



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 2016

October 2016

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 2016



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31 October 2016

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 2016, 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,

David Sun

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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 Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the General Revenue Account set out on pages 9 to 21, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the General Revenue Account for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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

General Revenue Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	516,992,357	487,058,530
Deposits with banks	4	1,258,984	1,210,399
Cash and bank balances	5	3,279,897	3,106,602
Advances	6	3,041,990	2,877,375
		524,573,228	494,252,906
Liabilities			
Deposits	7	(16,032,856)	(15,350,634)
Suspense Accounts	8	(54,216)	(46,644)
		(16,087,072)	(15,397,278)
		508,486,156	478,855,628
Representing:			
General Revenue Balance			
Balance at beginning of year		478,855,628	402,785,448
Surplus for the year		29,630,528	76,070,180
Balance at end of year	9, 10	508,486,156	478,855,628

Notes 1 to 13 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



General Revenue Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		3,106,602	3,582,332
Revenue	11	384,020,956	397,760,972
Expenditure	12	(354,390,428)	(321,690,792)
Surplus for the year		29,630,528	76,070,180
Other cash movements	13	(29,457,233)	(76,545,910)
Cash and bank balances at end of year		3,279,897	3,106,602

Notes 1 to 13 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



General Revenue Account

NOTES TO THE FINANCIAL STATEMENTS

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:

	2016 HK\$'000	2015 HK\$'000
Investments (Note (ii) below)	516,978,886	487,049,458
Deposits	13,471	9,072
	<u>516,992,357</u>	<u>487,058,530</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. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$26.15 billion for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 11(i)).

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:

	2016 HK\$'000	2015 HK\$'000
Hong Kong dollar	93,236	93,383
Foreign currency	1,165,748	1,117,016
	<u>1,258,984</u>	<u>1,210,399</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.

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:

	2016 HK\$'000	2015 HK\$'000
Expenditure on Vietnamese migrants (Note (i) below)	1,161,991	1,161,991
Advances to Government officers	1,050,923	929,763
Payments on behalf of non-departmental public bodies, trading funds and non-statutory corporations wholly-owned by Government	400,314	385,766
Others	428,762	399,855
	<u>3,041,990</u>	<u>2,877,375</u>

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

General Revenue Account

6. Advances (Continued)

During the financial year 2015-16, the Government of the HKSAR continued to pursue the repayment of the outstanding advances from the UNHCR and to urge it to make renewed efforts to look for donations with a view to settling the amount. So far, the Government of the HKSAR has not received any further repayments.

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

7. Deposits

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

	2016	2015
	HK\$'000	HK\$'000
Tax reserve certificates	8,515,928	8,305,070
Water deposits	1,741,895	1,697,164
Tenancy deposits	1,741,352	1,568,157
Legal aid deposits	844,047	728,361
Tax overpayments	703,166	775,144
Private works	307,030	258,840
Others	2,179,438	2,017,898
	16,032,856	15,350,634

8. Suspense Accounts

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

	2016	2015
	HK\$'000	HK\$'000
Correctional Services Industries (Note (i) below)	29,441	37,521
Government Logistics Department — Unallocated Stores (Note (i) below)	7,628	7,420
The Special Coin (Note (ii) below)	(91,372)	(91,658)
The Financial Secretary Incorporated (Note (iii) below)	87	73
	(54,216)	(46,644)

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

General Revenue Account

9. Contingent Liabilities

As at 31 March 2016, the Government had the following contingent liabilities:

- (i) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to HK\$33,453 million (2015: HK\$31,614 million);
- (ii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to HK\$24,079 million (2015: HK\$27,022 million);
- (iii) legal claims, disputes and proceedings amounting to HK\$8,147 million (2015: HK\$6,797 million);
- (iv) guarantees provided under the SME Loan Guarantee Scheme amounting to HK\$5,253 million (2015: HK\$6,406 million); and
- (v) guarantees provided under the Special Loan Guarantee Scheme amounting to HK\$3,504 million (2015: HK\$20,442 million).

10. Commitments

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

	2016 HK\$'000	2015 HK\$'000
Non-recurrent expenditure	27,856,507	28,924,907
Plant, vehicles and equipment	5,767,644	5,692,325
Capital works	126,667	118,451
Capital subventions	1,246,294	898,894
	<u>34,997,112</u>	<u>35,634,577</u>

General Revenue Account

11. Revenue

Analysis of total revenue by Head:

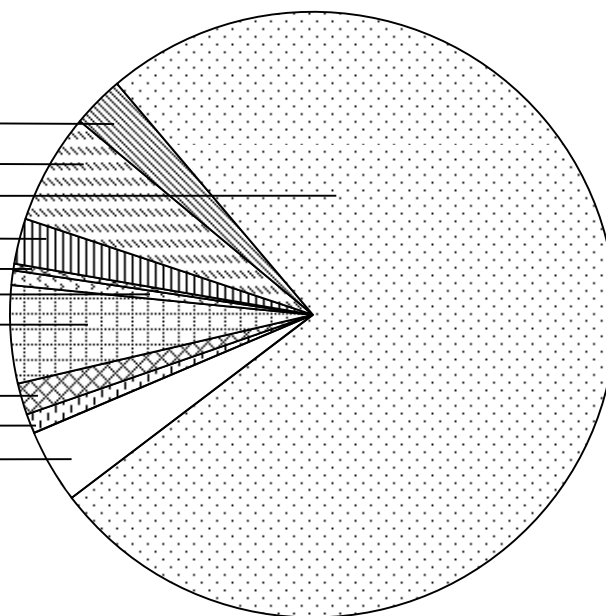
Head	2016				2015	
	Original Estimate	Actual	Over/(Under)	Variance	Actual	
	HK\$'000	HK\$'000	the Estimate	%	HK\$'000	
			HK\$'000			
1	Duties	10,317,071	10,711,592	394,521	3.8	10,009,743
2	General Rates	21,711,000	22,733,427	1,022,427	4.7	22,272,387
3	Internal Revenue					
	Profits tax	133,130,000	140,226,643	7,096,643	5.3	137,846,910
	Salaries tax	53,810,000	57,867,772	4,057,772	7.5	59,346,764
	Stamp duties	50,000,000	62,680,307	12,680,307	25.4	74,844,945
	Other internal revenue	29,944,991	30,461,525	516,534	1.7	29,760,398
		266,884,991	291,236,247	24,351,256	9.1	301,799,017
4	Motor Vehicle Taxes	10,335,247	9,311,023	(1,024,224)	(9.9)	9,548,701
5	Fines, Forfeitures and Penalties	1,126,752	1,408,967	282,215	25.0	1,328,047
6	Royalties and Concessions	2,886,100	2,954,947	68,847	2.4	2,915,758
7	Properties and Investments					
	Income from Investments with the Exchange Fund (Note (i) below)	-	-	-	-	-
	Others	-	20,014,709	-	-	23,843,044
		44,420,523	20,014,709	(24,405,814)	(54.9)	23,843,044
9	Loans, Reimbursements, Contributions and Other Receipts	7,570,512	6,491,391	(1,079,121)	(14.3)	7,493,235
10	Utilities	4,051,263	4,009,293	(41,970)	(1.0)	3,972,124
11	Fees and Charges	15,101,158	15,149,360	48,202	0.3	14,578,916
	Total	384,404,617	384,020,956	(383,661)	(0.1)	397,760,972

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$26.15 billion investment income of the General Revenue Account along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$0.82 billion on the initial provision set aside from the HK\$14.84 billion investment income of the General Revenue Account for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$41.81 billion.

General Revenue Account

Analysis of Revenue for the year ended 31 March 2016

Duties	HK\$10.7 Billion	3%
General Rates	HK\$22.7 Billion	6%
Internal Revenue	HK\$291.2 Billion	76%
Motor Vehicle Taxes	HK\$9.3 Billion	2%
Fines, Forfeitures and Penalties	HK\$1.4 Billion	1%
Royalties and Concessions	HK\$3.0 Billion	1%
Properties and Investments	HK\$20.0 Billion	5%
Loans, Reimbursements, Contributions and Other Receipts (Including Transfers from Funds)	HK\$6.5 Billion	1%
Utilities	HK\$4.0 Billion	1%
Fees and Charges	HK\$15.2 Billion	4%



**Total Revenue
HK\$384.0 Billion**

12. Expenditure

Analysis of total expenditure by Head:

Head	2016				2015	
	Original Estimate HK\$'000	Actual HK\$'000	Over/(Under) the Estimate HK\$'000	Variance %	Actual HK\$'000	
21 Chief Executive's Office	101,508	106,245	4,737	4.7	101,073	
22 Agriculture, Fisheries and Conservation Department	1,233,499	1,164,528	(68,971)	(5.6)	1,140,046	
25 Architectural Services Department	1,892,270	1,944,607	52,337	2.8	1,831,630	
24 Audit Commission	152,589	158,413	5,824	3.8	148,645	
23 Auxiliary Medical Service	87,279	84,761	(2,518)	(2.9)	81,553	
82 Buildings Department	1,243,103	1,251,817	8,714	0.7	1,142,668	
26 Census and Statistics Department	675,314	668,960	(6,354)	(0.9)	606,166	
27 Civil Aid Service	99,546	99,390	(156)	(0.2)	98,365	
28 Civil Aviation Department	903,375	909,849	6,474	0.7	875,614	
33 Civil Engineering and Development Department	2,257,938	2,273,572	15,634	0.7	2,175,728	
30 Correctional Services Department	3,519,735	3,623,644	103,909	3.0	3,465,231	
31 Customs and Excise Department	3,316,890	3,292,382	(24,508)	(0.7)	3,142,521	
37 Department of Health	6,470,478	6,619,063	148,585	2.3	5,980,330	
92 Department of Justice	1,980,026	1,509,258	(470,768)	(23.8)	1,482,725	
39 Drainage Services Department	2,416,746	2,393,374	(23,372)	(1.0)	2,148,869	

General Revenue Account

12. Expenditure (Continued)

Head	2016				2015
	Original Estimate HK\$'000	Actual HK\$'000	Over/(Under) the Estimate HK\$'000	Variance %	Actual HK\$'000
42 Electrical and Mechanical Services Department	462,437	450,554	(11,883)	(2.6)	509,269
44 Environmental Protection Department	6,996,144	5,565,097	(1,431,047)	(20.5)	6,149,964
45 Fire Services Department	5,380,447	5,464,973	84,526	1.6	4,968,947
49 Food and Environmental Hygiene Department	5,923,986	6,036,130	112,144	1.9	5,762,513
46 General Expenses of the Civil Service	3,351,738	3,104,023	(247,715)	(7.4)	2,984,349
166 Government Flying Service	583,253	1,023,012	439,759	75.4	359,686
48 Government Laboratory	445,799	451,624	5,825	1.3	408,825
59 Government Logistics Department	550,992	549,695	(1,297)	(0.2)	536,524
51 Government Property Agency	1,901,449	1,901,407	(42)	-	1,871,217
143 Government Secretariat: Civil Service Bureau	557,046	544,261	(12,785)	(2.3)	520,109
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	1,829,156	2,173,288	344,132	18.8	1,631,285
* 55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)	340,399	282,943	(57,456)	(16.9)	295,309
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	580,613	584,572	3,959	0.7	574,640
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	315,760	305,491	(10,269)	(3.3)	474,062
159 Government Secretariat: Development Bureau (Works Branch)	416,442	437,867	21,425	5.1	415,600
156 Government Secretariat: Education Bureau	51,382,677	52,286,462	903,785	1.8	47,975,828
137 Government Secretariat: Environment Bureau	81,433	76,808	(4,625)	(5.7)	78,247
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	229,784	241,082	11,298	4.9	239,409

