



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 2020

October 2020

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 2020



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30 October 2020

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 2020, 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 2020, 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 2020 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

28 October 2020

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

General Revenue Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments with the Exchange Fund	3	683,611,646	727,669,260
Deposits with banks	4	549,788	491,826
Cash and bank balances	5	3,206,426	4,509,675
Advances	6	4,668,832	3,255,025
Suspense Accounts	7	122,368	36,053
		692,159,060	735,961,839
Liabilities			
Deposits	8	(23,985,718)	(23,419,273)
Suspense Accounts	7	(69,476)	(88,477)
		(24,055,194)	(23,507,750)
		668,103,866	712,454,089
Representing:			
General Revenue Balance			
Balance at beginning of year		712,454,089	628,253,192
(Deficit)/Surplus for the year		(44,350,223)	84,200,897
Balance at end of year	9, 10	668,103,866	712,454,089

Notes 1 to 14 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



General Revenue Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		4,509,675	4,226,983
Revenue	11	491,338,328	544,949,290
Expenditure	12	(535,688,551)	(460,748,393)
(Deficit)/Surplus for the year		(44,350,223)	84,200,897
Other cash movements	13	43,046,974	(83,918,205)
Cash and bank balances at end of year		3,206,426	4,509,675

Notes 1 to 14 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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:

	2020 \$'000	2019 \$'000
Investments (Notes (ii) to (iv) below)	683,604,149	727,663,996
Deposits	7,497	5,264
	<u>683,611,646</u>	<u>727,669,260</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 (8.7% and 6.1% for the calendar years 2019 and 2018 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 \$1.7 billion as at 31 December 2019 (*2018: \$1.15 billion*), including the investment return for the calendar year 2019 of \$0.55 billion (*2018: \$0.36 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 2019 was 2.9% (*2018: 4.6%*). 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:

	2020 \$'000	2019 \$'000
Hong Kong dollar	71,450	90,421
Foreign currency	478,338	401,405
	<u>549,788</u>	<u>491,826</u>

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:

	2020 \$'000	2019 \$'000
Advances to Government officers	2,144,719	1,366,715
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	690,403	441,760
Others	671,719	284,559
	<u>4,668,832</u>	<u>3,255,025</u>

- (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 2019-20, 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. The Government of the HKSAR takes note of the Public Accounts Committee's suggestion to the Panel on Security in March 2020 that the Government of the HKSAR should re-consider writing off the outstanding payment, and will carefully consider the suggestion.

7. Suspense Accounts

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

	2020 \$'000	2019 \$'000
Assets:		
Correctional Services Industries (Note (i) below)	26,857	28,759
Government Logistics Department — Unallocated Stores (Note (i) below)	95,432	7,243
The Financial Secretary Incorporated (Note (ii) below)	79	51
	<u>122,368</u>	<u>36,053</u>
Liabilities:		
The Special Coin (Note (iii) below)	(69,476)	(88,477)
Net balance	<u>52,892</u>	<u>(52,424)</u>

- (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.

General Revenue Account

7. Suspense Accounts *(Continued)*

- (ii) 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.
- (iii) 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.

8. 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:

	2020 \$'000	2019 \$'000
Tax reserve certificates	14,794,836	14,671,210
Water deposits	1,929,726	1,896,033
Tenancy deposits	1,822,191	1,964,837
Tax overpayments	1,365,665	972,079
Legal aid deposits	1,072,622	1,066,115
Private works	383,273	354,930
Others	2,617,405	2,494,069
	23,985,718	23,419,273

9. Contingent Liabilities

As at 31 March 2020, 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 \$36,726 million (2019: \$37,289 million);
- (ii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$24,018 million (2019: \$18,275 million);
- (iii) guarantees provided under the SME Financing Guarantee Scheme — 90% Guarantee Coverage amounting to \$817 million (2019: Nil);
- (iv) legal claims, disputes and proceedings amounting to \$5,249 million (2019: \$7,981 million);
- (v) guarantees provided under the SME Loan Guarantee Scheme amounting to \$3,877 million (2019: \$4,104 million); and
- (vi) guarantees provided under the Special Loan Guarantee Scheme amounting to \$329 million (2019: \$449 million).

10. Commitments

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

	2020 \$'000	2019 \$'000
Non-recurrent expenditure	77,021,523	68,522,334
Plant, vehicles and equipment	11,650,245	8,517,328
Capital subventions	2,733,934	2,610,303
Capital works	311,119	355,759
	91,716,821	80,005,724

General Revenue Account

11. Revenue

Analysis of total revenue by Head:

Head	2020				2019
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
1 Duties	10,765,768	11,390,578	624,810	5.8	10,635,632
2 General Rates	19,875,000	20,980,582	1,105,582	5.6	17,166,545
3 Internal Revenue					
Profits tax	159,600,000	155,900,322	(3,699,678)	(2.3)	166,619,646
Salaries tax	66,600,000	50,412,460	(16,187,540)	(24.3)	60,145,881
Stamp duties	76,000,000	67,197,968	(8,802,032)	(11.6)	79,978,723
Other internal revenue	34,935,000	32,218,384	(2,716,616)	(7.8)	34,752,040
	337,135,000	305,729,134	(31,405,866)	(9.3)	341,496,290
4 Motor Vehicle Taxes	9,198,140	7,218,830	(1,979,310)	(21.5)	9,432,181
5 Fines, Forfeitures and Penalties	1,539,831	1,800,770	260,939	16.9	2,836,758
6 Royalties and Concessions	3,503,244	3,202,674	(300,570)	(8.6)	3,500,655
7 Properties and Investments					
Income from Investments with the Exchange Fund (Note (i) below)	-	39,954,835	-	-	27,605,127
Others	-	25,050,403	-	-	18,557,364
	64,646,833	65,005,238	358,405	0.6	46,162,491
9 Loans, Reimbursements, Contributions and Other Receipts	59,878,316	59,982,409	104,093	0.2	93,050,345
10 Utilities	4,421,316	3,905,742	(515,574)	(11.7)	4,440,110
11 Fees and Charges	14,259,108	12,122,371	(2,136,737)	(15.0)	16,228,283
Total	<u>525,222,556</u>	<u>491,338,328</u>	<u>(33,884,228)</u>	(6.5)	<u>544,949,290</u>

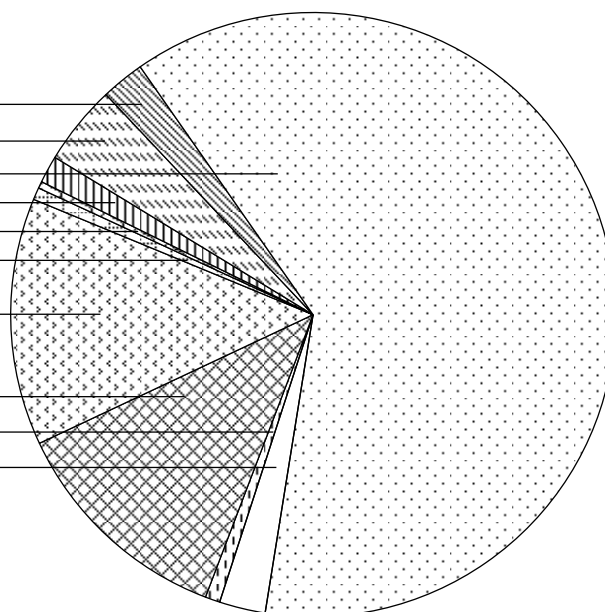
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the General Revenue Account for the calendar years 2014 and 2015 totalling \$40.99 billion (comprising \$14.84 billion for 2014 and \$26.15 billion for 2015), along with the investment incomes on other parts of the fiscal 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). The accumulated investment return was \$6.8 billion up to 31 December 2019 (2018: \$5.45 billion), including the investment return for the calendar year 2019 amounting to \$1.35 billion (2018: \$2.04 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$46.44 billion from the General Revenue Account) was earmarked for public housing development.

During the financial year 2019-20, \$21.19 billion (2019: Nil) was brought back from the Housing Reserve to the General Revenue Account and recorded as investment income. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the General Revenue Account and retained for the Housing Reserve totalled \$26.6 billion (2018: \$46.44 billion).

General Revenue Account

Analysis of Revenue for the year ended 31 March 2020

Duties	\$11.4 Billion	2%
General Rates	\$21.0 Billion	4%
Internal Revenue	\$305.7 Billion	62%
Motor Vehicle Taxes	\$7.2 Billion	2%
Fines, Forfeitures and Penalties	\$1.8 Billion	1%
Royalties and Concessions	\$3.2 Billion	1%
Properties and Investments	\$65.0 Billion	13%
Loans, Reimbursements, Contributions and Other Receipts (Including Transfers from Funds)	\$60.0 Billion	12%
Utilities	\$3.9 Billion	1%
Fees and Charges	\$12.1 Billion	2%



**Total Revenue
\$491.3 Billion**

12. Expenditure

Analysis of total expenditure by Head:

Head	2020		Over/(Under) the Estimate \$'000	Variance %	2019
	Original Estimate \$'000	Actual \$'000			Actual \$'000
21 Chief Executive's Office	120,545	122,428	1,883	1.6	116,977
22 Agriculture, Fisheries and Conservation Department	1,821,273	1,698,910	(122,363)	(6.7)	1,604,858
25 Architectural Services Department	2,379,893	2,404,391	24,498	1.0	2,231,487
24 Audit Commission	182,882	186,468	3,586	2.0	177,274
23 Auxiliary Medical Service	107,321	98,110	(9,211)	(8.6)	95,936
82 Buildings Department	1,656,263	1,674,239	17,976	1.1	1,556,788
26 Census and Statistics Department	817,789	753,284	(64,505)	(7.9)	665,522
27 Civil Aid Service	124,004	115,194	(8,810)	(7.1)	112,147
28 Civil Aviation Department	1,157,484	1,146,785	(10,699)	(0.9)	1,062,930
33 Civil Engineering and Development Department	3,040,354	3,022,825	(17,529)	(0.6)	2,578,131
30 Correctional Services Department	4,228,478	4,308,750	80,272	1.9	4,061,087
31 Customs and Excise Department	4,943,961	4,559,470	(384,491)	(7.8)	4,135,699
37 Department of Health	13,300,751	12,005,663	(1,295,088)	(9.7)	10,229,445
92 Department of Justice	2,329,724	1,797,306	(532,418)	(22.9)	1,740,755
39 Drainage Services Department	2,935,378	2,959,561	24,183	0.8	2,828,600

General Revenue Account

12. Expenditure (Continued)

Head	2020				2019
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
42 Electrical and Mechanical Services Department	1,176,102	1,082,143	(93,959)	(8.0)	858,717
44 Environmental Protection Department	6,959,161	6,114,974	(844,187)	(12.1)	5,212,695
45 Fire Services Department	7,161,588	6,943,582	(218,006)	(3.0)	6,503,011
49 Food and Environmental Hygiene Department	8,434,909	8,424,324	(10,585)	(0.1)	7,551,598
46 General Expenses of the Civil Service	4,106,593	3,729,492	(377,101)	(9.2)	3,550,272
166 Government Flying Service	735,367	553,727	(181,640)	(24.7)	1,054,694
48 Government Laboratory	538,622	552,249	13,627	2.5	502,972
59 Government Logistics Department	568,389	565,127	(3,262)	(0.6)	540,544
51 Government Property Agency	2,227,077	1,987,288	(239,789)	(10.8)	1,963,245
143 Government Secretariat: Civil Service Bureau	733,778	653,488	(80,290)	(10.9)	619,882
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	3,171,327	3,108,084	(63,243)	(2.0)	2,238,919
55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)	903,866	553,296	(350,570)	(38.8)	475,934
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	766,755	736,891	(29,864)	(3.9)	679,064
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	1,015,941	945,749	(70,192)	(6.9)	601,017
159 Government Secretariat: Development Bureau (Works Branch)	708,532	707,778	(754)	(0.1)	1,514,029
156 Government Secretariat: Education Bureau	67,944,609	69,898,677	1,954,068	2.9	67,645,260
137 Government Secretariat: Environment Bureau	1,795,931	1,751,085	(44,846)	(2.5)	360,449
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	872,510	749,915	(122,595)	(14.1)	522,094

