



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 2021

September 2021

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 2021



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10 September 2021

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 2021, 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 23, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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

General Revenue Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	480,984,754	683,611,646
Deposits with banks	4	588,729	549,788
Cash and bank balances	5	2,972,862	3,206,426
Advances	6	4,083,163	4,668,832
Suspense Accounts	7	48,900	122,368
		488,678,408	692,159,060
Liabilities			
Deposits	8	(23,881,280)	(23,985,718)
Suspense Accounts	7	(68,591)	(69,476)
		(23,949,871)	(24,055,194)
		464,728,537	668,103,866
Representing:			
General Revenue Balance			
Balance at beginning of year		668,103,866	712,454,089
Deficit for the year		(203,375,329)	(44,350,223)
Balance at end of year	9, 10	464,728,537	668,103,866

Notes 1 to 13 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



General Revenue Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		3,206,426	4,509,675
Revenue	11	547,133,688	491,338,328
Expenditure	12	(750,509,017)	(535,688,551)
Deficit for the year		(203,375,329)	(44,350,223)
Other cash movements	13	203,141,765	43,046,974
Cash and bank balances at end of year		2,972,862	3,206,426

Notes 1 to 13 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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:

	2021 \$'000	2020 \$'000
Investments (Notes (ii) to (iv) below)	480,979,710	683,604,149
Deposits	5,044	7,497
	<u>480,984,754</u>	<u>683,611,646</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 (12.3% and 8.7% for the calendar years 2020 and 2019 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 \$2.53 billion as at 31 December 2020 (2019: \$1.7 billion), including the investment return for the calendar year 2020 of \$0.83 billion (2019: \$0.55 billion). As announced in the 2021-22 Budget Speech, the accumulated investment return on the Future Fund would be brought back to the Government's accounts and recorded as investment income on a progressive basis starting from 2021-22.
- (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 2020 was 3.7% (2019: 2.9%). 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:

	2021 \$'000	2020 \$'000
Hong Kong dollar	70,584	71,450
Foreign currency	518,145	478,338
	<u>588,729</u>	<u>549,788</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:

	2021 \$'000	2020 \$'000
Advances to Government officers	1,965,218	2,144,719
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	403,100	690,403
Others	552,854	671,719
	4,083,163	4,668,832

- (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). 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 of \$3.865 million 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 2020-21, 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:

	2021 \$'000	2020 \$'000
Assets:		
Correctional Services Industries (Note (i) below)	43,188	26,857
Government Logistics Department — Unallocated Stores (Note (i) below)	5,188	95,432
The Financial Secretary Incorporated (Note (ii) below)	524	79
	48,900	122,368
Liabilities:		
The Special Coin (Note (iii) below)	(68,591)	(69,476)
Net balance	(19,691)	52,892

- (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:

	2021 \$'000	2020 \$'000
Tax reserve certificates	14,915,700	14,794,836
Water deposits	1,970,235	1,929,726
Tenancy deposits	1,831,991	1,822,191
Legal aid deposits	1,118,906	1,072,622
Tax overpayments	1,038,327	1,365,665
Private works	406,556	383,273
Others	2,599,565	2,617,405
	23,881,280	23,985,718

9. Contingent Liabilities

As at 31 March 2021, the Government had the following contingent liabilities:

- (i) guarantees provided under the SME Financing Guarantee Scheme — 100% Guarantee Product amounting to \$45,413 million (2020: *Nil*);
- (ii) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$37,468 million (2020: *\$36,726 million*);
- (iii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$27,546 million (2020: *\$24,018 million*);
- (iv) guarantees provided under the SME Financing Guarantee Scheme — 90% Guarantee Product amounting to \$5,312 million (2020: *\$817 million*);
- (v) legal claims, disputes and proceedings amounting to \$4,019 million (2020: *\$5,249 million*);
- (vi) guarantees provided under the SME Loan Guarantee Scheme amounting to \$3,141 million (2020: *\$3,877 million*); and
- (vii) guarantees provided under the Special Loan Guarantee Scheme amounting to \$230 million (2020: *\$329 million*).

General Revenue Account

10. Commitments

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

	2021 \$'000	2020 \$'000
Non-recurrent expenditure	120,361,952	77,021,523
Plant, vehicles and equipment	13,396,416	11,650,245
Capital subventions	1,902,187	2,733,934
Capital works	301,096	311,119
	135,961,651	91,716,821

11. Revenue

Analysis of total revenue by Head:

Head	2021				2020
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
1 Duties	10,927,249	11,851,956	924,707	8.5	11,390,578
2 General Rates	19,483,000	19,043,683	(439,317)	(2.3)	20,980,582
3 Internal Revenue					
Profits tax	130,900,000	135,539,666	4,639,666	3.5	155,900,322
Salaries tax	59,910,000	75,027,324	15,117,324	25.2	50,412,460
Stamp duties	75,000,000	89,044,620	14,044,620	18.7	67,197,968
Other internal revenue	35,984,000	31,235,884	(4,748,116)	(13.2)	32,218,384
	301,794,000	330,847,494	29,053,494	9.6	305,729,134
4 Motor Vehicle Taxes	7,382,000	6,594,409	(787,591)	(10.7)	7,218,830
5 Fines, Forfeitures and Penalties	1,578,567	4,771,540	3,192,973	202.3	1,800,770
6 Royalties and Concessions	3,567,376	3,529,402	(37,974)	(1.1)	3,202,674
7 Properties and Investments					
Income from Investments with the Exchange Fund (Note (i) below)	-	41,689,275	-	-	39,954,835
Others	-	24,622,393	-	-	25,050,403
	71,724,078	66,311,668	(5,412,410)	(7.5)	65,005,238
9 Loans, Reimbursements, Contributions and Other Receipts	89,227,230	90,224,793	997,563	1.1	59,982,409
10 Utilities	3,834,511	3,496,168	(338,343)	(8.8)	3,905,742
11 Fees and Charges	12,977,668	10,462,575	(2,515,093)	(19.4)	12,122,371
Total	522,495,679	547,133,688	24,638,009	4.7	491,338,328

General Revenue Account

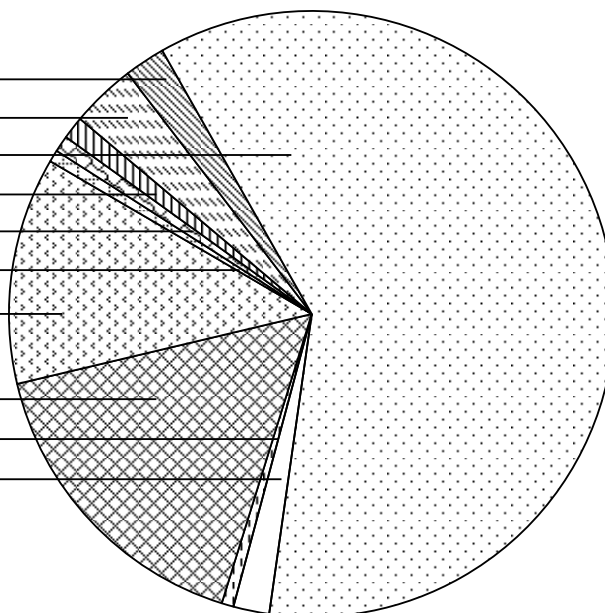
11. Revenue (Continued)

- (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 \$7.78 billion up to 31 December 2020 (2019: \$6.8 billion), including the investment return for the calendar year 2020 amounting to \$0.98 billion (2019: \$1.35 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 2020-21, \$21.98 billion (2020: \$21.19 billion) was brought back from the Housing Reserve to the General Revenue Account and recorded as investment income. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the General Revenue Account and retained for the Housing Reserve totalled \$5.6 billion (2020: \$26.6 billion).

Analysis of Revenue for the year ended 31 March 2021

Duties	\$11.9 Billion	2%
General Rates	\$19.0 Billion	3%
Internal Revenue	\$330.8 Billion	60%
Motor Vehicle Taxes	\$6.6 Billion	1%
Fines, Forfeitures and Penalties	\$4.8 Billion	1%
Royalties and Concessions	\$3.5 Billion	1%
Properties and Investments	\$66.3 Billion	12%
Loans, Reimbursements, Contributions and Other Receipts (Including Transfers from Funds)	\$90.2 Billion	17%
Utilities	\$3.5 Billion	1%
Fees and Charges	\$10.5 Billion	2%



Total Revenue
\$547.1 Billion

General Revenue Account

12. Expenditure

Analysis of total expenditure by Head:

Head	2021				2020
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
21 Chief Executive's Office	125,491	115,213	(10,278)	(8.2)	122,428
22 Agriculture, Fisheries and Conservation Department	1,978,618	1,879,469	(99,149)	(5.0)	1,698,910
25 Architectural Services Department	2,616,756	2,611,833	(4,923)	(0.2)	2,404,391
24 Audit Commission	192,707	189,490	(3,217)	(1.7)	186,468
23 Auxiliary Medical Service	120,951	91,340	(29,611)	(24.5)	98,110
82 Buildings Department	1,870,366	1,824,275	(46,091)	(2.5)	1,674,239
26 Census and Statistics Department	921,701	829,441	(92,260)	(10.0)	753,284
27 Civil Aid Service	141,218	100,540	(40,678)	(28.8)	115,194
28 Civil Aviation Department	1,285,967	1,172,079	(113,888)	(8.9)	1,146,785
33 Civil Engineering and Development Department	3,248,677	3,074,330	(174,347)	(5.4)	3,022,825
30 Correctional Services Department	4,586,386	4,439,290	(147,096)	(3.2)	4,308,750
31 Customs and Excise Department	5,375,131	4,810,920	(564,211)	(10.5)	4,559,470
37 Department of Health	13,632,538	13,478,605	(153,933)	(1.1)	12,005,663
92 Department of Justice	2,447,668	1,915,284	(532,384)	(21.8)	1,797,306
39 Drainage Services Department	3,117,301	3,130,881	13,580	0.4	2,959,561
42 Electrical and Mechanical Services Department	1,518,386	1,305,483	(212,903)	(14.0)	1,082,143
44 Environmental Protection Department	7,514,549	6,523,617	(990,932)	(13.2)	6,114,974
45 Fire Services Department	7,711,041	7,321,373	(389,668)	(5.1)	6,943,582
49 Food and Environmental Hygiene Department	9,594,974	9,395,900	(199,074)	(2.1)	8,424,324
46 General Expenses of the Civil Service	4,312,534	3,848,534	(464,000)	(10.8)	3,729,492
166 Government Flying Service	616,083	549,732	(66,351)	(10.8)	553,727
48 Government Laboratory	566,010	562,474	(3,536)	(0.6)	552,249
59 Government Logistics Department	582,695	573,812	(8,883)	(1.5)	565,127

General Revenue Account

12. Expenditure (Continued)

Head	2021				2020
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
51 Government Property Agency	2,651,412	2,360,209	(291,203)	(11.0)	1,987,288
143 Government Secretariat: Civil Service Bureau	787,054	648,151	(138,903)	(17.6)	653,488
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	3,432,635	11,188,085	7,755,450	225.9	3,108,084
55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)	807,414	461,444	(345,970)	(42.8)	553,296
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	845,713	778,408	(67,305)	(8.0)	736,891
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	1,622,309	1,194,224	(428,085)	(26.4)	945,749
159 Government Secretariat: Development Bureau (Works Branch)	871,370	813,035	(58,335)	(6.7)	707,778
156 Government Secretariat: Education Bureau	76,882,730	74,963,628	(1,919,102)	(2.5)	69,898,677
137 Government Secretariat: Environment Bureau	6,781,654	5,755,763	(1,025,891)	(15.1)	1,751,085
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	1,165,415	9,020,092	7,854,677	674.0	749,915
147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch)	75,159,090	69,029,544	(6,129,546)	(8.2)	1,046,061
139 Government Secretariat: Food and Health Bureau (Food Branch)	193,908	170,218	(23,690)	(12.2)	170,128
140 Government Secretariat: Food and Health Bureau (Health Branch)	78,433,213	80,082,546	1,649,333	2.1	73,558,265

