

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**



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

Opinion

What we have audited

The financial statements of the Hospital Authority ("HA") Public-Private Partnership Fund (the "Fund") set out on pages 3 to 17, which comprise:

- the balance sheet as at 31 March 2020;
- the statement of income and expenditure for the year then ended;
- the statement of changes in total fund for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of principal accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for Opinion

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

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

Independence

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

Responsibilities of HA for the Financial Statements

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

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 September 2020

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

BALANCE SHEET

	Note	At 31 March 2020 HK\$'000	At 31 March 2019 HK\$'000
Non-Current Asset			
Placement with the Exchange Fund	4	10,000,000	10,000,000
Current Assets			
Other receivables		281	290
Prepayments		242	242
Placement with the Exchange Fund	4	755,471	665,320
Cash and bank balances	5	125,097	151,622
		881,091	817,474
Total Assets		10,881,091	10,817,474
Fund			
Accumulated Fund		-	-
Total Fund		-	-
Current Liability			
Creditors and accrued charges	6	37,250	27,068
Non-Current Liabilities			
Deferred income – Public-Private Partnership Fund	7	843,841	790,406
Endowment Fund		10,000,000	10,000,000
		10,843,841	10,790,406
Total Liabilities		10,881,091	10,817,474
Total Fund And Total Liabilities		10,881,091	10,817,474


 Dr YEUNG Tai-kong
 Director (Cluster Services)


 Ms Anita CHAN Shuk-yu
 Director (Finance)

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF INCOME AND EXPENDITURE

	Note	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
Income			
Transfer from deferred income – Public-Private Partnership Fund	7	286,750	261,154
		-----	-----
Expenditure			
Fees to participating service providers		(209,570)	(185,874)
Staff costs	8	(66,766)	(61,625)
Computer equipment and IT maintenance		(5,351)	(7,392)
Drugs, medical supplies and equipment		(504)	(521)
Audit fee		(63)	(60)
Other operating expenses		(4,496)	(5,682)
		-----	-----
		(286,750)	(261,154)
		=====	=====
Surplus for the year		-	-
		=====	=====

The Fund had no components of comprehensive income other than “surplus for the year” in the year presented. Accordingly, no separate statement of comprehensive income is presented as the Fund’s “total comprehensive income” was the same as the “surplus for the year”.

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF CHANGES IN TOTAL FUND

	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
Total fund at the beginning of the year	-	-
Surplus for the year	-	-
Total fund at the end of the year	<u>-</u>	<u>-</u>

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

STATEMENT OF CASH FLOWS

	Note	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
Net cash (used in)/generated from operating activities	9(a)	(26,525)	78,461
Investing activity			
Decrease/(increase) in bank deposits with original maturity over three months		12,207	(56,102)
Net cash generated from/(used in) investing activity		12,207	(56,102)
Net (decrease)/increase in cash and cash equivalents		(14,318)	22,359
Cash and cash equivalents at the beginning of the year		95,520	73,161
Cash and cash equivalents at the end of the year	5	81,202	95,520

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

1. Background

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

With approval given by the Finance Committee of the Legislative Council ("LegCo"), the Government allocated to HA a sum of HK\$10 billion on 31 March 2016 as an endowment fund to generate investment returns for regularising and enhancing ongoing clinical PPP programmes, as well as developing new clinical PPP programmes in future. As approved by the Government, the endowment fund has been placed with the Exchange Fund managed by the Hong Kong Monetary Authority ("HKMA") for a period of six years commencing from 12 July 2016 (the "Placement"). HA can make use of the investment returns together with the remaining balance of the one-off designated funding provided previously to support the ongoing operation of the PPP programmes. The HA PPP Fund (the "Fund") was accordingly established, comprising the HK\$10 billion endowment fund and HK\$442 million from the remaining balance as at 31 March 2016 of the one-off designated funding provided to HA previously by the Government to support the ongoing operation of the PPP programmes.

Under the agreed governance arrangement, the annual audited financial statements of the Fund should be submitted to the LegCo via the Food and Health Bureau.

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

2. Principal accounting policies

(a) Basis of preparation

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

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

2. Principal accounting policies (Continued)

(b) Adoption of new/revised HKFRSs

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

The HKICPA has also issued a number of new/revised HKFRSs which are effective for accounting period beginning on or after 1 April 2020. HA has not early adopted these new/revised HKFRSs in the financial statements for the financial year ended 31 March 2020. HA is in the process of making an assessment but is not yet in a position to conclude the impact of these new/revised HKFRSs on the Fund's results of operations and financial position.

