



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 2018

October 2018

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 2018



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31 October 2018

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 2018, 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

CONTENTS

ACCOUNTS OF THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION FOR THE YEAR ENDED 31 MARCH 2018

	Page
General Revenue Account	
— Report of the Director of Audit	7
— Statement of Assets and Liabilities as at 31 March 2018	10
— Statement of Receipts and Payments for the year ended 31 March 2018	11
Capital Works Reserve Fund	
— Report of the Director of Audit	23
— Statement of Assets and Liabilities as at 31 March 2018	26
— Statement of Receipts and Payments for the year ended 31 March 2018	27
Capital Investment Fund	
— Report of the Director of Audit	37
— Statement of Assets and Liabilities as at 31 March 2018	40
— Statement of Receipts and Payments for the year ended 31 March 2018	41
Civil Service Pension Reserve Fund	
— Report of the Director of Audit	49
— Statement of Assets and Liabilities as at 31 March 2018	52
— Statement of Receipts and Payments for the year ended 31 March 2018	53
Disaster Relief Fund	
— Report of the Director of Audit	57
— Statement of Assets and Liabilities as at 31 March 2018	60
— Statement of Receipts and Payments for the year ended 31 March 2018	61

Innovation and Technology Fund

— Report of the Director of Audit	67
— Statement of Assets and Liabilities as at 31 March 2018	70
— Statement of Receipts and Payments for the year ended 31 March 2018	71

Land Fund

— Report of the Director of Audit	77
— Statement of Assets and Liabilities as at 31 March 2018	80
— Statement of Receipts and Payments for the year ended 31 March 2018	81

Loan Fund

— Report of the Director of Audit	85
— Statement of Assets and Liabilities as at 31 March 2018	88
— Statement of Receipts and Payments for the year ended 31 March 2018	89

Bond Fund

— Report of the Director of Audit	97
— Statement of Assets and Liabilities as at 31 March 2018	100
— Statement of Receipts and Payments for the year ended 31 March 2018	101

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

General Revenue Account

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the General Revenue Account set out on pages 10 to 22, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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

General Revenue Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	640,740,747	572,380,941
Deposits with banks	4	532,753	542,313
Cash and bank balances	5	4,226,983	4,341,392
Advances	6	2,901,276	2,996,632
		648,401,759	580,261,278
Liabilities			
Deposits	7	(20,093,160)	(16,816,005)
Suspense Accounts	8	(55,407)	(50,405)
		(20,148,567)	(16,866,410)
		628,253,192	563,394,868
Representing:			
General Revenue Balance			
Balance at beginning of year		563,394,868	508,486,156
Surplus for the year		64,858,324	54,908,712
Balance at end of year	9, 10	628,253,192	563,394,868

Notes 1 to 13 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



General Revenue Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		4,341,392	3,279,897
Revenue	11	444,331,070	436,026,493
Expenditure	12	(379,472,746)	(381,117,781)
Surplus for the year		64,858,324	54,908,712
Other cash movements	13	(64,972,733)	(53,847,217)
Cash and bank balances at end of year		4,226,983	4,341,392

Notes 1 to 13 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



General Revenue Account

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policies

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

3. Investments with the Exchange Fund

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

	2018	2017
	\$'000	\$'000
Investments (Notes (ii) to (iv) below)	640,723,961	572,368,301
Deposits	16,786	12,640
	<u>640,740,747</u>	<u>572,380,941</u>

General Revenue Account

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

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Pursuant to the Financial Secretary's decision announced in the 2016-17 Budget, as from 1 July 2016, a top-up allocation of \$4.8 billion was made from the General Revenue Account to the Future Fund. The Future Fund was established on 1 January 2016 as a notional savings account within the fiscal reserves. Together with the top-up allocation, it was placed with the Exchange Fund for securing higher investment returns over a ten-year investment period in accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015. Investment return on the Future Fund placement is determined annually based on a composite rate (9.6% and 4.5% for the calendar years 2017 and 2016 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iv) below) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. In respect of the General Revenue Account portion of \$4.8 billion, such accumulated investment return not received as revenue amounted to \$0.79 billion as at 31 December 2017 (*2016: \$0.08 billion*), including the investment return for the calendar year 2017 of \$0.71 billion (*2016: \$0.08 billion*).
- (iv) The part of the fiscal reserves outside the Future Fund (Note (iii) above) is referred to as Operating and Capital Reserves. Investment income on the Operating and Capital Reserves placement with the Exchange Fund is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (*2016: 3.3%*). The annual investment income is receivable on 31 December each year.

4. Deposits with Banks

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

	2018	2017
	\$'000	\$'000
Hong Kong dollar	89,836	91,784
Foreign currency	442,917	450,529
	532,753	542,313

5. Cash and Bank Balances

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

General Revenue Account

6. Advances

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

	2018	2017
	\$'000	\$'000
Expenditure on Vietnamese migrants (Note (i) below)	1,161,991	1,161,991
Advances to Government officers	996,105	1,074,846
Payments on behalf of non-departmental public bodies, trading funds and non-statutory corporations wholly-owned by Government	423,210	412,483
Others	319,970	347,312
	2,901,276	2,996,632

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

During the financial year 2017-18, 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:

	2018	2017
	\$'000	\$'000
Tax reserve certificates	11,983,233	9,121,127
Water deposits	1,843,157	1,789,674
Tenancy deposits	1,798,708	1,746,603
Legal aid deposits	997,501	872,882
Tax overpayments	816,342	737,410
Private works	379,290	382,667
Others	2,274,929	2,165,642
	20,093,160	16,816,005

General Revenue Account

8. Suspense Accounts

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

	2018	2017
	\$'000	\$'000
Correctional Services Industries (Note (i) below)	28,627	31,470
Government Logistics Department — Unallocated Stores (Note (i) below)	7,837	7,755
The Special Coin (Note (ii) below)	(87,921)	(89,879)
The Financial Secretary Incorporated (Note (iii) below)	(3,950)	249
	(55,407)	(50,405)

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

9. Contingent Liabilities

As at 31 March 2018, 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 \$39,881 million (2017: \$36,799 million);
- (ii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$19,763 million (2017: \$20,811 million);
- (iii) legal claims, disputes and proceedings amounting to \$8,215 million (2017: \$26,474 million);
- (iv) guarantees provided under the SME Loan Guarantee Scheme amounting to \$4,234 million (2017: \$4,544 million); and
- (v) guarantees provided under the Special Loan Guarantee Scheme amounting to \$654 million (2017: \$899 million).

10. Commitments

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

	2018	2017
	\$'000	\$'000
Non-recurrent expenditure	29,303,955	29,013,864
Plant, vehicles and equipment	7,101,505	7,232,944
Capital works	133,183	117,248
Capital subventions	2,000,471	1,788,195
	38,539,114	38,152,251

General Revenue Account

11. Revenue

Analysis of total revenue by Head:

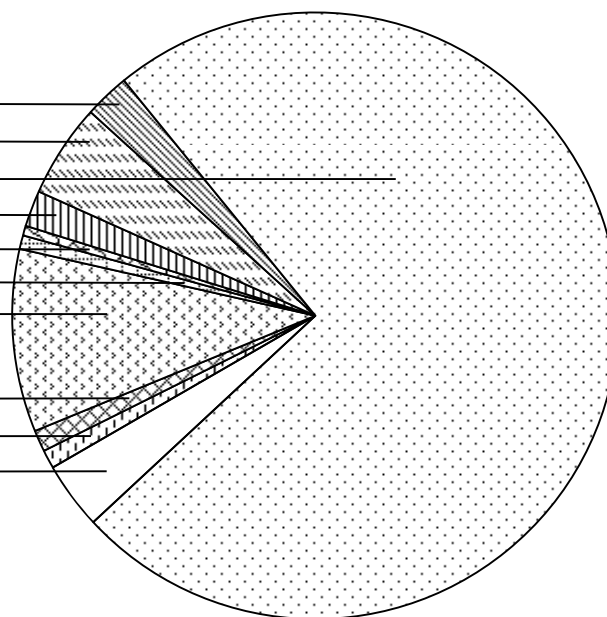
Head	2018				2017
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
1 Duties	10,933,456	10,700,965	(232,491)	(2.1)	10,254,359
2 General Rates	21,427,000	22,203,177	776,177	3.6	21,250,102
3 Internal Revenue					
Profits tax	139,000,000	139,100,219	100,219	0.1	139,238,084
Salaries tax	61,855,000	60,838,782	(1,016,218)	(1.6)	59,077,484
Stamp duties	53,000,000	95,172,761	42,172,761	79.6	61,898,965
Other internal revenue	32,287,263	33,517,557	1,230,294	3.8	32,327,417
	286,142,263	328,629,319	42,487,056	14.8	292,541,950
4 Motor Vehicle Taxes	7,705,656	8,594,290	888,634	11.5	7,813,679
5 Fines, Forfeitures and Penalties	1,433,024	2,327,192	894,168	62.4	1,496,411
6 Royalties and Concessions	3,195,186	3,241,957	46,771	1.5	10,686,400
7 Properties and Investments					
Income from Investments with the Exchange Fund (Note (i) below)	-	15,524,061	-	-	16,629,501
Others	-	27,747,214	-	-	30,334,667
	41,047,102	43,271,275	2,224,173	5.4	46,964,168
9 Loans, Reimbursements, Contributions and Other Receipts	4,811,977	5,097,517	285,540	5.9	28,044,154
10 Utilities	4,232,551	4,372,380	139,829	3.3	4,256,150
11 Fees and Charges	15,816,572	15,892,998	76,426	0.5	12,719,120
Total	396,744,787	444,331,070	47,586,283	12.0	436,026,493

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the General Revenue Account for the calendar years 2014 and 2015 totalling \$40.99 billion (comprising \$14.84 billion for 2014 and \$26.15 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iv) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$3.41 billion up to 31 December 2017 (2016: \$2.2 billion), including the investment return for the calendar year 2017 amounting to \$1.21 billion (2016: \$1.38 billion). Together with the accumulated investment return, the sums not received as revenue of the General Revenue Account and earmarked as Housing Reserve totalled \$44.4 billion (2016: \$43.19 billion).

General Revenue Account

Analysis of Revenue for the year ended 31 March 2018

Duties	\$10.7 Billion	2%
General Rates	\$22.2 Billion	5%
Internal Revenue	\$328.6 Billion	74%
Motor Vehicle Taxes	\$8.6 Billion	2%
Fines, Forfeitures and Penalties	\$2.3 Billion	1%
Royalties and Concessions	\$3.2 Billion	1%
Properties and Investments	\$43.3 Billion	10%
Loans, Reimbursements, Contributions and Other Receipts (Including Transfers from Funds)	\$5.1 Billion	1%
Utilities	\$4.4 Billion	1%
Fees and Charges	\$15.9 Billion	3%



**Total Revenue
\$444.3 Billion**

12. Expenditure

Analysis of total expenditure by Head:

Head	2018				2017
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
21 Chief Executive's Office	117,363	116,930	(433)	(0.4)	110,498
22 Agriculture, Fisheries and Conservation Department	1,521,847	1,356,295	(165,552)	(10.9)	1,250,175
25 Architectural Services Department	2,042,983	2,065,436	22,453	1.1	2,032,677
24 Audit Commission	169,191	169,548	357	0.2	164,357
23 Auxiliary Medical Service	97,935	94,253	(3,682)	(3.8)	96,385
82 Buildings Department	1,382,930	1,394,062	11,132	0.8	1,359,915
26 Census and Statistics Department	665,767	644,351	(21,416)	(3.2)	777,868
27 Civil Aid Service	109,468	109,414	(54)	-	106,138
28 Civil Aviation Department	994,730	1,003,054	8,324	0.8	950,005
33 Civil Engineering and Development Department	2,845,479	2,542,264	(303,215)	(10.7)	2,636,662
30 Correctional Services Department	3,839,053	3,864,785	25,732	0.7	3,775,767
31 Customs and Excise Department	3,652,909	3,630,607	(22,302)	(0.6)	3,497,997
37 Department of Health	8,780,758	8,323,910	(456,848)	(5.2)	7,304,813
92 Department of Justice	1,971,926	1,641,631	(330,295)	(16.7)	1,531,123
39 Drainage Services Department	2,636,654	2,646,928	10,274	0.4	2,594,150