General Revenue Account

12. Expenditure (Continued)

Head	2016				2015
	Original Estimate HK\$'000	Actual HK\$'000	Over/(Under) the Estimate HK\$'000	Variance %	Actual HK\$'000
147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch)	408,697	425,891	17,194	4.2	1,971,803
139 Government Secretariat: Food and Health Bureau (Food Branch)	84,292	74,779	(9,513)	(11.3)	73,860
140 Government Secretariat: Food and Health Bureau (Health Branch)	50,400,595	62,053,414	11,652,819	23.1	50,204,378
53 Government Secretariat: Home Affairs Bureau	1,672,933	1,693,601	20,668	1.2	1,561,994
135 Government Secretariat: Innovation and Technology Bureau	-	10,959	10,959	-	-
155 Government Secretariat: Innovation and Technology Commission	620,295	617,752	(2,543)	(0.4)	594,192
141 Government Secretariat: Labour and Welfare Bureau	801,736	755,297	(46,439)	(5.8)	741,536
47 Government Secretariat: Office of the Government Chief Information Officer	714,743	719,330	4,587	0.6	694,800
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	853,206	846,702	(6,504)	(0.8)	795,067
96 Government Secretariat: Overseas Economic and Trade Offices	355,773	314,386	(41,387)	(11.6)	326,019
151 Government Secretariat: Security Bureau	356,065	335,475	(20,590)	(5.8)	303,039
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	223,327	206,169	(17,158)	(7.7)	195,093
60 Highways Department	2,639,769	2,647,348	7,579	0.3	2,610,597
63 Home Affairs Department	2,370,979	2,397,197	26,218	1.1	2,205,853
168 Hong Kong Observatory	275,514	281,467	5,953	2.2	267,278
122 Hong Kong Police Force	16,800,671	17,064,732	264,061	1.6	16,547,206
62 Housing Department	280,437	1,416,806	1,136,369	405.2	1,312,666
70 Immigration Department	3,910,311	4,027,151	116,840	3.0	3,828,945
72 Independent Commission Against Corruption	977,866	1,006,621	28,755	2.9	961,182
121 Independent Police Complaints Council	57,282	58,903	1,621	2.8	57,272

General Revenue Account

12. Expenditure (Continued)

Head	2016				2015
	Original Estimate HK\$'000	Actual HK\$'000	Over/(Under) the Estimate HK\$'000	Variance %	Actual HK\$'000
74 Information Services Department	449,664	447,532	(2,132)	(0.5)	408,698
76 Inland Revenue Department	1,451,062	1,453,411	2,349	0.2	1,415,748
78 Intellectual Property Department	137,480	137,649	169	0.1	131,634
79 Invest Hong Kong	115,139	115,681	542	0.5	115,948
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	29,191	30,712	1,521	5.2	31,538
80 Judiciary	1,437,185	1,382,772	(54,413)	(3.8)	1,277,485
90 Labour Department	1,917,957	1,815,895	(102,062)	(5.3)	1,760,329
91 Lands Department	2,265,591	2,323,574	57,983	2.6	2,210,450
94 Legal Aid Department	845,148	860,536	15,388	1.8	849,082
112 Legislative Council Commission	758,559	776,867	18,308	2.4	734,491
95 Leisure and Cultural Services Department	7,482,663	7,580,770	98,107	1.3	7,024,637
100 Marine Department	1,178,092	1,195,756	17,664	1.5	1,203,688
106 Miscellaneous Services	23,710,238	129,601	(23,580,637)	(99.5)	93,832
180 Office for Film, Newspaper and Article Administration	45,393	44,102	(1,291)	(2.8)	41,739
114 Office of The Ombudsman	107,146	111,296	4,150	3.9	107,171
116 Official Receiver's Office	154,373	156,898	2,525	1.6	149,824
120 Pensions	29,712,370	29,432,807	(279,563)	(0.9)	26,412,460
118 Planning Department	629,834	636,909	7,075	1.1	591,421
136 Public Service Commission Secretariat	21,943	22,575	632	2.9	21,448
160 Radio Television Hong Kong	823,102	840,937	17,835	2.2	775,720
162 Rating and Valuation Department	501,929	495,537	(6,392)	(1.3)	475,604
163 Registration and Electoral Office	743,819	479,939	(263,880)	(35.5)	179,971
169 Secretariat, Commissioner on Interception of Communications and Surveillance	21,452	20,419	(1,033)	(4.8)	18,340
170 Social Welfare Department	58,349,247	62,482,922	4,133,675	7.1	56,142,958
181 Trade and Industry Department	831,089	719,041	(112,048)	(13.5)	811,980
186 Transport Department	2,534,203	2,507,943	(26,260)	(1.0)	2,041,407
188 Treasury	371,085	377,218	6,133	1.7	366,078
190 University Grants Committee	16,988,115	17,581,142	593,027	3.5	16,365,753

General Revenue Account

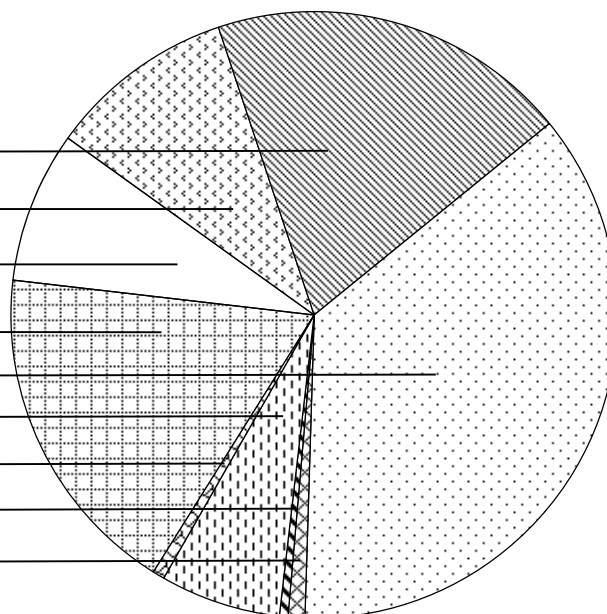
12. Expenditure (Continued)

Head	2016				2015
	Original Estimate HK\$'000	Actual HK\$'000	Over/(Under) the Estimate HK\$'000	Variance %	Actual HK\$'000
194 Water Supplies Department	7,564,794	7,658,947	94,153	1.2	7,183,442
173 Working Family and Student Financial Assistance Agency	5,555,255	4,857,908	(697,347)	(12.6)	4,789,189
	358,217,460	351,210,428	(7,007,032)	(2.0)	319,161,792
184 Transfers to Funds	3,130,000	3,180,000	50,000	1.6	2,529,000
Total	361,347,460	354,390,428	(6,957,032)	(1.9)	321,690,792

* With effect from 20 November 2015, Head 55 "Government Secretariat: Commerce and Economic Development Bureau (Communications and Technology Branch)" has been renamed as "Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)".

Analysis of Expenditure for the year ended 31 March 2016

Personal Emoluments	HK\$68.2 Billion	19%
Personnel Related Expenses	HK\$35.4 Billion	10%
Departmental Expenses	HK\$28.6 Billion	8%
Other Charges	HK\$63.6 Billion	18%
Recurrent Subventions	HK\$128.8 Billion	36%
Non-Recurrent Expenditure	HK\$22.8 Billion	6%
Plant, Equipment and Works	HK\$2.2 Billion	1%
Capital Subventions	HK\$1.6 Billion	1%
Transfers to Funds	HK\$3.2 Billion	1%



**Total Expenditure
HK\$354.4 Billion**

General Revenue Account

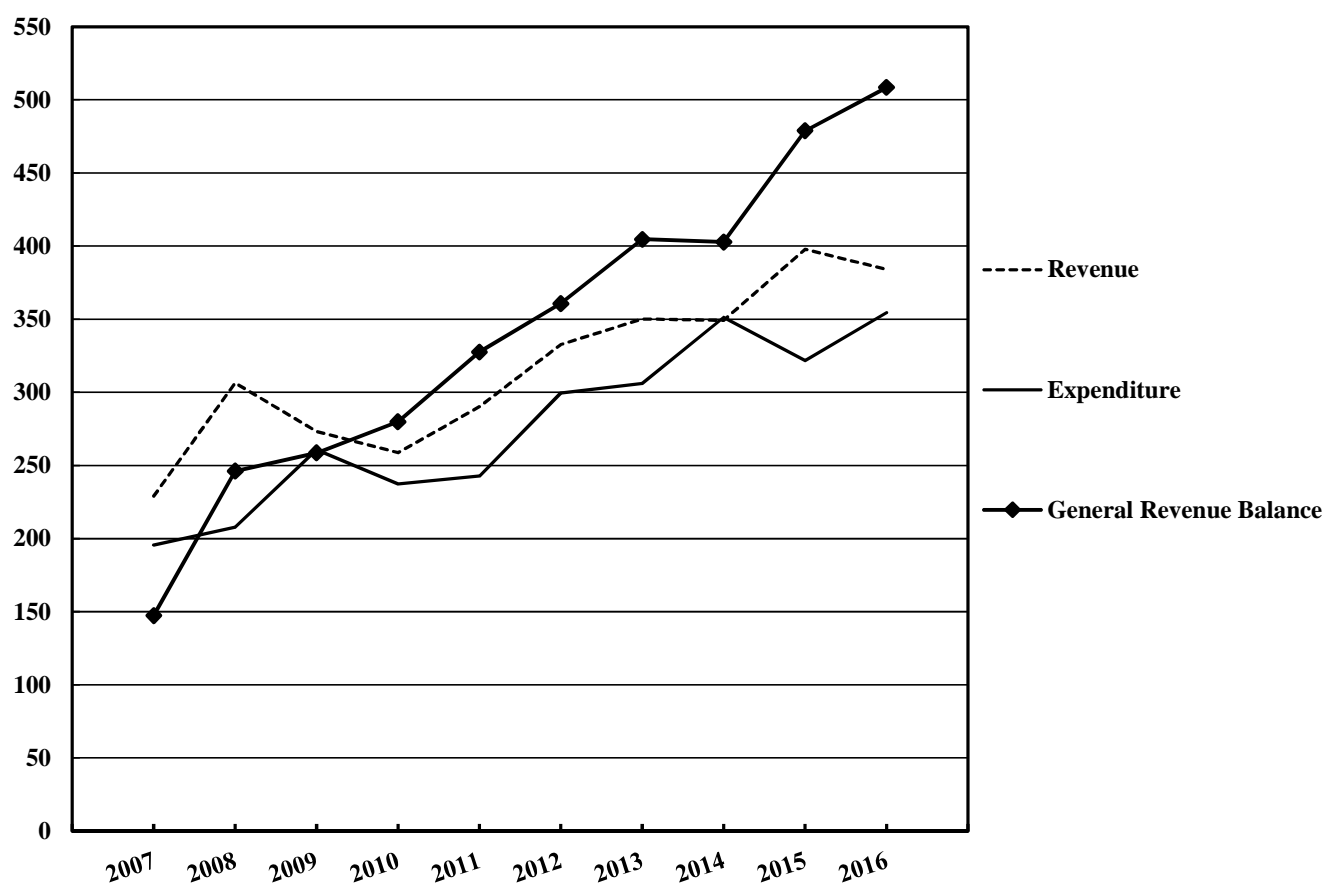
13. Other Cash Movements

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

	2016 HK\$'000	2015 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	(29,933,827)	(74,332,703)
Deposits with banks	(48,585)	(774,796)
Advances	(164,615)	(203,261)
	(30,147,027)	(75,310,760)
Increase/(Reduction) in Liabilities		
Deposits	682,222	(1,207,363)
Suspense Accounts	7,572	(27,787)
	689,794	(1,235,150)
	(29,457,233)	(76,545,910)

Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2007 to 2016

HK\$Billion



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Report of the Director of Audit



Capital Works Reserve Fund

Independent Audit Report To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 25 to 34, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Capital Works Reserve Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	59,926,086	77,914,677
Cash and bank balances		952	4,101
		59,927,038	77,918,778
Liabilities			
Deposits	4	(1,756,652)	(1,556,334)
		58,170,386	76,362,444
Representing:			
Fund Balance			
Balance at beginning of year		76,362,444	79,772,902
Deficit for the year		(18,192,058)	(3,410,458)
Balance at end of year	5, 6, 7	58,170,386	76,362,444

Notes 1 to 10 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		4,101	909
Receipts	8	60,990,535	77,990,057
Payments	5, 9	(79,182,593)	(81,400,515)
Deficit for the year		(18,192,058)	(3,410,458)
Other cash movements	10	18,188,909	3,413,650
Cash and bank balances at end of year		952	4,101

Notes 1 to 10 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

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 has been reconstituted since 1 January 1998 under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

2. Accounting Policies

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

3. Investments with the Exchange Fund

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

	2016	2015
	HK\$'000	HK\$'000
Investments (Note (ii) below)	59,877,819	77,870,016
Deposits	48,267	44,661
	<u>59,926,086</u>	<u>77,914,677</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$3.98 billion for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 8(i)).