General Revenue Account

12. Expenditure (Continued)

Head	2021				2020
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
53 Government Secretariat: Home Affairs Bureau	2,480,313	2,331,938	(148,375)	(6.0)	2,173,751
135 Government Secretariat: Innovation and Technology Bureau	699,211	526,684	(172,527)	(24.7)	501,667
155 Government Secretariat: Innovation and Technology Commission	826,487	767,809	(58,678)	(7.1)	725,068
141 Government Secretariat: Labour and Welfare Bureau	3,513,932	3,464,538	(49,394)	(1.4)	929,079
47 Government Secretariat: Office of the Government Chief Information Officer	881,583	894,408	12,825	1.5	838,089
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	1,131,273	133,263,915	132,132,642	11,680.0	30,957,106
96 Government Secretariat: Overseas Economic and Trade Offices	653,822	326,850	(326,972)	(50.0)	415,388
151 Government Secretariat: Security Bureau	1,045,049	927,370	(117,679)	(11.3)	815,471
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	446,970	386,678	(60,292)	(13.5)	335,452
60 Highways Department	4,082,017	3,892,110	(189,907)	(4.7)	3,839,784
63 Home Affairs Department	3,368,507	2,940,277	(428,230)	(12.7)	3,088,116
168 Hong Kong Observatory	412,912	408,418	(4,494)	(1.1)	378,386
122 Hong Kong Police Force	25,789,328	23,406,758	(2,382,570)	(9.2)	23,701,359
62 Housing Department	2,292,097	1,906,249	(385,848)	(16.8)	1,787,793
70 Immigration Department	6,635,577	6,136,657	(498,920)	(7.5)	6,080,854
72 Independent Commission Against Corruption	1,245,116	1,208,654	(36,462)	(2.9)	1,193,841
121 Independent Police Complaints Council	100,929	100,929	-	-	105,459
74 Information Services Department	683,621	681,425	(2,196)	(0.3)	565,681
76 Inland Revenue Department	1,811,682	1,756,260	(55,422)	(3.1)	1,701,845
78 Intellectual Property Department	195,933	195,360	(573)	(0.3)	189,824

General Revenue Account

12. Expenditure (Continued)

Head	2021				2020
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
79 Invest Hong Kong	161,178	160,997	(181)	(0.1)	144,629
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	55,044	47,972	(7,072)	(12.8)	47,506
80 Judiciary	2,264,028	2,118,153	(145,875)	(6.4)	1,936,161
90 Labour Department	2,192,386	1,982,016	(210,370)	(9.6)	1,940,063
91 Lands Department	3,298,837	3,224,697	(74,140)	(2.2)	3,104,740
94 Legal Aid Department	1,721,172	1,313,589	(407,583)	(23.7)	1,481,258
112 Legislative Council Commission	1,021,652	972,040	(49,612)	(4.9)	952,447
95 Leisure and Cultural Services Department	10,700,397	9,959,337	(741,060)	(6.9)	9,829,672
100 Marine Department	1,729,622	1,635,077	(94,545)	(5.5)	1,608,184
106 Miscellaneous Services	28,499,802	558,523	(27,941,279)	(98.0)	375,686
180 Office for Film, Newspaper and Article Administration	53,635	48,622	(5,013)	(9.3)	48,667
114 Office of The Ombudsman	127,856	127,856	-	-	127,419
116 Official Receiver's Office	237,712	226,319	(11,393)	(4.8)	216,915
120 Pensions	42,660,595	42,689,433	28,838	0.1	38,648,249
118 Planning Department	839,934	775,733	(64,201)	(7.6)	770,517
136 Public Service Commission Secretariat	31,948	31,848	(100)	(0.3)	28,469
160 Radio Television Hong Kong	1,046,340	1,040,974	(5,366)	(0.5)	1,041,651
162 Rating and Valuation Department	740,388	606,989	(133,399)	(18.0)	587,760
163 Registration and Electoral Office	1,491,634	730,665	(760,969)	(51.0)	738,093
169 Secretariat, Commissioner on Interception of Communications and Surveillance	24,395	23,097	(1,298)	(5.3)	22,146
170 Social Welfare Department	94,496,841	90,520,215	(3,976,626)	(4.2)	86,158,486
181 Trade and Industry Department	1,648,055	1,328,129	(319,926)	(19.4)	963,520
186 Transport Department	8,614,118	6,306,159	(2,307,959)	(26.8)	5,592,416

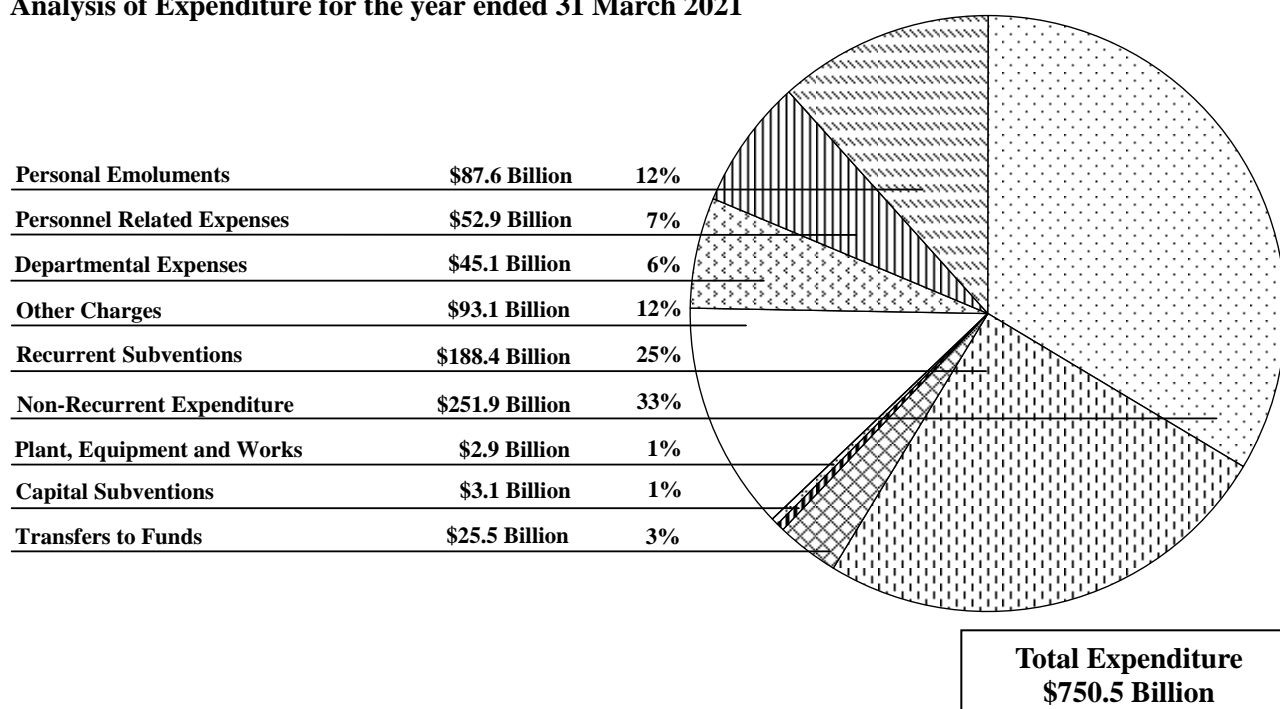
General Revenue Account

12. Expenditure (Continued)

Head	2021				2020
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
188 Treasury	509,246	499,628	(9,618)	(1.9)	444,082
190 University Grants Committee	22,791,608	22,508,375	(283,233)	(1.2)	44,102,745
194 Water Supplies Department	9,293,414	9,156,681	(136,733)	(1.5)	8,763,553
173 Working Family and Student Financial Assistance Agency	7,075,040	6,705,894	(369,146)	(5.2)	17,929,797
	625,334,901	717,031,567	91,696,666	14.7	528,614,551
184 Transfers to Funds	1,899,000	25,477,450	23,578,450	1,241.6	7,074,000
Non-recurrent appropriation to a special fund to meet the expenditure for safeguarding national security (Note (i) below)	-	8,000,000	8,000,000	-	-
Total	627,233,901	750,509,017	123,275,116	19.7	535,688,551

- (i) The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region provides that the Financial Secretary of the Hong Kong Special Administrative Region shall, upon approval of the Chief Executive, appropriate from the general revenue a special fund to meet the expenditure for safeguarding national security and approve the establishment of relevant posts, which are not subject to any restrictions in the relevant provisions of the laws in force in the Region. This \$8 billion provision is the above-mentioned special fund for meeting the expenditure for safeguarding national security in the coming years.

Analysis of Expenditure for the year ended 31 March 2021



General Revenue Account

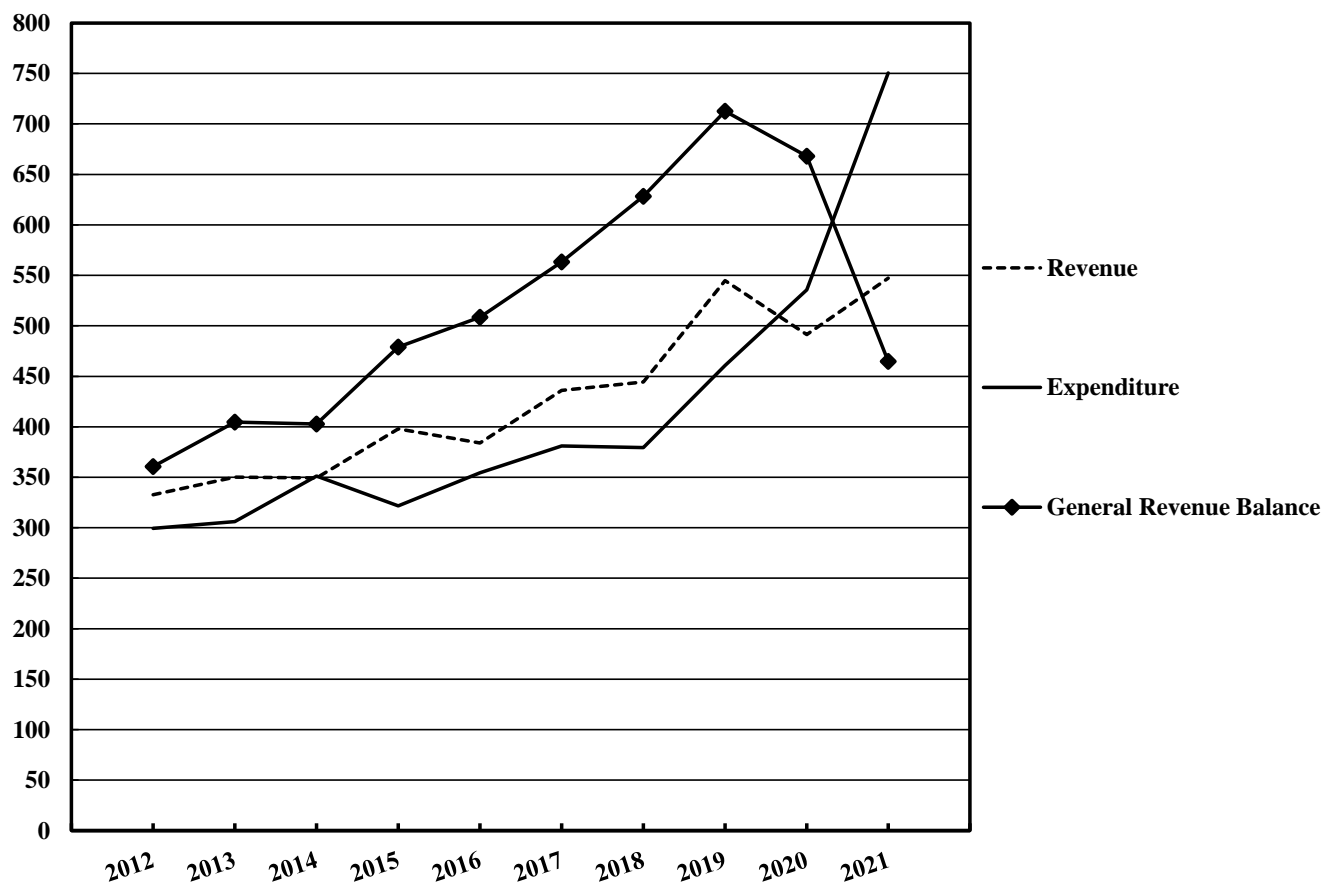
13. Other Cash Movements

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

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	202,626,892	44,057,614
Deposits with banks	(38,941)	(57,962)
Advances	585,669	(1,413,807)
Suspense Accounts	73,468	(86,315)
	203,247,088	42,499,530
(Reduction)/Increase in Liabilities		
Deposits	(104,438)	566,445
Suspense Accounts	(885)	(19,001)
	(105,323)	547,444
	203,141,765	43,046,974

Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2012 to 2021

\$Billion



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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 28 to 37, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	132,226,088	178,653,310
Cash and bank balances		6,945	1,713
		132,233,033	178,655,023
Liabilities			
Deposits	4	(1,548,476)	(1,821,668)
		130,684,557	176,833,355
Representing:			
Fund Balance			
Balance at beginning of year		176,833,355	146,691,879
(Deficit)/Surplus for the year		(46,148,798)	30,141,476
Balance at end of year	5, 6, 7	130,684,557	176,833,355

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		1,713	2,084
Receipts	8	115,023,103	155,198,455
Payments	5, 9	(161,171,901)	(125,056,979)
(Deficit)/Surplus for the year		(46,148,798)	30,141,476
Other cash movements	10	46,154,030	(30,141,847)
Cash and bank balances at end of year		6,945	1,713

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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.
- (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:

	2021	2020
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	132,176,088	178,605,411
Deposits	50,000	47,899
	132,226,088	178,653,310

- (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 2020 was 3.7% (2019: 2.9%). 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:

	2021 \$'000	2020 \$'000
Contract retention money	1,386,320	1,644,605
Others	162,156	177,063
	<u>1,548,476</u>	<u>1,821,668</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 Green Bonds of US\$1 billion and US\$2.5 billion under the Government Green Bond Programme in May 2019 and February 2021 respectively 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:

	2021 \$'000	2020 \$'000
Green Bonds (Notes (i) and (ii) below)	<u>27,216,000</u>	<u>7,754,000</u>

- (i) The Green Bonds denominated in United States dollars will mature between May 2024 and February 2051. During the financial year, payments of interest on the Green Bonds amounted to \$194 million (2020: \$98 million) and there was no repayment of principal (2020: Nil).
- (ii) The outstanding Green Bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.