(c) Recognition of income

The investment returns from the Placement and bank deposits, together with the remaining balance of the one-off designated funding for HA's PPP programmes as at 31 March 2016 are recognised as deferred income – PPP Fund.

Government recurrent subvention to HA for pay adjustment of staff deployed on PPP programmes is recognised in deferred income – PPP Fund when the subvention is received.

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

(d) Cash and cash equivalents

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

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

The Placement is measured as "financial assets at fair value through profit or loss". HA determines the classification of its financial assets at initial recognition, and such classification depends on HA's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of income and expenditure. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and HA has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

2. Principal accounting policies (Continued)

(f) Employee benefits

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

(g) Related parties

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

For the purpose of these financial statements, transactions between the Fund and Government departments, agencies or Government controlled entities, other than those transactions that arise in the normal dealings between the Government and the Fund, are also considered to be related party transactions.

3. Financial risk management

(a) Financial risk factors

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

With regard to investments, in accordance with the prevailing policies and guidelines, the primary objectives are to meet liquidity requirements, to protect capital and to provide a reasonable return. The investment portfolio ("Portfolio") as at 31 March 2020 consisted of bank deposits and the Placement. Based on the risk control measures as summarised below, the risk of default by the counterparties is considered minimal. Besides, the Fund has no currency risk because all financial assets and liabilities are denominated in Hong Kong dollar, the Fund's functional and presentation currency.

(i) Credit risk

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

Bank deposits are placed with HA's approved banks which are of investment grade as determined by Moody's or Standard and Poor's with minimum credit rating not lower than Moody's Baa3 or equivalent. The impairment requirements of HKFRS 9 "Financial Instruments" do not have a material impact on the bank deposits. Credit risk arising from the bank deposits is not significant to the Fund.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

The Placement is entered into between HA and the HKMA and it is expected that the HKMA can fulfill its contractual obligations to HA in respect of the Placement.

(ii) Interest rate risk

The Portfolio's interest rate risk arises from interest bearing bank deposits. Fixed rate bank deposits expose the Portfolio to fair value interest rate risk. Sensitivity analyses have been performed by HA with regard to interest rate risk as at 31 March 2020. If interest rates had been increased or decreased by 25 basis points, which represent management's assessment of a reasonably possible change in those rates, and all other variables were held constant, the effect on the Fund's operating results and total fund is not significant.

(b) Fair values estimation

(i) Financial assets carried at fair values

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

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

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

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management (Continued)

(b) Fair values estimation (Continued)

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

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

Specific valuation techniques used to value financial instruments include:

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

The Placement is included in level 3. The following table presents the changes in level 3 instruments for the financial years ended 31 March 2020 and 31 March 2019:

	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
At the beginning of the year	10,665,320	10,558,770
Interest earned / accrued interest	326,151	426,550
Interest withdrawn	(236,000)	(320,000)
	<hr/>	<hr/>
At the end of the year (note 4)	<u>10,755,471</u>	<u>10,665,320</u>

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

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

4. Placement with the Exchange Fund

The Placement is initially fixed for a period of six years commencing from 12 July 2016, and is measured as a “financial asset at fair value through profit or loss”. The valuation technique and significant unobservable inputs used in the fair value measurements are the discounted cash flow and discount rate respectively. The Placement is denominated in Hong Kong dollar. Its fair value is determined with reference to the estimated rates of investment return for future years.

The interest on the Placement is at a fixed rate determined annually in January and payable annually in arrears on 31 December. Currently, the rate of return is calculated on the basis of the average annual rate of return on certain investment portfolio of the Exchange Fund over the past six years or the average annual yield of three-year government bond in the previous year (subject to a minimum of zero percent), whichever is the higher. This rate of return has been fixed at 2.9% and 3.7% per annum for January to December 2019 and January to December 2020 respectively. During the year ended 31 March 2020, HA withdrew interest of HK\$236,000,000 (2019: HK\$320,000,000) from the Placement. HK\$144,000,000 and HK\$92,000,000 were withdrawn on 30 April 2019 and 31 October 2019 respectively to support the operation of the PPP programmes. The remaining interest earned but not yet withdrawn by HA would continue to accrue interest at the same rate payable for the principal amount.