General Revenue Account

12. Expenditure (Continued)

Head	2018				2017
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
42 Electrical and Mechanical Services Department	668,166	651,289	(16,877)	(2.5)	477,032
44 Environmental Protection Department	6,133,742	5,251,677	(882,065)	(14.4)	4,956,727
45 Fire Services Department	6,049,824	5,894,000	(155,824)	(2.6)	5,563,723
49 Food and Environmental Hygiene Department	6,776,198	6,779,014	2,816	-	6,511,923
46 General Expenses of the Civil Service	3,826,740	3,388,492	(438,248)	(11.5)	3,261,294
166 Government Flying Service	776,275	517,348	(258,927)	(33.4)	536,119
48 Government Laboratory	463,918	473,326	9,408	2.0	473,487
59 Government Logistics Department	619,790	619,377	(413)	(0.1)	602,465
51 Government Property Agency	1,942,714	1,936,292	(6,422)	(0.3)	1,936,934
143 Government Secretariat: Civil Service Bureau	600,626	589,318	(11,308)	(1.9)	569,040
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	2,515,634	1,966,189	(549,445)	(21.8)	1,884,689
55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)	409,369	366,364	(43,005)	(10.5)	367,022
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	698,066	696,082	(1,984)	(0.3)	608,814
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	392,650	382,624	(10,026)	(2.6)	307,301
159 Government Secretariat: Development Bureau (Works Branch)	505,678	461,670	(44,008)	(8.7)	408,782
156 Government Secretariat: Education Bureau	57,393,829	60,087,809	2,693,980	4.7	54,815,376
137 Government Secretariat: Environment Bureau	80,845	76,721	(4,124)	(5.1)	77,626
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	343,588	271,973	(71,615)	(20.8)	764,942

General Revenue Account

12. Expenditure (Continued)

Head	2018				2017
	Original	Actual	Over/(Under)	Variance	Actual
	Estimate \$'000	\$'000	the Estimate \$'000	%	\$'000
147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch)	318,842	309,529	(9,313)	(2.9)	342,091
139 Government Secretariat: Food and Health Bureau (Food Branch)	162,081	150,432	(11,649)	(7.2)	131,095
140 Government Secretariat: Food and Health Bureau (Health Branch)	55,990,015	57,060,922	1,070,907	1.9	54,049,368
53 Government Secretariat: Home Affairs Bureau	2,025,752	1,981,368	(44,384)	(2.2)	1,808,372
135 Government Secretariat: Innovation and Technology Bureau	178,215	51,706	(126,509)	(71.0)	38,837
155 Government Secretariat: Innovation and Technology Commission	621,176	618,339	(2,837)	(0.5)	590,739
141 Government Secretariat: Labour and Welfare Bureau	840,546	821,610	(18,936)	(2.3)	782,636
47 Government Secretariat: Office of the Government Chief Information Officer	765,961	759,680	(6,281)	(0.8)	735,443
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	993,951	941,270	(52,681)	(5.3)	911,989
96 Government Secretariat: Overseas Economic and Trade Offices	431,946	370,943	(61,003)	(14.1)	337,878
151 Government Secretariat: Security Bureau	606,630	467,774	(138,856)	(22.9)	371,884
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	280,433	278,504	(1,929)	(0.7)	231,057
60 Highways Department	3,148,719	2,870,321	(278,398)	(8.8)	2,810,029
63 Home Affairs Department	2,607,074	2,571,893	(35,181)	(1.3)	2,425,682
168 Hong Kong Observatory	303,083	302,784	(299)	(0.1)	298,044
122 Hong Kong Police Force	18,495,744	18,785,027	289,283	1.6	17,855,006
62 Housing Department	304,587	304,574	(13)	-	287,593
70 Immigration Department	4,558,514	4,457,514	(101,000)	(2.2)	4,275,049
72 Independent Commission Against Corruption	1,074,206	1,080,262	6,056	0.6	1,044,691
121 Independent Police Complaints Council	73,393	74,673	1,280	1.7	64,215

General Revenue Account

12. Expenditure (Continued)

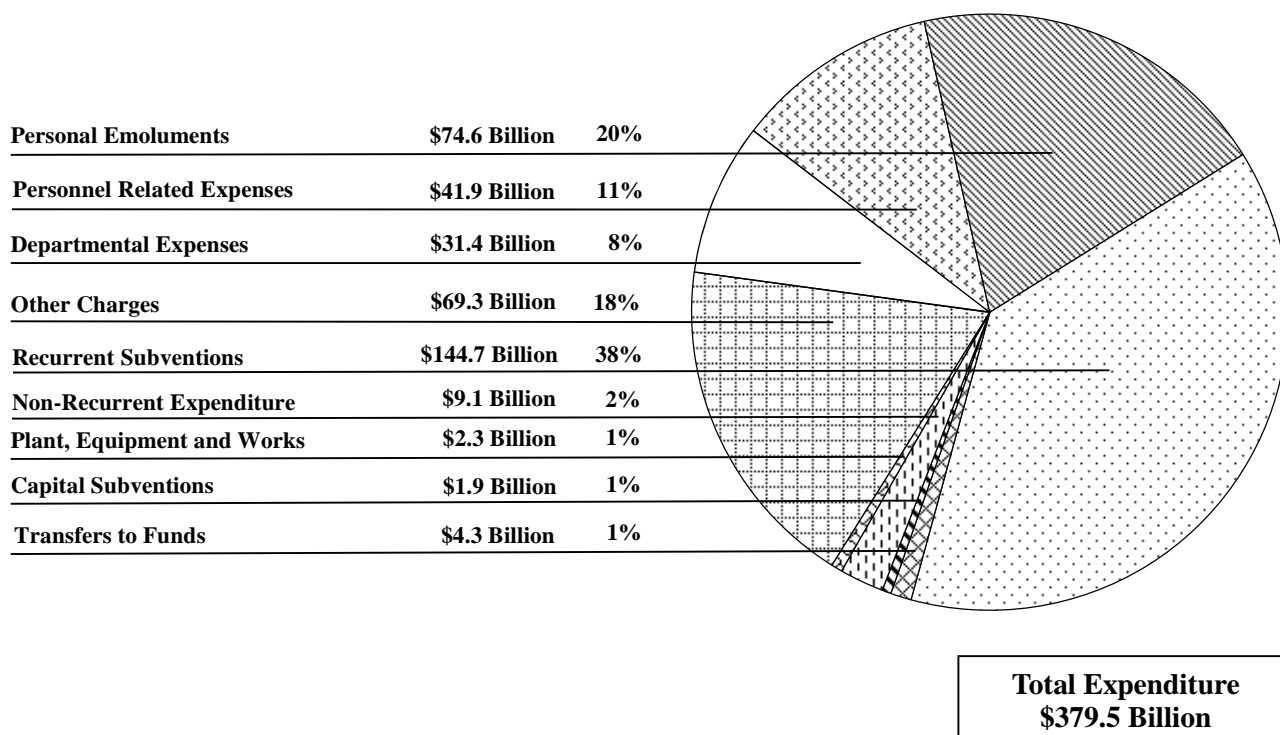
Head	2018				2017
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
74 Information Services Department	505,545	512,111	6,566	1.3	466,367
76 Inland Revenue Department	1,566,548	1,541,401	(25,147)	(1.6)	1,503,710
78 Intellectual Property Department	156,394	157,372	978	0.6	145,793
79 Invest Hong Kong	130,697	134,652	3,955	3.0	125,539
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	33,107	32,823	(284)	(0.9)	30,410
80 Judiciary	1,762,725	1,663,915	(98,810)	(5.6)	1,521,355
90 Labour Department	1,953,176	1,927,367	(25,809)	(1.3)	1,851,634
91 Lands Department	2,452,963	2,509,354	56,391	2.3	2,402,600
94 Legal Aid Department	996,812	1,005,841	9,029	0.9	1,023,633
112 Legislative Council Commission	841,862	853,524	11,662	1.4	874,052
95 Leisure and Cultural Services Department	8,599,298	8,657,462	58,164	0.7	8,431,164
100 Marine Department	1,362,139	1,381,427	19,288	1.4	1,307,032
106 Miscellaneous Services	3,912,906	162,522	(3,750,384)	(95.8)	115,825
180 Office for Film, Newspaper and Article Administration	48,345	48,232	(113)	(0.2)	46,222
114 Office of The Ombudsman	114,068	116,644	2,576	2.3	115,095
116 Official Receiver's Office	180,311	180,819	508	0.3	188,998
120 Pensions	35,385,040	34,409,640	(975,400)	(2.8)	31,948,165
118 Planning Department	686,700	686,300	(400)	(0.1)	662,442
136 Public Service Commission Secretariat	30,350	29,519	(831)	(2.7)	24,871
160 Radio Television Hong Kong	995,202	1,008,400	13,198	1.3	985,439
162 Rating and Valuation Department	525,906	531,459	5,553	1.1	512,928
163 Registration and Electoral Office	554,159	351,820	(202,339)	(36.5)	920,958
169 Secretariat, Commissioner on Interception of Communications and Surveillance	21,202	20,186	(1,016)	(4.8)	19,146
170 Social Welfare Department	72,151,170	66,195,562	(5,955,608)	(8.3)	64,434,066
181 Trade and Industry Department	802,446	736,986	(65,460)	(8.2)	728,440
186 Transport Department	3,097,346	2,913,421	(183,925)	(5.9)	2,652,148
188 Treasury	391,910	396,473	4,563	1.2	382,883
190 University Grants Committee	18,661,695	18,999,780	338,085	1.8	18,610,482

General Revenue Account

12. Expenditure (Continued)

Head	2018				2017
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
194 Water Supplies Department	8,282,094	8,322,096	40,002	0.5	8,001,067
173 Working Family and Student Financial Assistance Agency	8,197,941	5,363,480	(2,834,461)	(34.6)	5,517,793
	<u>389,207,570</u>	<u>375,122,746</u>	<u>(14,084,824)</u>	<u>(3.6)</u>	<u>357,253,781</u>
184 Transfers to Funds	8,850,000	4,350,000	(4,500,000)	(50.8)	23,864,000
Total	<u>398,057,570</u>	<u>379,472,746</u>	<u>(18,584,824)</u>	<u>(4.7)</u>	<u>381,117,781</u>

Analysis of Expenditure for the year ended 31 March 2018



General Revenue Account

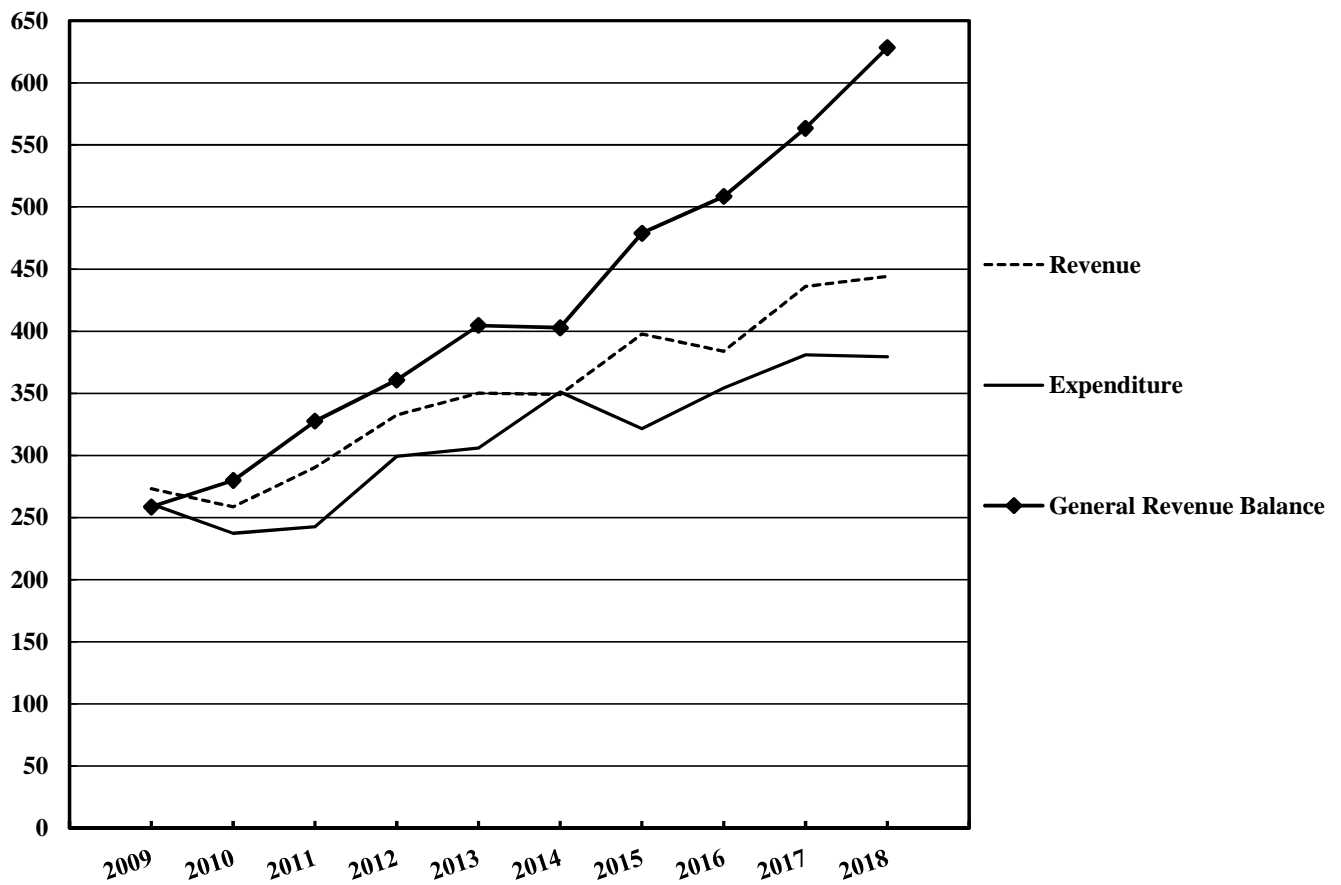
13. Other Cash Movements

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

	2018 \$'000	2017 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(68,359,806)	(55,388,584)
Deposits with banks	9,560	716,671
Advances	95,356	45,358
	(68,254,890)	(54,626,555)
Increase/(Reduction) in Liabilities		
Deposits	3,277,155	783,149
Suspense Accounts	5,002	(3,811)
	3,282,157	779,338
	(64,972,733)	(53,847,217)

Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2009 to 2018

\$Billion



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Works Reserve Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 26 to 35, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	184,696,141	102,652,670
Cash and bank balances		5,292	1
		184,701,433	102,652,671
Liabilities			
Deposits	4	(1,947,802)	(1,779,334)
		182,753,631	100,873,337
Representing:			
Fund Balance			
Balance at beginning of year		100,873,337	58,170,386
Surplus for the year		81,880,294	42,702,951
Balance at end of year	5, 6, 7	182,753,631	100,873,337

Notes 1 to 10 form part of these financial statements.