6. Contingent Liabilities

As at 31 March 2021, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,327 million (2020: \$2,212 million).

Capital Works Reserve Fund

7. Commitments

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

Head		2021 \$'000	2020 \$'000
Land acquisition			
701	Land acquisition	20,833,140	20,938,801
	Sub-total	20,833,140	20,938,801
Capital works – Public Works Programme			
702	Port and airport development	79,983	80,960
703	Buildings	157,759,150	126,091,888
704	Drainage	61,448,313	39,464,283
705	Civil engineering	56,312,772	44,706,309
706	Highways	88,212,830	89,013,001
707	New towns and urban area development	141,152,535	115,744,310
709	Waterworks	26,549,772	19,039,912
711	Housing	23,381,856	10,550,675
	Sub-total	554,897,211	444,691,338
Capital subventions			
708 (part)	Capital subventions	50,936,292	33,976,289
	Sub-total	50,936,292	33,976,289
Systems and equipment			
708 (part)	Major systems and equipment	8,410,359	8,032,932
710	Computerisation	11,645,981	10,439,284
	Sub-total	20,056,340	18,472,216
		646,722,983	518,078,644

Capital Works Reserve Fund

8. Receipts

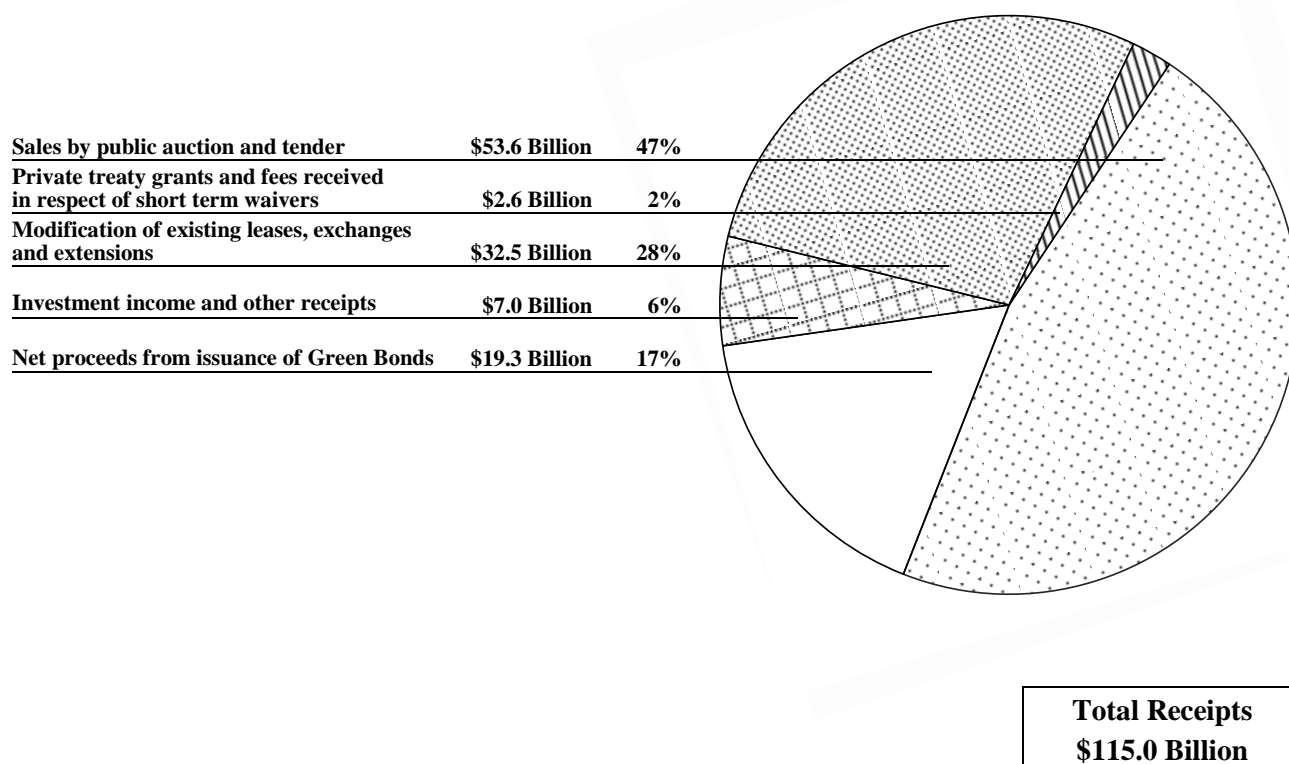
	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	53,615,877	120,151,328
Private treaty grants	-	2,263,478	156,084
Modification of existing leases, exchanges and extensions	-	32,541,912	20,681,649
Fees received in respect of short term waivers	-	291,768	738,710
	118,000,000	88,713,035	141,727,771
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	6,969,167	5,488,216
Others	-	1,243	1,347
	7,625,000	6,970,410	5,489,563
Other receipts			
Donations and contributions	90,666	-	3,549
Others	-	36,072	148,844
	90,666	36,072	152,393
Net proceeds from issuance of bonds			
Green Bonds	19,500,000	19,303,586	7,828,728
	145,215,666	115,023,103	155,198,455

- (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 \$1.46 billion up to 31 December 2020 (2019: \$1.16 billion), including the investment return for the calendar year 2020 amounting to \$0.30 billion (2019: \$0.23 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$8.32 billion (2020: \$8.02 billion).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2021



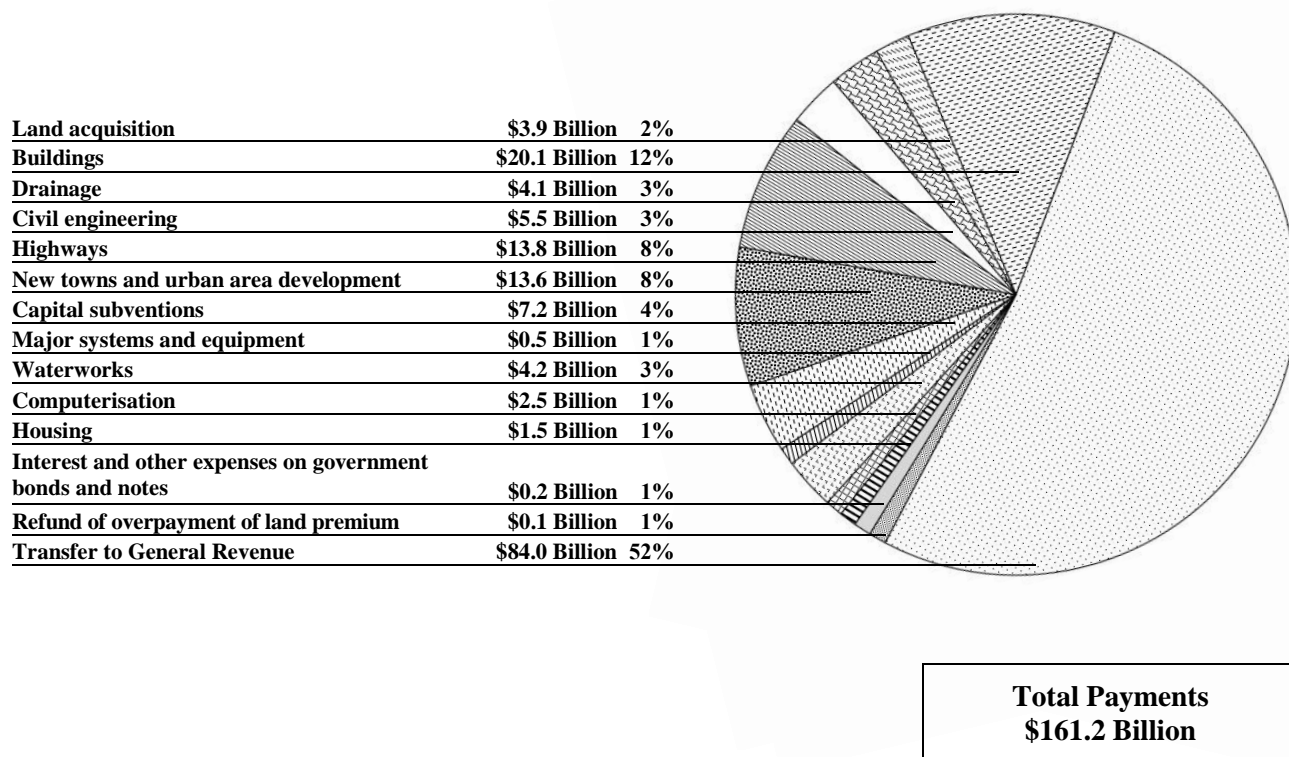
Capital Works Reserve Fund

9. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	8,979,020	3,888,348	262,326
Public Works Programme			
Port and airport development	980	978	920
Buildings	28,023,140	20,079,855	16,030,952
Drainage	3,892,571	4,135,047	3,122,658
Civil engineering	6,365,906	5,472,903	7,147,529
Highways	11,417,980	13,764,644	18,287,479
New towns and urban area development	11,830,519	13,633,287	9,768,399
Waterworks	4,033,755	4,239,208	3,202,150
Housing	1,660,322	1,485,898	1,461,962
	67,225,173	62,811,820	59,022,049
Capital subventions and major systems and equipment			
Capital subventions	6,788,457	7,233,289	6,391,407
Major systems and equipment	1,255,673	453,909	419,384
	8,044,130	7,687,198	6,810,791
Computerisation	2,856,740	2,478,973	2,309,053
Government bonds and notes			
Repayment	-	-	1,500,000
Interest and other expenses	456,955	194,034	143,008
	456,955	194,034	1,643,008
Transfer to General Revenue	84,000,000	84,000,000	55,000,000
Other payments			
Refund of overpayment of land premium	-	111,528	9,752
	171,562,018	161,171,901	125,056,979

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2021 *



* Actual payments on "Port and airport development" is not shown as it is less than \$0.1 billion.