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:

	2016 HK\$'000	2015 HK\$'000
Contract retention money	1,375,914	1,244,115
Others	380,738	312,219
	<u>1,756,652</u>	<u>1,556,334</u>

5. Fund Balance

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

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

	2016 HK\$'000	2015 HK\$'000
Outstanding government bonds and notes	<u>1,500,000</u>	<u>1,500,000</u>

The outstanding bonds and notes are denominated in Hong Kong dollars with maturity in July 2019. During the financial year, there were payments of interest of HK\$77 million on the notes but no repayment of principal.

6. Contingent Liabilities

As at 31 March 2016, the amount of contingent liabilities arising from legal claims, disputes and proceedings was HK\$3,906 million (2015: HK\$5,976 million).

Capital Works Reserve Fund

7. Commitments

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

Head	2016	2015
	HK\$'000	HK\$'000
Land acquisition		
701 Land acquisition	6,181,799	3,907,116
Sub-total	6,181,799	3,907,116
Capital works – Public Works Programme		
702 Port and airport development	148,701	166,764
703 Buildings	48,655,352	28,059,134
704 Drainage	14,814,933	17,388,346
705 Civil engineering	64,194,638	40,141,846
706 Highways	176,553,909	191,326,762
707 New towns and urban area development	22,930,399	13,924,087
709 Waterworks	12,117,324	13,663,909
711 Housing	3,448,818	2,852,925
Sub-total	342,864,074	307,523,773
Capital subventions		
708 (part) Capital subventions	32,749,403	35,223,480
Sub-total	32,749,403	35,223,480
Systems and equipment		
708 (part) Major systems and equipment	3,005,762	4,284,070
710 Computerisation	7,519,921	7,117,451
Sub-total	10,525,683	11,401,521
	392,320,959	358,055,890

Capital Works Reserve Fund

8. Receipts

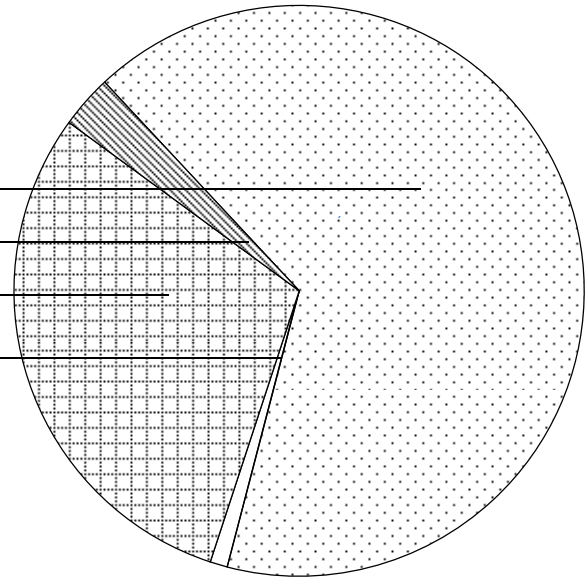
	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land premium			
Sales by public auction and tender	-	40,309,742	51,445,256
Private treaty grants	-	1,440,679	11,822,917
Modification of existing leases, exchanges and extensions	-	18,372,959	13,894,010
Fees received in respect of short term waivers	-	769,457	641,903
	70,000,000	60,892,837	77,804,086
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	-	-
Others	-	2,341	2,210
	4,271,000	2,341	2,210
Other receipts			
Donations and contributions	24,880	988	70
Others	-	94,369	183,691
	24,880	95,357	183,761
	<u>74,295,880</u>	<u>60,990,535</u>	<u>77,990,057</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$3.98 billion investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$0.15 billion on the initial provision set aside from the HK\$2.88 billion investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$7.01 billion.

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2016

Sales by public auction and tender	HK\$40.3 Billion	66%
Private treaty grants and fees received in respect of short term waivers	HK\$2.2 Billion	3%
Modification of existing leases, exchanges and extensions	HK\$18.4 Billion	30%
Investment income and other receipts	HK\$0.1 Billion	1%



**Total Receipts
HK\$61.0 Billion**

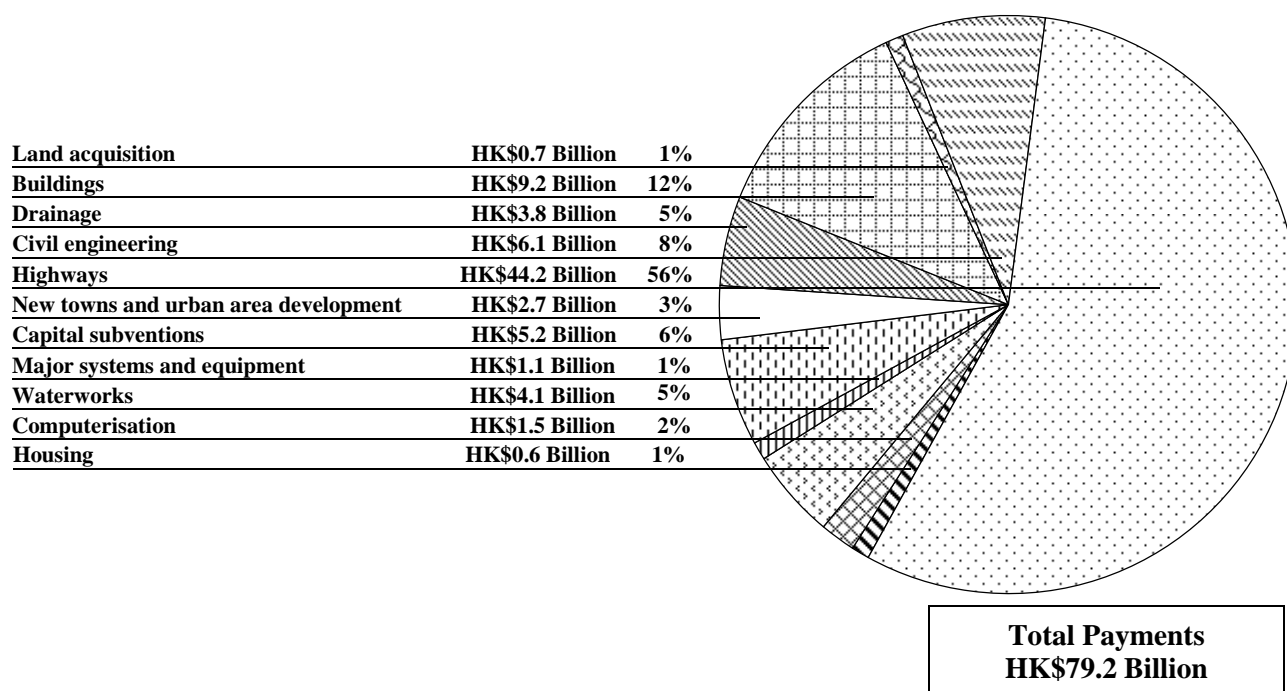
Capital Works Reserve Fund

9. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land acquisition	2,340,680	656,503	597,814
Public Works Programme			
Port and airport development	2,342	1,660	2,767
Buildings	7,322,683	9,157,521	7,635,375
Drainage	4,095,722	3,834,792	5,078,055
Civil engineering	6,040,503	6,040,310	4,338,765
Highways	38,020,745	44,168,403	38,189,058
New towns and urban area development	2,731,258	2,733,116	3,092,768
Waterworks	4,499,614	4,121,209	4,589,762
Housing	577,104	542,131	658,537
	63,289,971	70,599,142	63,585,087
Capital subventions and major systems and equipment			
Capital subventions	6,718,315	5,189,681	5,171,336
Major systems and equipment	1,184,383	1,133,293	476,893
	7,902,698	6,322,974	5,648,229
Computerisation	1,762,221	1,519,091	1,543,917
Government bonds and notes issued in July 2004			
Repayment	-	-	9,687,794
Interest and other expenses	77,302	77,301	325,126
	77,302	77,301	10,012,920
Other payments			
Refund of overpayment of land premium	-	7,582	12,548
	<u>75,372,872</u>	<u>79,182,593</u>	<u>81,400,515</u>

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2016 *



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

10. Other Cash Movements

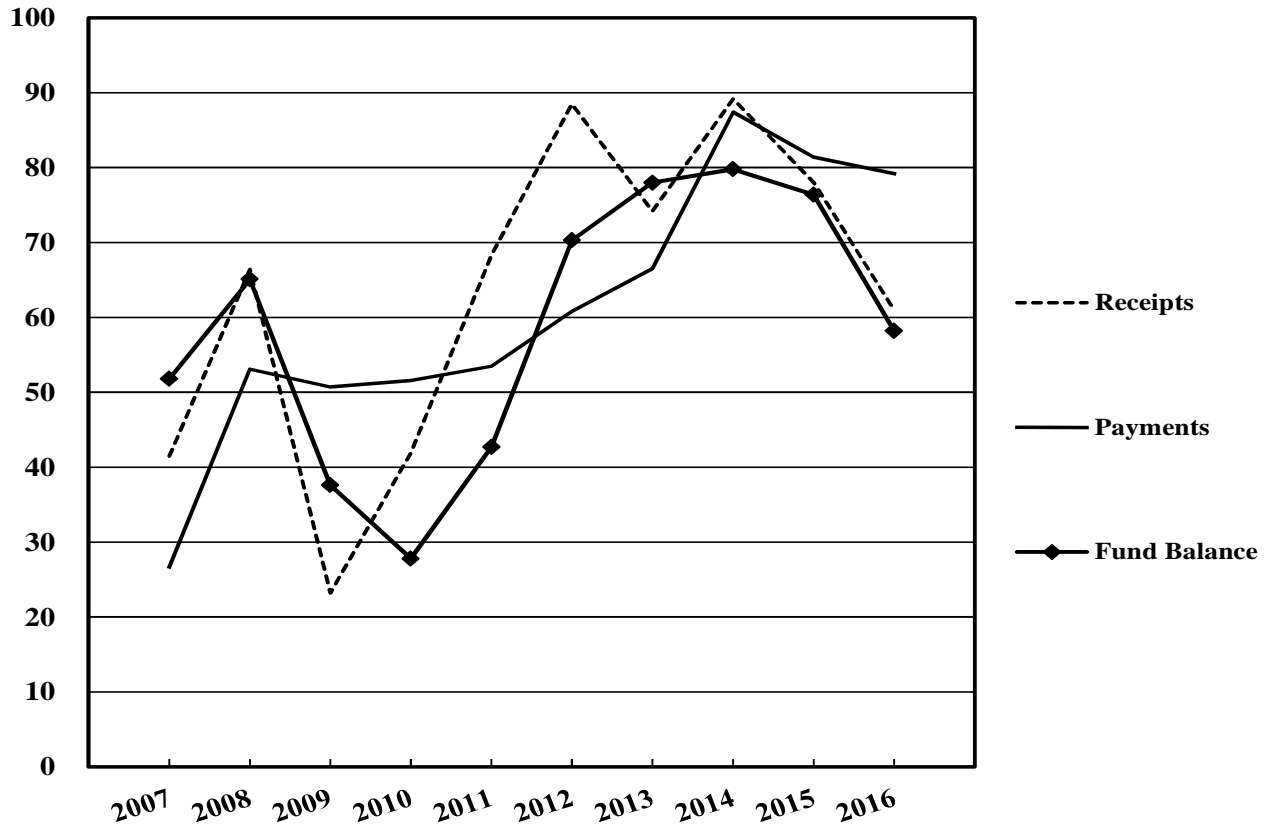
These are cash movements arising from changes in other assets and liabilities:

	2016	2015
	HK\$'000	HK\$'000
Reduction in Assets		
Investments with the Exchange Fund	17,988,591	3,144,610
Increase in Liabilities		
Deposits	200,318	269,040
	18,188,909	3,413,650

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2007 to 2016

HK\$Billion



Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Capital Investment Fund

Independent Audit Report To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Capital Investment Fund set out on pages 37 to 43, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Capital Investment Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments	3		
Equity holdings		124,795,346	123,077,992
Other investments		465,913,116	454,316,039
		590,708,462	577,394,031
Loans Outstanding	4	917,454	2,635,126
		591,625,916	580,029,157
Current Assets			
Investments with the Exchange Fund	5	2,835,100	1,443,087
Cash and bank balances		1	1
		2,835,101	1,443,088
		594,461,017	581,472,245
Representing:			
Total Fund Balance			
Applied Fund	6	591,625,916	580,029,157
Available Fund	7		
Balance at beginning of year		1,443,088	1,994,185
Surplus/(Deficit) for the year		1,392,013	(551,097)
Balance at end of year		2,835,101	1,443,088
	8, 9	594,461,017	581,472,245

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		1	-
Receipts	10	1,409,367	1,460,445
Payments	11	(17,354)	(2,011,542)
Surplus/(Deficit) for the year		1,392,013	(551,097)
Other cash movements	12	(1,392,013)	551,098
Cash and bank balances at end of year		1	1

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Capital Investment Fund

NOTES TO THE FINANCIAL STATEMENTS

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)

	2016			2015		
	Equity Holdings HK\$'000	Other Investments HK\$'000	Total HK\$'000	Equity Holdings HK\$'000	Other Investments HK\$'000	Total HK\$'000
Balance at beginning of year	123,077,992	454,316,039	577,394,031	123,066,450	439,710,728	562,777,178
Additions						
Cash acquisitions	17,354	-	17,354	11,542	-	11,542
Non-cash acquisitions	1,700,000	11,597,077	13,297,077	-	14,605,311	14,605,311
	1,717,354	11,597,077	13,314,431	11,542	14,605,311	14,616,853
Balance at end of year	124,795,346	465,913,116	590,708,462	123,077,992	454,316,039	577,394,031

Capital Investment Fund

4. Loans Outstanding

	2016	2015
	HK\$'000	HK\$'000
Balance at beginning of year	2,635,126	2,704,715
Additions		
Capitalised interest	76,593	39,782
Deductions		
Loan repayments	(94,265)	(109,371)
Loan conversion to equity	(1,700,000)	-
	(1,794,265)	(109,371)
Balance at end of year	917,454	2,635,126

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. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$98 million for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 10(i)).

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 2016, the Government had the following contingent liabilities:

- (i) possible capital subscriptions to the Asian Development Bank amounting to HK\$5,990 million (2015: HK\$5,892 million); and
- (ii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to HK\$2,002 million (2015: HK\$2,048 million).

Capital Investment Fund

9. Commitments

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

	2016	2015
	HK\$'000	HK\$'000
Investments	71,350	88,704
Loans	2,028,500	2,028,500
	2,099,850	2,117,204

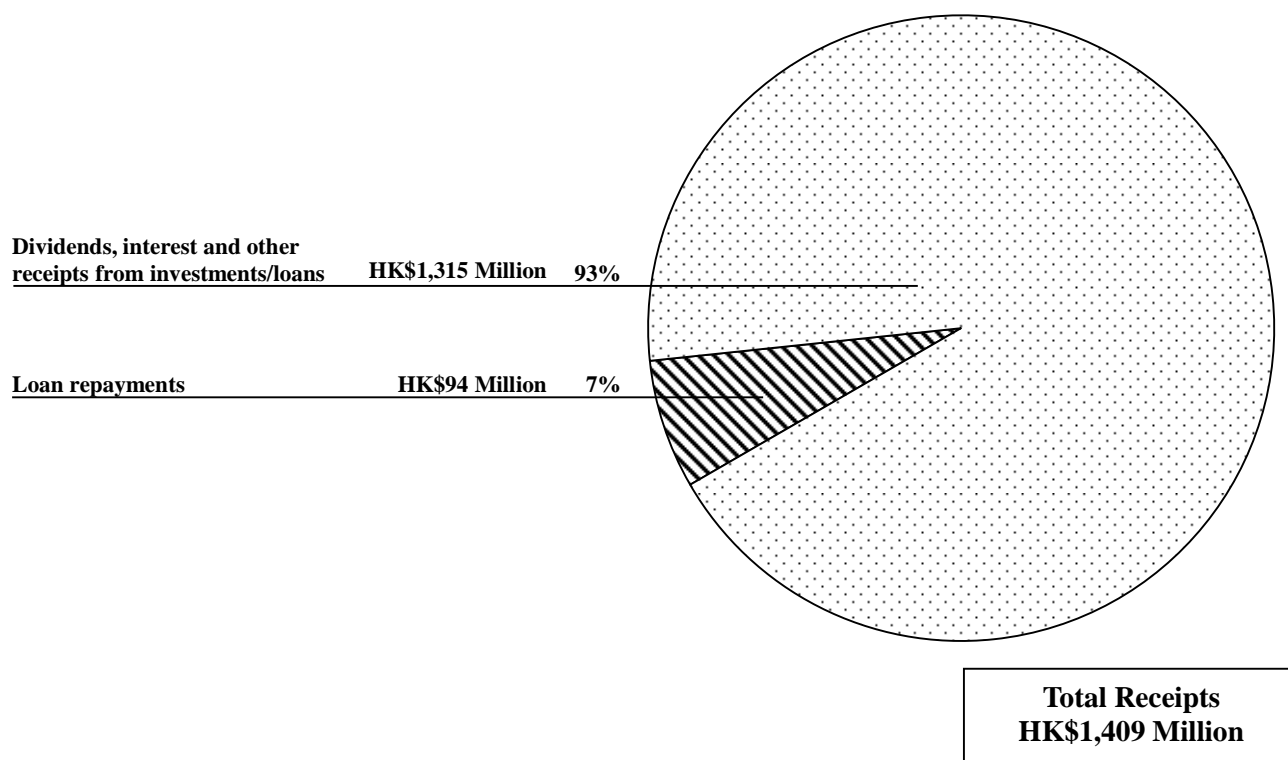
10. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Dividends, interest and other receipts from investments/loans	952,278	1,315,102	1,351,074
Loan repayments	91,508	94,265	109,371
Investment income			
Investments with the Exchange Fund (Note (i) below)	111,000	-	-
	<u>1,154,786</u>	<u>1,409,367</u>	<u>1,460,445</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$98 million investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$4 million on the initial provision set aside from the HK\$79 million investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$181 million.

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2016



11. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Acquisition of investments			
Equity holdings	17,525	17,354	11,542
Transfer to General Revenue	1,000,000	-	2,000,000
	<u>1,017,525</u>	<u>17,354</u>	<u>2,011,542</u>

12. Other Cash Movements

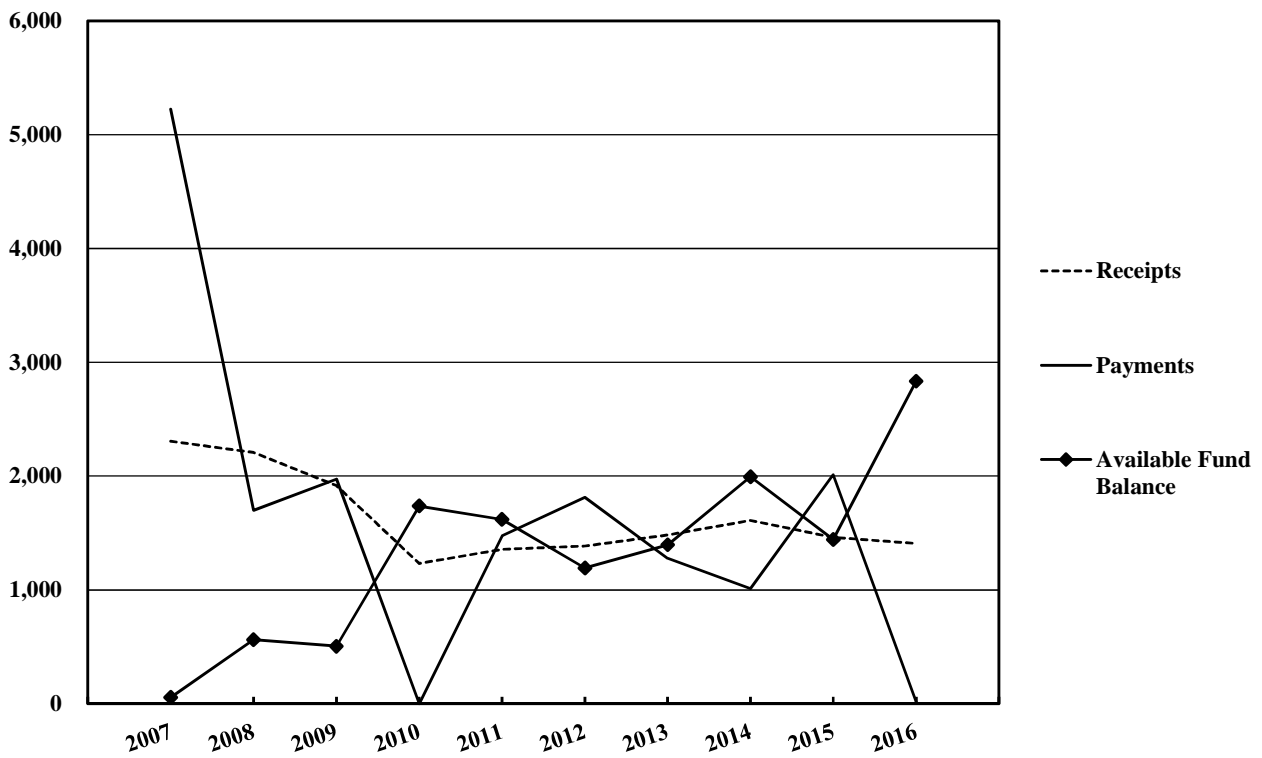
These are cash movements arising from changes in other assets and liabilities:

	2016 HK\$'000	2015 HK\$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	<u>(1,392,013)</u>	<u>551,098</u>

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2007 to 2016

HK\$ Million



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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Civil Service Pension Reserve Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Civil Service Pension Reserve Fund set out on pages 47 to 50, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Civil Service Pension Reserve Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	<u>27,128,846</u>	<u>27,028,846</u>
Representing:			
Fund Balance			
Balance at beginning of year		27,028,846	27,028,846
Surplus for the year		<u>100,000</u>	-
Balance at end of year		<u>27,128,846</u>	<u>27,028,846</u>

Notes 1 to 5 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	100,000	-
Payments		-	-
Surplus for the year		100,000	-
Other cash movements	5	(100,000)	-
Cash and bank balances at end of year		-	-

Notes 1 to 5 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Civil Service Pension Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

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. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$1.49 billion for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 4(i)).

4. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	1,488,000	-	-
Transfer from General Revenue	100,000	100,000	-
	1,588,000	100,000	-

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$1.49 billion investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$0.05 billion on the initial provision set aside from the HK\$0.97 billion investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$2.51 billion.

Civil Service Pension Reserve Fund

5. Other Cash Movements

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

	2016 HK\$'000	2015 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	<u>100,000</u>	<u>-</u>

Report of the Director of Audit



Audit Commission
The Government of the Hong Kong Special Administrative Region

Disaster Relief Fund

Independent Audit Report To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Disaster Relief Fund set out on pages 53 to 58, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Disaster Relief Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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

Disaster Relief Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	<u>14,539</u>	<u>15,584</u>
Representing:			
Fund Balance			
Balance at beginning of year		15,584	31,228
Deficit for the year		<u>(1,045)</u>	<u>(15,644)</u>
Balance at end of year		<u>14,539</u>	<u>15,584</u>

Notes 1 to 6 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Disaster Relief Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	81,102	31,520
Payments	5	(82,147)	(47,164)
Deficit for the year		(1,045)	(15,644)
Other cash movements	6	1,045	15,644
Cash and bank balances at end of year		-	-

Notes 1 to 6 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Disaster Relief Fund

NOTES TO THE FINANCIAL STATEMENTS

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. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$1.26 million for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 4(i)).

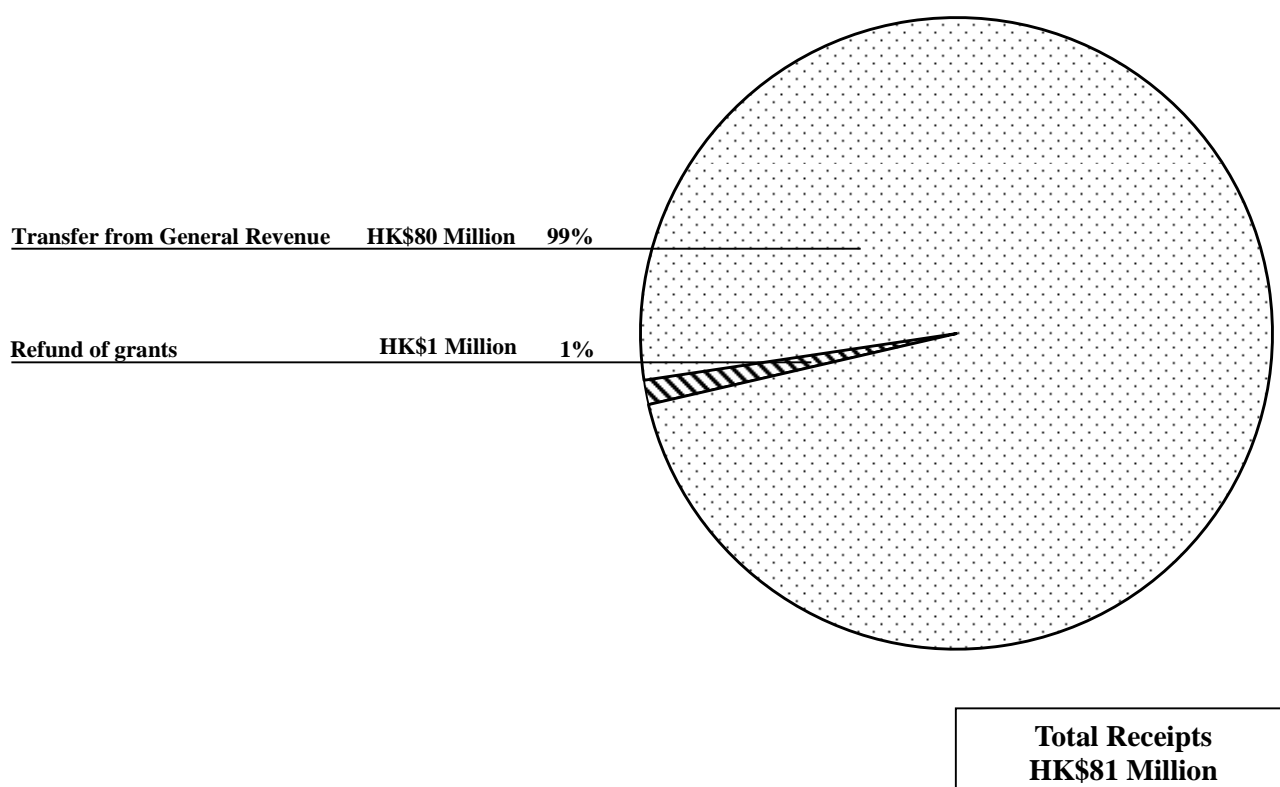
4. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	2,000	-	-
Transfer from General Revenue	30,000	80,000	29,000
Refund of grants	-	1,102	2,520
	<u>32,000</u>	<u>81,102</u>	<u>31,520</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$1.26 million investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$0.06 million on the initial provision set aside from the HK\$1.06 million investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$2.38 million.

Disaster Relief Fund

Analysis of Receipts for the year ended 31 March 2016

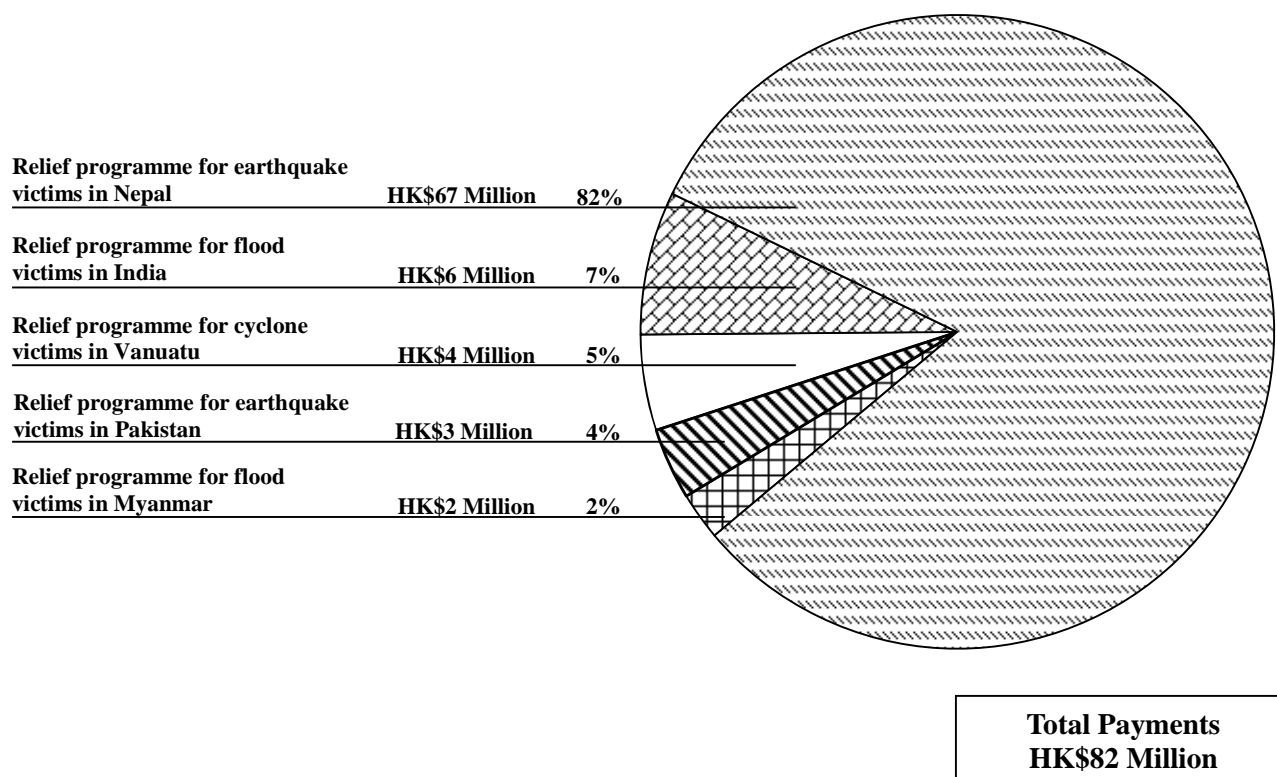


5. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Relief programmes for			
earthquake victims in Nepal	-	66,774	-
flood victims in India	-	6,093	6,803
cyclone victims in Vanuatu	-	3,920	-
earthquake victims in Pakistan	-	2,930	-
flood victims in Myanmar	-	2,430	-
earthquake victims in the Mainland	-	-	23,068
flood victims in the Mainland	-	-	10,659
flood victims in Bosnia and Herzegovina, and Serbia	-	-	4,134
flood victims in Malawi	-	-	2,500
	-	82,147	47,164

Disaster Relief Fund

Analysis of Payments for the year ended 31 March 2016



6. Other Cash Movements

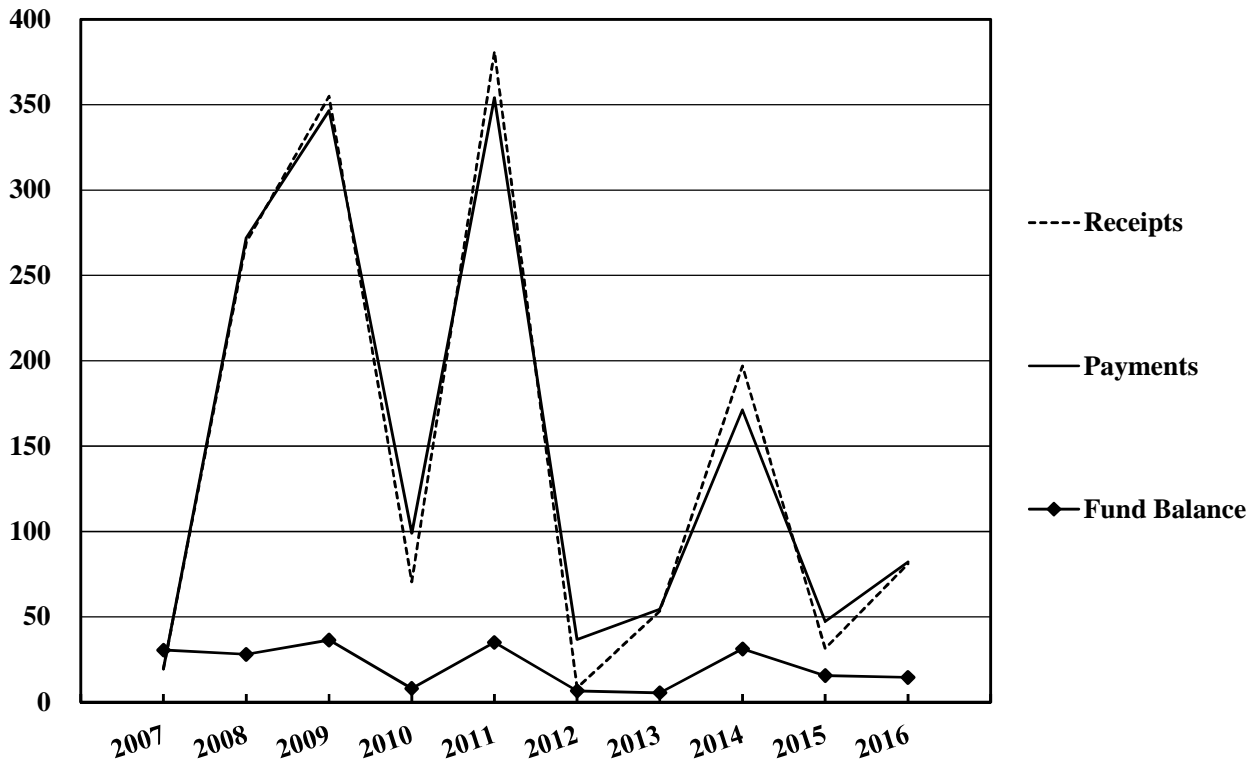
These are cash movements arising from changes in other assets and liabilities:

	2016	2015
	HK\$'000	HK\$'000
Reduction in Assets		
Investments with the Exchange Fund	1,045	15,644

Disaster Relief Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2007 to 2016

HK\$Million



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Innovation and Technology Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Innovation and Technology Fund set out on pages 61 to 65, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Innovation and Technology Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	41,743	987,214
Cash and bank balances		1	183
		<u>41,744</u>	<u>987,397</u>
Representing:			
Fund Balance			
Balance at beginning of year		987,397	1,811,816
Deficit for the year		(945,653)	(824,419)
Balance at end of year	4	<u>41,744</u>	<u>987,397</u>

Notes 1 to 7 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Innovation and Technology Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		183	591
Receipts	5	68,606	57,022
Payments	6	(1,014,259)	(881,441)
Deficit for the year		(945,653)	(824,419)
Other cash movements	7	945,471	824,011
Cash and bank balances at end of year		1	183

Notes 1 to 7 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Innovation and Technology Fund

NOTES TO THE FINANCIAL STATEMENTS

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. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$40 million for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 5(i)).

4. Commitments

The approved grants that were unpaid were as follows:

	2016	2015
	HK\$'000	HK\$'000
Grants	2,142,577	1,438,377

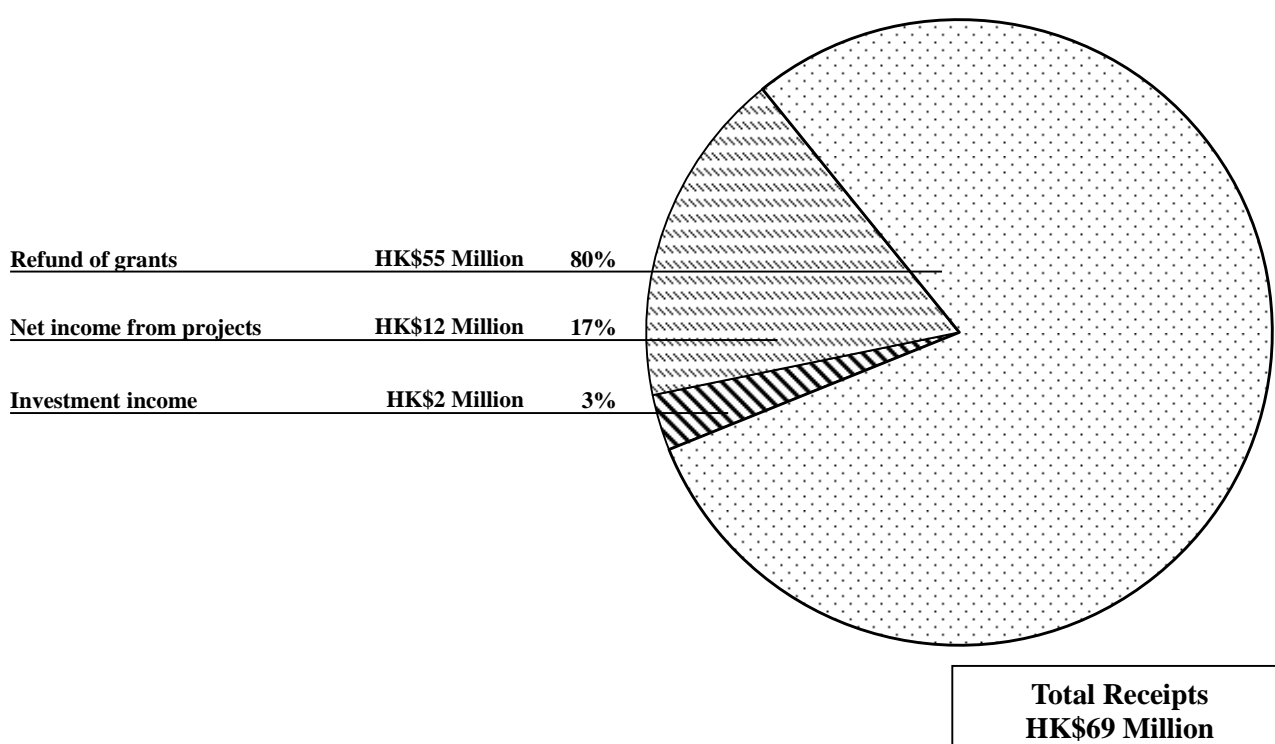
Innovation and Technology Fund

5. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	-	-
Others	-	2,221	1,536
	37,000	2,221	1,536
Net income from projects	8,515	11,901	18,446
Refund of grants	-	54,484	37,040
	45,515	68,606	57,022

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$40 million investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$3 million on the initial provision set aside from the HK\$57 million investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$100 million.

Analysis of Receipts for the year ended 31 March 2016



Innovation and Technology Fund

6. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Grants	1,014,476	1,014,259	881,441

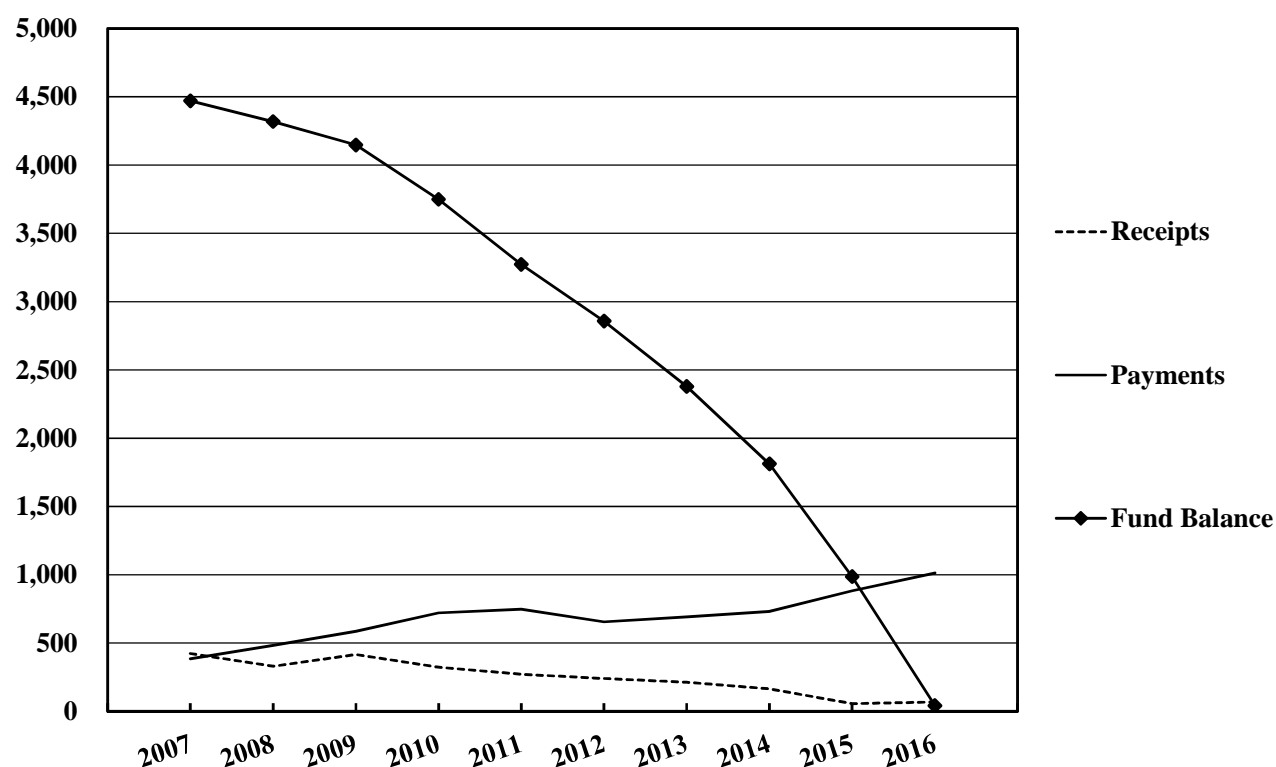
7. Other Cash Movements

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

	2016 HK\$'000	2015 HK\$'000
Reduction in Assets		
Investments with the Exchange Fund	945,471	824,011

Receipts, Payments and Fund Balance for the years ended 31 March 2007 to 2016

HK\$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 Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Land Fund set out on pages 69 to 72, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Land Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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

Land Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	<u>219,729,659</u>	<u>219,729,659</u>
Representing:			
Fund Balance			
Balance at beginning of year		219,729,659	219,729,659
Surplus for the year		-	-
Balance at end of year	3	<u>219,729,659</u>	<u>219,729,659</u>

Notes 1 to 4 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Land Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	-	-
Payments		-	-
Surplus for the year		-	-
Other cash movements		-	-
Cash and bank balances at end of year		-	-

Notes 1 to 4 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Land Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Between 1 April 2007 and 31 December 2015, the investment income was calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income was receivable on 31 December of each year. The investment income of HK\$12.08 billion for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 4(i)).
- (iv) In accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015, investment income on the Future Fund placement is payable at a composite rate computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iii) above) and the rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund together with investment income 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.

Land Fund

4. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	12,085,000	-	-

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$12.08 billion investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$0.44 billion on the initial provision set aside from the HK\$7.91 billion investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$20.43 billion.

Report of the Director of Audit



Loan Fund

Independent Audit Report To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 75 to 82, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Loan Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Loans Outstanding	3		
Housing loans		3,122,638	3,121,128
Education loans		16,763,924	15,951,654
Other loans		4,267,875	3,804,839
		24,154,437	22,877,621
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,470,666	2,472,200
Cash and bank balances		15,067	17,057
		4,485,733	2,489,257
Current Liabilities			
Deposits	5	(18,200)	(17,375)
		4,467,533	2,471,882
		28,621,970	25,349,503
Representing:			
Total Fund Balance			
Applied Fund	6	24,154,437	22,877,621
Available Fund			
Balance at beginning of year		2,471,882	1,389,498
Surplus for the year		1,995,651	1,082,384
Balance at end of year		4,467,533	2,471,882
	8, 9	28,621,970	25,349,503

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		17,057	31,531
Receipts	10	5,185,601	4,574,862
Payments	11	(3,189,950)	(3,492,478)
Surplus for the year		1,995,651	1,082,384
Other cash movements	12	(1,997,641)	(1,096,858)
Cash and bank balances at end of year		15,067	17,057

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Loan Fund

NOTES TO THE FINANCIAL STATEMENTS

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.
- (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. Loans Outstanding

	2016			2015		
	Housing Loans HK\$'000	Education Loans HK\$'000	Other Loans HK\$'000	Housing Loans HK\$'000	Education Loans HK\$'000	Other Loans HK\$'000
Balance at beginning of year	3,121,128	15,951,654	3,804,839	3,053,320	14,755,903	3,405,872
Additions						
Loan payments	230,113	2,350,924	608,913	201,252	2,732,248	558,978
Capitalised interest	130	-	119,985	172	-	100,032
	230,243	2,350,924	728,898	201,424	2,732,248	659,010
Deductions						
Loan repayments	(19,454)	(1,537,211)	(260,899)	(25,385)	(1,532,704)	(253,843)
Loans written off	-	(1,443)	(4,963)	-	(3,793)	(6,200)
Proceeds from sale of loans	(209,279)	-	-	(108,231)	-	-
	(228,733)	(1,538,654)	(265,862)	(133,616)	(1,536,497)	(260,043)
Balance at end of year	3,122,638	16,763,924	4,267,875	3,121,128	15,951,654	3,804,839

Loan Fund

4. Investments with the Exchange Fund

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

	2016	2015
	HK\$'000	HK\$'000
Investments (Note (ii) below)	4,469,548	2,471,662
Deposits	1,118	538
	4,470,666	2,472,200

(ii) The investments represent the cost of investments together with the investment income received in the year being reported. Effective from 1 April 2007, 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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$116 million for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 10(i)).