Charlix WONG
 Director of Accounting Services
 29 August 2018



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		1	952
Receipts	8	168,767,863	129,996,767
Payments	5, 9	(86,887,569)	(87,293,816)
Surplus for the year		81,880,294	42,702,951
Other cash movements	10	(81,875,003)	(42,703,902)
Cash and bank balances at end of year		5,292	1

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policies

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

3. Investments with the Exchange Fund

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

	2018	2017
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	184,651,906	102,604,328
Deposits	44,235	48,342
	<u>184,696,141</u>	<u>102,652,670</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

Capital Works Reserve Fund

4. Deposits

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

	2018	2017
	\$'000	\$'000
Contract retention money	1,655,906	1,486,928
Others	291,896	292,406
	<u>1,947,802</u>	<u>1,779,334</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 \$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:

	2018	2017
	\$'000	\$'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 \$77 million on the notes but no repayment of principal.

6. Contingent Liabilities

As at 31 March 2018, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,611 million (2017: \$2,850 million).

Capital Works Reserve Fund

7. Commitments

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

Head	2018	2017
	\$'000	\$'000
Land acquisition		
701 Land acquisition	<u>5,649,880</u>	<u>5,245,069</u>
Sub-total	<u>5,649,880</u>	<u>5,245,069</u>
Capital works – Public Works Programme		
702 Port and airport development	125,021	125,798
703 Buildings	87,107,253	51,601,799
704 Drainage	15,156,426	15,654,031
705 Civil engineering	53,216,280	57,611,836
706 Highways	131,316,746	130,419,439
707 New towns and urban area development	64,997,430	46,160,300
709 Waterworks	10,817,227	10,749,016
711 Housing	9,089,744	8,619,120
Sub-total	<u>371,826,127</u>	<u>320,941,339</u>
Capital subventions		
708 (part) Capital subventions	<u>25,079,020</u>	<u>30,440,527</u>
Sub-total	<u>25,079,020</u>	<u>30,440,527</u>
Systems and equipment		
708 (part) Major systems and equipment	6,099,767	4,599,006
710 Computerisation	9,331,144	9,313,726
Sub-total	<u>15,430,911</u>	<u>13,912,732</u>
	<u><u>417,985,938</u></u>	<u><u>370,539,667</u></u>

Capital Works Reserve Fund

8. Receipts

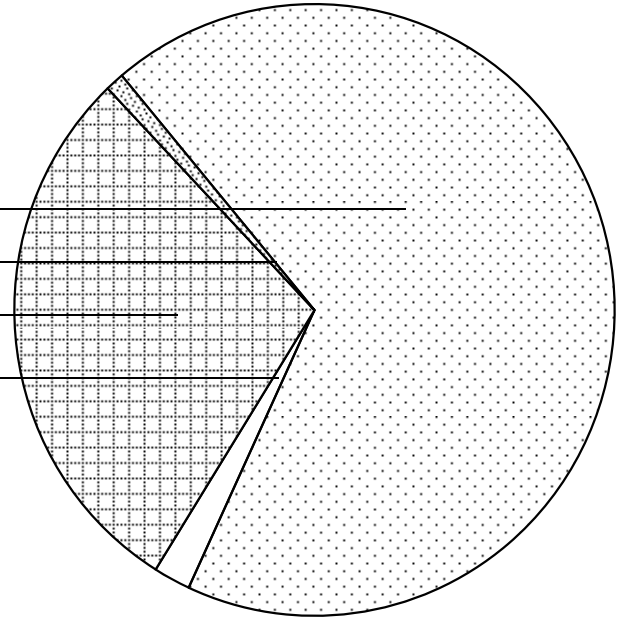
	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	114,588,712	105,091,474
Private treaty grants	-	74,187	2,245,563
Modification of existing leases, exchanges and extensions	-	49,318,984	19,819,546
Fees received in respect of short term waivers	-	829,413	812,951
	101,000,000	164,811,296	127,969,534
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	3,830,897	1,879,741
Others	-	1,437	1,917
	2,750,000	3,832,334	1,881,658
Transfer from General Revenue	4,500,000	-	-
Other receipts			
Donations and contributions	37,655	22,359	8,265
Others	-	101,874	137,310
	37,655	124,233	145,575
	<u>108,287,655</u>	<u>168,767,863</u>	<u>129,996,767</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$0.59 billion up to 31 December 2017 (2016: \$0.38 billion), including the investment return for the calendar year 2017 amounting to \$0.21 billion (2016: \$0.23 billion). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$7.45 billion (2016: \$7.24 billion).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2018

Sales by public auction and tender	\$114.6 Billion	68%
Private treaty grants and fees received in respect of short term waivers	\$0.9 Billion	1%
Modification of existing leases, exchanges and extensions	\$49.3 Billion	29%
Investment income and other receipts	\$4.0 Billion	2%



**Total Receipts
\$168.8 Billion**

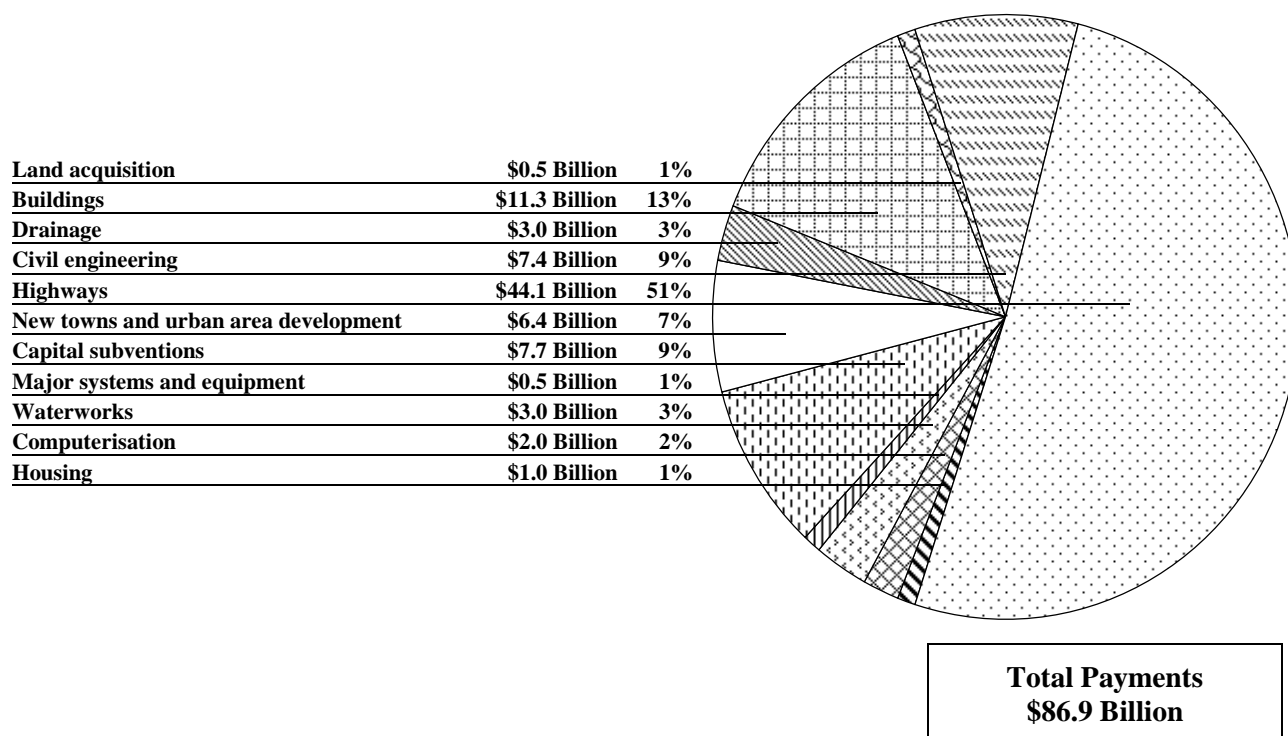
Capital Works Reserve Fund

9. Payments

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	1,880,590	440,579	341,879
Public Works Programme			
Port and airport development	1,000	777	1,464
Buildings	12,366,800	11,288,836	8,618,156
Drainage	2,793,088	3,039,320	3,198,527
Civil engineering	7,777,937	7,414,564	7,575,253
Highways	44,646,610	44,097,127	49,093,581
New towns and urban area development	6,792,898	6,346,873	4,729,551
Waterworks	3,011,461	3,018,506	3,621,936
Housing	1,531,208	993,336	465,313
	78,921,002	76,199,339	77,303,781
Capital subventions and major systems and equipment			
Capital subventions	7,887,861	7,639,572	7,119,837
Major systems and equipment	638,216	516,808	599,210
	8,526,077	8,156,380	7,719,047
Computerisation	2,248,607	1,961,797	1,816,318
Government bonds and notes issued in July 2004			
Interest and other expenses	76,881	76,880	76,669
Other payments			
Refund of overpayment of land premium	-	52,594	36,122
	<u>91,653,157</u>	<u>86,887,569</u>	<u>87,293,816</u>

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2018 *



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

10. Other Cash Movements

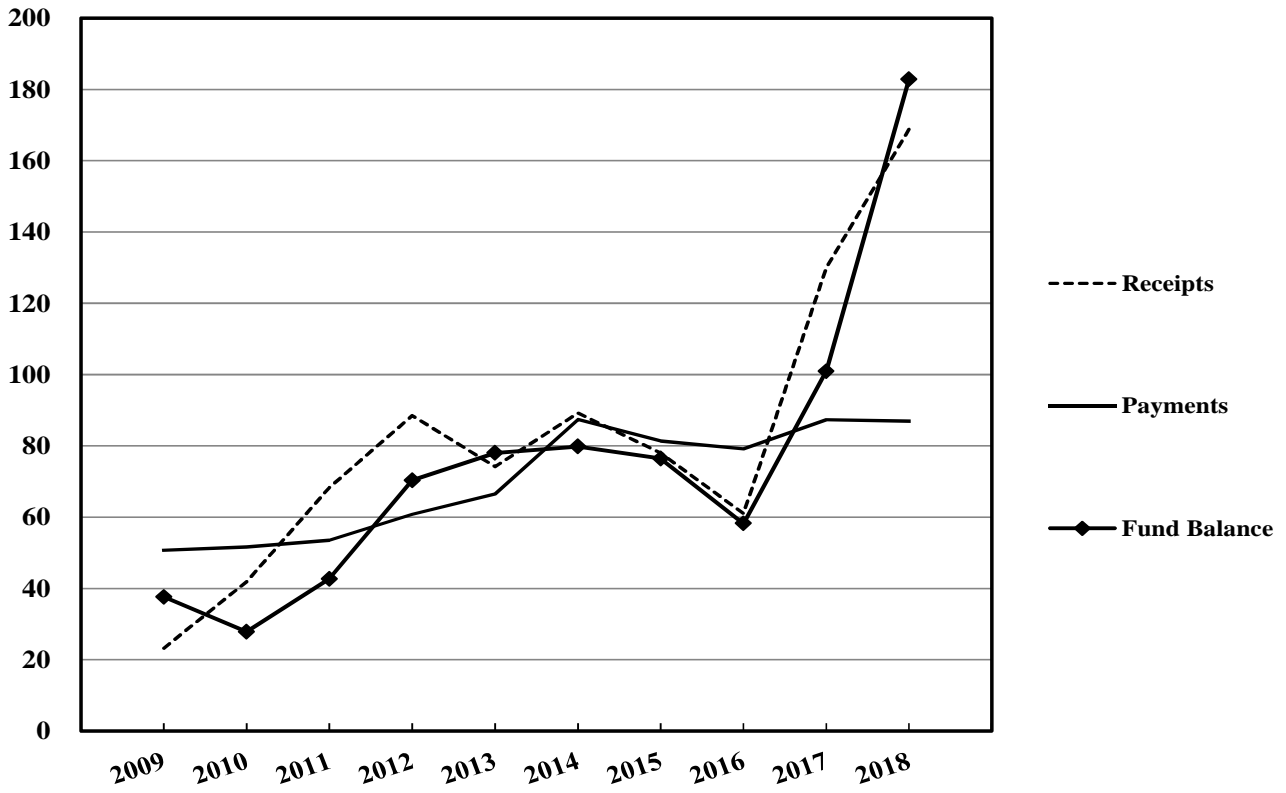
These are cash movements arising from changes in other assets and liabilities:

	2018 \$'000	2017 \$'000
Increase in Assets		
Investments with the Exchange Fund	(82,043,471)	(42,726,584)
Increase in Liabilities		
Deposits	168,468	22,682
	(81,875,003)	(42,703,902)

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2009 to 2018

\$Billion



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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Investment Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Capital Investment Fund set out on pages 40 to 47, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments	3		
Equity holdings		138,381,137	134,288,685
Other investments		518,693,108	492,371,319
		657,074,245	626,660,004
Loans Outstanding	4	2,085,028	1,545,829
		659,159,273	628,205,833
Current Assets			
Investments with the Exchange Fund	5	2,917,526	3,078,306
Cash and bank balances	1	1	-
		2,917,527	3,078,306
		662,076,800	631,284,139
Representing:			
Total Fund Balance			
Applied Fund	6	659,159,273	628,205,833
Available Fund	7		
Balance at beginning of year		3,078,306	2,835,101
(Deficit)/Surplus for the year		(160,779)	243,205
Balance at end of year		2,917,527	3,078,306
	8, 9	662,076,800	631,284,139

Notes 1 to 12 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		-	1
Receipts	10	895,340	10,436,544
Payments	11	(1,056,119)	(10,193,339)
(Deficit)/Surplus for the year		(160,779)	243,205
Other cash movements	12	160,780	(243,206)
Cash and bank balances at end of year		1	-

Notes 1 to 12 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Capital Investment Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policies

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

3. Investments (at cost/original valuation)

	2018			2017		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at beginning of year	134,288,685	492,371,319	626,660,004	124,795,346	465,913,116	590,708,462
Additions						
Cash acquisitions	456,119	-	456,119	9,493,339	-	9,493,339
Non-cash acquisitions	3,636,333	26,321,789	29,958,122	-	26,458,203	26,458,203
	4,092,452	26,321,789	30,414,241	9,493,339	26,458,203	35,951,542
Balance at end of year	138,381,137	518,693,108	657,074,245	134,288,685	492,371,319	626,660,004

Capital Investment Fund

4. Loans Outstanding

	2018	2017
	\$'000	\$'000
Balance at beginning of year	1,545,829	917,454
Additions		
Loan payments	600,000	700,000
Capitalised interest	36,219	23,979
	636,219	723,979
Deductions		
Loan repayments	(97,020)	(95,604)
Balance at end of year	<u>2,085,028</u>	<u>1,545,829</u>

5. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

6. Applied Fund

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

7. Available Fund

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

8. Contingent Liabilities

As at 31 March 2018, the Government had the following contingent liabilities:

- (i) subscription to callable shares in the Asian Development Bank amounting to \$6,265 million (2017: \$5,804 million);
- (ii) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2017: Nil) with commitment approved; and
- (iii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,911 million (2017: \$1,957 million).

Capital Investment Fund

9. Commitments

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

	2018	2017
	\$'000	\$'000
Investments (Note (i) below)	11,607,892	54,011
Loans	2,378,500	2,978,500
	13,986,392	3,032,511

- (i) These included an approved commitment of \$4,800 million (2017: Nil) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 8(ii)).

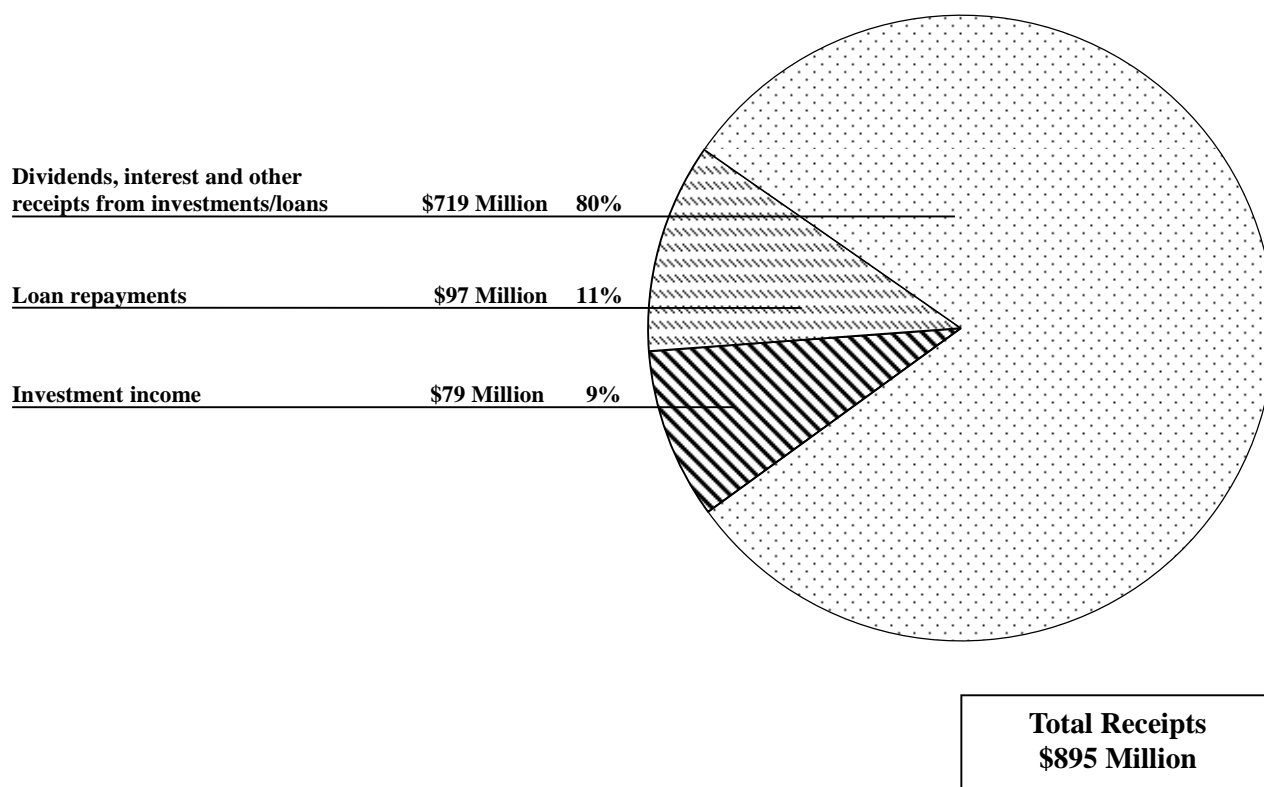
10. Receipts

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans (Note (i) below)	1,088,375	719,344	1,251,359
Loan repayments	96,608	97,020	95,604
Investment income			
Investments with the Exchange Fund (Note (ii) below)	75,000	78,976	89,581
Transfer from General Revenue	-	-	9,000,000
	1,259,983	895,340	10,436,544

- (i) In light of the judgment of the Court of Final Appeal on the judicial review case of the Office of the Communications Authority Trading Fund on 27 December 2017, trading funds are no longer required to pay dividends to the Government. Accordingly, no dividend was received by the Fund from trading funds during the year (2017: \$676 million).
- (ii) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$177 million (comprising \$79 million for 2014 and \$98 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 5(iii) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$15 million up to 31 December 2017 (2016: \$10 million), including the investment return for the calendar year 2017 amounting to \$5 million (2016: \$6 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$192 million (2016: \$187 million).

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2018

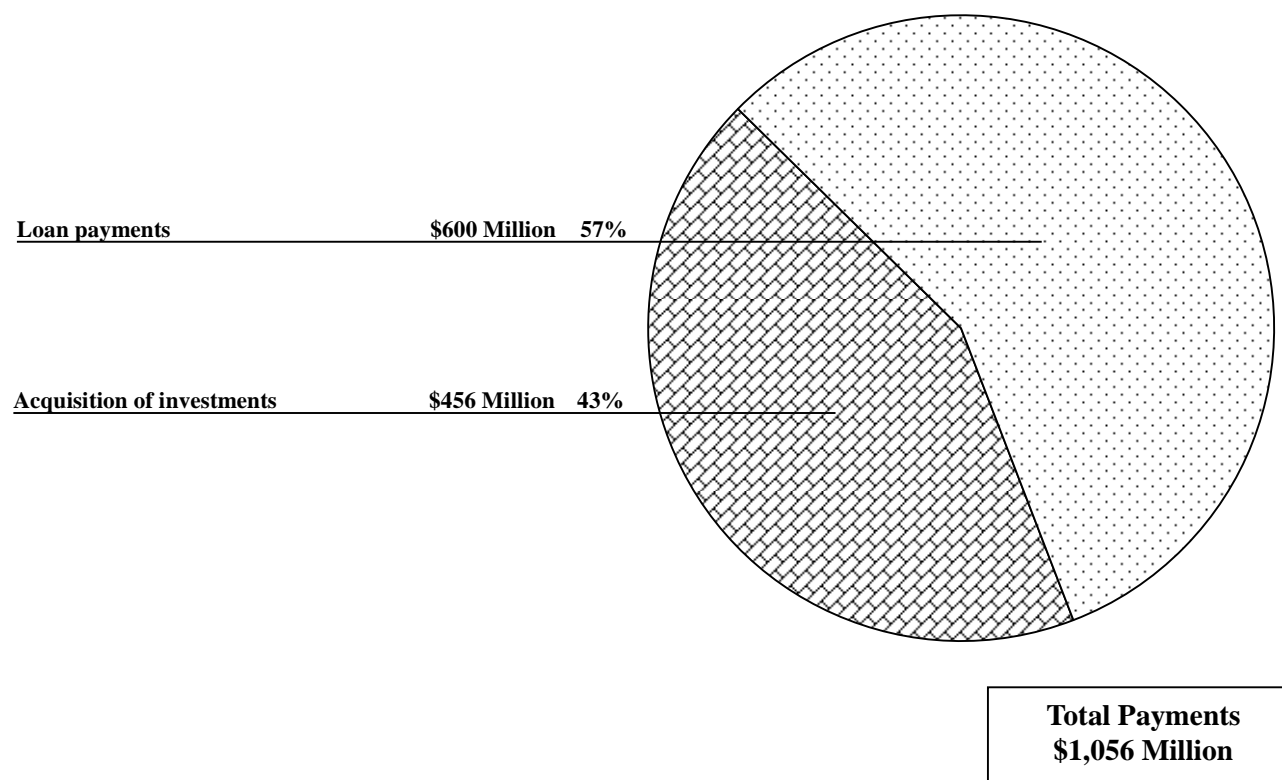


11. Payments

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments			
Equity holdings	17,525	456,119	9,493,339
Loan payments	708,500	600,000	700,000
	<u>726,025</u>	<u>1,056,119</u>	<u>10,193,339</u>

Capital Investment Fund

Analysis of Payments for the year ended 31 March 2018



12. Other Cash Movements

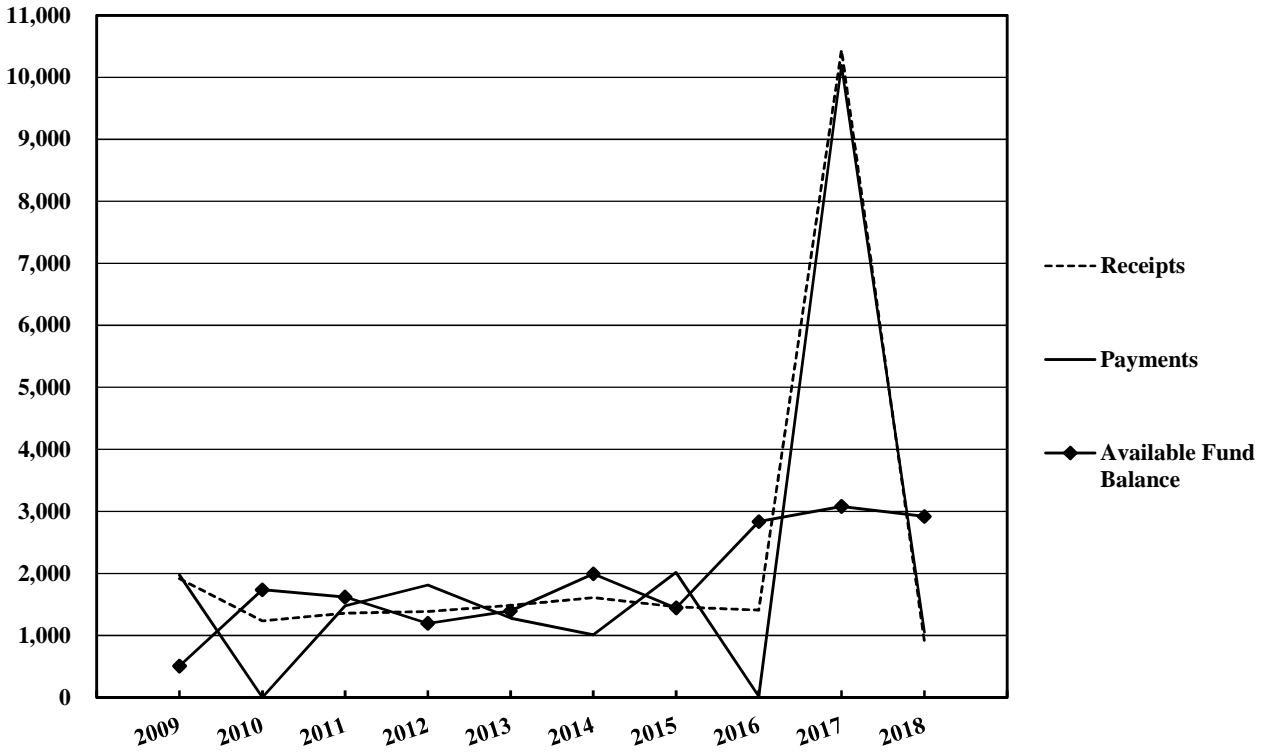
These are cash movements arising from changes in other assets and liabilities:

	2018 \$'000	2017 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	<u>160,780</u>	<u>(243,206)</u>

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2009 to 2018

\$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 Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Civil Service Pension Reserve Fund set out on pages 52 to 55, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	<u>35,129,267</u>	<u>31,899,385</u>
Representing:			
Fund Balance			
Balance at beginning of year		31,899,385	27,128,846
Surplus for the year		<u>3,229,882</u>	<u>4,770,539</u>
Balance at end of year		<u>35,129,267</u>	<u>31,899,385</u>

Notes 1 to 5 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	3,229,882	4,770,539
Payments		-	-
Surplus for the year		3,229,882	4,770,539
Other cash movements	5	(3,229,882)	(4,770,539)
Cash and bank balances at end of year		-	-

Notes 1 to 5 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Civil Service Pension Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (f) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

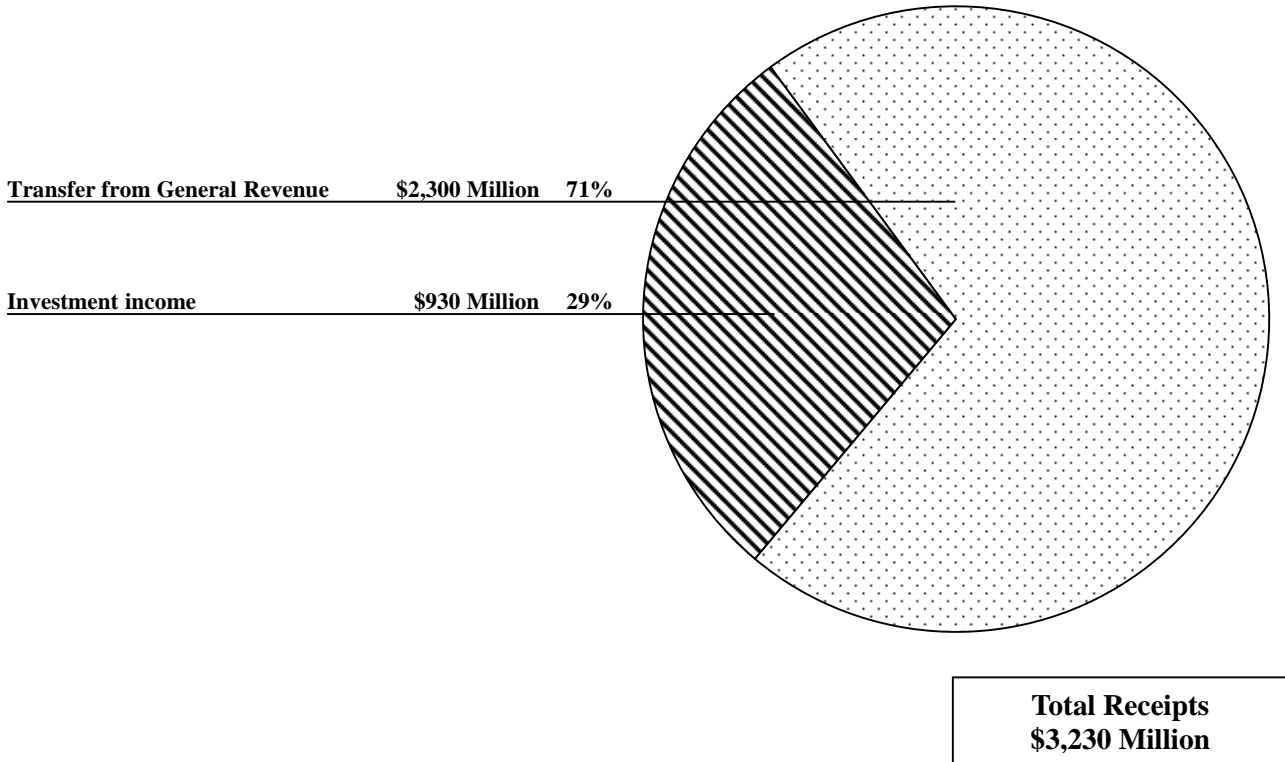
4. Receipts

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	931,000	929,882	970,539
Transfer from General Revenue	2,300,000	2,300,000	3,800,000
	3,231,000	3,229,882	4,770,539

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$2.46 billion (comprising \$0.97 billion for 2014 and \$1.49 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$0.21 billion up to 31 December 2017 (2016: \$0.14 billion), including the investment return for the calendar year 2017 amounting to \$0.07 billion (2016: \$0.09 billion). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$2.67 billion (2016: \$2.6 billion).

Civil Service Pension Reserve Fund

Analysis of Receipts for the year ended 31 March 2018



5. Other Cash Movements

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

	2018 \$'000	2017 \$'000
Increase in Assets		
Investments with the Exchange Fund	<u>3,229,882</u>	<u>4,770,539</u>

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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Disaster Relief Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Disaster Relief Fund set out on pages 60 to 65, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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

Disaster Relief Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	<u>16,417</u>	<u>27,743</u>
Representing:			
Fund Balance			
Balance at beginning of year		27,743	14,539
(Deficit) /Surplus for the year		<u>(11,326)</u>	<u>13,204</u>
Balance at end of year		<u>16,417</u>	<u>27,743</u>

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Disaster Relief Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	52,957	67,648
Payments	5	(64,283)	(54,444)
(Deficit) /Surplus for the year		(11,326)	13,204
Other cash movements	6	11,326	(13,204)
Cash and bank balances at end of year		-	-

Notes 1 to 6 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Disaster Relief Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (i) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

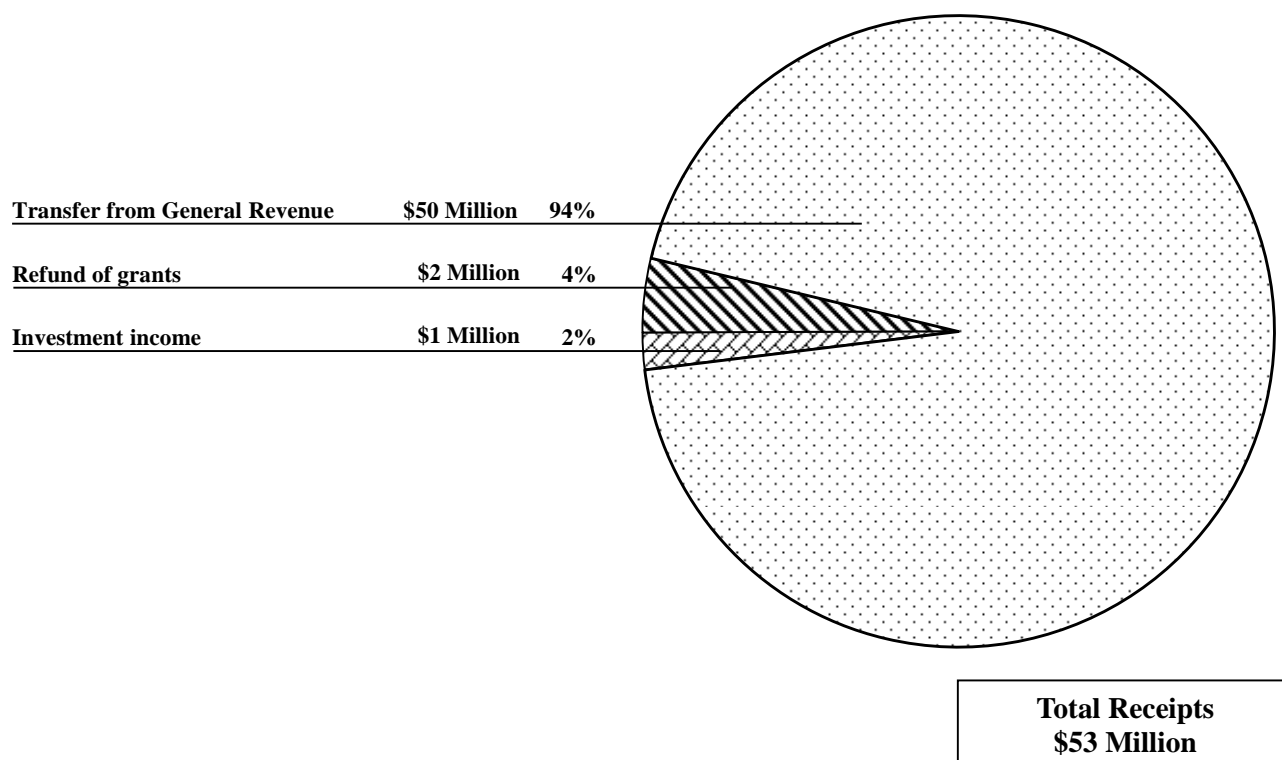
4. Receipts

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	2,000	1,026	1,314
Transfer from General Revenue	50,000	50,000	64,000
Refund of grants	-	1,931	2,334
	52,000	52,957	67,648

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$2.32 million (comprising \$1.06 million for 2014 and \$1.26 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$0.21 million up to 31 December 2017 (2016: \$0.14 million), including the investment return for the calendar year 2017 amounting to \$0.07 million (2016: \$0.08 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$2.53 million (2016: \$2.46 million).

Disaster Relief Fund

Analysis of Receipts for the year ended 31 March 2018

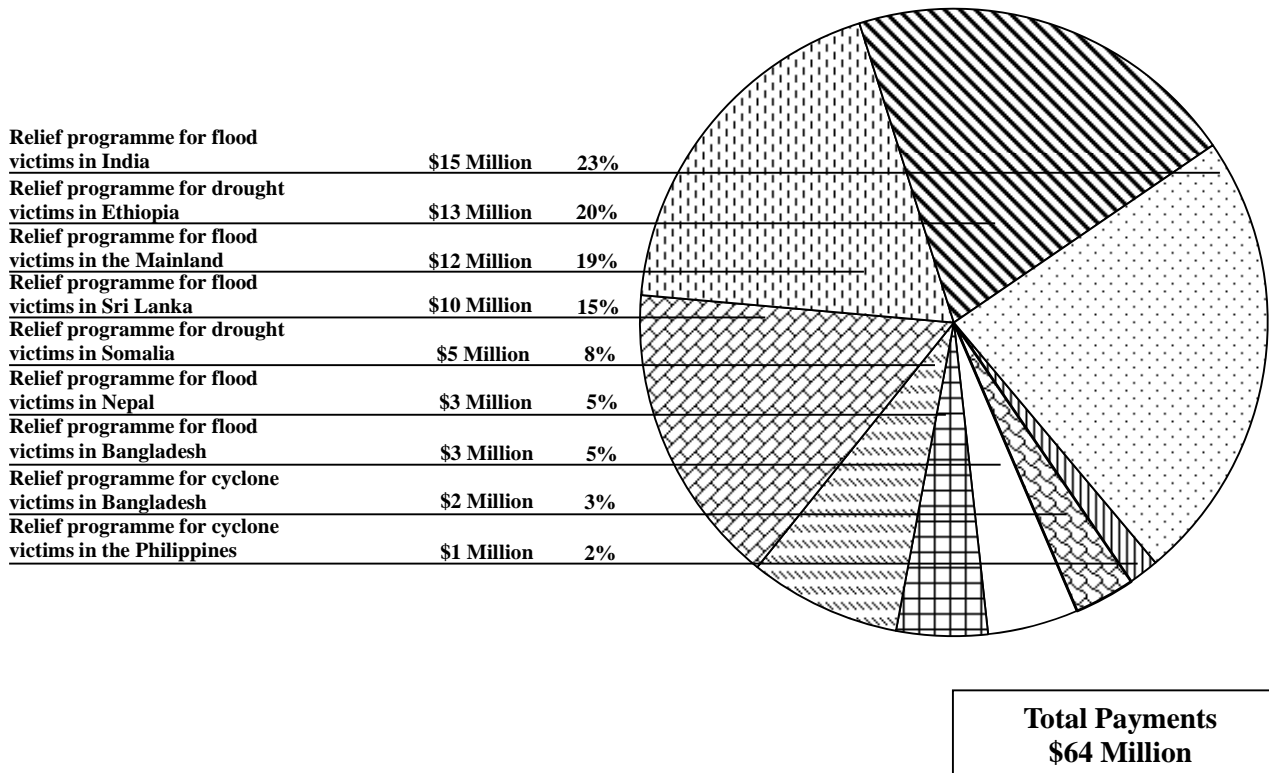


5. Payments

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Relief programmes for			
flood victims in India	-	14,765	7,125
drought victims in Ethiopia	-	13,651	-
flood victims in the Mainland	-	11,769	16,760
flood victims in Sri Lanka	-	9,786	-
drought victims in Somalia	-	4,934	-
flood victims in Nepal	-	3,599	-
flood victims in Bangladesh	-	2,674	-
cyclone victims in Bangladesh	-	1,909	5,322
cyclone victims in the Philippines	-	1,196	-
hurricane victims in Haiti	-	-	6,521
earthquake victims in Ecuador	-	-	6,202
drought victims in India	-	-	3,877
cyclone victims in Sri Lanka	-	-	3,451
cyclone victims in Fiji	-	-	2,636
flood victims in Vietnam	-	-	2,550
	-	64,283	54,444