10. Other Cash Movements

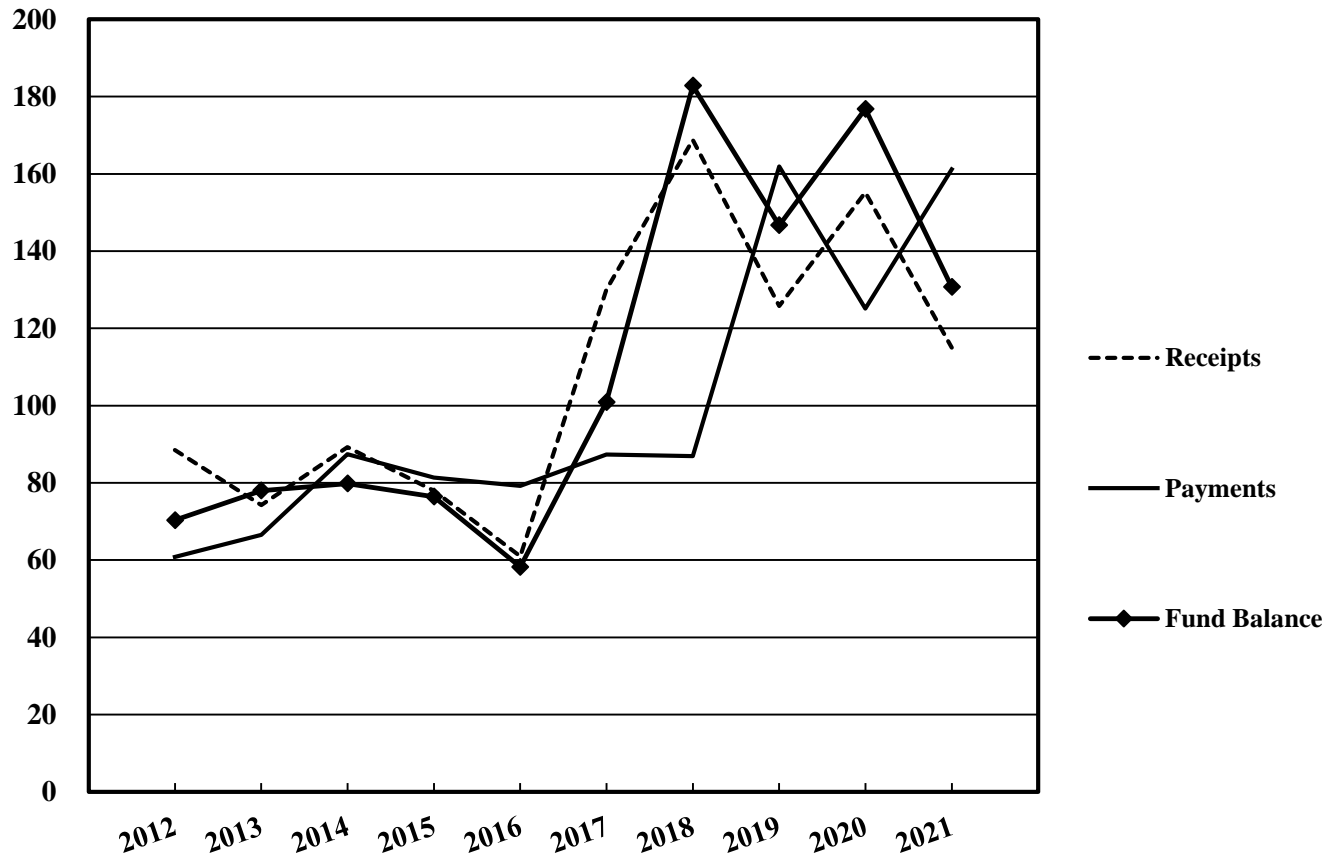
These are cash movements arising from changes in other assets and liabilities:

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	46,427,222	(30,013,293)
Reduction in Liabilities		
Deposits	(273,192)	(128,554)
	46,154,030	(30,141,847)

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2012 to 2021

\$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 42 to 48, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments	3		
Equity holdings		153,970,874	151,377,132
Other investments		626,292,408	588,512,179
		780,263,282	739,889,311
Loans Outstanding	4	1,467,386	1,557,376
		781,730,668	741,446,687
Current Assets			
Investments with the Exchange Fund	5	21,793,114	3,360,002
Cash and bank balances		1	1
		21,793,115	3,360,003
		803,523,783	744,806,690
Representing:			
Total Fund Balance			
Applied Fund	6	781,730,668	741,446,687
Available Fund	7		
Balance at beginning of year		3,360,003	331,599
Surplus for the year		18,433,112	3,028,404
Balance at end of year		21,793,115	3,360,003
	8, 9	803,523,783	744,806,690

Notes 1 to 12 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		1	1
Receipts	10	21,026,854	6,955,620
Payments	11	(2,593,742)	(3,927,216)
Surplus for the year		18,433,112	3,028,404
Other cash movements	12	(18,433,112)	(3,028,404)
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
19 July 2021



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)

	2021			2020		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at beginning of year	151,377,132	588,512,179	739,889,311	147,449,916	565,183,137	712,633,053
Additions						
Cash acquisitions	2,593,742	-	2,593,742	3,927,216	-	3,927,216
Non-cash acquisitions	-	37,780,229	37,780,229	-	23,329,042	23,329,042
	2,593,742	37,780,229	40,373,971	3,927,216	23,329,042	27,256,258
Balance at end of year	153,970,874	626,292,408	780,263,282	151,377,132	588,512,179	739,889,311

Capital Investment Fund

4. Loans Outstanding

	2021 \$'000	2020 \$'000
Balance at beginning of year	1,557,376	1,656,579
Additions		
Capitalised interest	10,575	-
Deductions		
Loan repayments	(100,565)	(99,203)
Balance at end of year	1,467,386	1,557,376

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 2020 was 3.7% (2019: 2.9%). 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 2021, the Government had the following contingent liabilities:

- (i) subscription to callable shares in the Asian Development Bank amounting to \$6,054 million (2020: \$5,833 million);
- (ii) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2020: \$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 \$947 million (2020: \$975 million).

Capital Investment Fund

9. Commitments

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

	2021 \$'000	2020 \$'000
Investments (Note (i) below)	31,532,395	13,991,137
Loans	1,650,000	2,270,000
	33,182,395	16,261,137

- (i) These included an approved commitment of \$4,800 million (2020: \$4,800 million) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 8(ii)).

10. Receipts

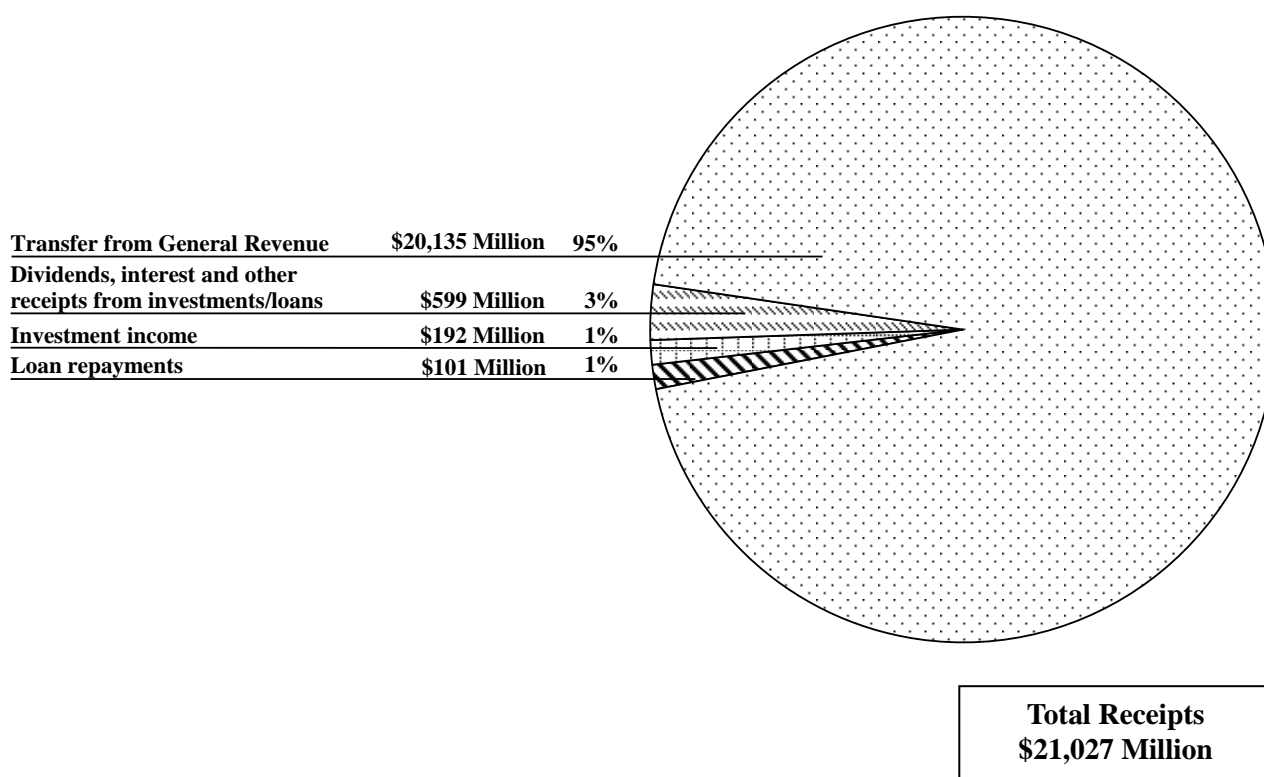
	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	966,398	599,017	742,664
Loan repayments	99,716	100,565	99,203
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	192,272	113,751
Others	-	-	2
	199,000	192,272	113,753
Transfer from General Revenue	-	20,135,000	6,000,000
	1,265,114	21,026,854	6,955,620

- (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 \$38 million up to 31 December 2020 (2019: \$30 million), including the investment return for the calendar year 2020 amounting to \$8 million (2019: \$6 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$215 million (2020: \$207 million).

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2021



11. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments			
Equity holdings	4,115,210	2,593,742	3,927,216

12. Other Cash Movements

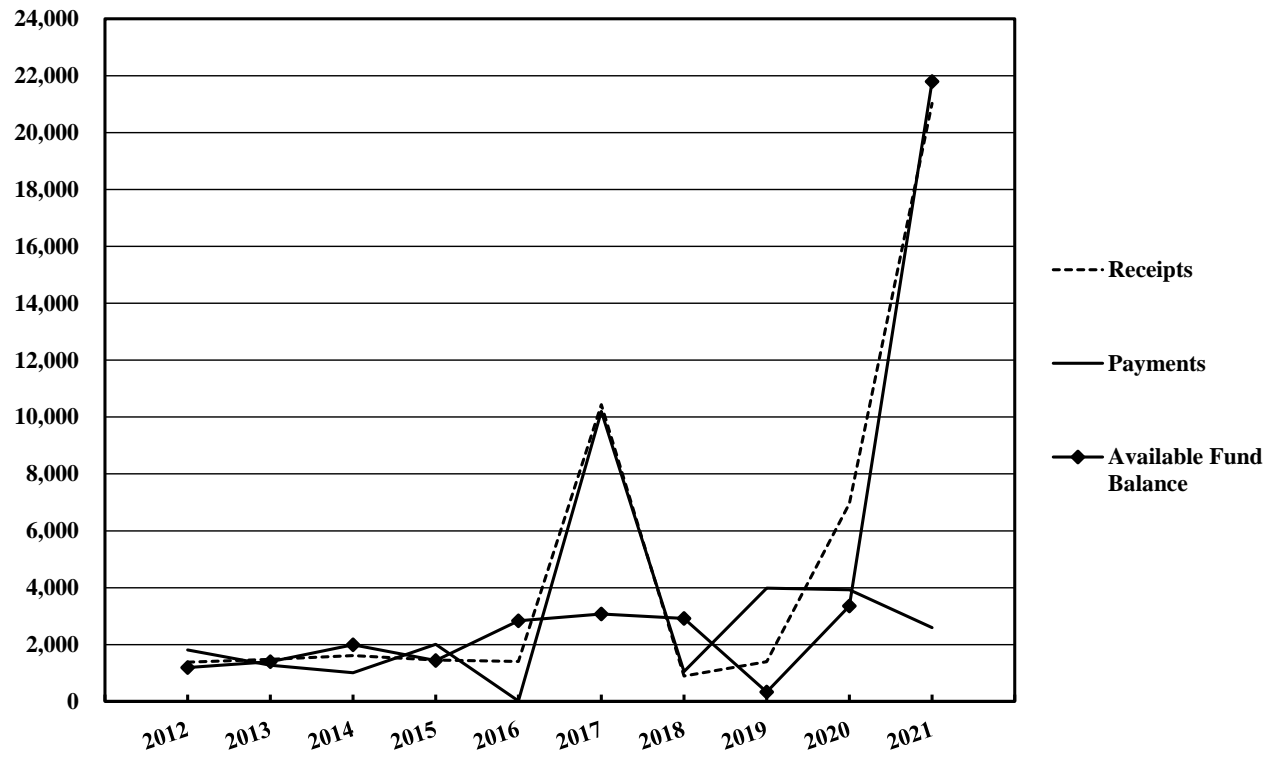
These are cash movements arising from changes in other assets and liabilities:

	2021 \$'000	2020 \$'000
Increase in Assets		
Investments with the Exchange Fund	18,433,112	3,028,404

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2012 to 2021

\$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 52 to 56, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	<u>42,769,902</u>	<u>39,426,465</u>
Representing:			
Fund Balance			
Balance at beginning of year		39,426,465	38,315,321
Surplus for the year		<u>3,343,437</u>	<u>1,111,144</u>
Balance at end of year		<u>42,769,902</u>	<u>39,426,465</u>

Notes 1 to 5 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	3,343,437	1,111,144
Payments		-	-
Surplus for the year		3,343,437	1,111,144
Other cash movements	5	(3,343,437)	(1,111,144)
Cash and bank balances at end of year		-	-

Notes 1 to 5 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



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 2020 was 3.7% (2019: 2.9%). The annual investment income is receivable on 31 December each year.