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:

	2016	2015
	HK\$'000	HK\$'000
Students	18,059	17,254
Others	141	121
	18,200	17,375

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. Contingent Liabilities

As at 31 March 2016, there were no contingent liabilities. The Government was relieved of its obligations as the guarantor under a commercial loan of the Ocean Park Corporation (2015: HK\$1,388 million).

Loan Fund

9. Commitments

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

	2016 HK\$'000	2015 HK\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	7,771,481	4,240,781
Balance of approved loans operating on revolving basis available for granting of new loans	11,525,559	11,880,769
	<u>19,297,040</u>	<u>16,121,550</u>

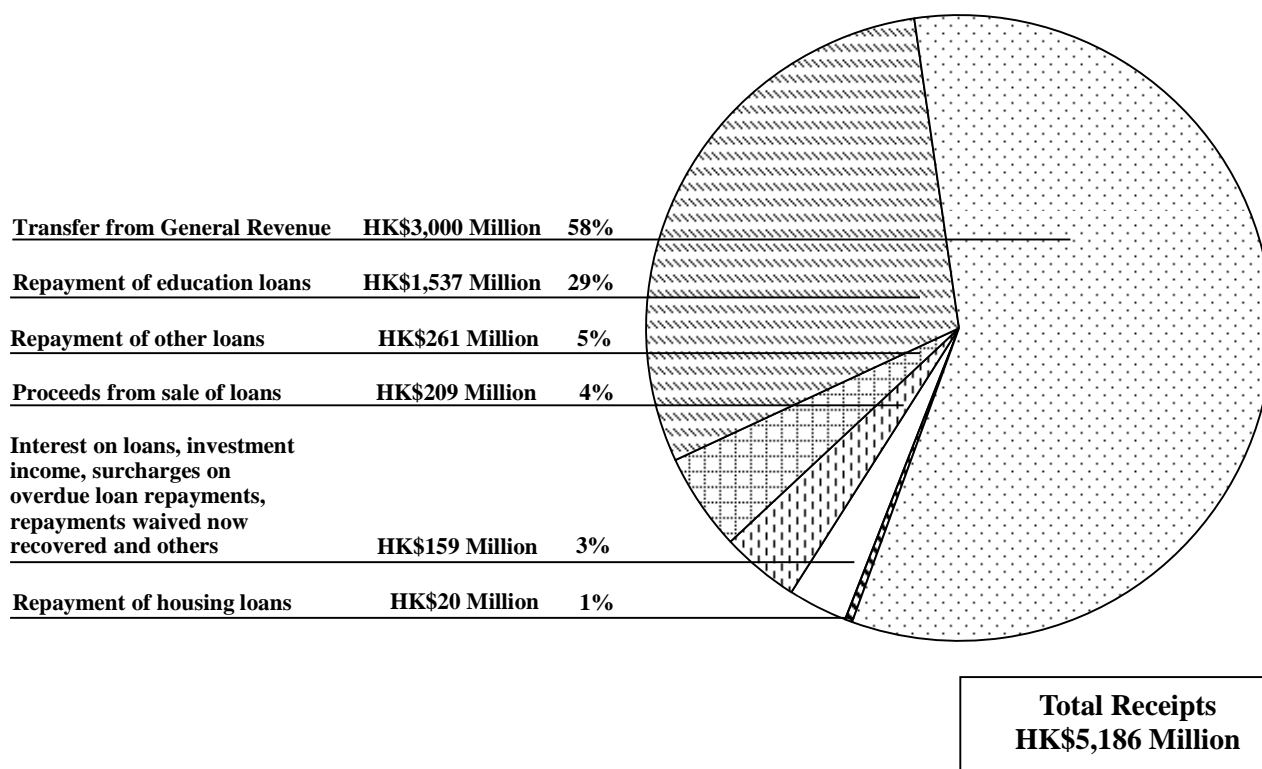
10. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan repayments			
Housing loans	39,940	19,454	25,385
Education loans	1,731,710	1,537,211	1,532,704
Other loans	300,372	260,899	253,843
	2,072,022	1,817,564	1,811,932
Interest on loans	140,022	154,942	150,880
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	-	-
Others	-	2	2
	88,000	2	2
Surcharges on overdue loan repayments	4,087	3,786	3,740
Proceeds from sale of loans	215,526	209,279	108,231
Repayments waived now recovered	-	5	64
Others	-	23	13
Transfer from General Revenue	3,000,000	3,000,000	2,500,000
	<u>5,519,657</u>	<u>5,185,601</u>	<u>4,574,862</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$116 million investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$3 million on the initial provision set aside from the HK\$52 million investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$171 million.

Loan Fund

Analysis of Receipts for the year ended 31 March 2016

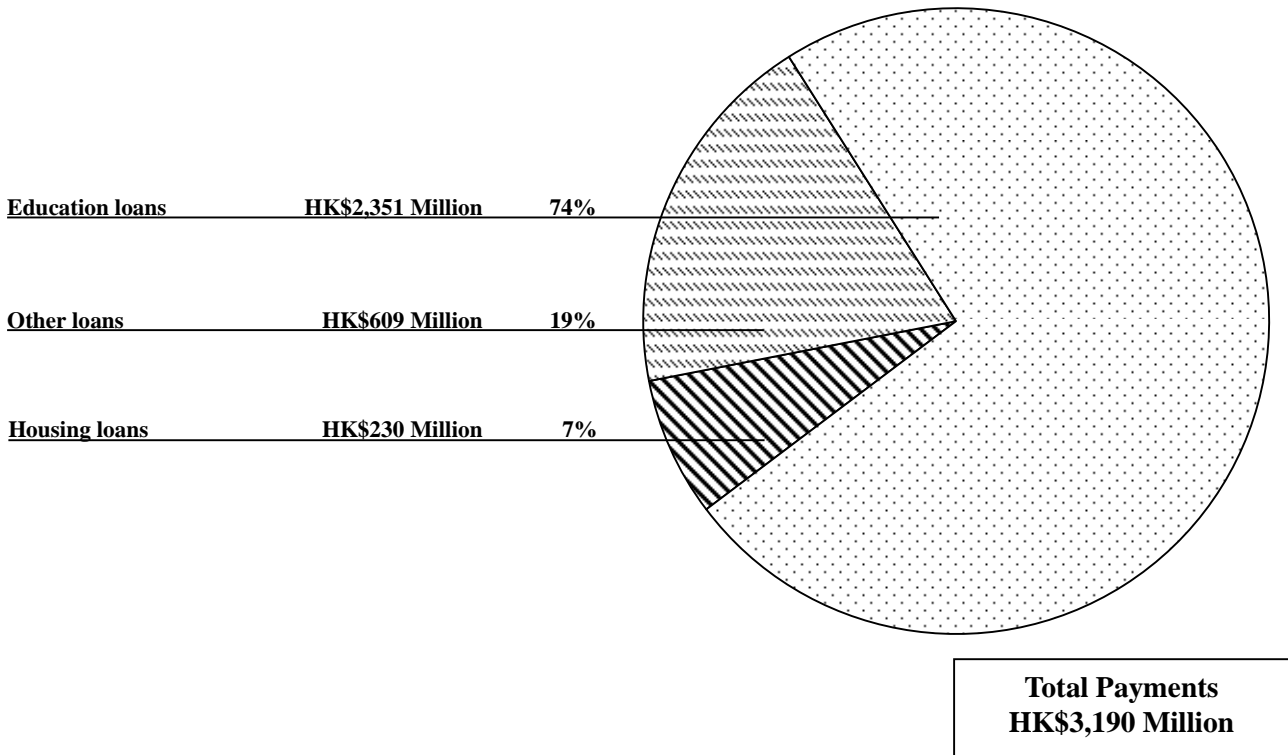


11. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Loan payments			
Housing loans	264,500	230,113	201,252
Education loans	2,238,584	2,350,924	2,732,248
Other loans	2,132,765	608,913	558,978
	4,635,849	3,189,950	3,492,478
Additional commitments	650,000	-	-
	5,285,849	3,189,950	3,492,478

Loan Fund

Analysis of Payments for the year ended 31 March 2016



12. Other Cash Movements

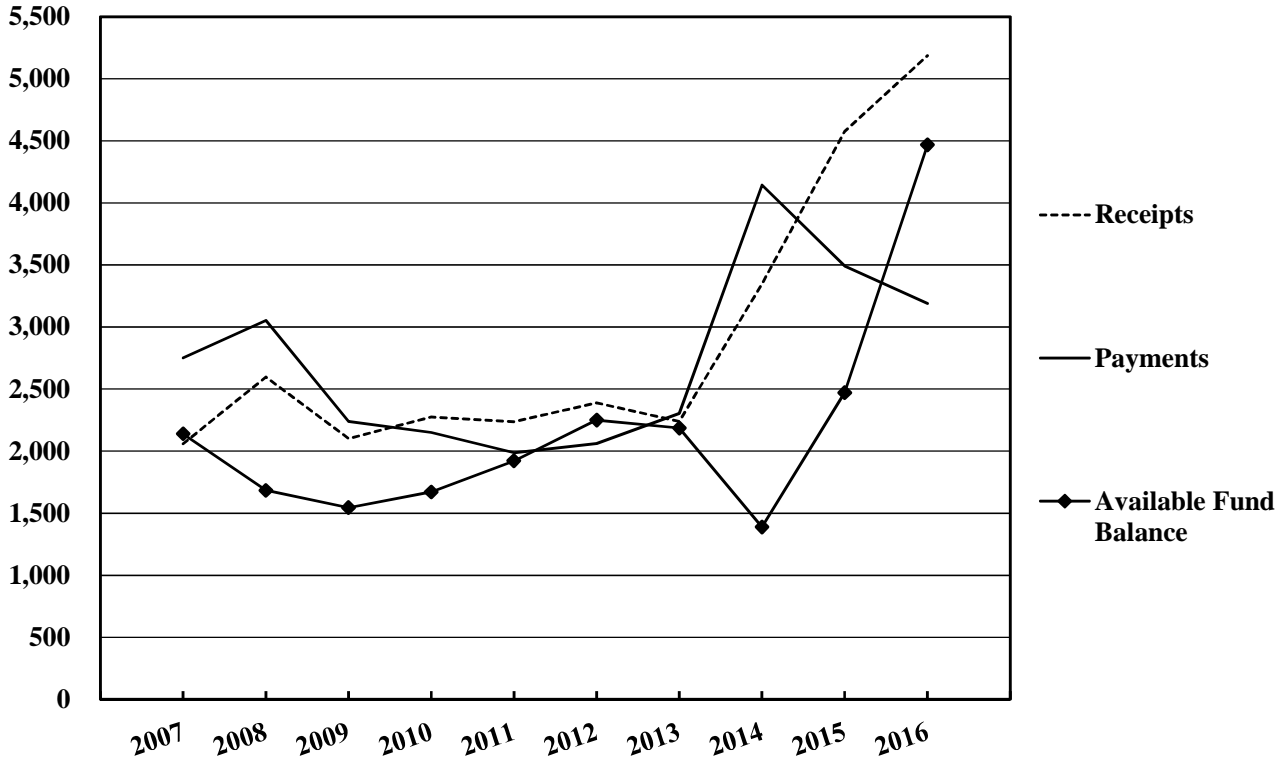
These are cash movements arising from changes in other assets and liabilities:

	2016 HK\$'000	2015 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	(1,998,466)	(1,098,157)
Increase in Liabilities		
Deposits	825	1,299
	<u>(1,997,641)</u>	<u>(1,096,858)</u>

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2007 to 2016

HK\$Million



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Bond Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Bond Fund set out on pages 85 to 91, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), 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 responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Bond Fund for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

26 October 2016

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments with the Exchange Fund	3	128,413,370	120,060,223
Liabilities			
Deposits	4	(1,576)	(2,574)
		<u>128,411,794</u>	<u>120,057,649</u>
Representing:			
Fund Balance			
Balance at beginning of year		120,057,649	100,678,242
Surplus for the year		8,354,145	19,379,407
Balance at end of year	5, 6	<u>128,411,794</u>	<u>120,057,649</u>

Notes 1 to 9 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	38,596,795	42,611,937
Payments	8	(30,242,650)	(23,232,530)
Surplus for the year		8,354,145	19,379,407
Other cash movements	9	(8,354,145)	(19,379,407)
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

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 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 is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The investment income for the year ended 31 March 2016 was HK\$6.69 billion (2015: HK\$3.78 billion).

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:

	2016	2015
	HK\$'000	HK\$'000
Accrued interest received from successful bidders	1,576	2,574

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 HK\$116.01 billion as at 31 March 2016 comprising the outstanding bonds with nominal value of HK\$100.5 billion and alternative bonds with nominal value of US\$2 billion (equivalent to HK\$15.51 billion as at 31 March 2016) 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 HK\$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:

	2016 HK\$'000	2015 HK\$'000
Bonds with nominal value in Hong Kong Dollars		
(Note (i) below)		
Balance at beginning of year	104,400,000	94,000,000
Issuance of bonds under		
Tender to institutional investors	14,100,000	20,400,000
Subscription to retail investors	10,000,000	10,000,000
Switch tender	-	800,000
	24,100,000	31,200,000
Repayment of bonds issued under		
Tender to institutional investors	(18,000,000)	(10,000,000)
Subscription to retail investors	(10,000,000)	(10,000,000)
Switch tender	-	(800,000)
	(28,000,000)	(20,800,000)
Balance at end of year	100,500,000	104,400,000
Alternative bonds with nominal value in United States Dollars		
(Note (ii) below)		
Balance at beginning of year	7,755,000	-
Issuance of bonds	7,752,600	7,751,100
Foreign currency translation difference	1,400	3,900
Balance at end of year (Note (iii) below)	15,509,000	7,755,000
Total outstanding bonds	116,009,000	112,155,000

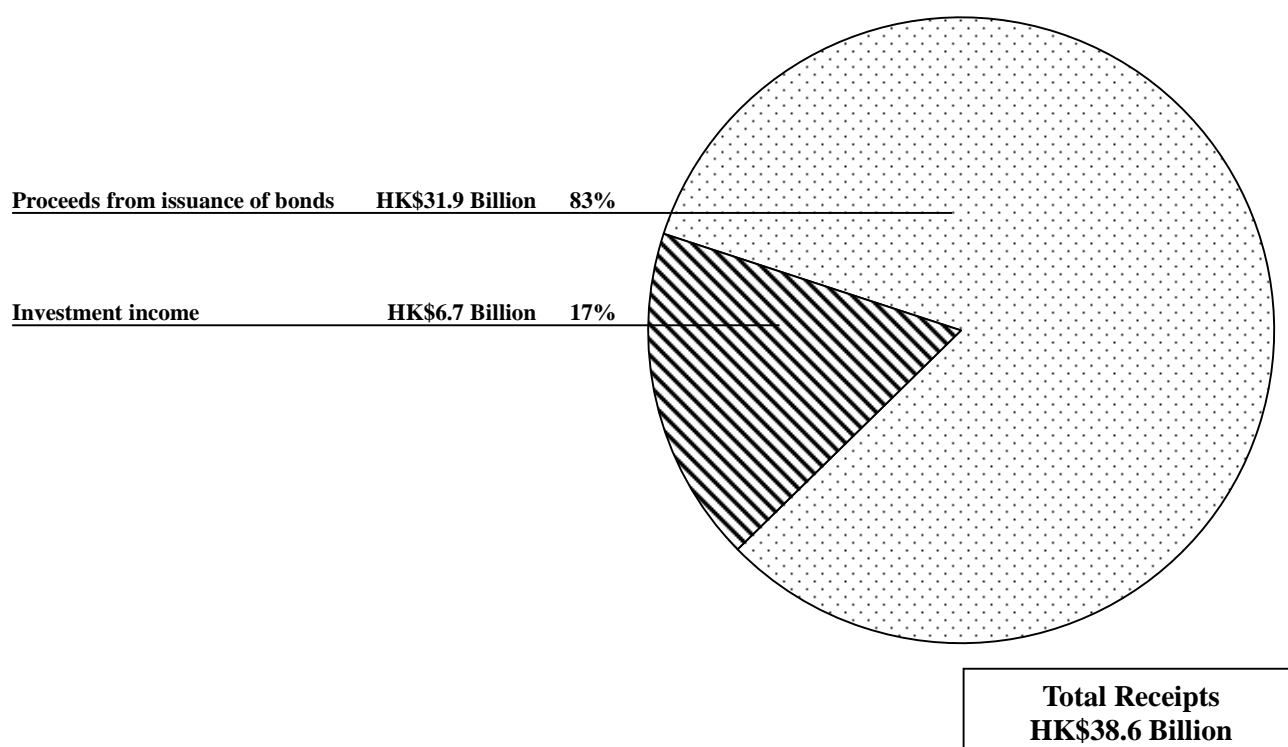
- (i) Under the institutional part of the Government Bond Programme, the Government has introduced the switch tender and the bond swap facility to enhance the liquidity of relevant bonds. Of the outstanding bond balance of HK\$100.5 billion, HK\$16.5 billion was repaid upon maturity during April 2016 to July 2016. For the rest, HK\$10.5 billion will mature within the period from August 2016 to March 2017 and HK\$73.5 billion within the period from April 2017 to July 2030.
- (ii) During the financial year, alternative bonds with nominal value of US\$1 billion were issued to institutional investors under section 2A of the Loans Ordinance.
- (iii) The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period. The outstanding balance of these bonds with nominal value of US\$2 billion (HK\$15.51 billion) will mature within the period from September 2019 to June 2020.

Bond Fund

7. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Proceeds from bonds issued under			
Tender or subscription	29,500,000	24,155,712	30,363,540
Switch tender	800,000	-	718,773
Bond swap facility	1,000,000	-	-
	31,300,000	24,155,712	31,082,313
Proceeds from issuance of alternative bonds	7,800,000	7,752,600	7,751,100
Investment income			
Investments with the Exchange Fund	-	6,688,364	3,778,332
Others	-	119	192
	6,269,000	6,688,483	3,778,524
	<u>45,369,000</u>	<u>38,596,795</u>	<u>42,611,937</u>

Analysis of Receipts for the year ended 31 March 2016

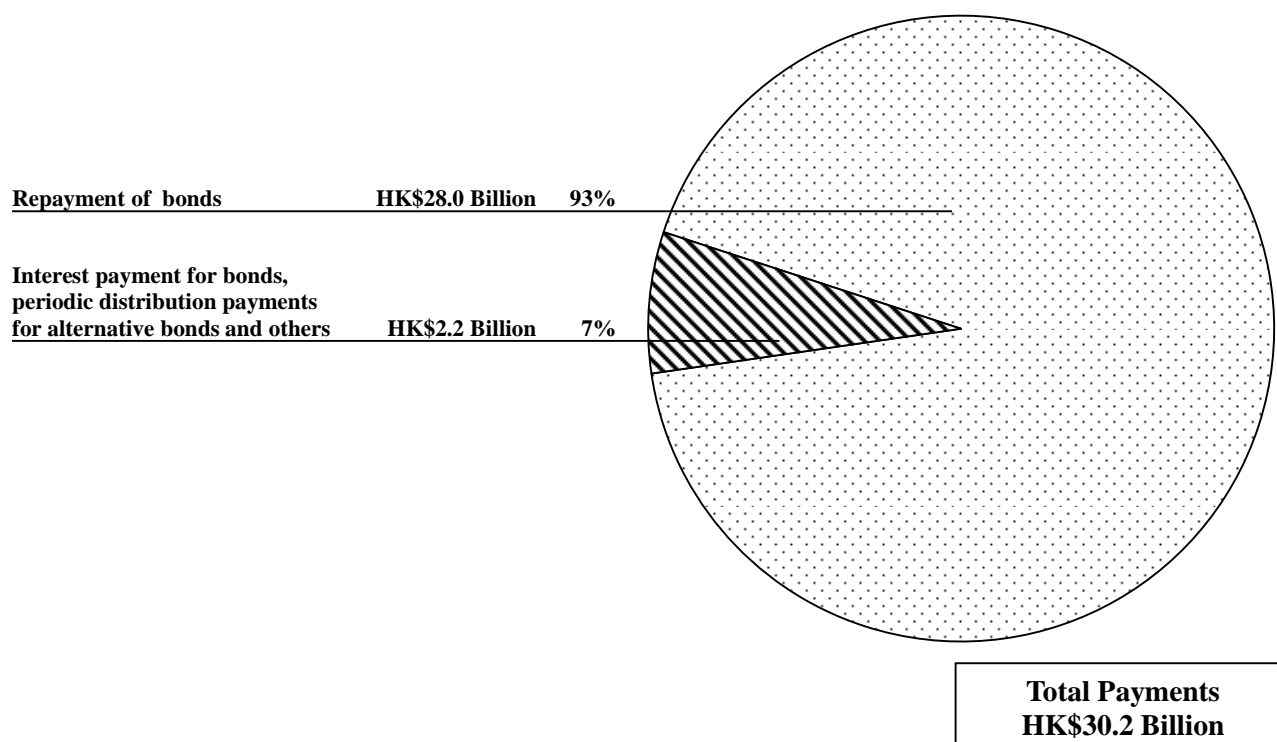


Bond Fund

8. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Repayment of bonds issued under			
Tender or subscription	28,000,000	28,000,000	20,000,000
Switch tender	800,000	-	846,960
Bond swap facility	1,000,000	-	-
	29,800,000	28,000,000	20,846,960
Interest payment for bonds	2,182,794	1,978,456	2,274,339
Periodic distribution payments for alternative bonds	234,585	228,898	77,840
Others	40,283	35,296	33,391
	<u>32,257,662</u>	<u>30,242,650</u>	<u>23,232,530</u>

Analysis of Payments for the year ended 31 March 2016



Bond Fund

9. Other Cash Movements

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

	2016 HK\$'000	2015 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	8,353,147	19,378,101
Reduction in Liabilities		
Deposits	998	1,306
	8,354,145	19,379,407

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2016

HK\$Billion