General Revenue Account

12. Expenditure (Continued)

Head	2020				2019
	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)	305,311	1,046,061	740,750	242.6	304,738
139 Government Secretariat: Food and Health Bureau (Food Branch)	178,304	170,128	(8,176)	(4.6)	161,195
140 Government Secretariat: Food and Health Bureau (Health Branch)	71,181,690	73,558,265	2,376,575	3.3	65,282,861
53 Government Secretariat: Home Affairs Bureau	2,265,617	2,173,751	(91,866)	(4.1)	8,994,386
135 Government Secretariat: Innovation and Technology Bureau	751,008	501,667	(249,341)	(33.2)	402,888
155 Government Secretariat: Innovation and Technology Commission	820,794	725,068	(95,726)	(11.7)	677,900
141 Government Secretariat: Labour and Welfare Bureau	937,078	929,079	(7,999)	(0.9)	842,244
47 Government Secretariat: Office of the Government Chief Information Officer	806,504	838,089	31,585	3.9	769,490
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	1,030,663	30,957,106	29,926,443	2,903.6	785,528
96 Government Secretariat: Overseas Economic and Trade Offices	531,495	415,388	(116,107)	(21.8)	349,102
151 Government Secretariat: Security Bureau	819,927	815,471	(4,456)	(0.5)	702,046
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	337,151	335,452	(1,699)	(0.5)	301,694
60 Highways Department	4,175,667	3,839,784	(335,883)	(8.0)	3,289,940
63 Home Affairs Department	3,260,297	3,088,116	(172,181)	(5.3)	2,809,705
168 Hong Kong Observatory	381,364	378,386	(2,978)	(0.8)	338,248
122 Hong Kong Police Force	20,682,101	23,701,359	3,019,258	14.6	20,036,201
62 Housing Department	357,962	1,787,793	1,429,831	399.4	322,579
70 Immigration Department	6,152,753	6,080,854	(71,899)	(1.2)	5,109,614
72 Independent Commission Against Corruption	1,167,704	1,193,841	26,137	2.2	1,147,380
121 Independent Police Complaints Council	95,852	105,459	9,607	10.0	79,199

General Revenue Account

12. Expenditure (Continued)

Head	2020				2019
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
74 Information Services Department	545,982	565,681	19,699	3.6	521,502
76 Inland Revenue Department	1,721,902	1,701,845	(20,057)	(1.2)	1,605,078
78 Intellectual Property Department	185,778	189,824	4,046	2.2	177,484
79 Invest Hong Kong	144,307	144,629	322	0.2	143,986
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	48,349	47,506	(843)	(1.7)	37,206
80 Judiciary	2,109,451	1,936,161	(173,290)	(8.2)	1,801,888
90 Labour Department	2,062,711	1,940,063	(122,648)	(5.9)	1,978,118
91 Lands Department	3,017,840	3,104,740	86,900	2.9	2,753,754
94 Legal Aid Department	1,590,214	1,481,258	(108,956)	(6.9)	1,132,580
112 Legislative Council Commission	954,274	952,447	(1,827)	(0.2)	886,963
95 Leisure and Cultural Services Department	9,916,896	9,829,672	(87,224)	(0.9)	9,080,260
100 Marine Department	1,623,339	1,608,184	(15,155)	(0.9)	1,531,814
106 Miscellaneous Services	33,152,664	375,686	(32,776,978)	(98.9)	445,685
180 Office for Film, Newspaper and Article Administration	51,627	48,667	(2,960)	(5.7)	49,622
114 Office of The Ombudsman	122,055	127,419	5,364	4.4	121,546
116 Official Receiver's Office	223,201	216,915	(6,286)	(2.8)	335,660
120 Pensions	39,596,125	38,648,249	(947,876)	(2.4)	36,783,768
118 Planning Department	788,965	770,517	(18,448)	(2.3)	712,284
136 Public Service Commission Secretariat	27,694	28,469	775	2.8	27,442
160 Radio Television Hong Kong	1,021,055	1,041,651	20,596	2.0	1,037,585
162 Rating and Valuation Department	689,846	587,760	(102,086)	(14.8)	548,747
163 Registration and Electoral Office	796,430	738,093	(58,337)	(7.3)	410,120
169 Secretariat, Commissioner on Interception of Communications and Surveillance	25,158	22,146	(3,012)	(12.0)	23,845
170 Social Welfare Department	85,115,708	86,158,486	1,042,778	1.2	85,058,369
181 Trade and Industry Department	929,794	963,520	33,726	3.6	780,652
186 Transport Department	6,727,739	5,592,416	(1,135,323)	(16.9)	3,804,756
188 Treasury	432,932	444,082	11,150	2.6	413,063
190 University Grants Committee	22,500,710	44,102,745	21,602,035	96.0	22,888,646

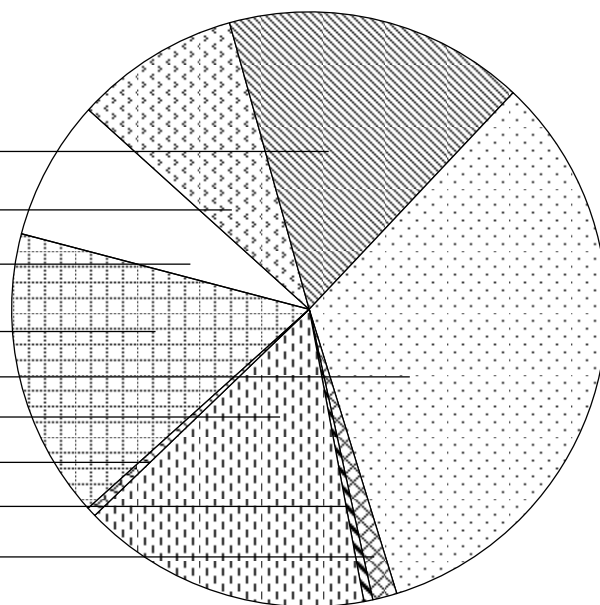
General Revenue Account

12. Expenditure (Continued)

Head	2020				2019
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
194 Water Supplies Department	8,674,551	8,763,553	89,002	1.0	8,475,139
173 Working Family and Student Financial Assistance Agency	18,717,089	17,929,797	(787,292)	(4.2)	6,281,861
	508,720,785	528,614,551	19,893,766	3.9	438,148,393
184 Transfers to Funds	7,074,000	7,074,000	-	-	22,600,000
Total	515,794,785	535,688,551	19,893,766	3.9	460,748,393

Analysis of Expenditure for the year ended 31 March 2020

Personal Emoluments	\$87.5 Billion	16%
Personnel Related Expenses	\$48.1 Billion	9%
Departmental Expenses	\$40.8 Billion	7%
Other Charges	\$84.4 Billion	16%
Recurrent Subventions	\$178.0 Billion	33%
Non-Recurrent Expenditure	\$84.4 Billion	16%
Plant, Equipment and Works	\$2.8 Billion	1%
Capital Subventions	\$2.6 Billion	1%
Transfers to Funds	\$7.1 Billion	1%



**Total Expenditure
\$535.7 Billion**

General Revenue Account

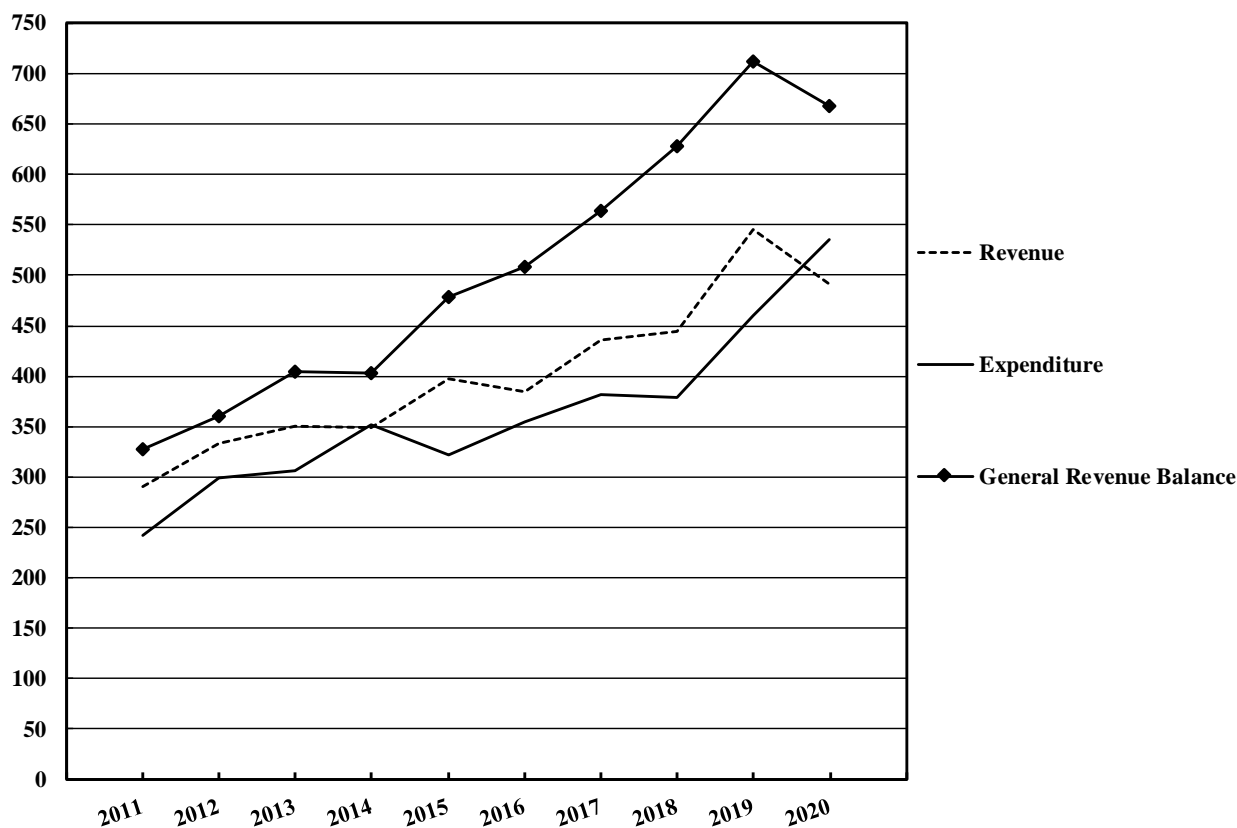
13. Other Cash Movements

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

	2020 \$'000	2019 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	44,057,614	(86,928,513)
Deposits with banks	(57,962)	40,927
Advances	(1,413,807)	(353,749)
Suspense Accounts	(86,315)	(3,539)
	42,499,530	(87,244,874)
Increase/(Reduction) in Liabilities		
Deposits	566,445	3,326,113
Suspense Accounts	(19,001)	556
	547,444	3,326,669
	43,046,974	(83,918,205)

Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2011 to 2020

\$Billion



14. Comparative Figures

Certain comparative figures have been re-classified to conform with the presentation of the current year.