4. Receipts

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	1,498,000	1,503,437	1,111,144
Transfer from General Revenue	1,840,000	1,840,000	-
	<u>3,338,000</u>	<u>3,343,437</u>	<u>1,111,144</u>

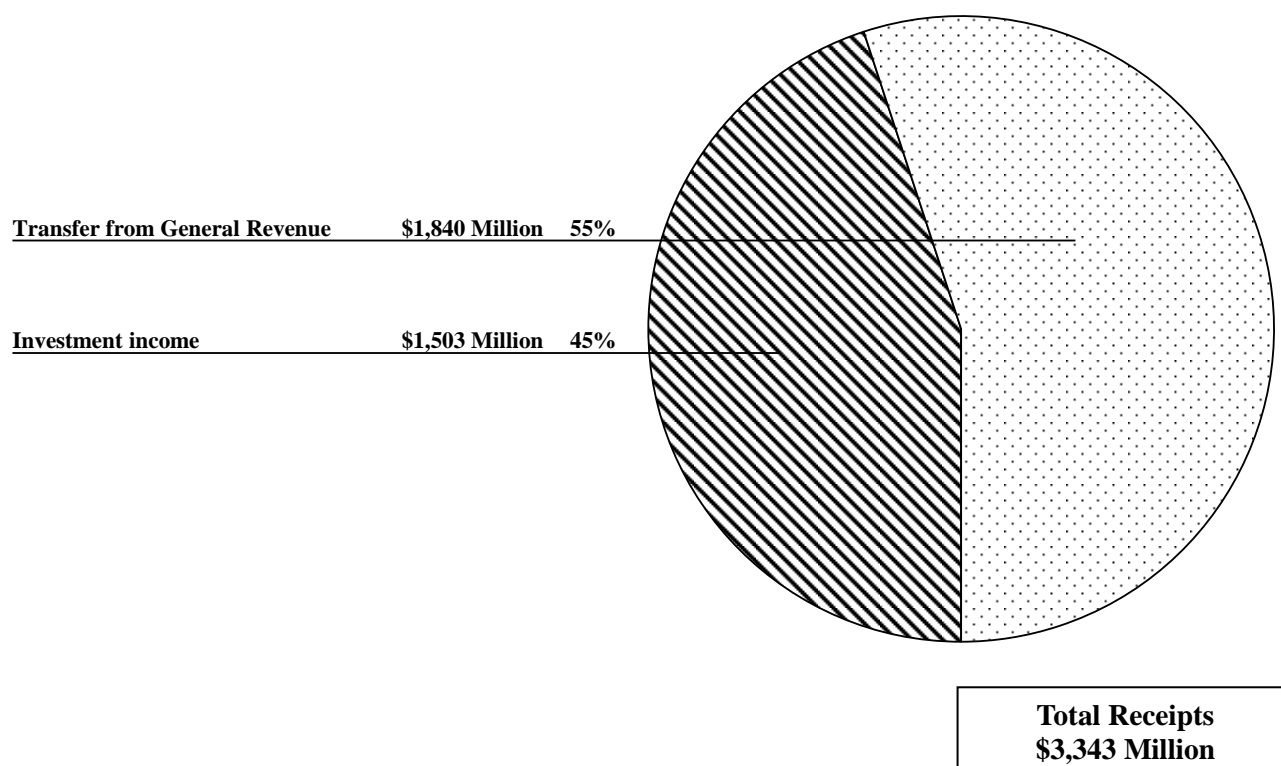
Civil Service Pension Reserve Fund

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 \$0.52 billion up to 31 December 2020 (2019: \$0.41 billion), including the investment return for the calendar year 2020 amounting to \$0.11 billion (2019: \$0.08 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.98 billion (2020: \$2.87 billion).

Analysis of Receipts for the year ended 31 March 2021



Civil Service Pension Reserve Fund

5. Other Cash Movements

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

	2021 \$'000	2020 \$'000
Increase in Assets		
Investments with the Exchange Fund	<u>3,343,437</u>	<u>1,111,144</u>

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 60 to 65, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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

Disaster Relief Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	<u>27,480</u>	<u>36,331</u>
Representing:			
Fund Balance			
Balance at beginning of year		36,331	24,123
(Deficit)/Surplus for the year		<u>(8,851)</u>	<u>12,208</u>
Balance at end of year		<u>27,480</u>	<u>36,331</u>

Notes 1 to 6 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Disaster Relief Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	63,623	78,991
Payments	5	(72,474)	(66,783)
(Deficit)/Surplus for the year		(8,851)	12,208
Other cash movements	6	8,851	(12,208)
Cash and bank balances at end of year		-	-

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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 2020 was 3.7% (2019: 2.9%). The annual investment income is receivable on 31 December each year.

4. Receipts

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	3,000	2,176	1,523
Transfer from General Revenue	59,000	59,000	74,000
Refund of grants	-	2,447	3,468
	<u>62,000</u>	<u>63,623</u>	<u>78,991</u>

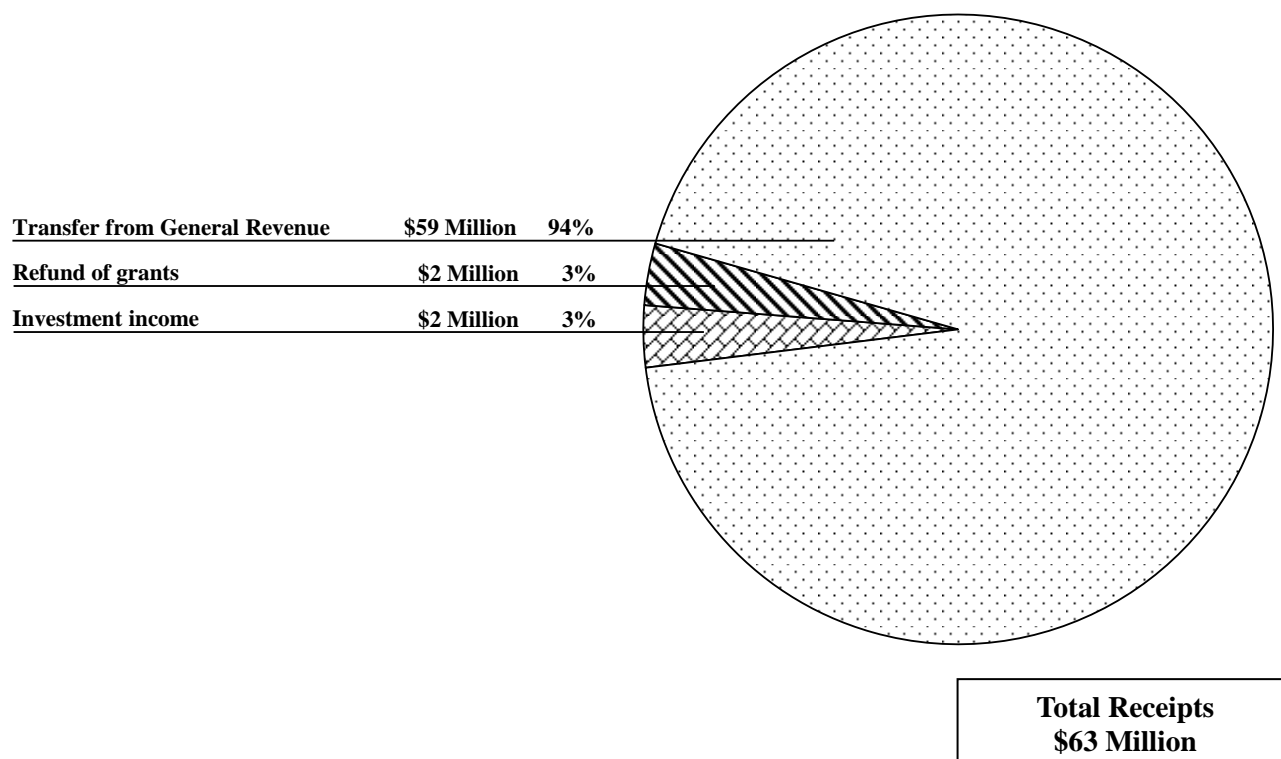
Disaster Relief Fund

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 \$0.5 million up to 31 December 2020 (2019: \$0.4 million), including the investment return for the calendar year 2020 amounting to \$0.1 million (2019: \$0.08 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.82 million (2020: \$2.72 million).

Analysis of Receipts for the year ended 31 March 2021

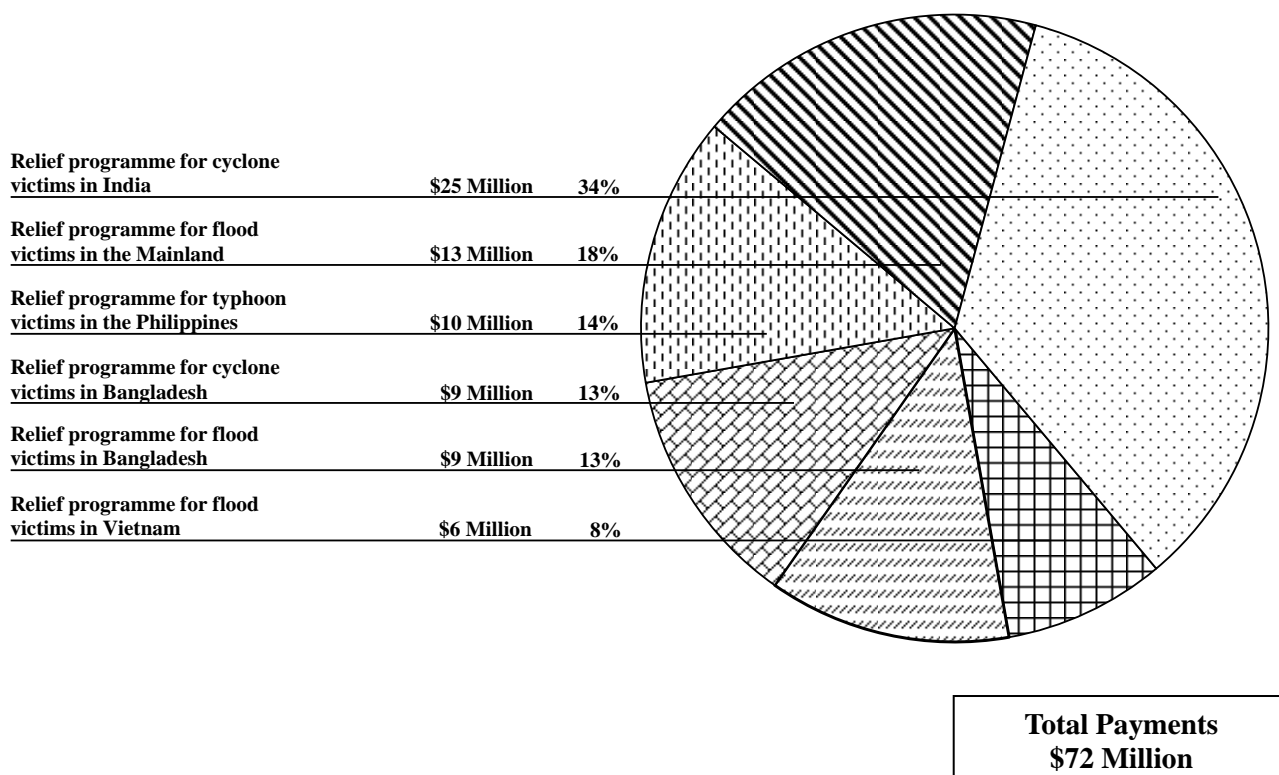


Disaster Relief Fund

5. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Relief programmes for			
cyclone victims in India	-	25,593	16,983
flood victims in the Mainland	-	12,707	4,542
typhoon victims in the Philippines	-	10,225	2,286
cyclone victims in Bangladesh	-	9,274	-
flood victims in Bangladesh	-	9,045	1,636
flood victims in Vietnam	-	5,630	-
flood victims in India	-	-	19,698
cyclone victims in Mozambique	-	-	11,734
cyclone victims in Malawi	-	-	5,289
flood victims in Nepal	-	-	4,615
	-	72,474	66,783