Disaster Relief Fund

Analysis of Payments for the year ended 31 March 2018



6. Other Cash Movements

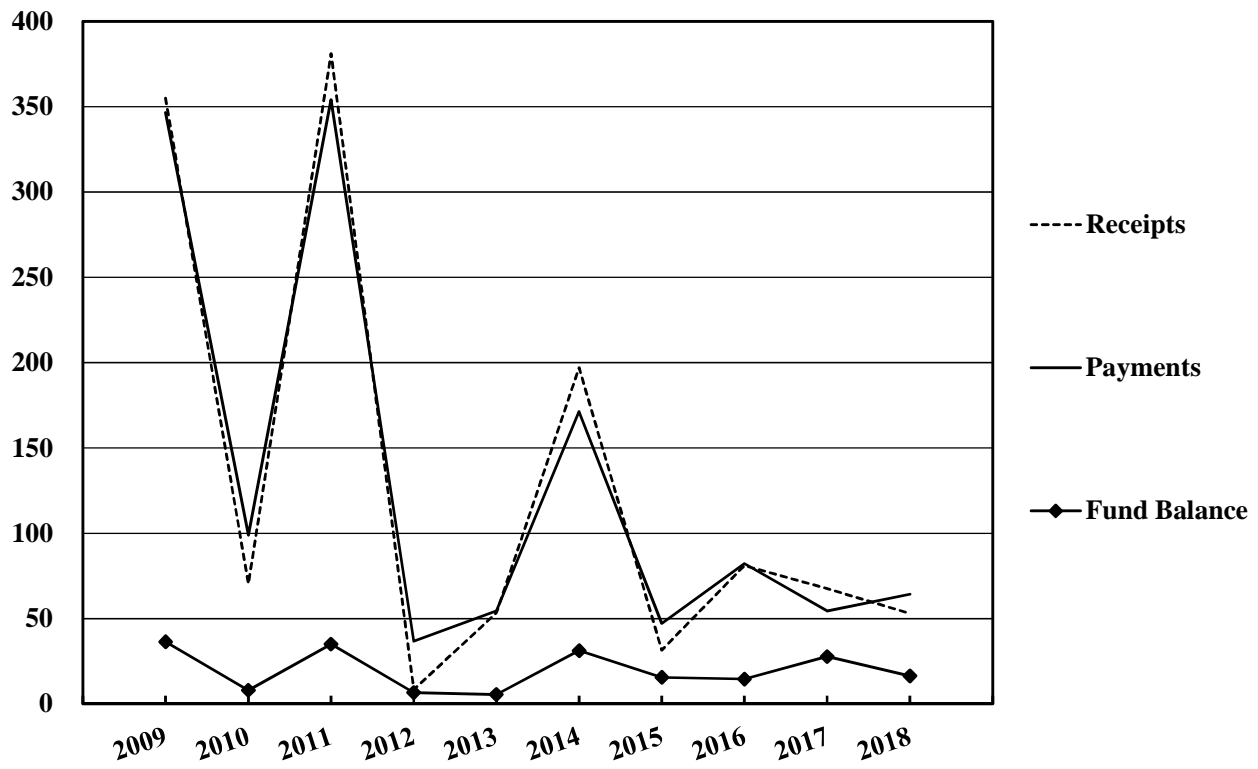
These are cash movements arising from changes in other assets and liabilities:

	2018 \$'000	2017 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	<u>11,326</u>	<u>(13,204)</u>

Disaster Relief Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2009 to 2018

\$Million



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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Innovation and Technology Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Innovation and Technology Fund set out on pages 70 to 75, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	6,795,328	7,988,980
Cash and bank balances		1,044	2,485
		<u>6,796,372</u>	<u>7,991,465</u>
Representing:			
Fund Balance			
Balance at beginning of year		7,991,465	41,744
(Deficit)/Surplus for the year		(1,195,093)	7,949,721
Balance at end of year	4	<u>6,796,372</u>	<u>7,991,465</u>

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Innovation and Technology Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		2,485	1
Receipts	5	288,225	9,207,183
Payments	6	(1,483,318)	(1,257,462)
(Deficit)/Surplus for the year		(1,195,093)	7,949,721
Other cash movements	7	1,193,652	(7,947,237)
Cash and bank balances at end of year		1,044	2,485

Notes 1 to 7 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Innovation and Technology Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 6 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

4. Commitments

The approved grants that were unpaid were as follows:

	2018	2017
	\$'000	\$'000
Grants	4,106,649	3,983,217

Innovation and Technology Fund

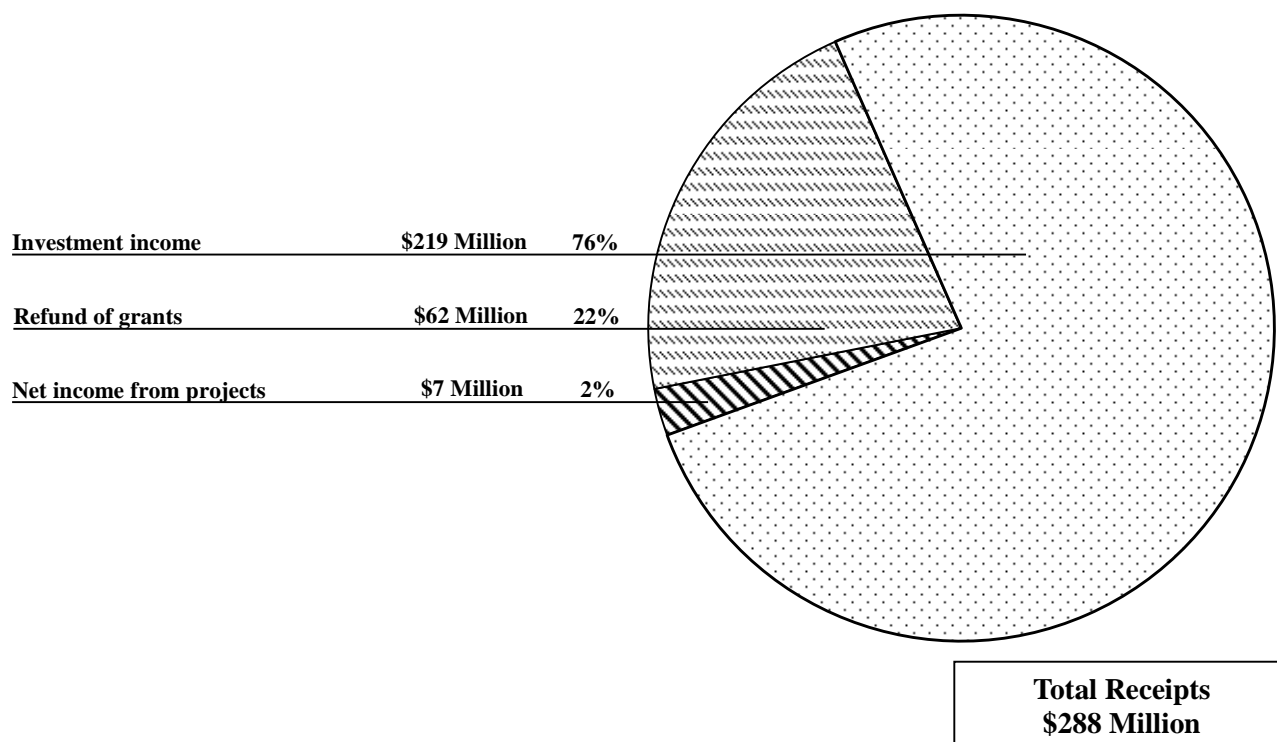
5. Receipts

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	215,955	152,972
Others	-	2,713	2,002
	209,000	218,668	154,974
Net income from projects	8,293	7,327	4,621
Refund of grants	-	62,230	47,588
Transfer from General Revenue	-	-	9,000,000
	217,293	288,225	9,207,183

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$97 million (comprising \$57 million for 2014 and \$40 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$9 million up to 31 December 2017 (*2016: \$6 million*), including the investment return for the calendar year 2017 amounting to \$3 million (*2016: \$3 million*). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$106 million (*2016: \$103 million*).

Innovation and Technology Fund

Analysis of Receipts for the year ended 31 March 2018



6. Payments

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	1,783,075	1,483,318	1,257,462

7. Other Cash Movements

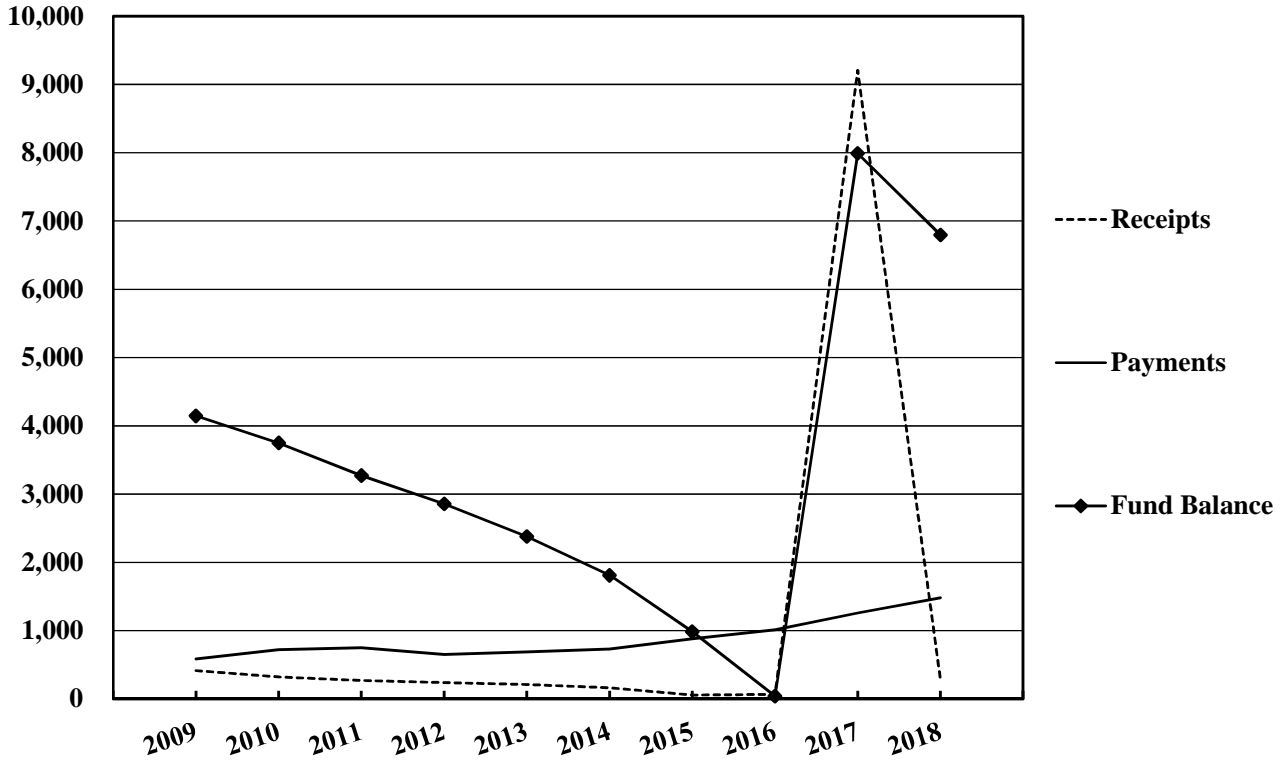
These are cash movements arising from changes in other assets and liabilities:

	2018 \$'000	2017 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	1,193,652	(7,947,237)

Innovation and Technology Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2009 to 2018

\$Million



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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Land Fund

Independent Auditor's Report

To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Land Fund set out on pages 80 to 83, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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

Land Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	<u>219,729,659</u>	<u>219,729,659</u>
Representing:			
Fund Balance			
Balance at beginning of year		219,729,659	219,729,659
Surplus for the year		-	-
Balance at end of year	3	<u>219,729,659</u>	<u>219,729,659</u>

Notes 1 to 4 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Land Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	4	-	-
Payments		-	-
Surplus for the year		-	-
Other cash movements		-	-
Cash and bank balances at end of year		-	-

Notes 1 to 4 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Land Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Between 1 April 2007 and 31 December 2015, the investment income was calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever was the higher.
- (iv) With effect from 1 January 2016, the assets of the Fund have been held as a notional savings account within the fiscal reserves called the Future Fund. In accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015, investment return on the Future Fund placement is determined annually based on a composite rate (9.6% and 4.5% for the calendar years 2017 and 2016 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iii) above) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. In respect of the Land Fund portion of \$219.73 billion, such accumulated investment return not received as revenue amounted to \$32.01 billion as at 31 December 2017 (2016: \$9.99 billion), including the investment return for the calendar year 2017 of \$22.02 billion (2016: \$9.99 billion).