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 2020, 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 2020 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

28 October 2020

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 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments with the Exchange Fund	3	178,653,310	148,640,017
Cash and bank balances		1,713	2,084
		178,655,023	148,642,101
Liabilities			
Deposits	4	(1,821,668)	(1,950,222)
		176,833,355	146,691,879
Representing:			
Fund Balance			
Balance at beginning of year		146,691,879	182,753,631
Surplus/(Deficit) for the year		30,141,476	(36,061,752)
Balance at end of year	5, 6, 7	176,833,355	146,691,879

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		2,084	5,292
Receipts	8	155,198,455	125,848,798
Payments	5, 9	(125,056,979)	(161,910,550)
Surplus/(Deficit) for the year		30,141,476	(36,061,752)
Other cash movements	10	(30,141,847)	36,058,544
Cash and bank balances at end of year		1,713	2,084

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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:

	2020 \$'000	2019 \$'000
Investments (Notes (ii) and (iii) below)	178,605,411	148,590,477
Deposits	47,899	49,540
	<u>178,653,310</u>	<u>148,640,017</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 2019 was 2.9% (2018: 4.6%). 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:

	2020	2019
	\$'000	\$'000
Contract retention money	1,644,605	1,729,715
Others	177,063	220,507
	<u>1,821,668</u>	<u>1,950,222</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 bonds and notes totalling \$20 billion (including institutional notes of US\$1.25 billion denominated in United States dollars) to retail and institutional investors in July 2004. Following another resolution passed under section 3(1) of the Loans Ordinance, the Government issued Green Bonds of US\$1 billion under the Government Green Bond Programme in May 2019 to provide funding for green public works projects of the Government. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2020	2019
	\$'000	\$'000
Green Bonds (Notes (i) and (ii) below)	7,754,000	-
Government bonds and notes issued in July 2004 (Note (iii) below)	-	1,500,000
	<u>7,754,000</u>	<u>1,500,000</u>

- (i) The Green Bonds denominated in United States dollars will mature in May 2024. During the financial year, payments of interest on the Green Bonds amounted to \$98 million (2019: Nil) and there was no repayment of principal (2019: Nil).
- (ii) The outstanding Green Bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.
- (iii) The government bonds and notes were notes denominated in Hong Kong dollars and were fully repaid at maturity in July 2019. During the financial year, payments of interest on the notes amounted to \$38 million (2019: \$77 million).

6. Contingent Liabilities

As at 31 March 2020, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,212 million (2019: \$2,395 million).

Capital Works Reserve Fund

7. Commitments

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

Head	2020	2019
	\$'000	\$'000
Land acquisition		
701 Land acquisition	<u>20,938,801</u>	<u>18,395,581</u>
Sub-total	<u>20,938,801</u>	<u>18,395,581</u>
Capital works – Public Works Programme		
702 Port and airport development	80,960	81,880
703 Buildings	126,091,888	120,095,793
704 Drainage	39,464,283	21,261,840
705 Civil engineering	44,706,309	47,711,928
706 Highways	89,013,001	105,356,256
707 New towns and urban area development	115,744,310	70,380,235
709 Waterworks	19,039,912	11,911,456
711 Housing	10,550,675	<u>10,005,924</u>
Sub-total	<u>444,691,338</u>	<u>386,805,312</u>
Capital subventions		
708 (part) Capital subventions	<u>33,976,289</u>	<u>38,396,289</u>
Sub-total	<u>33,976,289</u>	<u>38,396,289</u>
Systems and equipment		
708 (part) Major systems and equipment	8,032,932	8,493,350
710 Computerisation	10,439,284	<u>12,190,239</u>
Sub-total	<u>18,472,216</u>	<u>20,683,589</u>
	<u><u>518,078,644</u></u>	<u><u>464,280,771</u></u>

Capital Works Reserve Fund

8. Receipts

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	120,151,328	84,254,576
Private treaty grants	-	156,084	64,513
Modification of existing leases, exchanges and extensions	-	20,681,649	31,733,381
Fees received in respect of short term waivers	-	738,710	808,131
	143,000,000	141,727,771	116,860,601
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	5,488,216	8,928,354
Others	-	1,347	1,416
	5,260,000	5,489,563	8,929,770
Other receipts			
Donations and contributions	26,972	3,549	19,408
Others	-	148,844	39,019
	26,972	152,393	58,427
Net proceeds from issuance of bonds			
Green Bonds	-	7,828,728	-
	148,286,972	155,198,455	125,848,798

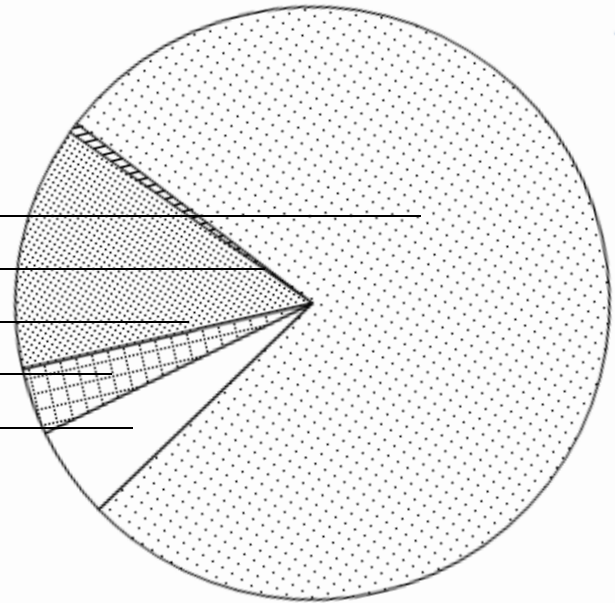
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two 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). The accumulated investment return was \$1.16 billion up to 31 December 2019 (2018: \$0.93 billion), including the investment return for the calendar year 2019 amounting to \$0.23 billion (2018: \$0.34 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$7.79 billion from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$8.02 billion (2018: \$7.79 billion).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2020

<u>Sales by public auction and tender</u>	<u>\$120.1 Billion</u>	<u>77%</u>
<u>Private treaty grants and fees received in respect of short term waivers</u>	<u>\$0.9 Billion</u>	<u>1%</u>
<u>Modification of existing leases, exchanges and extensions</u>	<u>\$20.7 Billion</u>	<u>13%</u>
<u>Investment income and other receipts</u>	<u>\$5.7 Billion</u>	<u>4%</u>
<u>Net proceeds from issuance of Green Bonds</u>	<u>\$7.8 Billion</u>	<u>5%</u>



Total Receipts
\$155.2 Billion

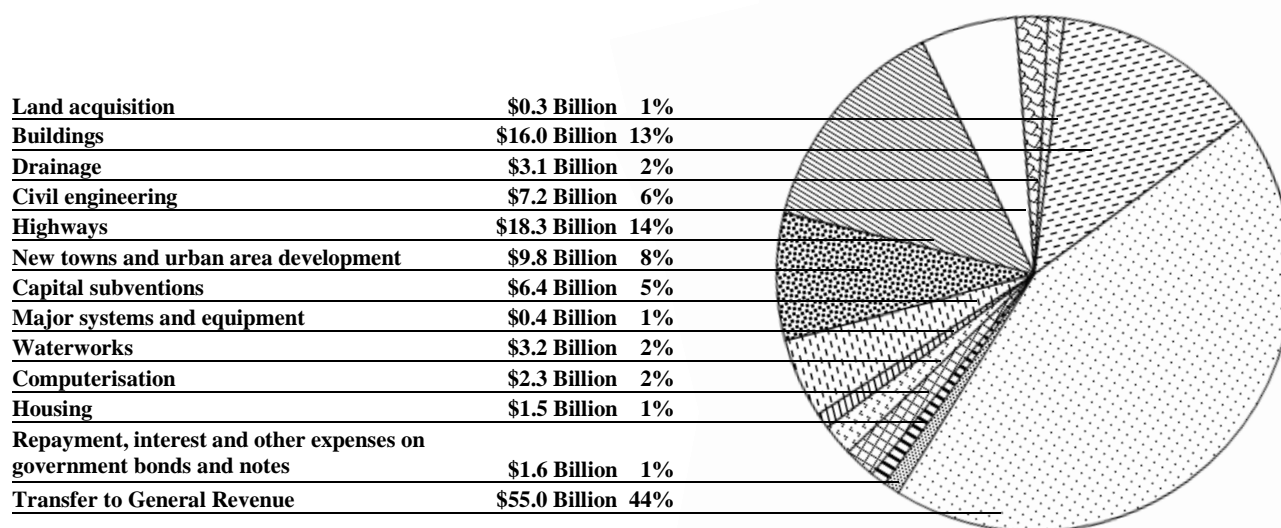
Capital Works Reserve Fund

9. Payments

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	3,150,440	262,326	580,874
Public Works Programme			
Port and airport development	490	920	972
Buildings	21,923,316	16,030,952	14,053,765
Drainage	3,236,029	3,122,658	2,840,242
Civil engineering	8,037,397	7,147,529	8,396,699
Highways	21,274,278	18,287,479	27,662,667
New towns and urban area development	11,412,678	9,768,399	9,082,415
Waterworks	4,261,435	3,202,150	2,995,969
Housing	2,189,452	1,461,962	1,276,645
	72,335,075	59,022,049	66,309,374
Capital subventions and major systems and equipment			
Capital subventions	6,224,780	6,391,407	12,345,715
Major systems and equipment	836,724	419,384	300,111
	7,061,504	6,810,791	12,645,826
Computerisation	2,571,456	2,309,053	2,227,272
Government bonds and notes			
Repayment	1,500,000	1,500,000	-
Interest and other expenses	38,125	143,008	76,880
	1,538,125	1,643,008	76,880
Transfer to General Revenue	55,000,000	55,000,000	80,000,000
Other payments			
Refund of overpayment of land premium	-	9,752	70,324
	<u>141,656,600</u>	<u>125,056,979</u>	<u>161,910,550</u>

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2020 *



**Total Payments
\$125.1 Billion**

* Actual payments on "Port and airport development" and "Refund of overpayment of land premium" are not shown as they are less than \$0.1 billion each.