Analysis of Payments for the year ended 31 March 2021



Disaster Relief Fund

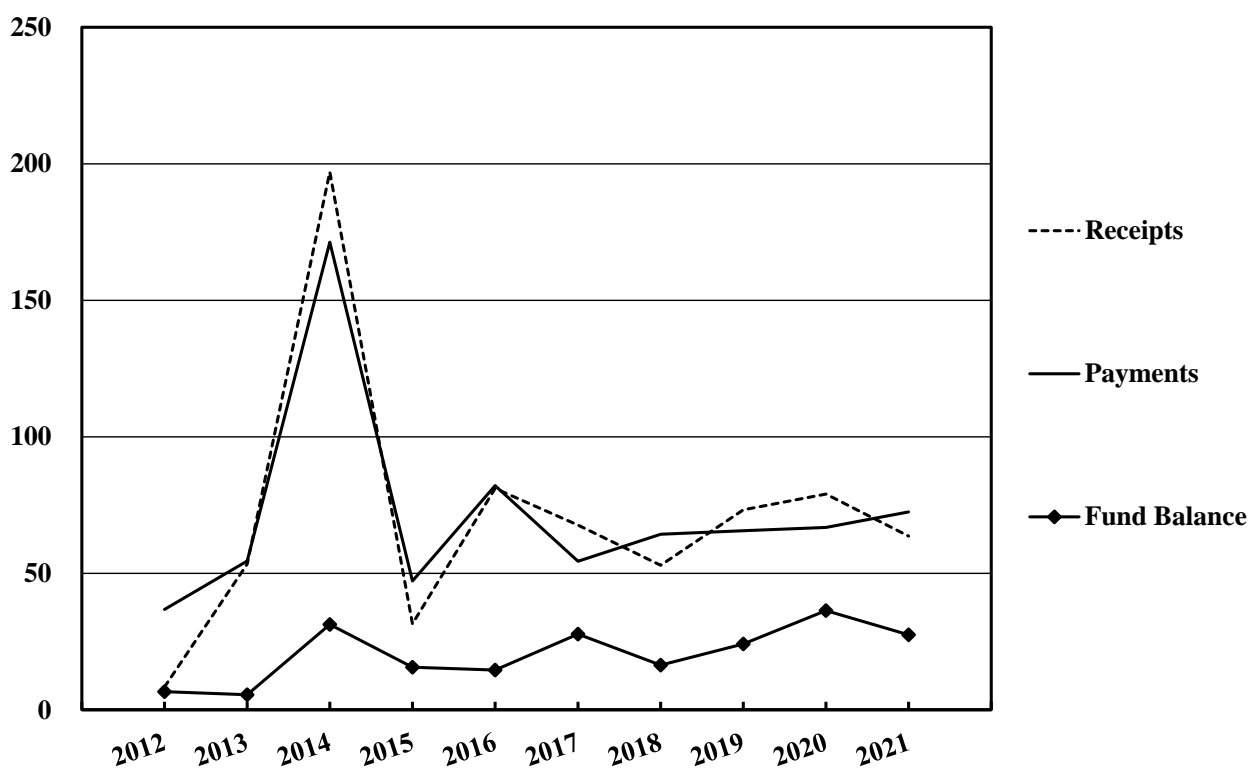
6. Other Cash Movements

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

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	<u>8,851</u>	<u>(12,208)</u>

Receipts, Payments and Fund Balance for the years ended 31 March 2012 to 2021

\$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 70 to 75, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	23,002,186	24,833,070
Cash and bank balances		706	1
		<u>23,002,892</u>	<u>24,833,071</u>
Representing:			
Fund Balance			
Balance at beginning of year		24,833,071	25,938,965
Deficit for the year		(1,830,179)	(1,105,894)
Balance at end of year	4	<u>23,002,892</u>	<u>24,833,071</u>

Notes 1 to 7 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Innovation and Technology Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		1	303
Receipts	5	2,966,288	778,523
Payments	6	(4,796,467)	(1,884,417)
Deficit for the year		(1,830,179)	(1,105,894)
Other cash movements	7	1,830,884	1,105,592
Cash and bank balances at end of year		706	1

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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 2020 was 3.7% (2019: 2.9%). The annual investment income is receivable on 31 December each year.

4. Commitments

The approved grants that were unpaid were as follows:

	2021 \$'000	2020 \$'000
Grants	<u>17,114,669</u>	<u>15,253,294</u>

Innovation and Technology Fund

5. Receipts

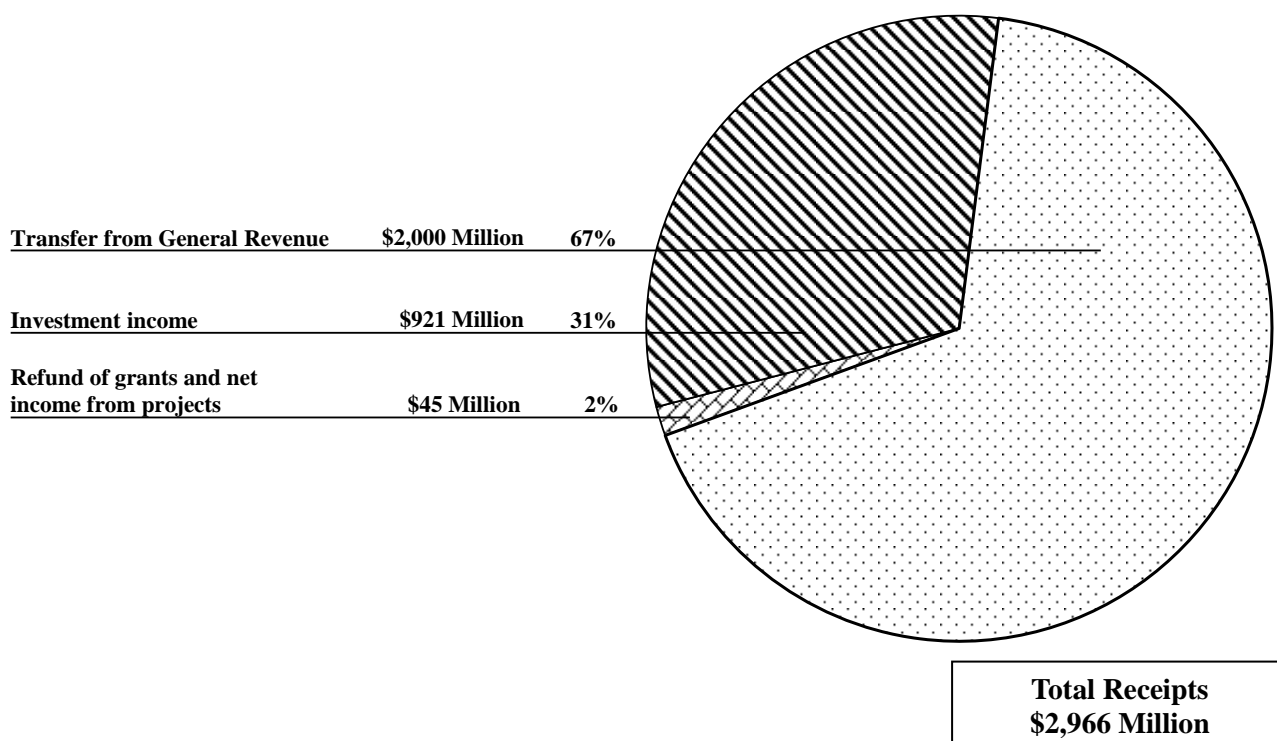
	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	915,599	740,182
Others	-	5,372	2,952
	822,000	920,971	743,134
Net income from projects	102	268	58
Refund of grants	-	45,049	35,331
Transfer from General Revenue	-	2,000,000	-
	822,102	2,966,288	778,523

- (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 \$21 million up to 31 December 2020 (2019: \$17 million), including the investment return for the calendar year 2020 amounting to \$4 million (2019: \$3 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$118 million (2020: \$114 million).

Innovation and Technology Fund

Analysis of Receipts for the year ended 31 March 2021



6. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	6,567,904	4,796,467	1,884,417

7. Other Cash Movements

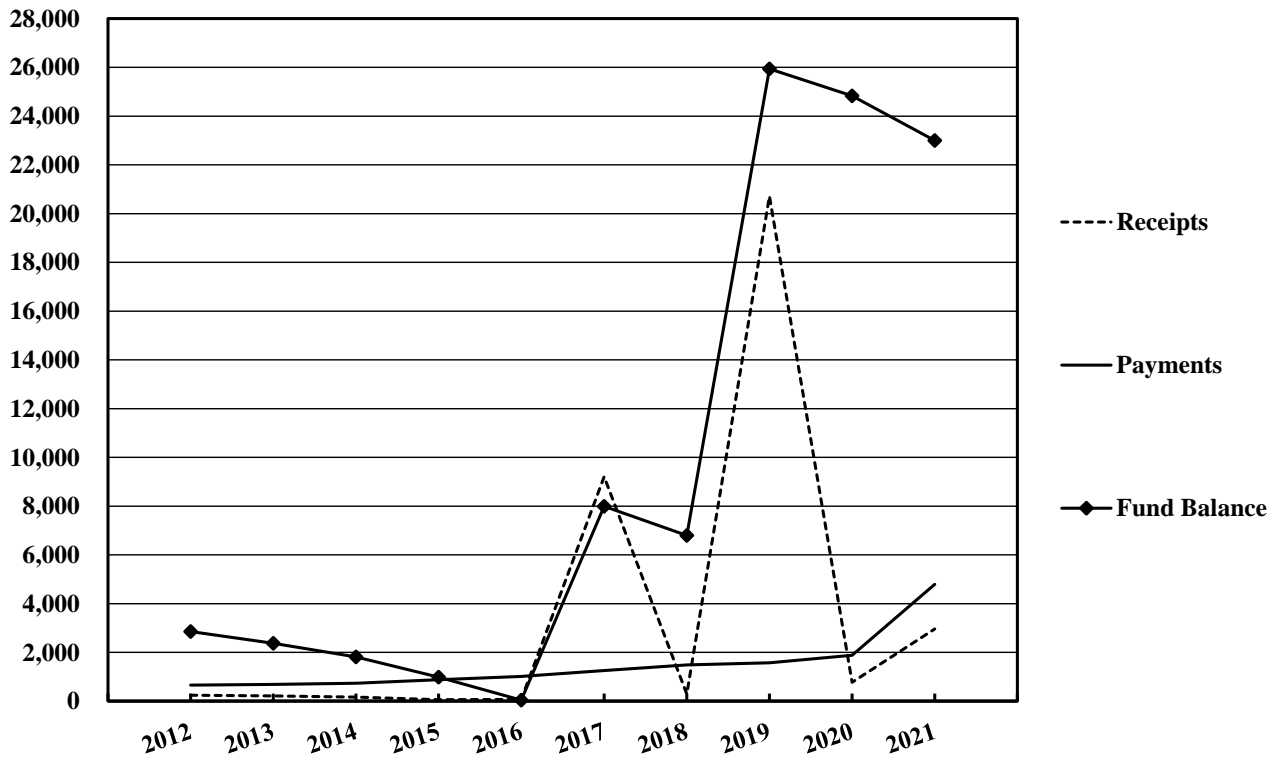
These are cash movements arising from changes in other assets and liabilities:

	2021 \$'000	2020 \$'000
Reduction in Assets		
Investments with the Exchange Fund	1,830,884	1,105,592

Innovation and Technology Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2012 to 2021

\$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 80 to 84, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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

Land Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	200,190,794	219,729,659
Other investments	4	19,500,000	-
		<u>219,690,794</u>	<u>219,729,659</u>

Representing:

Fund Balance

Balance at beginning of year		219,729,659	219,729,659
(Deficit)/Surplus for the year		(38,865)	-
Balance at end of year	5	<u>219,690,794</u>	<u>219,729,659</u>

Notes 1 to 8 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Land Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	6	-	-
Payments	7	(38,865)	-
(Deficit)/Surplus for the year		(38,865)	-
Other cash movements	8	38,865	-
Cash and bank balances at end of year		-	-

Notes 1 to 8 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



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 for placement with the Exchange Fund for securing higher investment returns over a ten-year investment period (Note 3(iv)). In 2020-21, part of the Future Fund was allocated for investment in Cathay Pacific Airways Limited (Note 4).

2. Accounting Policy

The accounts of the Land Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities includes investments made under the Resolution.

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 Land Fund have been held as a notional savings account within the fiscal reserves called the Future Fund. The Future Fund balance (other than the part mentioned in Note 4) is 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 with the Exchange Fund is determined annually based on a composite rate (12.3% and 8.7% for the calendar years 2020 and 2019 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 \$200.19 billion (2019: \$219.73 billion), such accumulated investment return not received as revenue amounted to \$108.16 billion as at 31 December 2020 (2019: \$71.84 billion), including the investment return for the calendar year 2020 of \$36.32 billion (2019: \$23.81 billion). As announced in the 2021-22 Budget Speech, the accumulated investment return on the Future Fund would be brought back to the Government's accounts and recorded as investment income on a progressive basis starting from 2021-22.

Land Fund

4. Other investments

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 Land Fund (via the Future Fund) to invest in Cathay Pacific Airways Limited. On 12 August 2020, \$19.5 billion was drawn from the assets of the Land Fund placed with the Exchange Fund for the investment in Cathay Pacific Airways Limited. The investment would remain as a part of the Future Fund (Note 3(iv)). The investment is held by Aviation 2020 Limited, a dedicated company wholly-owned by the Financial Secretary Incorporated as established under the Financial Secretary Incorporation Ordinance (Cap. 1015).