Land Fund

4. Receipts

Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$19.99 billion (comprising \$7.91 billion for 2014 and \$12.08 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii) and shall be received on a date as determined by the Financial Secretary. The rate of investment return for the calendar year 2017 was 2.8% (2016: 3.3%). The accumulated investment return not received was \$1.71 billion up to 31 December 2017 (2016: \$1.12 billion), including the investment return for the calendar year 2017 amounting to \$0.59 billion (2016: \$0.68 billion). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$21.7 billion (2016: \$21.11 billion).

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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Loan Fund

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

Opinion

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 88 to 95, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Loans Outstanding	3		
Housing loans		3,030,699	3,070,889
Education loans		17,678,138	17,353,286
Other loans		8,639,340	6,427,960
		29,348,177	26,852,135
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	4,105,254	4,191,834
Cash and bank balances		12,489	13,814
		4,117,743	4,205,648
Current Liabilities			
Deposits	5	(23,356)	(22,100)
		4,094,387	4,183,548
		33,442,564	31,035,683
Representing:			
Total Fund Balance			
Applied Fund	6	29,348,177	26,852,135
Available Fund	7		
Balance at beginning of year		4,183,548	4,467,533
Deficit for the year		(89,161)	(283,985)
Balance at end of year		4,094,387	4,183,548
	8	33,442,564	31,035,683

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		13,814	15,067
Receipts	9	4,700,862	4,385,497
Payments	10	(4,790,023)	(4,669,482)
Deficit for the year		(89,161)	(283,985)
Other cash movements	11	87,836	282,732
Cash and bank balances at end of year		12,489	13,814

Notes 1 to 11 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Loan Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policies

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

3. Loans Outstanding

	2018			2017		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,070,889	17,353,286	6,427,960	3,122,638	16,763,924	4,267,875
Additions						
Loan payments	286,088	2,149,970	2,353,945	242,551	2,156,277	2,270,654
Capitalised interest	51	-	135,247	78	-	124,739
	286,139	2,149,970	2,489,192	242,629	2,156,277	2,395,393
Deductions						
Loan repayments	(32,877)	(1,824,463)	(262,632)	(124,708)	(1,565,085)	(235,308)
Loans written off	(639)	(655)	(15,180)	(84)	(1,830)	-
Proceeds from sale of loans	(292,813)	-	-	(169,586)	-	-
	(326,329)	(1,825,118)	(277,812)	(294,378)	(1,566,915)	(235,308)
Balance at end of year	3,030,699	17,678,138	8,639,340	3,070,889	17,353,286	6,427,960

Loan Fund

4. Investments with the Exchange Fund

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

	2018	2017
	\$'000	\$'000
Investments (Notes (ii) and (iii) below)	4,103,778	4,190,965
Deposits	1,476	869
	<u>4,105,254</u>	<u>4,191,834</u>

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

(iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

5. Deposits

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

	2018	2017
	\$'000	\$'000
Students	23,217	21,962
Others	139	138
	<u>23,356</u>	<u>22,100</u>

6. Applied Fund

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

7. Available Fund

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

8. Commitments

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

	2018	2017
	\$'000	\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	3,373,981	5,610,481
Balance of approved loans operating on revolving basis available for granting of new loans	11,253,338	11,350,387
	<u>14,627,319</u>	<u>16,960,868</u>

Loan Fund

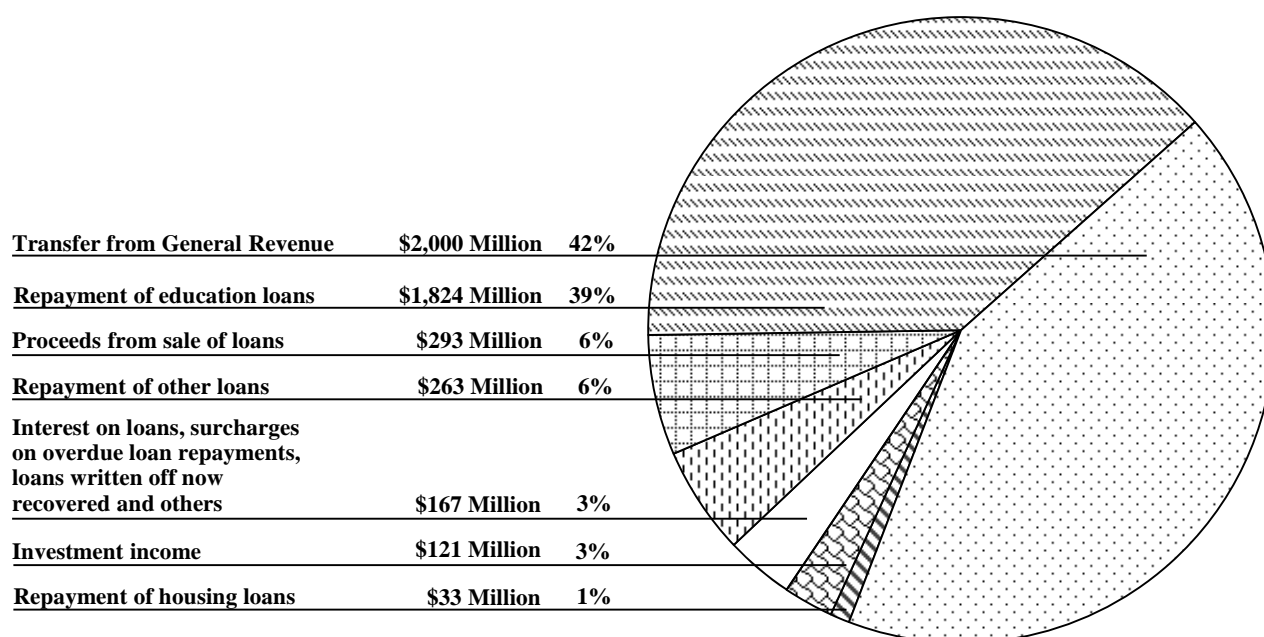
9. Receipts

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	69,444	32,877	124,708
Education loans	1,790,180	1,824,463	1,565,085
Other loans	261,319	262,632	235,308
	2,120,943	2,119,972	1,925,101
Interest on loans	159,575	162,055	151,436
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	121,142	134,594
Others	-	9	4
	84,000	121,151	134,598
Surcharges on overdue loan repayments	4,949	4,847	4,730
Proceeds from sale of loans	280,966	292,813	169,586
Loans written off now recovered	-	-	1
Others	-	24	45
Transfer from General Revenue	2,000,000	2,000,000	2,000,000
	<u>4,650,433</u>	<u>4,700,862</u>	<u>4,385,497</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$168 million (comprising \$52 million for 2014 and \$116 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 4(iii) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$14 million up to 31 December 2017 (2016: \$9 million), including the investment return for the calendar year 2017 amounting to \$5 million (2016: \$6 million). Together with the accumulated investment return, the sums not received as revenue of the Fund and earmarked as Housing Reserve totalled \$182 million (2016: \$177 million).

Loan Fund

Analysis of Receipts for the year ended 31 March 2018



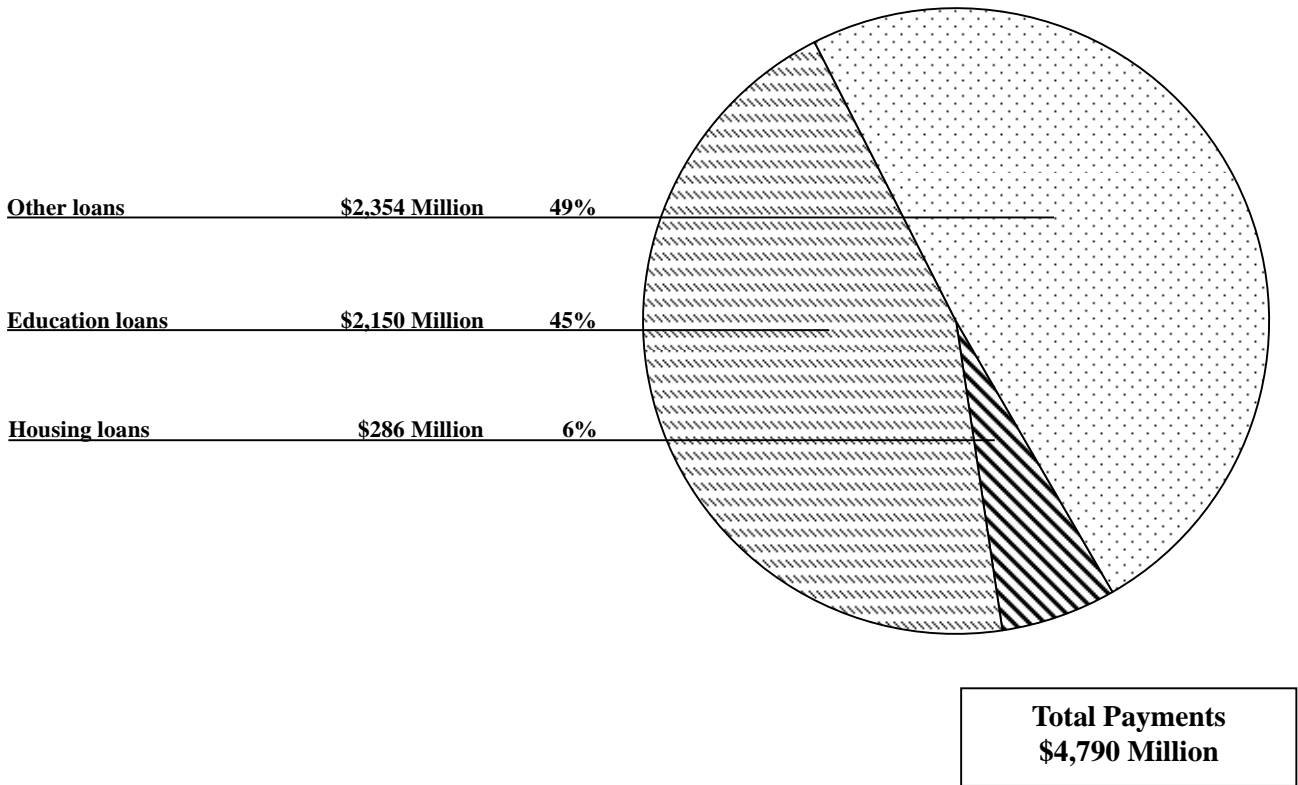
**Total Receipts
\$4,701 Million**

10. Payments

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	406,000	286,088	242,551
Education loans	2,301,413	2,149,970	2,156,277
Other loans	2,506,725	2,353,945	2,270,654
	5,214,138	4,790,003	4,669,482
Others	-	20	-
	<u>5,214,138</u>	<u>4,790,023</u>	<u>4,669,482</u>