10. Other Cash Movements

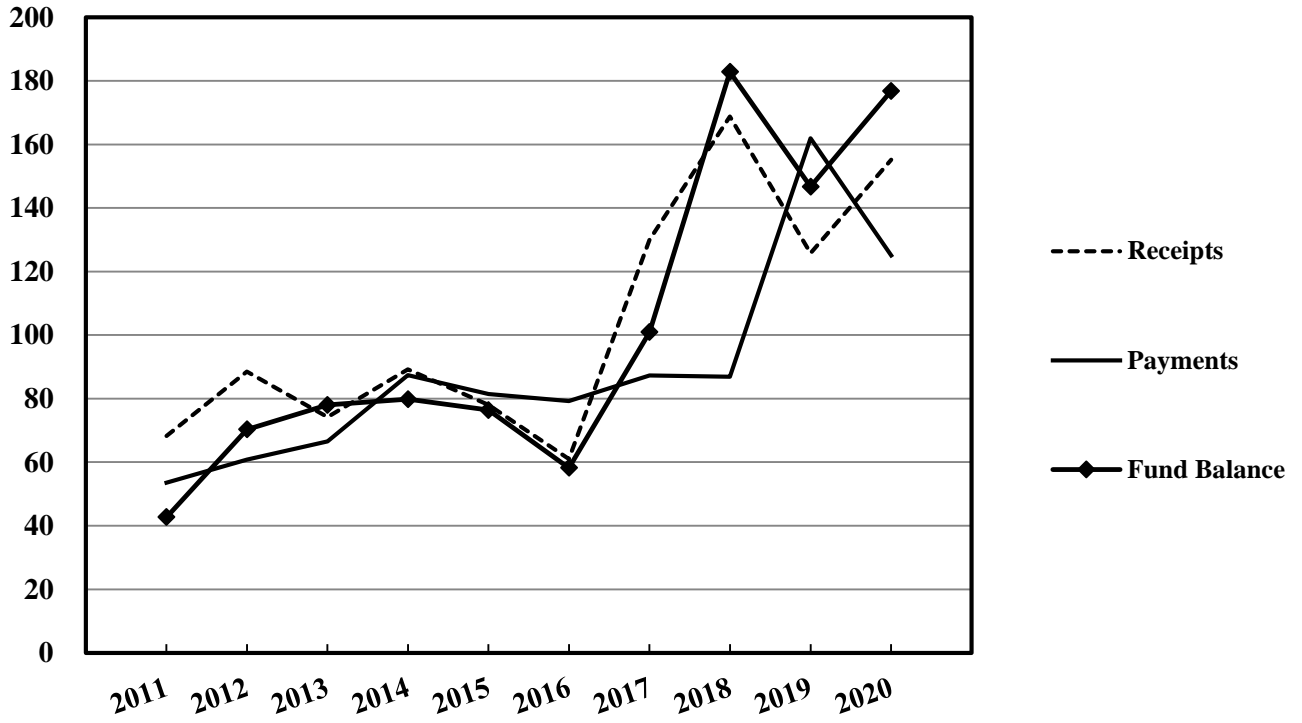
These are cash movements arising from changes in other assets and liabilities:

	2020 \$'000	2019 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(30,013,293)	36,056,124
(Reduction)/Increase in Liabilities		
Deposits	(128,554)	2,420
	<u>(30,141,847)</u>	<u>36,058,544</u>

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$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 2020, 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 2020 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

28 October 2020

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments	3		
Equity holdings		151,377,132	147,449,916
Other investments		588,512,179	565,183,137
		739,889,311	712,633,053
Loans Outstanding	4	1,557,376	1,656,579
		741,446,687	714,289,632
Current Assets			
Investments with the Exchange Fund	5	3,360,002	331,598
Cash and bank balances		1	1
		3,360,003	331,599
		744,806,690	714,621,231
Representing:			
Total Fund Balance			
Applied Fund	6	741,446,687	714,289,632
Available Fund	7		
Balance at beginning of year		331,599	2,917,527
Surplus/(Deficit) for the year		3,028,404	(2,585,928)
Balance at end of year		3,360,003	331,599
	8, 9	744,806,690	714,621,231

Notes 1 to 12 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		1	1
Receipts	10	6,955,620	1,401,518
Payments	11	(3,927,216)	(3,987,446)
Surplus/(Deficit) for the year		3,028,404	(2,585,928)
Other cash movements	12	(3,028,404)	2,585,928
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
27 August 2020



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)

	2020			2019		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at beginning of year	147,449,916	565,183,137	712,633,053	138,381,137	518,693,108	657,074,245
Additions						
Cash acquisitions	3,927,216	-	3,927,216	3,987,446	-	3,987,446
Non-cash acquisitions	-	23,329,042	23,329,042	5,081,333	46,490,029	51,571,362
	3,927,216	23,329,042	27,256,258	9,068,779	46,490,029	55,558,808
Balance at end of year	151,377,132	588,512,179	739,889,311	147,449,916	565,183,137	712,633,053

Capital Investment Fund

4. Loans Outstanding

	2020 \$'000	2019 \$'000
Balance at beginning of year	1,656,579	2,085,028
Additions		
Capitalised interest	-	29,201
Deductions		
Loan repayments	(99,203)	(457,650)
Balance at end of year	<u><u>1,557,376</u></u>	<u><u>1,656,579</u></u>

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 2019 was 2.9% (2018: 4.6%). 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 2020, the Government had the following contingent liabilities:

- (i) subscription to callable shares in the Asian Development Bank amounting to \$5,833 million (2019: \$5,985 million);
- (ii) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2019: \$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 \$975 million (2019: \$1,866 million).

Capital Investment Fund

9. Commitments

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

	2020 \$'000	2019 \$'000
Investments (Note (i) below)	13,991,137	17,920,446
Loans	<u>2,270,000</u>	<u>2,270,000</u>
	<u>16,261,137</u>	<u>20,190,446</u>

- (i) These included an approved commitment of \$4,800 million (2019: \$4,800 million) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 8(ii)).

10. Receipts

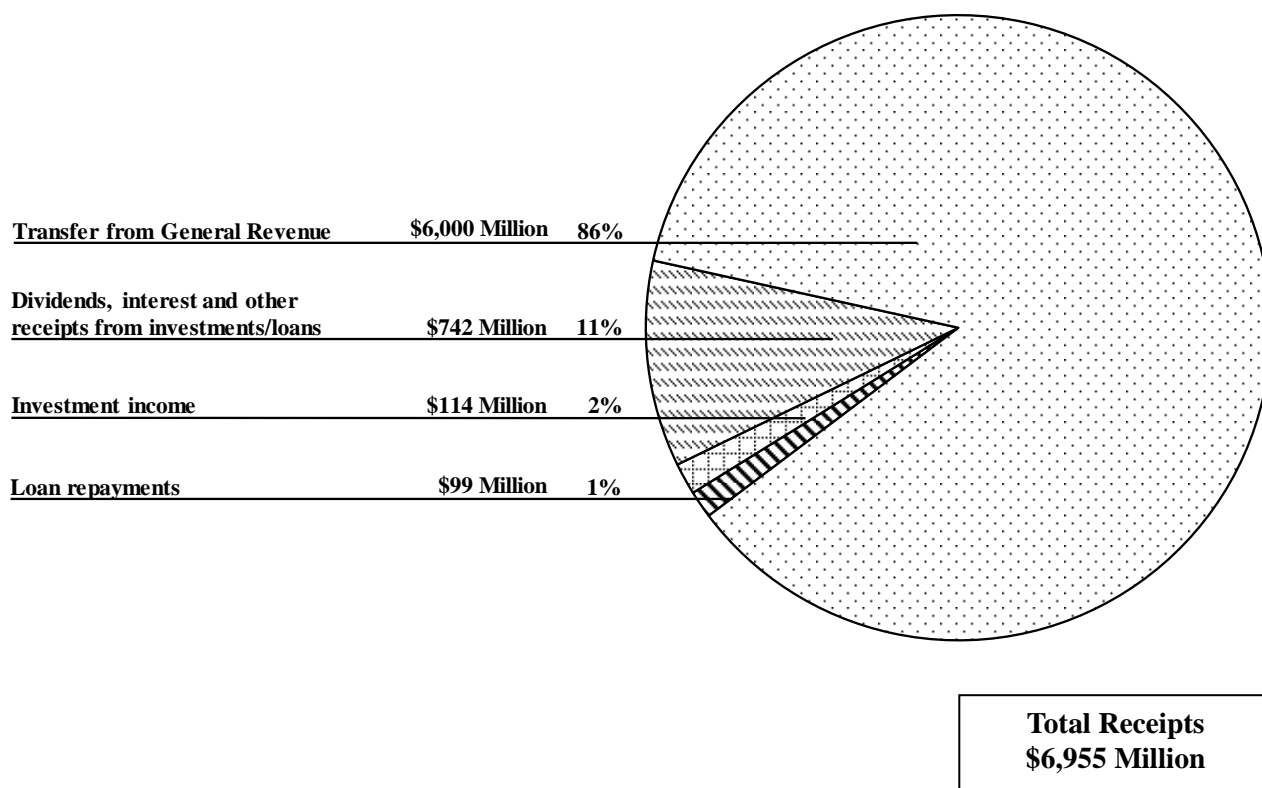
	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	1,238,927	742,664	830,407
Loan repayments	97,946	99,203	457,650
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	113,751	113,460
Others	-	2	1
	88,000	113,753	113,461
Transfer from General Revenue	6,000,000	6,000,000	-
	<u>7,424,873</u>	<u>6,955,620</u>	<u>1,401,518</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). The accumulated investment return was \$30 million up to 31 December 2019 (2018: \$24 million), including the investment return for the calendar year 2019 amounting to \$6 million (2018: \$9 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$201 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$207 million (2018: \$201 million).

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2020



11. Payments

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments			
Equity holdings	4,133,235	3,927,216	3,987,446

12. Other Cash Movements

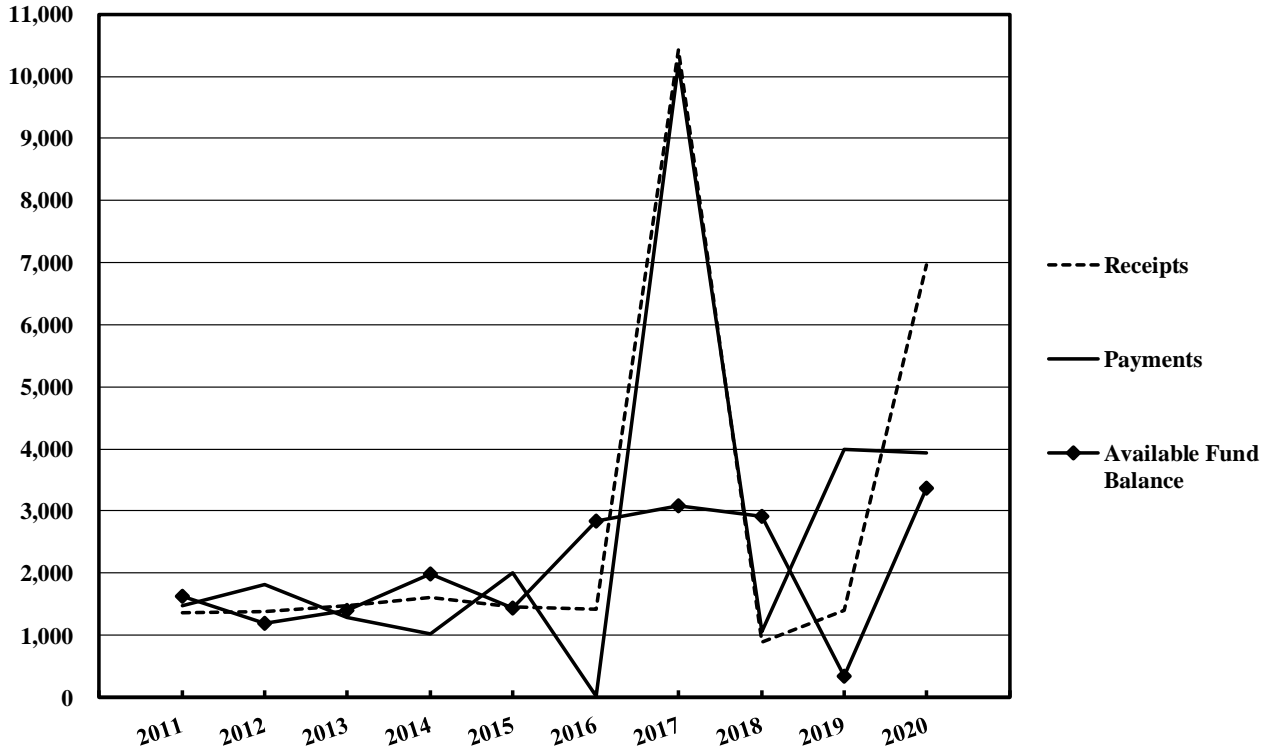
These are cash movements arising from changes in other assets and liabilities:

	2020 \$'000	2019 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(3,028,404)	2,585,928

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2011 to 2020

\$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 2020, 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 2020 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

28 October 2020

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 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments with the Exchange Fund	3	<u>39,426,465</u>	<u>38,315,321</u>
Representing:			
Fund Balance			
Balance at beginning of year		38,315,321	35,129,267
Surplus for the year		<u>1,111,144</u>	<u>3,186,054</u>
Balance at end of year		<u>39,426,465</u>	<u>38,315,321</u>

Notes 1 to 5 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	1,111,144	3,186,054
Payments		-	-
Surplus for the year		1,111,144	3,186,054
Other cash movements	5	(1,111,144)	(3,186,054)
Cash and bank balances at end of year		-	-

Notes 1 to 5 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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 2019 was 2.9% (2018: 4.6%). The annual investment income is receivable on 31 December each year.