	2021 \$'000	2020 \$'000
Aviation 2020 Limited	<u>19,500,000</u>	<u>-</u>

- (i) The investment represents the cost of investment.
- (ii) The investment represents \$19.5 billion of preference shares with detachable warrants of Cathay Pacific Airways Limited.

5. Commitments

The approved investment that was unpaid was as follows:

	2021 \$'000	2020 \$'000
Aviation 2020 Limited	<u>7,800,000</u>	<u>-</u>

- (i) The commitment represents the amount earmarked for a bridge loan to Cathay Pacific Airways Limited for drawdown in accordance with a facility agreement.

6. Receipts

Pursuant to the Financial Secretary's directives, the investment incomes of the Land 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 \$4.23 billion up to 31 December 2020 (2019: \$3.36 billion), including the investment return for the calendar year 2020 amounting to \$0.87 billion (2019: \$0.65 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 2020 was 3.7% (2019: 2.9%). 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$24.22 billion (2020: \$23.35 billion).

Land Fund

7. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating expenses	-	38,865	-

8. Other Cash Movements

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

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	19,538,865	-
Other investments	(19,500,000)	-
	38,865	-

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 88 to 95, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Loans Outstanding	3		
Housing loans		3,743,230	3,420,503
Education loans		19,795,981	17,949,149
Other loans		10,597,269	10,516,414
		34,136,480	31,886,066
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,359,129	4,664,835
Cash and bank balances		2,201	12,300
		4,361,330	4,677,135
Current Liabilities			
Deposits	5	(105,876)	(32,194)
		4,255,454	4,644,941
		38,391,934	36,531,007
Representing:			
Total Fund Balance			
Applied Fund	6	34,136,480	31,886,066
Available Fund	7		
Balance at beginning of year		4,644,941	3,534,867
(Deficit)/Surplus for the year		(389,487)	1,110,074
Balance at end of year		4,255,454	4,644,941
	8	38,391,934	36,531,007

Notes 1 to 11 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		12,300	12,339
Receipts	9	2,347,361	3,458,827
Payments	10	(2,736,848)	(2,348,753)
(Deficit)/Surplus for the year		(389,487)	1,110,074
Other cash movements	11	379,388	(1,110,113)
Cash and bank balances at end of year		2,201	12,300

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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

	2021			2020		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,420,503	17,949,149	10,516,414	3,025,540	17,910,590	10,475,776
Additions						
Loan payments	385,671	2,254,988	96,189	428,544	1,797,122	123,087
Capitalised interest	31	436	222,661	36	122,848	194,167
	385,702	2,255,424	318,850	428,580	1,919,970	317,254
Deductions						
Loan repayments	(62,975)	(407,893)	(217,925)	(33,617)	(1,881,116)	(255,564)
Loans written off	-	(699)	(20,070)	-	(295)	(21,052)
	(62,975)	(408,592)	(237,995)	(33,617)	(1,881,411)	(276,616)
Balance at end of year	3,743,230	19,795,981	10,597,269	3,420,503	17,949,149	10,516,414

Loan Fund

4. Investments with the Exchange Fund

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

	2021 \$'000	2020 \$'000
Investments (Notes (ii) and (iii) below)	4,355,881	4,662,805
Deposits	3,248	2,030
	4,359,129	4,664,835

(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 2020 was 3.7% (2019: 2.9%). 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:

	2021 \$'000	2020 \$'000
Students	105,759	32,045
Others	117	149
	105,876	32,194

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:

	2021 \$'000	2020 \$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	2,441,201	1,331,881
Balance of approved loans operating on revolving basis available for granting of new loans	10,699,992	10,813,071
	13,141,193	12,144,952

Loan Fund

9. Receipts

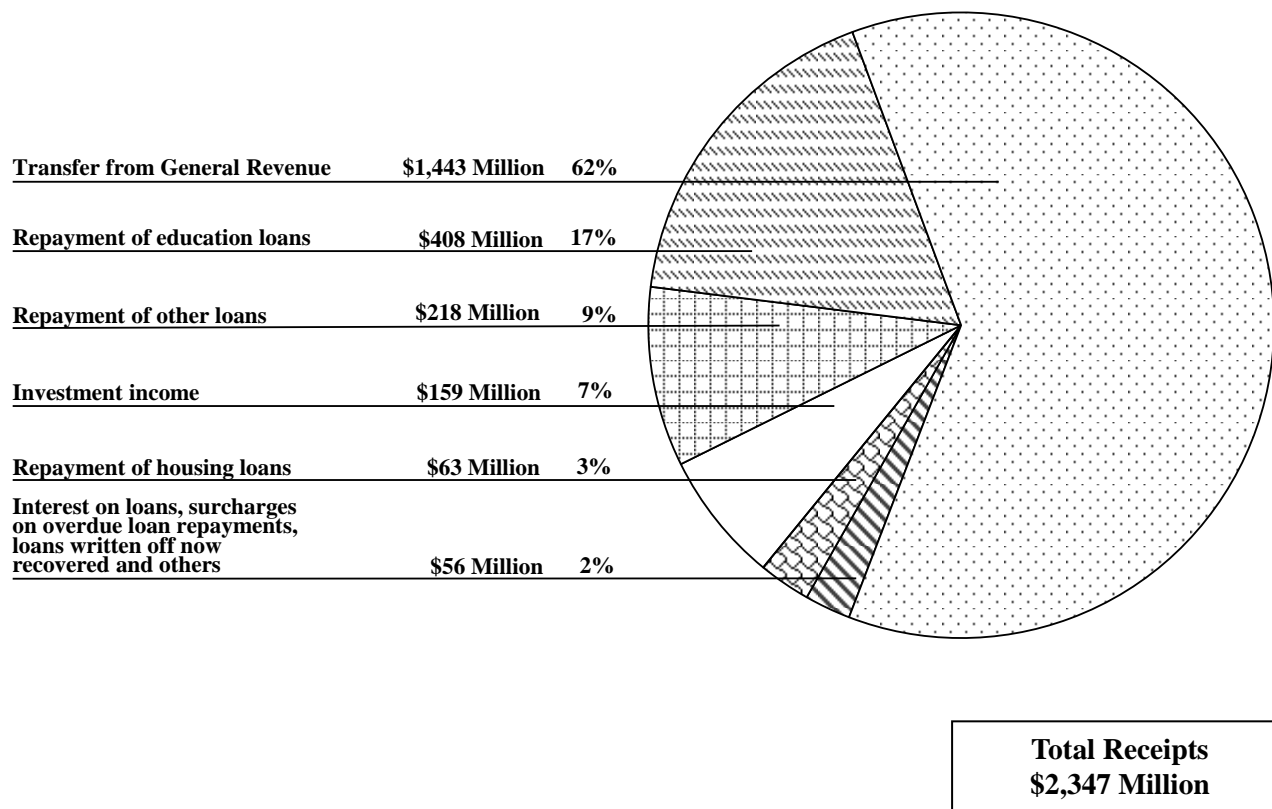
	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	103,920	62,975	33,617
Education loans	1,772,471	407,893	1,881,116
Other loans	283,237	217,925	255,564
	2,159,628	688,793	2,170,297
Interest on loans	180,363	52,370	180,381
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	159,140	103,153
Others	-	18	87
	146,000	159,158	103,240
Surcharges on overdue loan repayments	4,784	3,559	4,388
Loans written off now recovered	-	-	506
Others	-	31	15
Transfer from General Revenue	-	1,443,450	1,000,000
	2,490,775	2,347,361	3,458,827

- (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 \$35 million up to 31 December 2020 (2019: \$28 million), including the investment return for the calendar year 2020 amounting to \$7 million (2019: \$6 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$203 million (2020: \$196 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2021

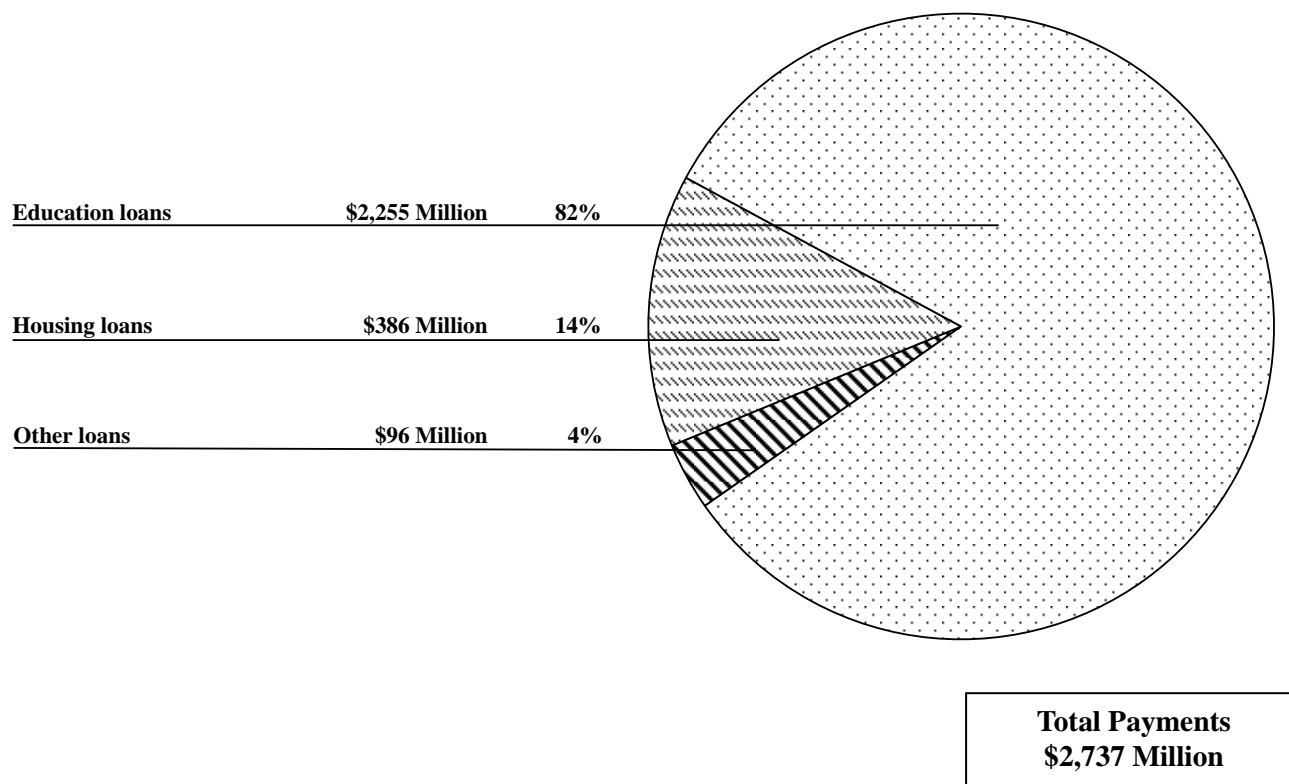


10. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	691,700	385,671	428,544
Education loans	2,048,436	2,254,988	1,797,122
Other loans	140,190	96,189	123,087
	<u>2,880,326</u>	<u>2,736,848</u>	<u>2,348,753</u>