Loan Fund

Analysis of Payments for the year ended 31 March 2018



11. Other Cash Movements

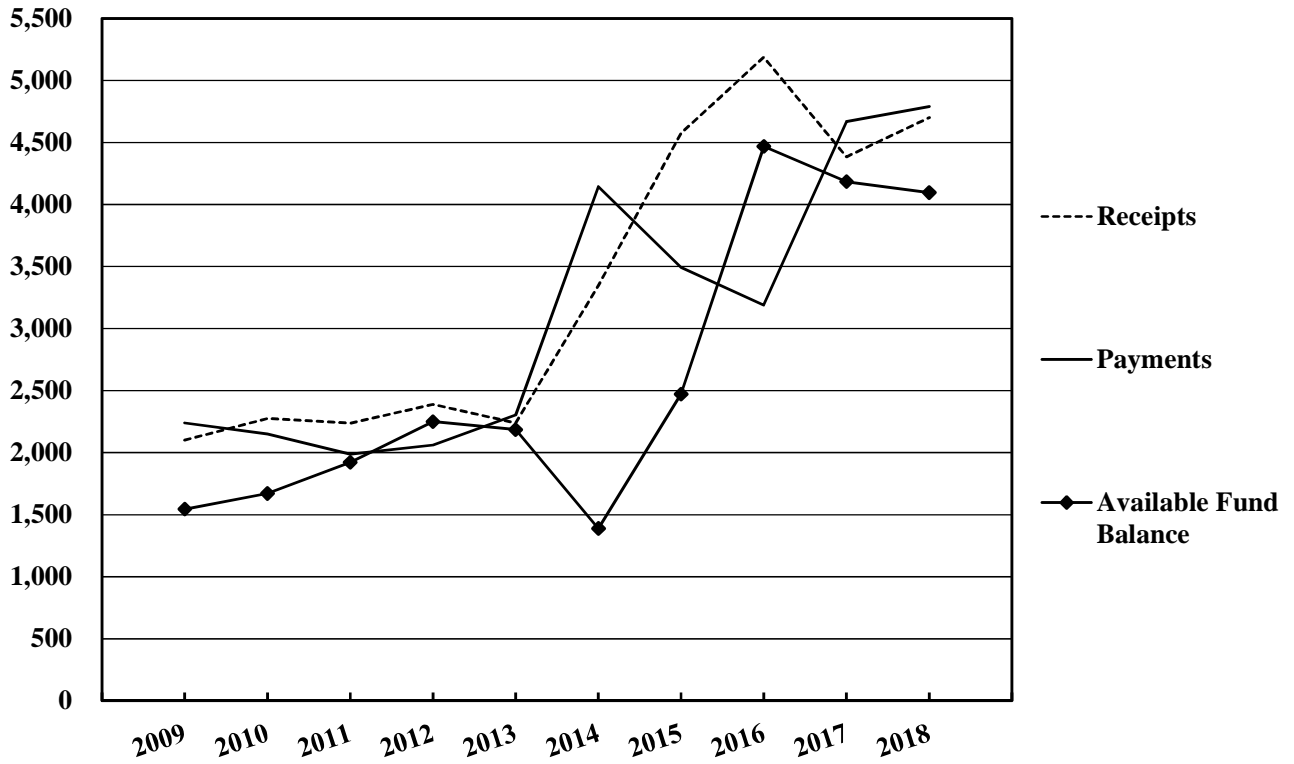
These are cash movements arising from changes in other assets and liabilities:

	2018 \$'000	2017 \$'000
Reduction in Assets		
Investments with the Exchange Fund	86,580	278,832
Increase in Liabilities		
Deposits	1,256	3,900
	<u>87,836</u>	<u>282,732</u>

Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2009 to 2018

\$Million



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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Bond Fund

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

Opinion

I certify that I have examined and audited the financial statements of the Bond Fund set out on pages 100 to 107, which comprise the statement of assets and liabilities as at 31 March 2018, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2018 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

Director of Accounting Services' responsibilities for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

David Sun
Director of Audit

29 October 2018

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	138,156,390	141,378,989
Liabilities			
Deposits	4	(1,247)	-
		<u>138,155,143</u>	<u>141,378,989</u>
Representing:			
Fund Balance			
Balance at beginning of year		141,378,989	128,411,794
(Deficit)/Surplus for the year		(3,223,846)	12,967,195
Balance at end of year	5, 6	<u>138,155,143</u>	<u>141,378,989</u>

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	23,377,083	42,132,745
Payments	8	(26,600,929)	(29,165,550)
(Deficit)/Surplus for the year		(3,223,846)	12,967,195
Other cash movements	9	3,223,846	(12,967,195)
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose and Legislation

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

2. Accounting Policies

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. The investment income is calculated, in accordance with a Memorandum of Understanding entered into with the Hong Kong Monetary Authority in 2014, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

4. Deposits

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

	2018	2017
	\$'000	\$'000
Accrued interest received from successful bidders	<u>1,247</u>	<u>-</u>

5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (c)(i) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraphs (e)(i) and (ea)(i) of the Resolution. The liabilities totalling \$121.73 billion as at 31 March 2018 comprising the outstanding bonds with nominal value of \$98.19 billion and alternative bonds with nominal value of US\$3 billion (equivalent to \$23.54 billion as at 31 March 2018) are not included in the Statement of Assets and Liabilities (Note 6).

Bond Fund

6. Bonds Outstanding

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

	2018	2017
	\$'000	\$'000
Bonds		
Balance at beginning of year	103,078,440	100,500,000
Issuance of bonds under		
Tender to institutional investors	16,600,000	16,600,000
Subscription to retail investors	3,000,000	13,000,000
	19,600,000	29,600,000
Repayment of bonds issued under		
Tender to institutional investors	(14,400,000)	(17,000,000)
Subscription to retail investors	(10,084,560)	(10,021,560)
	(24,484,560)	(27,021,560)
Balance at end of year	98,193,880	103,078,440
Alternative bonds (Note (i) below)		
Balance at beginning of year	23,312,250	15,509,000
Issuance of bonds	-	7,760,200
Foreign currency translation difference	228,750	43,050
Balance at end of year (Note (ii) below)	23,541,000	23,312,250
Total outstanding bonds	121,734,880	126,390,690

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

Bond Fund

6. Bonds Outstanding (Continued)

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

	2018 \$'000	2017 \$'000
Bonds		
Within one year	23,200,000	24,400,000
After one year but within two years (Note (iv) below)	32,323,730	23,200,000
After two years but within five years (Note (v) below)	28,770,150	40,378,440
After five years	13,900,000	15,100,000
	98,193,880	103,078,440
Alternative bonds (Notes (i) and (ii) above)		
After one year but within two years	7,847,000	-
After two years but within five years	7,847,000	15,541,500
After five years	7,847,000	7,770,750
	23,541,000	23,312,250
Total outstanding bonds	121,734,880	126,390,690

(iv) The outstanding bonds included Silver Bonds with nominal value of \$2.92 billion (2017: Nil) which might be redeemed before maturity upon request from bond holders.

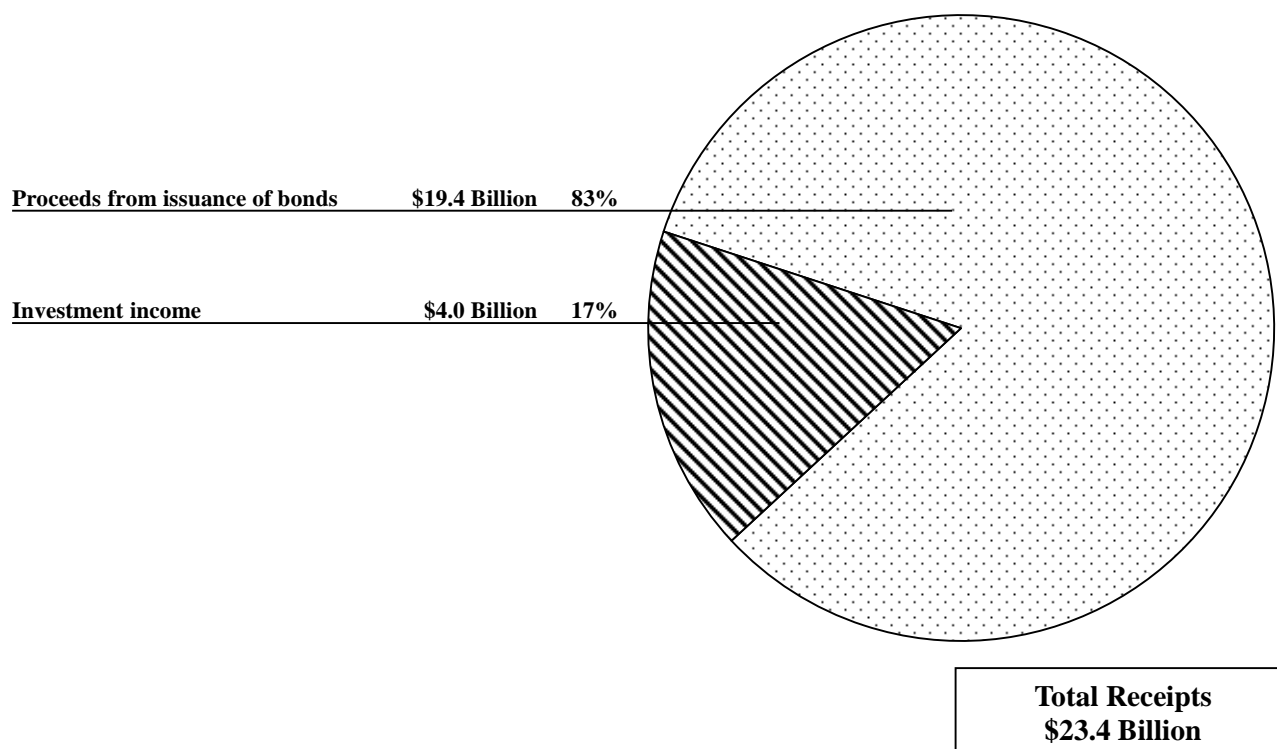
(v) The outstanding bonds included Silver Bonds with nominal value of \$2.97 billion (2017: \$2.98 billion) which might be redeemed before maturity upon request from bond holders.

7. Receipts

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Proceeds from bonds issued under			
Tender or subscription	19,600,000	19,429,445	30,039,446
Switch tender	800,000	-	-
Bond swap facility	1,000,000	-	-
	21,400,000	19,429,445	30,039,446
Proceeds from issuance of alternative bonds	-	-	7,760,200
Investment income			
Investments with the Exchange Fund	-	3,947,589	4,332,958
Others	-	49	141
	4,191,000	3,947,638	4,333,099
	25,591,000	23,377,083	42,132,745

Bond Fund

Analysis of Receipts for the year ended 31 March 2018

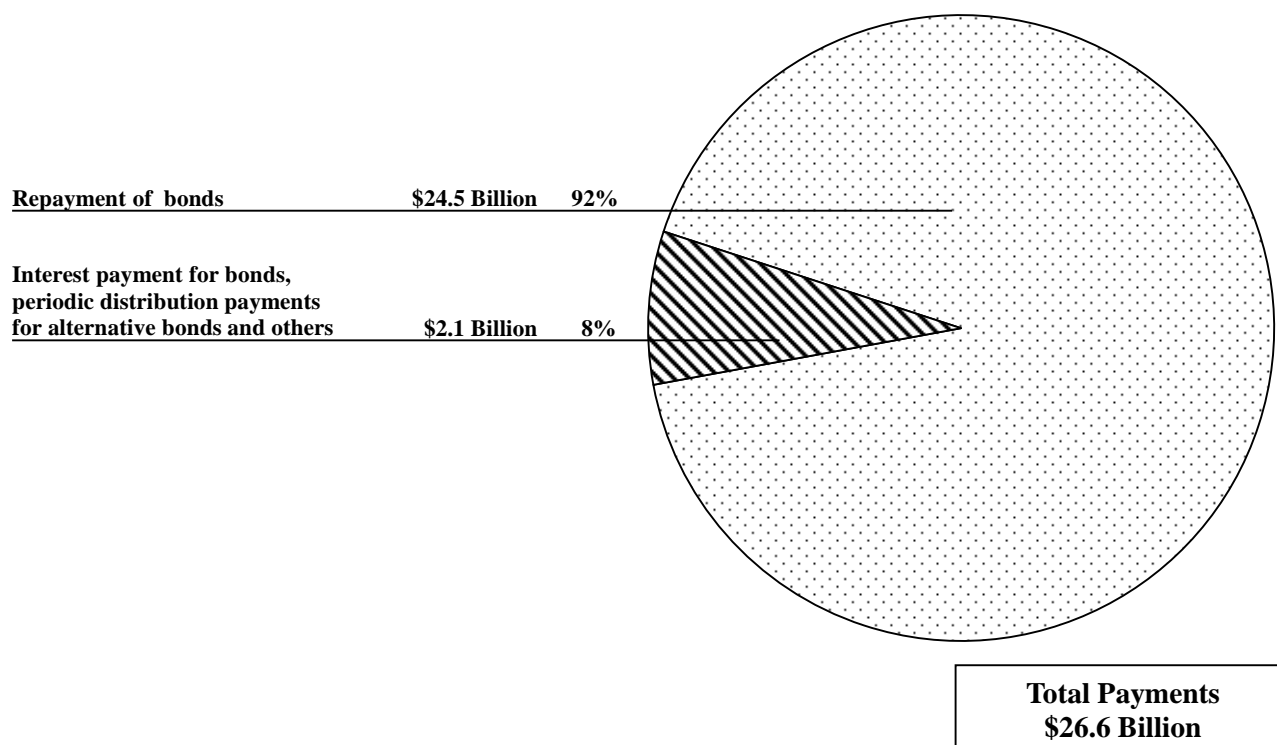


8. Payments

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Repayment of bonds issued under			
Tender or subscription	24,466,000	24,484,560	27,021,560
Switch tender	800,000	-	-
Bond swap facility	1,000,000	-	-
	26,266,000	24,484,560	27,021,560
Interest payment for bonds	2,072,220	1,546,777	1,805,381
Periodic distribution payments for alternative bonds	548,886	549,717	302,646
Others	20,487	19,875	35,963
	<u>28,907,593</u>	<u>26,600,929</u>	<u>29,165,550</u>

Bond Fund

Analysis of Payments for the year ended 31 March 2018



9. Other Cash Movements

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

	2018 \$'000	2017 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	3,222,599	(12,965,619)
Increase/(Reduction) in Liabilities		
Deposits	1,247	(1,576)
	<u>3,223,846</u>	<u>(12,967,195)</u>

Bond Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2018

\$Billion