4. Receipts

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	1,111,000	1,111,144	1,656,054
Transfer from General Revenue	-	-	1,530,000
	1,111,000	1,111,144	3,186,054

Civil Service Pension Reserve Fund

4. Receipts (Continued)

- (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). The accumulated investment return was \$0.41 billion up to 31 December 2019 (2018: \$0.33 billion), including the investment return for the calendar year 2019 amounting to \$0.08 billion (2018: \$0.12 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$2.79 billion from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.87 billion (2018: \$2.79 billion).

5. Other Cash Movements

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

	2020 \$'000	2019 \$'000
Increase in Assets		
Investments with the Exchange Fund	<u>1,111,144</u>	<u>3,186,054</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 2020, 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 2020 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

28 October 2020

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

Disaster Relief Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments with the Exchange Fund	3	<u>36,331</u>	<u>24,123</u>
Representing:			
Fund Balance			
Balance at beginning of year		24,123	16,417
Surplus for the year		<u>12,208</u>	<u>7,706</u>
Balance at end of year		<u>36,331</u>	<u>24,123</u>

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Disaster Relief Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	78,991	73,286
Payments	5	(66,783)	(65,580)
Surplus for the year		12,208	7,706
Other cash movements	6	(12,208)	(7,706)
Cash and bank balances at end of year		-	-

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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 2019 was 2.9% (2018: 4.6%). The annual investment income is receivable on 31 December each year.

4. Receipts

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	2,000	1,523	1,988
Transfer from General Revenue	74,000	74,000	70,000
Refund of grants	-	3,468	1,298
	<u>76,000</u>	<u>78,991</u>	<u>73,286</u>

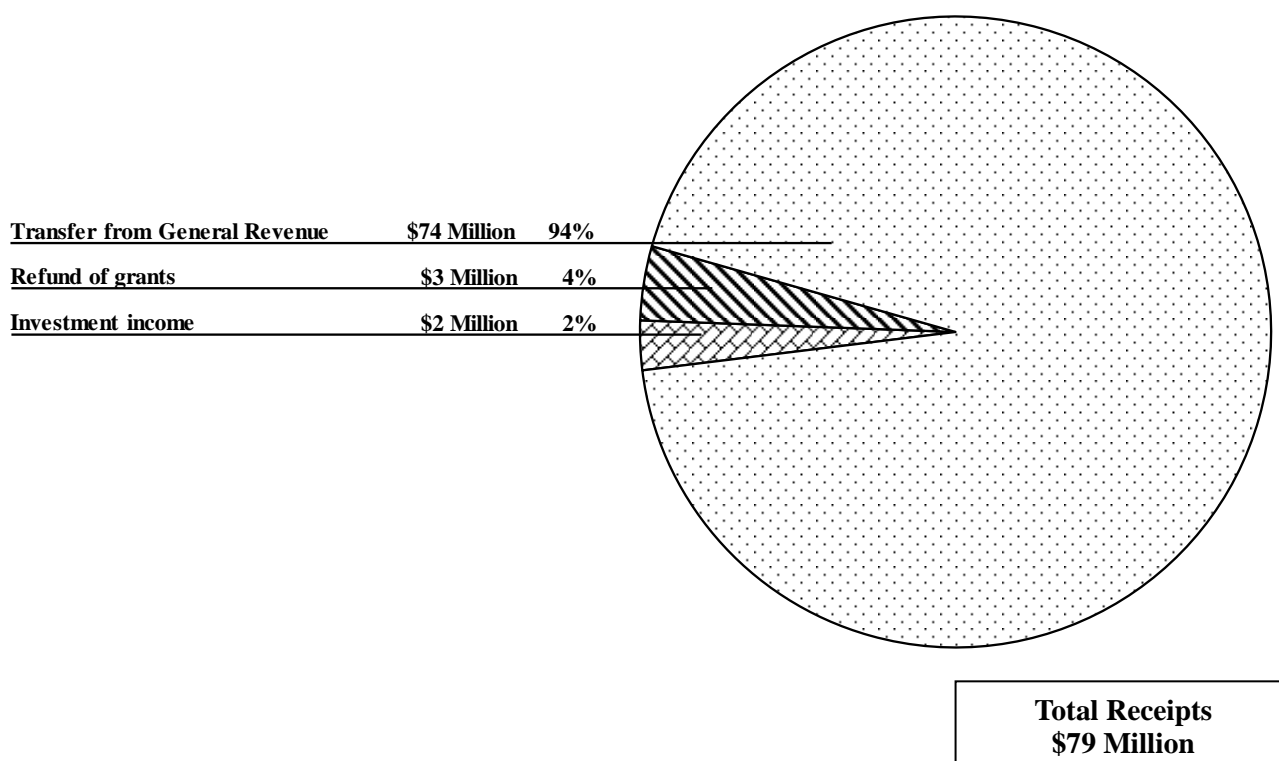
Disaster Relief Fund

4. Receipts (Continued)

- (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). The accumulated investment return was \$0.4 million up to 31 December 2019 (2018: \$0.32 million), including the investment return for the calendar year 2019 amounting to \$0.08 million (2018: \$0.11 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$2.64 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.72 million (2018: \$2.64 million).

Analysis of Receipts for the year ended 31 March 2020

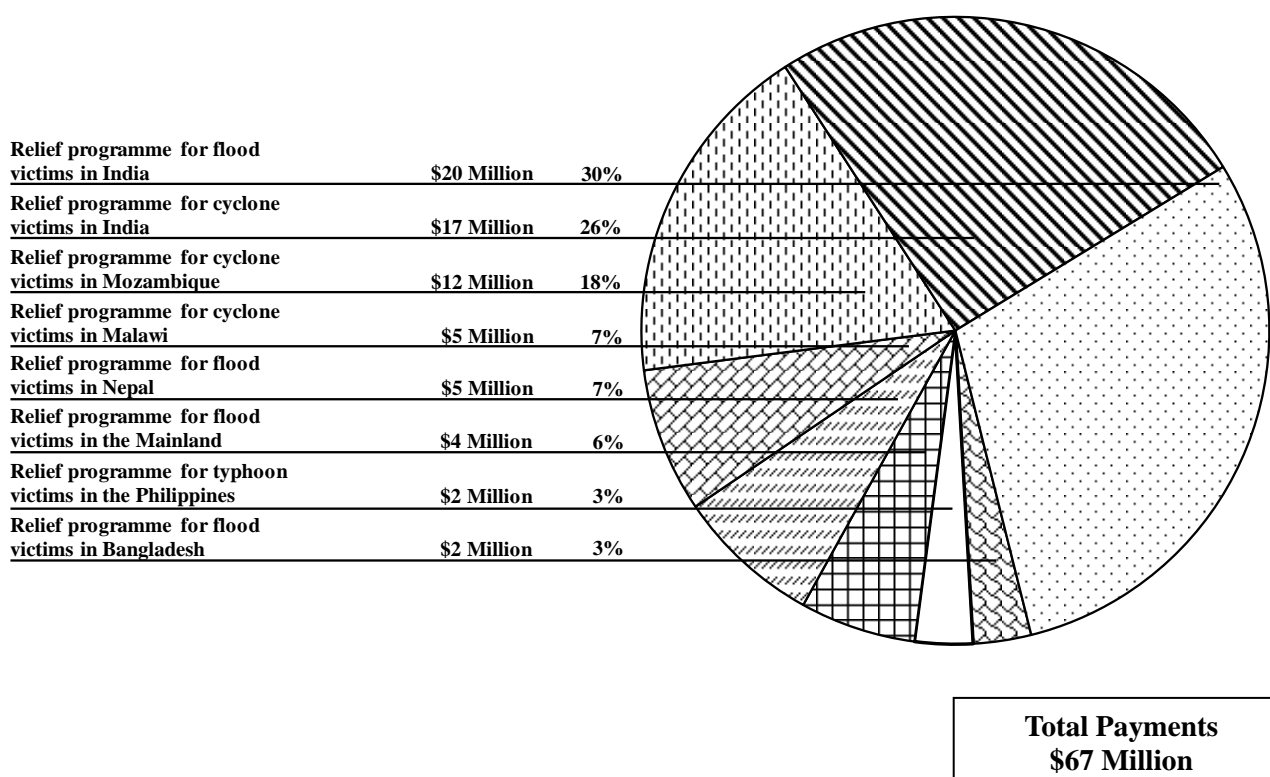


Disaster Relief Fund

5. Payments

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Relief programmes for			
flood victims in India	-	19,698	23,986
cyclone victims in India	-	16,983	-
cyclone victims in Mozambique	-	11,734	-
cyclone victims in Malawi	-	5,289	-
flood victims in Nepal	-	4,615	-
flood victims in the Mainland	-	4,542	7,015
typhoon victims in the Philippines	-	2,286	5,399
flood victims in Bangladesh	-	1,636	-
earthquake victims in Indonesia	-	-	10,419
earthquake and tsunami victims in Indonesia	-	-	8,800
flood victims in Kenya	-	-	6,217
earthquake victims in Papua New Guinea	-	-	3,207
typhoon victims in the Mainland	-	-	537
	-	66,783	65,580

Analysis of Payments for the year ended 31 March 2020



Disaster Relief Fund

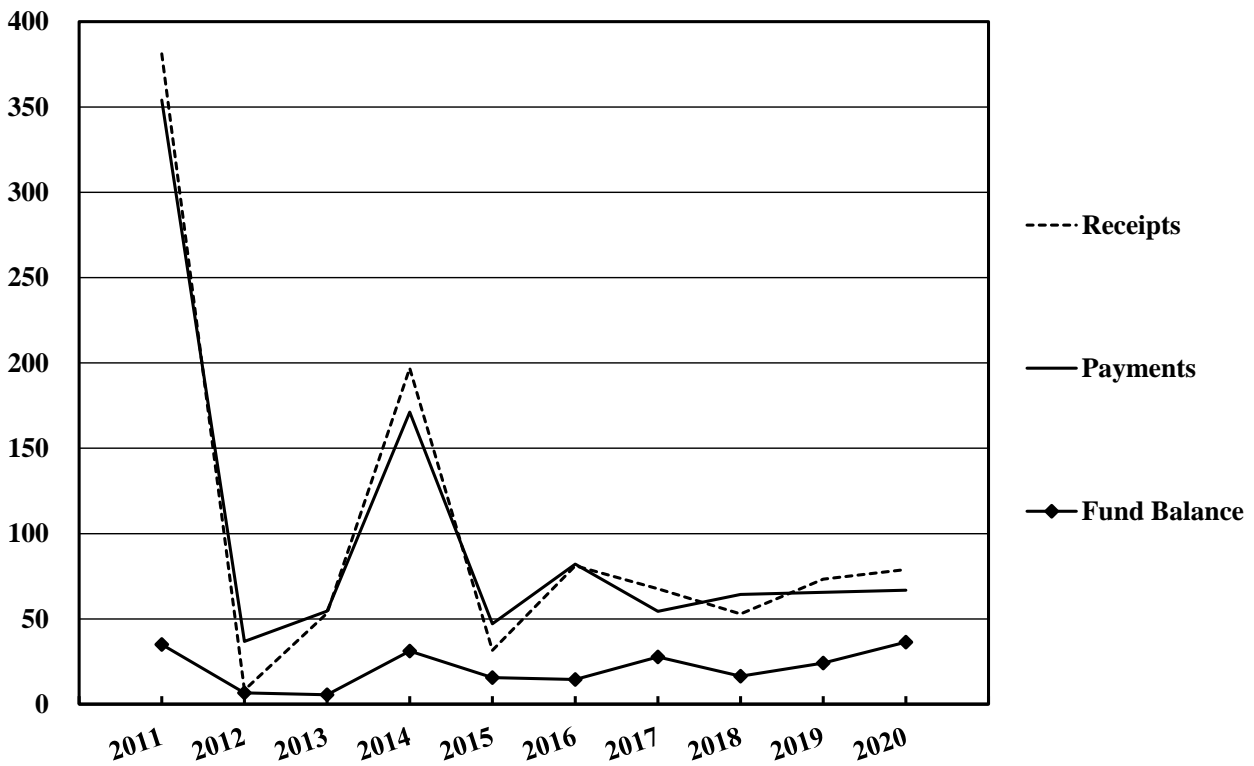
6. Other Cash Movements

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

	2020 \$'000	2019 \$'000
Increase in Assets		
Investments with the Exchange Fund	12,208	7,706