Loan Fund

Analysis of Payments for the year ended 31 March 2021



11. Other Cash Movements

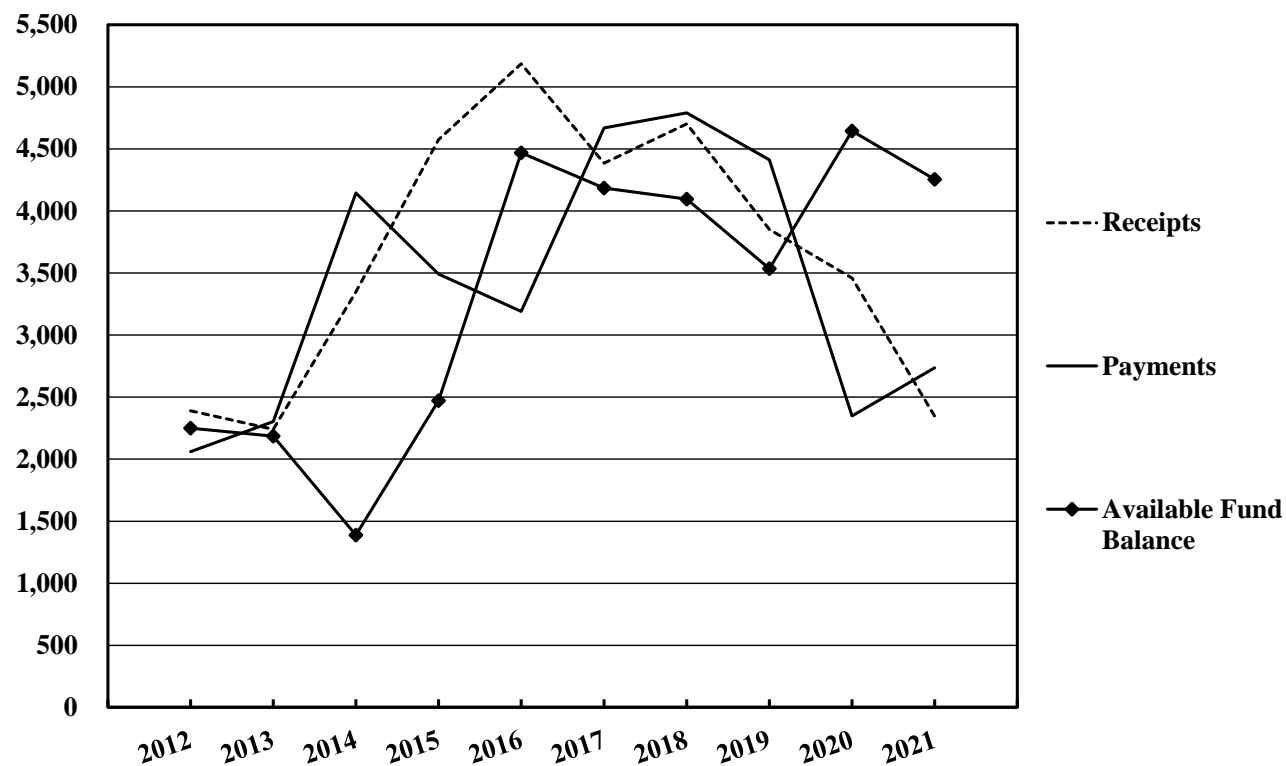
These are cash movements arising from changes in other assets and liabilities:

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	305,706	(1,115,121)
Increase in Liabilities		
Deposits	73,682	5,008
	<u>379,388</u>	<u>(1,110,113)</u>

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2012 to 2021

\$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 100 to 107, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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

8 September 2021

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	152,849,221	121,059,760
Liabilities			
Deposits	4	(1,686)	(2,610)
		<u>152,847,535</u>	<u>121,057,150</u>
Representing:			
Fund Balance			
Balance at beginning of year		121,057,150	138,402,570
Surplus/(Deficit) for the year		31,790,385	(17,345,420)
Balance at end of year	5, 6	<u>152,847,535</u>	<u>121,057,150</u>

Notes 1 to 9 form part of these financial statements.

Charlix WONG

Director of Accounting Services

19 July 2021



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	53,922,034	25,064,579
Payments	8	(22,131,649)	(42,409,999)
Surplus/(Deficit) for the year		31,790,385	(17,345,420)
Other cash movements	9	(31,790,385)	17,345,420
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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 2020 was 3.7% (2019: 2.9%). 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:

	2021	2020
	\$'000	\$'000
Accrued interest received from successful bidders	1,686	2,610

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 \$126.93 billion as at 31 March 2021 comprising the outstanding bonds with nominal value of \$119.16 billion and alternative bonds with nominal value of US\$1 billion (equivalent to \$7.77 billion as at 31 March 2021) 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:

	2021 \$'000	2020 \$'000
Bonds		
Balance at beginning of year	83,212,820	94,747,380
Issuance of bonds under		
Tender to institutional investors	18,400,000	17,800,000
Subscription to retail investors	30,000,000	3,000,000
	48,400,000	20,800,000
Repayment of bonds issued under		
Tender to institutional investors	(9,500,000)	(19,400,000)
Subscription to retail investors	(2,955,820)	(12,934,560)
	(12,455,820)	(32,334,560)
Balance at end of year	119,157,000	83,212,820
Alternative bonds (Note (i) below)		
Balance at beginning of year	15,508,500	23,550,000
Repayment of bonds (Note (ii) below)	(7,753,000)	(7,829,900)
Foreign currency translation difference	20,500	(211,600)
Balance at end of year (Note (iii) below)	7,776,000	15,508,500
Total outstanding bonds	126,933,000	98,721,320

- (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\$7.75 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:

	2021 \$'000	2020 \$'000
Bonds		
Within one year (Note (v) below)	17,430,100	12,361,190
After one year but within two years (Note (vi) below)	29,751,950	17,467,930
After two years but within five years (Note (vii) below)	51,874,950	35,283,700
After five years	20,100,000	18,100,000
	119,157,000	83,212,820
Alternative bonds (Notes (i) to (iii) above)		
Within one year	-	7,754,250
After five years	7,776,000	7,754,250
	7,776,000	15,508,500
Total outstanding bonds	126,933,000	98,721,320

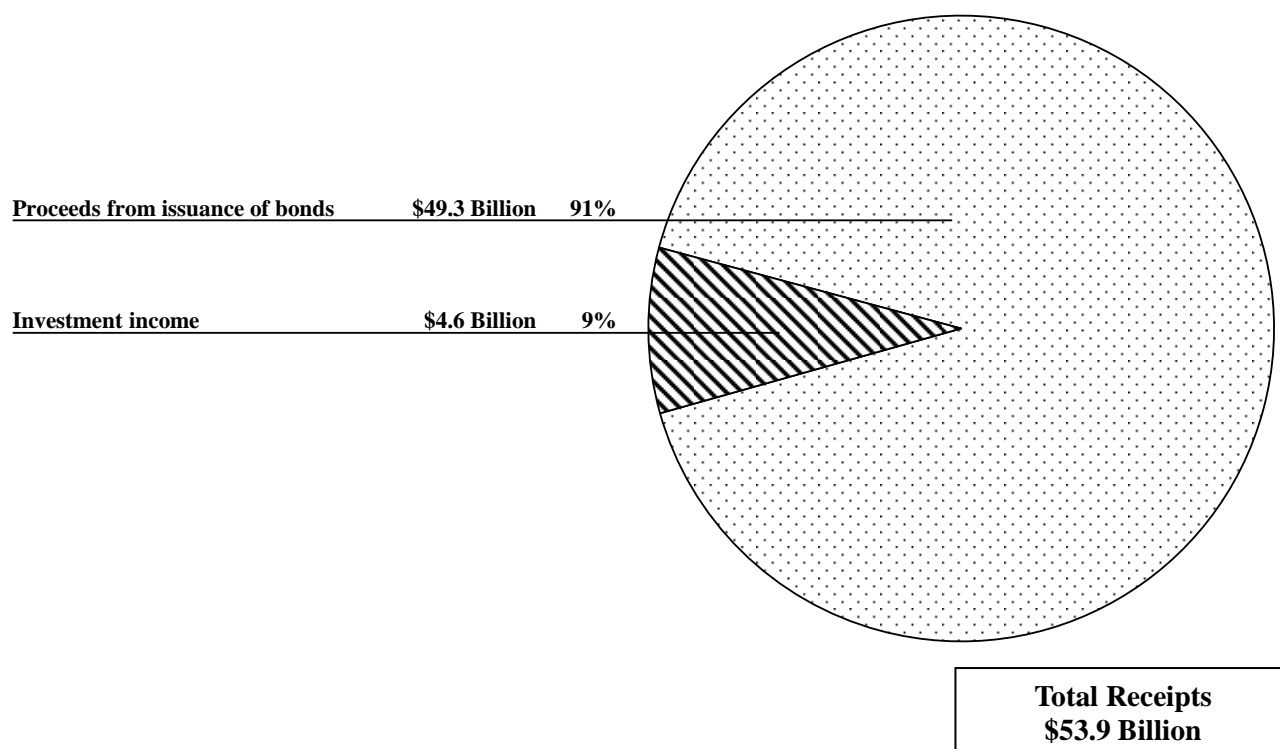
- (v) The outstanding bonds included Silver Bonds with nominal value of \$2.93 billion (2020: \$2.86 billion) which might be redeemed before maturity upon request from bond holders.
- (vi) The outstanding bonds included Silver Bonds with nominal value of \$2.95 billion (2020: \$2.97 billion) which might be redeemed before maturity upon request from bond holders.
- (vii) The outstanding bonds included Silver Bonds with nominal value of \$14.97 billion (2020: \$2.98 billion) which might be redeemed before maturity upon request from bond holders.

7. Receipts

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Proceeds from bonds issued under			
Tender or subscription	30,800,000	49,340,969	21,038,820
Bond swap facility	1,000,000	-	-
	31,800,000	49,340,969	21,038,820
Investment income			
Investments with the Exchange Fund	-	4,580,796	4,024,289
Others	-	269	1,470
	5,136,000	4,581,065	4,025,759
	36,936,000	53,922,034	25,064,579

Bond Fund

Analysis of Receipts for the year ended 31 March 2021

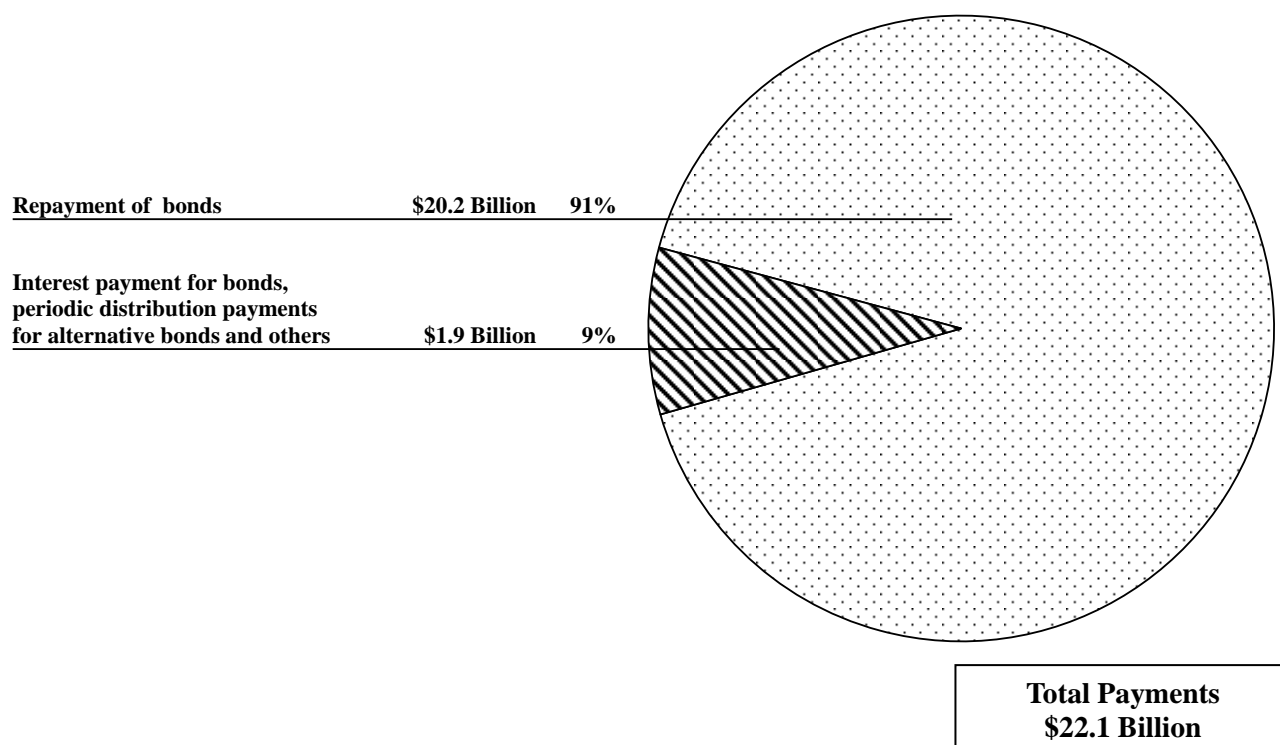


8. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Repayment of bonds issued under			
Tender or subscription	12,413,703	12,455,820	32,334,560
Bond swap facility	1,000,000	-	-
	13,413,703	12,455,820	32,334,560
Repayment of alternative bonds	7,800,000	7,753,000	7,829,900
Interest payment for bonds	1,875,147	1,545,815	1,762,548
Periodic distribution payments for alternative bonds	318,162	316,207	471,818
Others	30,302	60,807	11,173
	<u>23,437,314</u>	<u>22,131,649</u>	<u>42,409,999</u>

Bond Fund

Analysis of Payments for the year ended 31 March 2021



9. Other Cash Movements

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

	2021 \$'000	2020 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(31,789,461)	17,342,810
(Reduction)/Increase in Liabilities		
Deposits	(924)	2,610
	<u>(31,790,385)</u>	<u>17,345,420</u>

Bond Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2012 to 2021

\$Billion

