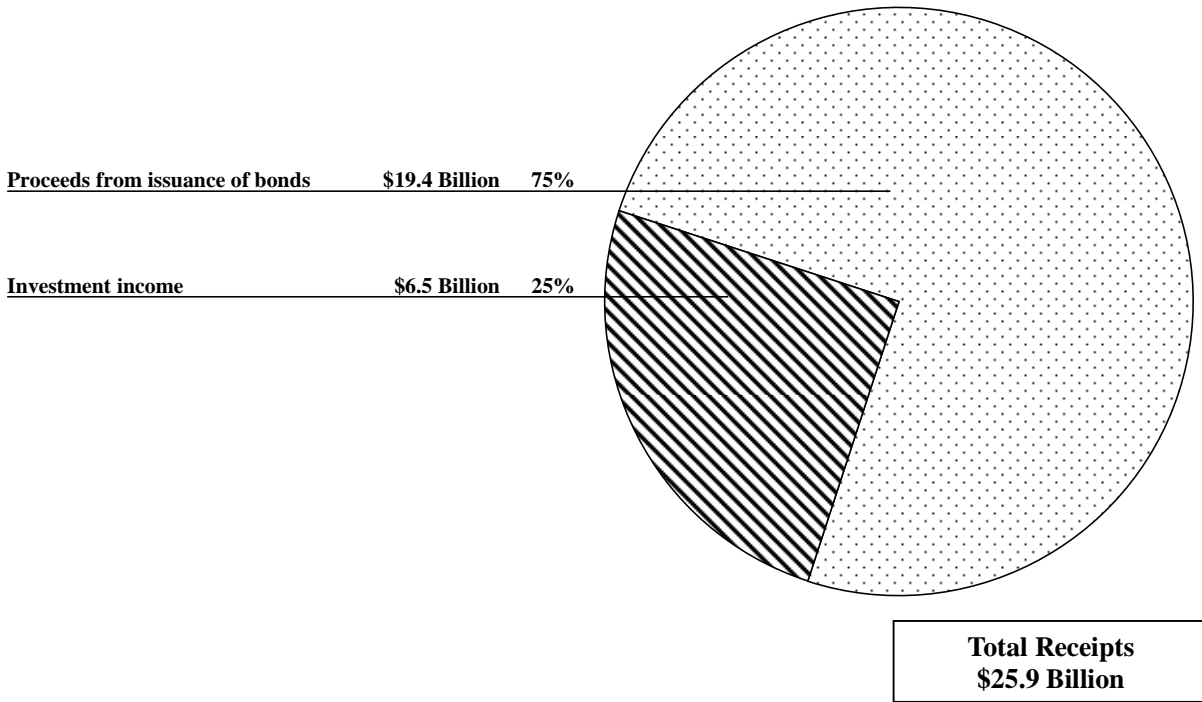
(vi) The outstanding bonds included Silver Bonds with nominal value of \$3 billion (2018: \$2.97 billion) which might be redeemed before maturity upon request from bond holders.

7. Receipts

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Proceeds from bonds issued under			
Tender or subscription	19,600,000	19,457,620	19,429,445
Bond swap facility	1,000,000	-	-
	20,600,000	19,457,620	19,429,445
Investment income			
Investments with the Exchange Fund	-	6,464,799	3,947,589
Others	-	836	49
	6,463,000	6,465,635	3,947,638
	27,063,000	25,923,255	23,377,083

Bond Fund

Analysis of Receipts for the year ended 31 March 2019

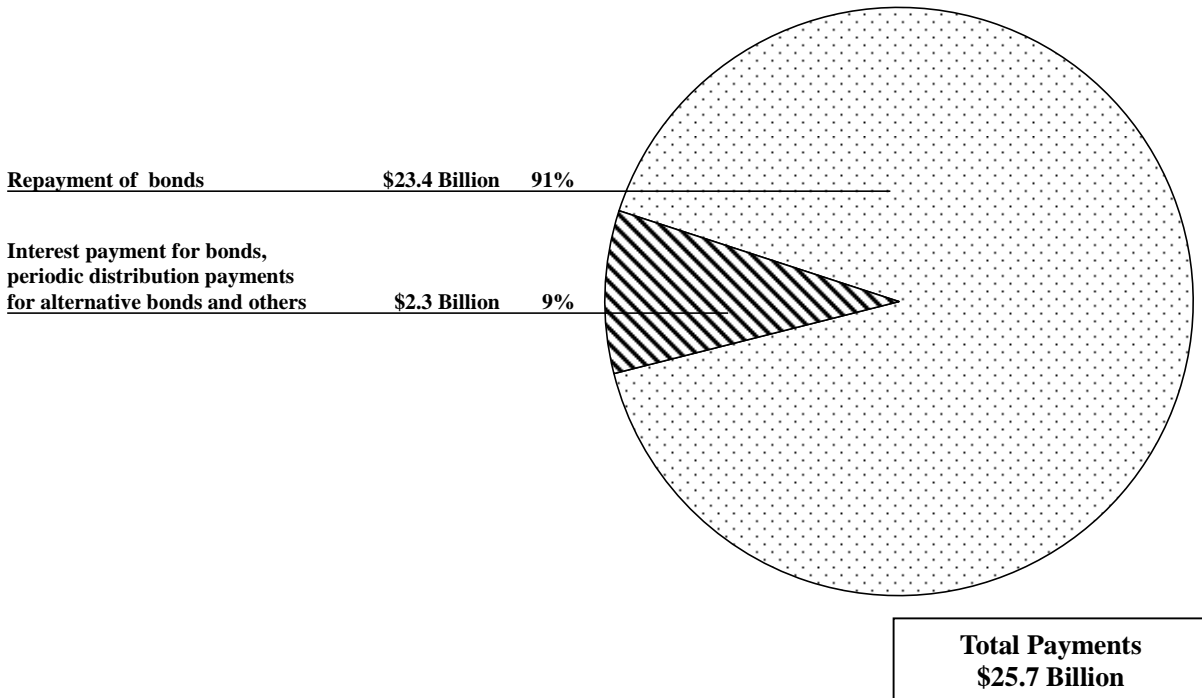


8. Payments

	2019		2018
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Repayment of bonds issued under			
Tender or subscription	23,322,691	23,346,500	24,484,560
Bond swap facility	1,000,000	-	-
	24,322,691	23,346,500	24,484,560
Interest payment for bonds	1,605,466	1,762,901	1,546,777
Periodic distribution payments for alternative bonds	548,418	551,604	549,717
Others	16,569	14,823	19,875
	<u>26,493,144</u>	<u>25,675,828</u>	<u>26,600,929</u>

Bond Fund

Analysis of Payments for the year ended 31 March 2019



9. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2019 \$'000	2018 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(246,180)	3,222,599
(Reduction)/Increase in Liabilities		
Deposits	(1,247)	1,247
	(247,427)	3,223,846

Bond Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2019

\$Billion