The Placement is analysed as follows:

	At 31 March 2020 HK\$'000	At 31 March 2019 HK\$'000
Principal amount	10,000,000	10,000,000
Interest earned but not withdrawn at the reporting date	657,428	589,598
Accrued interest	98,043	75,722
	<u>10,755,471</u>	<u>10,665,320</u>
Less: non-current portion	<u>(10,000,000)</u>	<u>(10,000,000)</u>
Current portion	<u>755,471</u>	<u>665,320</u>

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

5. Cash and bank balances

	At 31 March 2020 HK\$'000	At 31 March 2019 HK\$'000
Bank deposits with original maturity within three months	81,202	95,520
Cash and cash equivalents	81,202	95,520
Bank deposits with original maturity over three months	43,895	56,102
	<u>125,097</u>	<u>151,622</u>

The effective interest rate on short term bank deposits is between 1.20% and 2.58% (2019: 1.30% and 2.02%). These deposits have an average maturity of 79 days (2019: 88 days).

6. Creditors and accrued charges

	At 31 March 2020 HK\$'000	At 31 March 2019 HK\$'000
Accruals and accounts payable for fees to participating service providers	30,501	20,879
Other accruals and payables	6,749	6,189
	<u>37,250</u>	<u>27,068</u>

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

7. Deferred income – PPP Fund

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

	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
At the beginning of the year	790,406	613,446
Interest from the Placement (note 9(b))	326,151	426,550
Interest from bank deposits	4,471	5,310
Government recurrent subvention for pay adjustment	9,563	6,254
Transfer to statement of income and expenditure	(286,750)	(261,154)
At the end of the year	<u>843,841</u>	<u>790,406</u>

8. Staff costs

	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
Basic salaries and other short term employee benefits	61,603	57,008
Contributions to HA Provident Fund and Mandatory Provident Fund Schemes	5,163	4,617
	<u>66,766</u>	<u>61,625</u>

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

9. Net cash (used in)/generated from operating activities

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

	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
Surplus for the year	-	-
Income transferred from deferred income – PPP Fund	(286,750)	(261,154)
Interest withdrawn from the Placement	236,000	320,000
Interest received from bank deposits	4,480	5,073
Government recurrent subvention for pay adjustment	9,563	6,254
Decrease in prepayments	-	9
Decrease in other receivables (exclude interest receivables)	-	107
Increase in creditors and accrued charges	10,182	8,172
	<hr/>	<hr/>
Net cash (used in)/generated from operating activities	(26,525)	78,461
	<hr/> <hr/>	<hr/> <hr/>

(b) Non-cash transaction

The interest earned from the Placement of HK\$326,151,000 (2019: HK\$426,550,000) was a non-cash transaction with a corresponding increase in deferred income – PPP Fund.

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

10. Expenditure by programme

Programme	For the year ended 31 March 2020 HK\$'000	For the year ended 31 March 2019 HK\$'000
(a) Cataract Surgeries Programme	3,306	2,931
(b) Colon Assessment PPP Programme	20,110	18,536
(c) General Outpatient Clinic PPP Programme	82,506	72,166
(d) Glaucoma PPP Programme	879	-
(e) Haemodialysis PPP Programme	62,946	56,941
(f) Patient Empowerment Programme	22,554	23,641
(g) Project on Enhancing Radiological Investigation Services through Collaboration with the Private Sector	44,398	36,675
(h) Provision of Infirmery Service through PPP	24,177	24,149
	<hr/>	<hr/>
	260,876	235,039
Information technology and administration support	25,874	26,115
	<hr/>	<hr/>
	286,750	261,154
	<hr/> <hr/>	<hr/> <hr/>

THE HOSPITAL AUTHORITY PUBLIC-PRIVATE PARTNERSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

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

- (a) Expenditure of HK\$286,750,000 (2019: HK\$261,154,000) was recharged by HA to the Fund.
- (b) Other significant related party transaction entered by the Fund with the Government was the recurrent subvention for pay adjustment (note 7).
- (c) As at 31 March 2019 and 2020, the HK\$10,000,000,000 Endowment Fund represented outstanding balance with the Government.
- (d) As at 31 March 2020, the amount due to HA included in creditors and accrued charges was HK\$3,292,000 (2019: HK\$2,735,000). The balances with HA were unsecured, interest-free and had no fixed term of repayment.

12. Approval of financial statements

The financial statements were approved by members of HA on 24 September 2020.