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$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 2020, 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 2020 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

28 October 2020

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 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments with the Exchange Fund	3	24,833,070	25,938,662
Cash and bank balances		1	303
		<u>24,833,071</u>	<u>25,938,965</u>
Representing:			
Fund Balance			
Balance at beginning of year		25,938,965	6,796,372
(Deficit)/Surplus for the year		(1,105,894)	19,142,593
Balance at end of year	4	<u>24,833,071</u>	<u>25,938,965</u>

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Innovation and Technology Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		303	1,044
Receipts	5	778,523	20,717,384
Payments	6	(1,884,417)	(1,574,791)
(Deficit)/Surplus for the year		(1,105,894)	19,142,593
Other cash movements	7	1,105,592	(19,143,334)
Cash and bank balances at end of year		1	303

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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 2019 was 2.9% (2018: 4.6%). The annual investment income is receivable on 31 December each year.

4. Commitments

The approved grants that were unpaid were as follows:

	2020 \$'000	2019 \$'000
Grants	<u>15,253,294</u>	<u>14,577,010</u>

Innovation and Technology Fund

5. Receipts

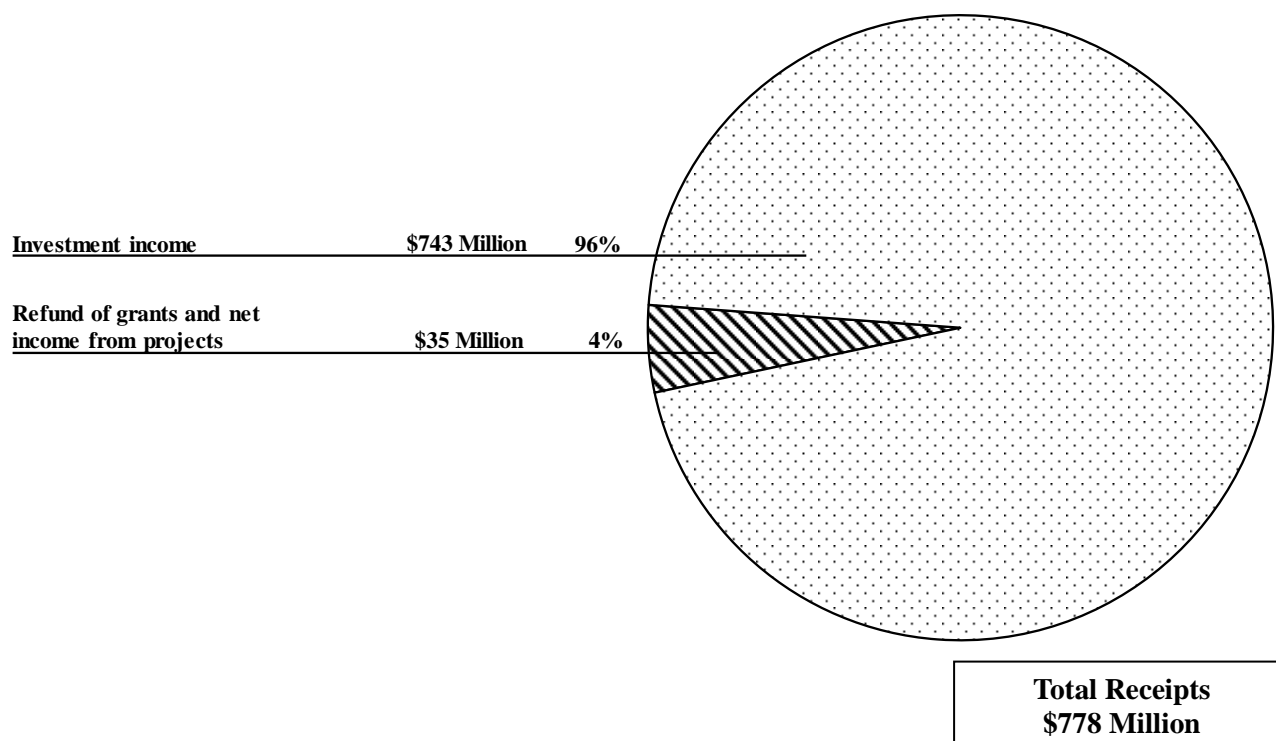
	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	740,182	668,268
Others	-	2,952	2,017
	706,000	743,134	670,285
Net income from projects	147	58	1,220
Refund of grants	-	35,331	45,879
Transfer from General Revenue	-	-	20,000,000
	<u>706,147</u>	<u>778,523</u>	<u>20,717,384</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). The accumulated investment return was \$17 million up to 31 December 2019 (2018: \$14 million), including the investment return for the calendar year 2019 amounting to \$3 million (2018: \$5 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$111 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$114 million (2018: \$111 million).

Innovation and Technology Fund

Analysis of Receipts for the year ended 31 March 2020



6. Payments

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	3,968,239	1,884,417	1,574,791

7. Other Cash Movements

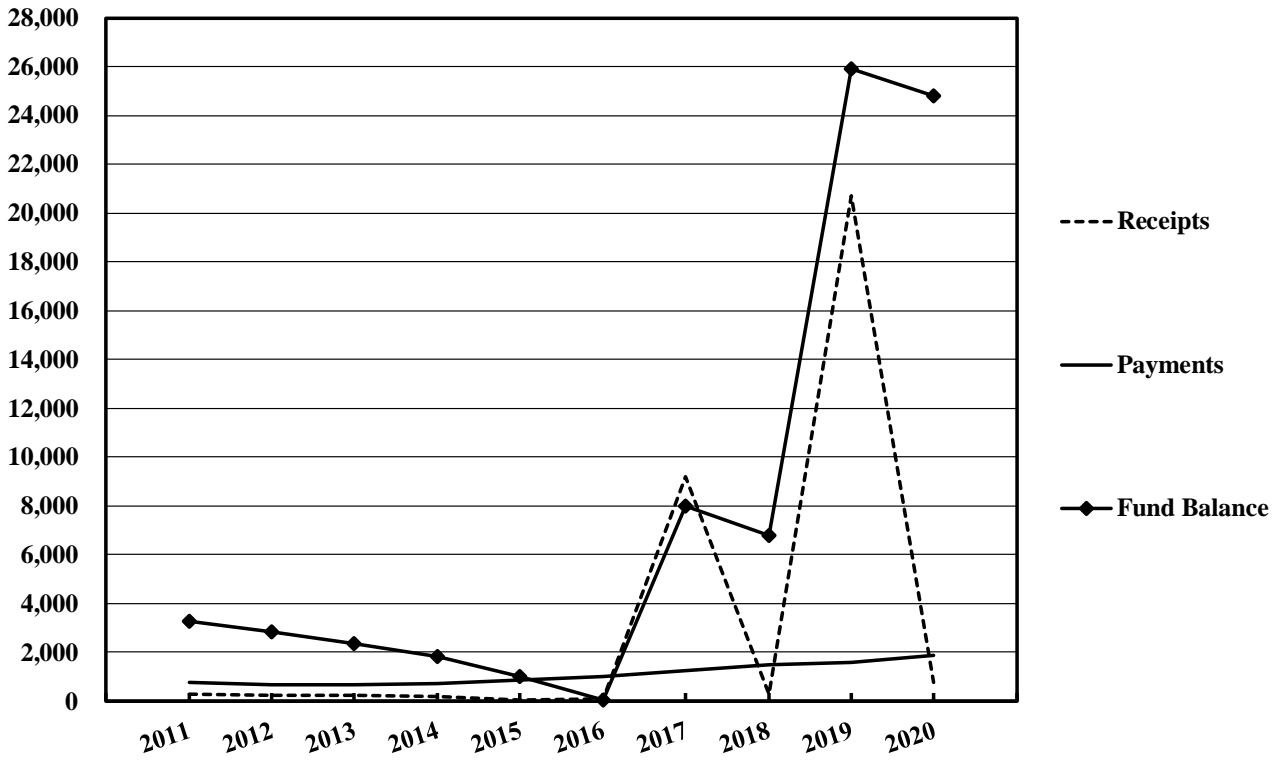
These are cash movements arising from changes in other assets and liabilities:

	2020 \$'000	2019 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	1,105,592	(19,143,334)

Innovation and Technology Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$Million



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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 2020, 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 2020 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

28 October 2020

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

Land Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'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
27 August 2020



Land Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'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
27 August 2020



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 (8.7% and 6.1% for the calendar years 2019 and 2018 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 \$71.84 billion as at 31 December 2019 (2018: \$48.03 billion), including the investment return for the calendar year 2019 of \$23.81 billion (2018: \$16.02 billion).
- (v) In June 2020, in a bid to uphold Hong Kong's status as an international aviation hub, the Financial Secretary exercised his authority under the Resolution to allocate \$27.3 billion of the Future Fund to invest in the Cathay Pacific Airways Limited. The investment would remain as a part of the Future Fund (Note (iv) above).

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). The accumulated investment return was \$3.36 billion up to 31 December 2019 (*2018: \$2.71 billion*), including the investment return for the calendar year 2019 amounting to \$0.65 billion (*2018: \$1 billion*). As announced in the 2019-20 Budget Speech, the Housing Reserve would 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 2019 was 2.9% (*2018: 4.6%*). At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$22.7 billion from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$23.35 billion (*2018: \$22.7 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 2020, 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 2020 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

28 October 2020

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Loans Outstanding	3		
Housing loans		3,420,503	3,025,540
Education loans		17,949,149	17,910,590
Other loans		10,516,414	10,475,776
		31,886,066	31,411,906
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,664,835	3,549,714
Cash and bank balances		12,300	12,339
		4,677,135	3,562,053
Current Liabilities			
Deposits	5	(32,194)	(27,186)
		4,644,941	3,534,867
		36,531,007	34,946,773
Representing:			
Total Fund Balance			
Applied Fund	6	31,886,066	31,411,906
Available Fund			
Balance at beginning of year		3,534,867	4,094,387
Surplus/(Deficit) for the year		1,110,074	(559,520)
Balance at end of year		4,644,941	3,534,867
	8	36,531,007	34,946,773

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		12,339	12,489
Receipts	9	3,458,827	3,851,999
Payments	10	(2,348,753)	(4,411,519)
Surplus/(Deficit) for the year		1,110,074	(559,520)
Other cash movements	11	(1,110,113)	559,370
Cash and bank balances at end of year		12,300	12,339

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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

	2020			2019		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,025,540	17,910,590	10,475,776	3,030,699	17,678,138	8,639,340
Additions						
Loan payments	428,544	1,797,122	123,087	297,840	2,194,076	1,919,603
Capitalised interest	36	122,848	194,167	35	-	193,750
	428,580	1,919,970	317,254	297,875	2,194,076	2,113,353
Deductions						
Loan repayments	(33,617)	(1,881,116)	(255,564)	(21,920)	(1,960,998)	(259,102)
Loans written off	-	(295)	(21,052)	(244)	(626)	(17,815)
Proceeds from sale of loans	-	-	-	(280,870)	-	-
	(33,617)	(1,881,411)	(276,616)	(303,034)	(1,961,624)	(276,917)
Balance at end of year	3,420,503	17,949,149	10,516,414	3,025,540	17,910,590	10,475,776

Loan Fund

4. Investments with the Exchange Fund

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

	2020 \$'000	2019 \$'000
Investments (Notes (ii) and (iii) below)	4,662,805	3,547,945
Deposits	2,030	1,769
	<u>4,664,835</u>	<u>3,549,714</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 2019 was 2.9% (2018: 4.6%). 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:

	2020 \$'000	2019 \$'000
Students	32,045	27,066
Others	149	120
	<u>32,194</u>	<u>27,186</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:

	2020 \$'000	2019 \$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	1,331,881	1,331,881
Balance of approved loans operating on revolving basis available for granting of new loans	10,813,071	11,199,455
	<u>12,144,952</u>	<u>12,531,336</u>

Loan Fund

9. Receipts

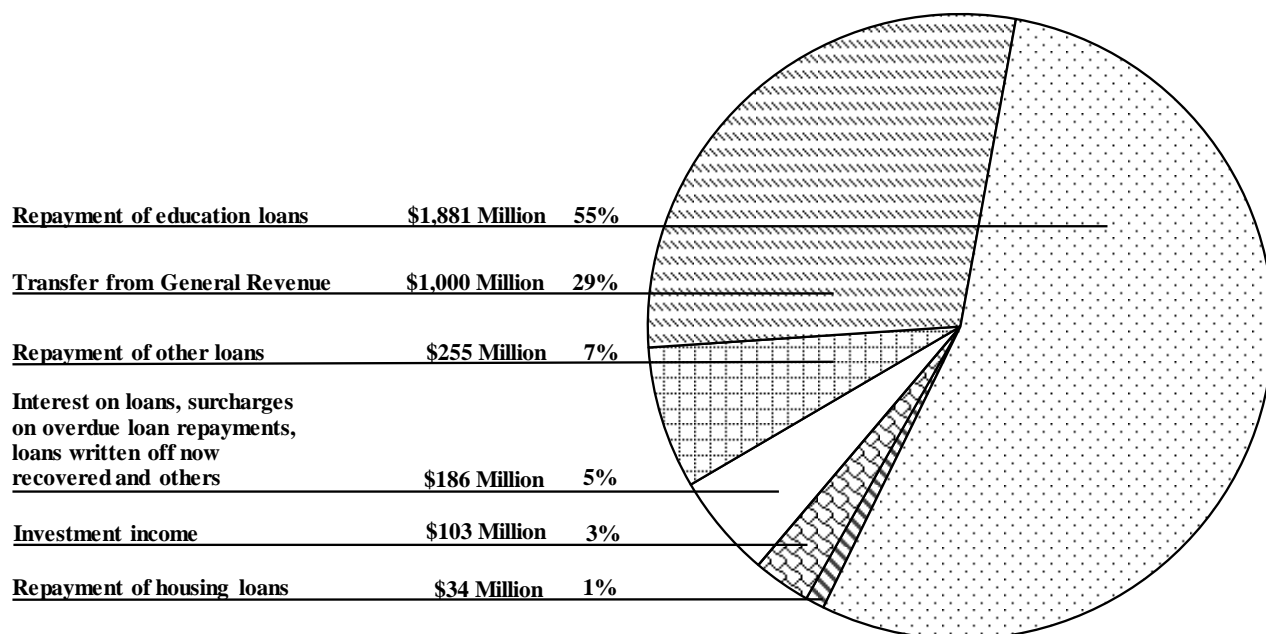
	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	55,143	33,617	21,920
Education loans	1,768,183	1,881,116	1,960,998
Other loans	289,448	255,564	259,102
	2,112,774	2,170,297	2,242,020
Interest on loans	196,357	180,381	165,951
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	103,153	157,760
Others	-	87	62
	83,000	103,240	157,822
Surcharges on overdue loan repayments	5,738	4,388	5,312
Proceeds from sale of loans	-	-	280,870
Loans written off now recovered	-	506	4
Others	-	15	20
Transfer from General Revenue	1,000,000	1,000,000	1,000,000
	<u>3,397,869</u>	<u>3,458,827</u>	<u>3,851,999</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). The accumulated investment return was \$28 million up to 31 December 2019 (2018: \$22 million), including the investment return for the calendar year 2019 amounting to \$6 million (2018: \$8 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$190 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$196 million (2018: \$190 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2020



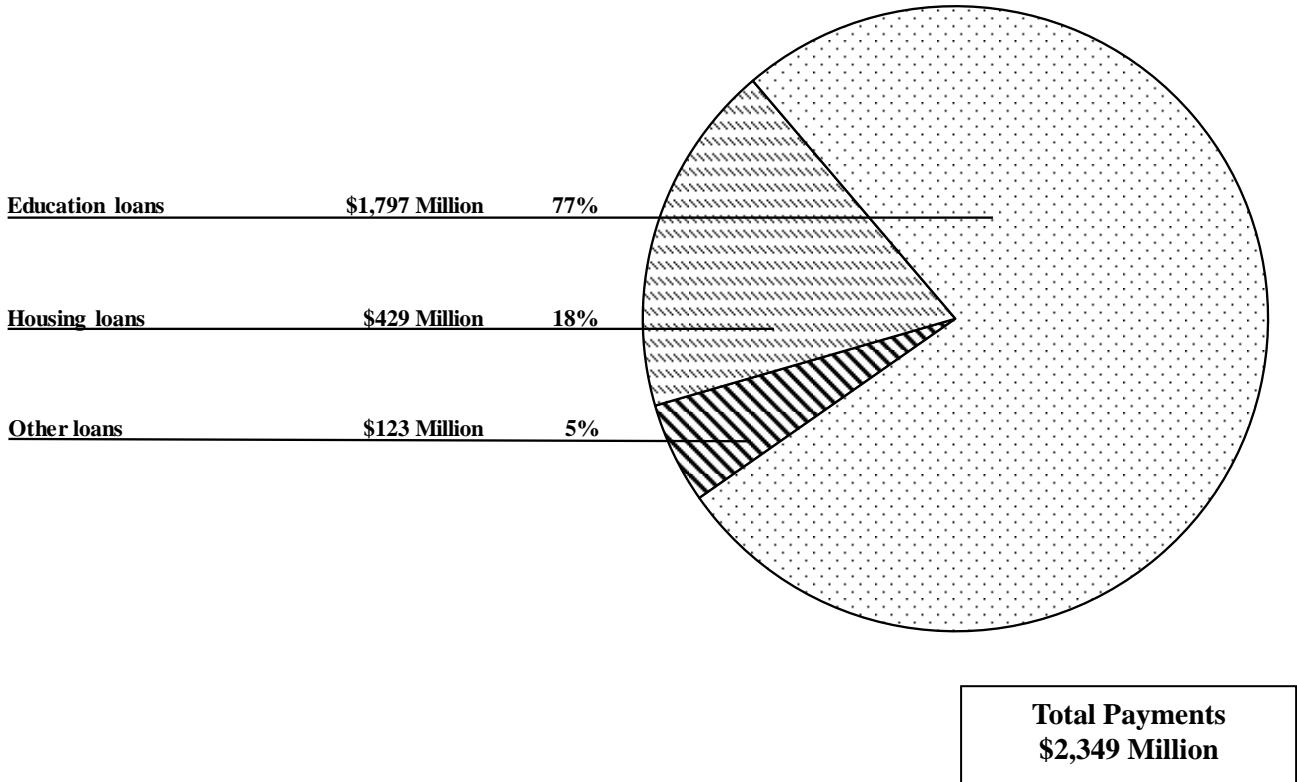
Total Receipts
\$3,459 Million

10. Payments

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	591,900	428,544	297,840
Education loans	2,003,772	1,797,122	2,194,076
Other loans	178,015	123,087	1,919,603
	<u>2,773,687</u>	<u>2,348,753</u>	<u>4,411,519</u>

Loan Fund

Analysis of Payments for the year ended 31 March 2020



11. Other Cash Movements

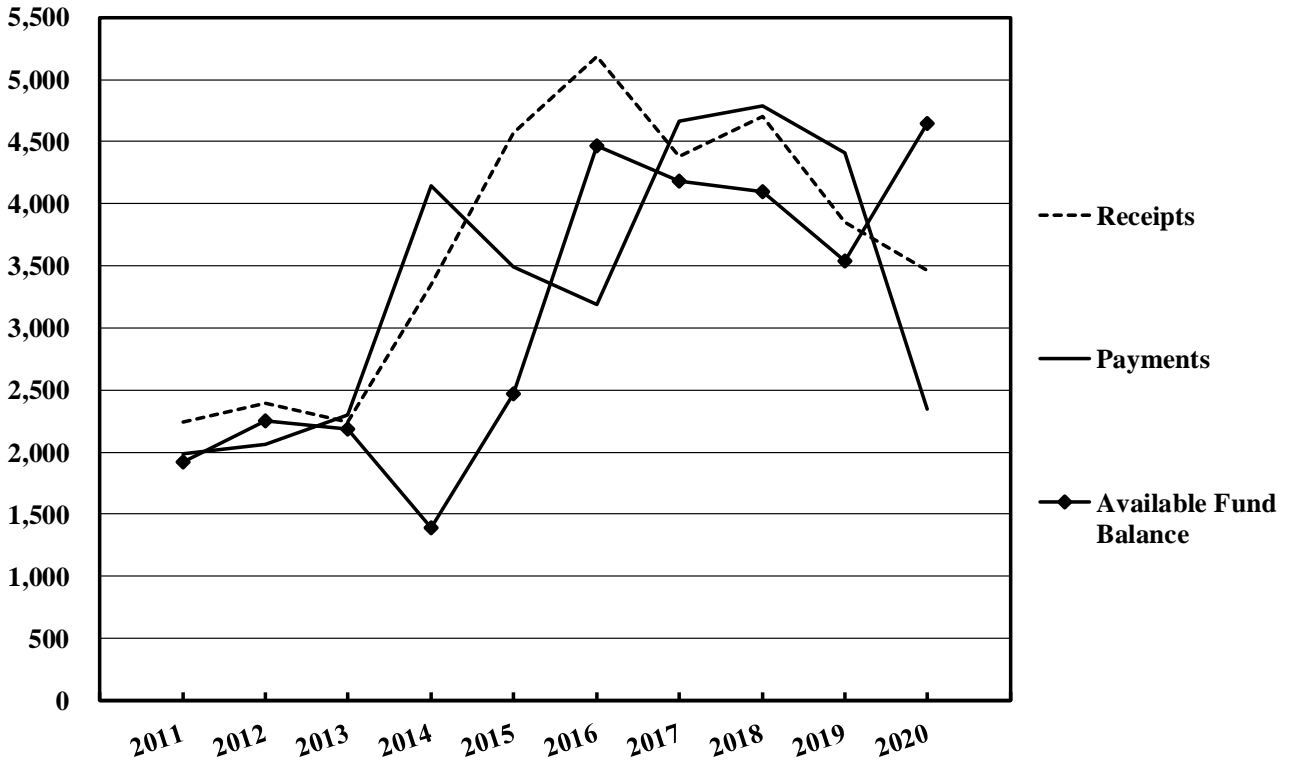
These are cash movements arising from changes in other assets and liabilities:

	2020 \$'000	2019 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(1,115,121)	555,540
Increase in Liabilities		
Deposits	5,008	3,830
	<u>(1,110,113)</u>	<u>559,370</u>

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2011 to 2020

\$Million



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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 2020, 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 2020 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

28 October 2020

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Assets			
Investments with the Exchange Fund	3	121,059,760	138,402,570
Liabilities			
Deposits	4	(2,610)	-
		<u>121,057,150</u>	<u>138,402,570</u>
Representing:			
Fund Balance			
Balance at beginning of year		138,402,570	138,155,143
(Deficit)/Surplus for the year		(17,345,420)	247,427
Balance at end of year	5, 6	<u>121,057,150</u>	<u>138,402,570</u>

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

	Note	2020 \$'000	2019 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	25,064,579	25,923,255
Payments	8	(42,409,999)	(25,675,828)
(Deficit)/Surplus for the year		(17,345,420)	247,427
Other cash movements	9	17,345,420	(247,427)
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
27 August 2020



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 2019 was 2.9% (2018: 4.6%). 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:

	2020	2019
	\$'000	\$'000
Accrued interest received from successful bidders	<u>2,610</u>	<u>-</u>

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 \$98.72 billion as at 31 March 2020 comprising the outstanding bonds with nominal value of \$83.21 billion and alternative bonds with nominal value of US\$2 billion (equivalent to \$15.51 billion as at 31 March 2020) 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:

	2020 \$'000	2019 \$'000
Bonds		
Balance at beginning of year	94,747,380	98,193,880
Issuance of bonds under		
Tender to institutional investors	17,800,000	16,900,000
Subscription to retail investors	3,000,000	3,000,000
	20,800,000	19,900,000
Repayment of bonds issued under		
Tender to institutional investors	(19,400,000)	(13,200,000)
Subscription to retail investors	(12,934,560)	(10,146,500)
	(32,334,560)	(23,346,500)
Balance at end of year	83,212,820	94,747,380
Alternative bonds (Note (i) below)		
Balance at beginning of year	23,550,000	23,541,000
Repayment of bonds (Note (ii) below)	(7,829,900)	-
Foreign currency translation difference	(211,600)	9,000
Balance at end of year (Note (iii) below)	15,508,500	23,550,000
Total outstanding bonds	98,721,320	118,297,380

- (i) Alternative bonds are denominated in United States dollars.
- (ii) During the financial year, alternative bonds with nominal value of US\$1 billion (equivalent to HK\$7.83 billion) were repaid.
- (iii) The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.

Bond Fund

6. Bonds Outstanding (Continued)

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

	2020 \$'000	2019 \$'000
Bonds		
Within one year (Note (v) below)	12,361,190	32,256,330
After one year but within two years (Note (vi) below)	17,467,930	12,394,920
After two years but within five years (Note (vii) below)	35,283,700	32,296,130
After five years	18,100,000	17,800,000
	83,212,820	94,747,380
Alternative bonds (Notes (i) to (iii) above)		
Within one year	7,754,250	7,850,000
After one year but within two years	-	7,850,000
After five years	7,754,250	7,850,000
	15,508,500	23,550,000
Total outstanding bonds	98,721,320	118,297,380

(v) The outstanding bonds included Silver Bonds with nominal value of \$2.86 billion (2019: \$2.86 billion) which might be redeemed before maturity upon request from bond holders.

(vi) The outstanding bonds included Silver Bonds with nominal value of \$2.97 billion (2019: \$2.89 billion) which might be redeemed before maturity upon request from bond holders.

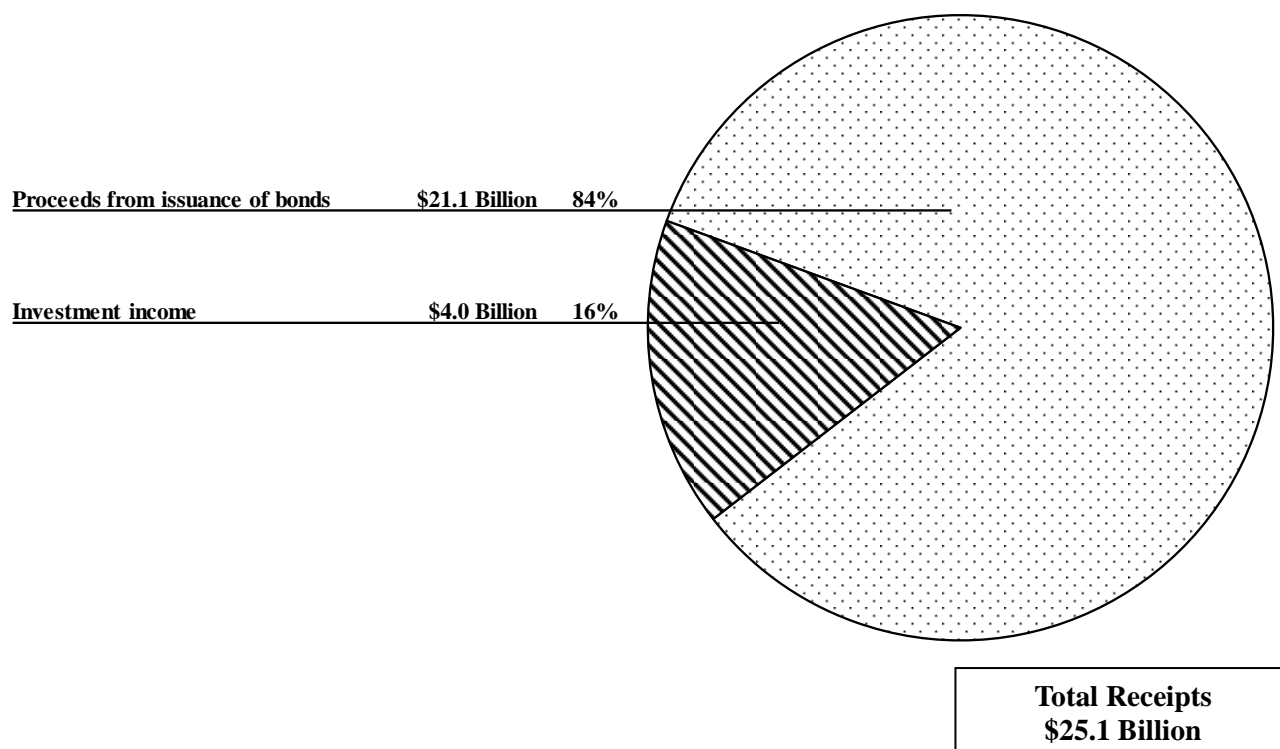
(vii) The outstanding bonds included Silver Bonds with nominal value of \$2.98 billion (2019: \$3 billion) which might be redeemed before maturity upon request from bond holders.

7. Receipts

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Proceeds from bonds issued under			
Tender or subscription	19,900,000	21,038,820	19,457,620
Bond swap facility	1,000,000	-	-
	20,900,000	21,038,820	19,457,620
Investment income			
Investments with the Exchange Fund	-	4,024,289	6,464,799
Others	-	1,470	836
	4,056,000	4,025,759	6,465,635
	24,956,000	25,064,579	25,923,255

Bond Fund

Analysis of Receipts for the year ended 31 March 2020

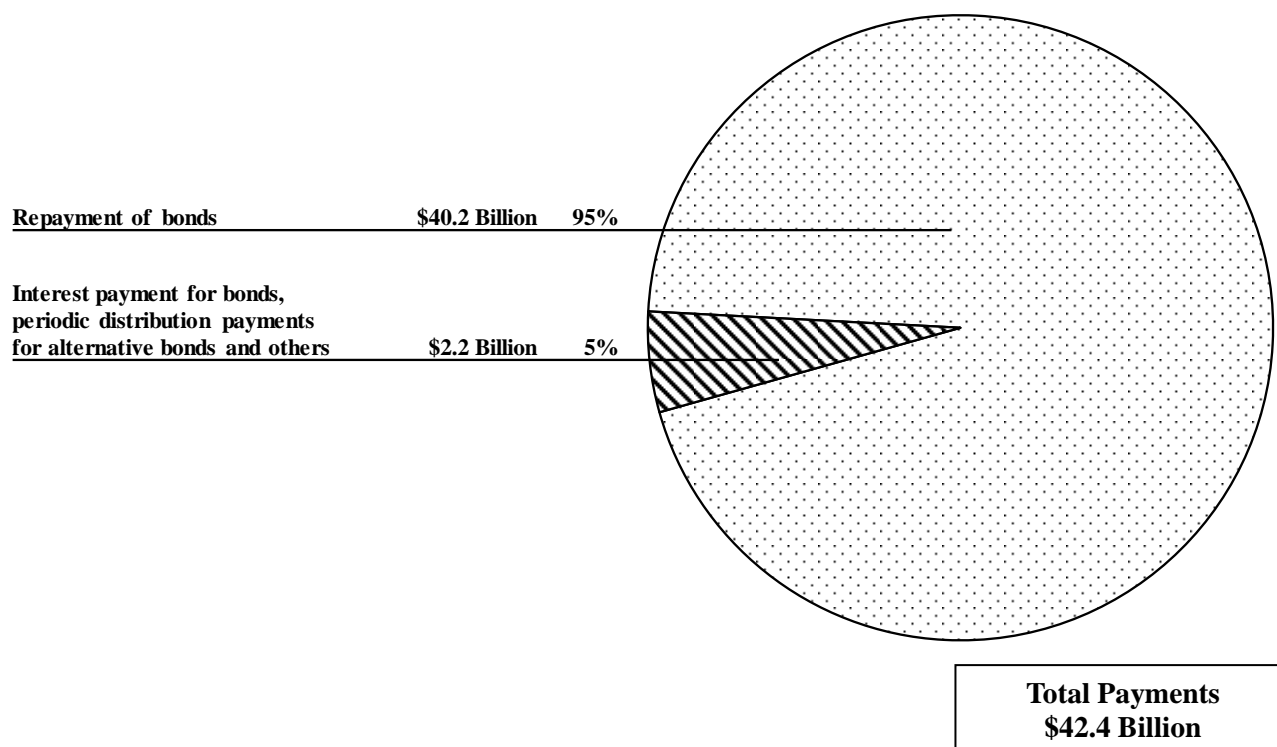


8. Payments

	2020		2019
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Repayment of bonds issued under			
Tender or subscription	32,417,409	32,334,560	23,346,500
Bond swap facility	1,000,000	-	-
	33,417,409	32,334,560	23,346,500
Repayment of alternative bonds	7,800,000	7,829,900	-
Interest payment for bonds	1,771,986	1,762,548	1,762,901
Periodic distribution payments for alternative bonds	392,028	471,818	551,604
Others	11,851	11,173	14,823
	<u>43,393,274</u>	<u>42,409,999</u>	<u>25,675,828</u>

Bond Fund

Analysis of Payments for the year ended 31 March 2020



9. Other Cash Movements

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

	2020 \$'000	2019 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	17,342,810	(246,180)
Increase/(Reduction) in Liabilities		
Deposits	2,610	(1,247)
	<u>17,345,420</u>	<u>(247,427)</u>

Bond Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$Billion

