



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 2010

October 2010

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 2010

Audit Commission,
Immigration Tower,
Hong Kong.

28 October 2010

The President of the Legislative Council,
Legislative Council Building,
Hong Kong.

Sir,

In accordance with section 12(1) of the Audit Ordinance 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 2010, 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.

Yours faithfully,

Benjamin Tang
Director of Audit

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Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

General Revenue Account

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the General Revenue Account set out on pages 9 to 20, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the General Revenue Account as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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

General Revenue Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	292,688,458	269,515,582
Deposits with banks	4	303,326	382,899
Cash and bank balances	5	3,227,281	3,288,404
Advances	6	2,369,844	2,383,800
Suspense Accounts	7	33,534	42,707
		298,622,443	275,613,392
Liabilities			
Deposits	8	(18,573,554)	(16,930,754)
Suspense Accounts	7	(110,405)	(108,757)
	9	(18,683,959)	(17,039,511)
		<u>279,938,484</u>	<u>258,573,881</u>
Representing:			
General Revenue Balance			
Balance at 1 April 2009		258,573,881	246,130,973
Surplus for the year		<u>21,364,603</u>	<u>12,442,908</u>
Balance at 31 March 2010	10	<u>279,938,484</u>	<u>258,573,881</u>

Notes 1 to 13 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



General Revenue Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		3,288,404	4,658,772
Revenue	11	258,659,272	273,237,220
Expenditure	12	(237,294,669)	(260,794,312)
Surplus for the year		21,364,603	12,442,908
Other cash movements	13	(21,425,726)	(13,813,276)
Cash and bank balances at 31 March 2010		3,227,281	3,288,404

Notes 1 to 13 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



General Revenue Account

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policies

- (i) The General Revenue Account is kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions. 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) Currency balances other than Hong Kong dollar are stated 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:

	2010	2009
	\$'000	\$'000
Investments (see (ii) and (iii) below)	292,396,952	269,260,629
Deposits	291,506	254,953
	292,688,458	269,515,582

- (ii) The investments represent the cost of investments together with interest of \$17.76 billion received in the year ended 31 March 2010.
- (iii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

General Revenue Account

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:

	2010 \$'000	2009 \$'000
Hong Kong dollar	97,553	187,576
Foreign currency	205,773	195,323
	303,326	382,899

5. Cash and Bank Balances

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

6. Advances

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

	2010 \$'000	2009 \$'000
Expenditure on Vietnamese migrants (see (i) below)	1,161,991	1,161,991
Advances to Government officers	735,328	740,860
Payments on behalf of non-departmental public bodies, trading funds and non-statutory corporations wholly-owned by Government	303,363	354,452
Payment of expenditure arising from land acquisition, clearance and related costs payable under the Railways Ordinance (Cap. 519) for the implementation of West Island Line Works and Reprovisioning, Remedial and Improvement Works	42,482	-
Others	126,680	126,497
	2,369,844	2,383,800

- (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 Organisations and Diplomatic Privileges Ordinance (Cap. 190). Consequently, the full recovery of the amount due is doubtful.

During the financial year 2009-10, 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.

General Revenue Account

7. Suspense Accounts

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

	2010 \$'000	2009 \$'000
Assets:		
Correctional Services Industries (see (i) below)	25,997	36,583
Government Logistics Department — Unallocated Stores (see (i) below)	7,537	6,124
	33,534	42,707
Liabilities:		
The Special Coin (see (ii) below)	(95,674)	(106,851)
The Financial Secretary Incorporated (see (iii) below)	(14,731)	(1,906)
	(110,405)	(108,757)
Net balance	(76,871)	(66,050)

- (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.

8. Deposits

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

	2010 \$'000	2009 \$'000
Tax reserve certificates	12,936,546	11,788,741
Water deposits	1,473,467	1,416,958
Tenancy deposits	1,064,775	960,314
Tax overpayments	567,797	472,640
Legal aid deposits	528,092	434,956
Private works	195,669	164,463
Receipts on behalf of non-departmental public bodies and trading funds	61	188
Others	1,807,147	1,692,494
	18,573,554	16,930,754

General Revenue Account

9. Liabilities

The following outstanding liabilities under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities:

	2010 \$'000	2009 \$'000
Outstanding Toll Revenue Bond	-	1,932,460

Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in May 2004 a \$6 billion Toll Revenue Bond to Hong Kong Link 2004 Limited to be repaid by the net toll revenue receivable of the specified Government-owned tunnels and bridges. The net proceeds were credited to the Capital Works Reserve Fund. The outstanding Toll Revenue Bond had been fully repaid on 4 February 2010. During the financial year, repayments of \$1.93 billion principal and payments of \$0.05 billion interest were made.

10. Contingent Liabilities

There are contingent liabilities as listed below, with the maximum amount of each liability as at 31 March 2010 indicated in brackets:

- (i) Guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance (\$21,483 million);
- (ii) Guarantees provided under the SME Loan Guarantee Scheme (\$4,917 million);
- (iii) Guarantees provided under the Special Loan Guarantee Scheme (\$46,606 million); and
- (iv) Litigation (\$364 million).

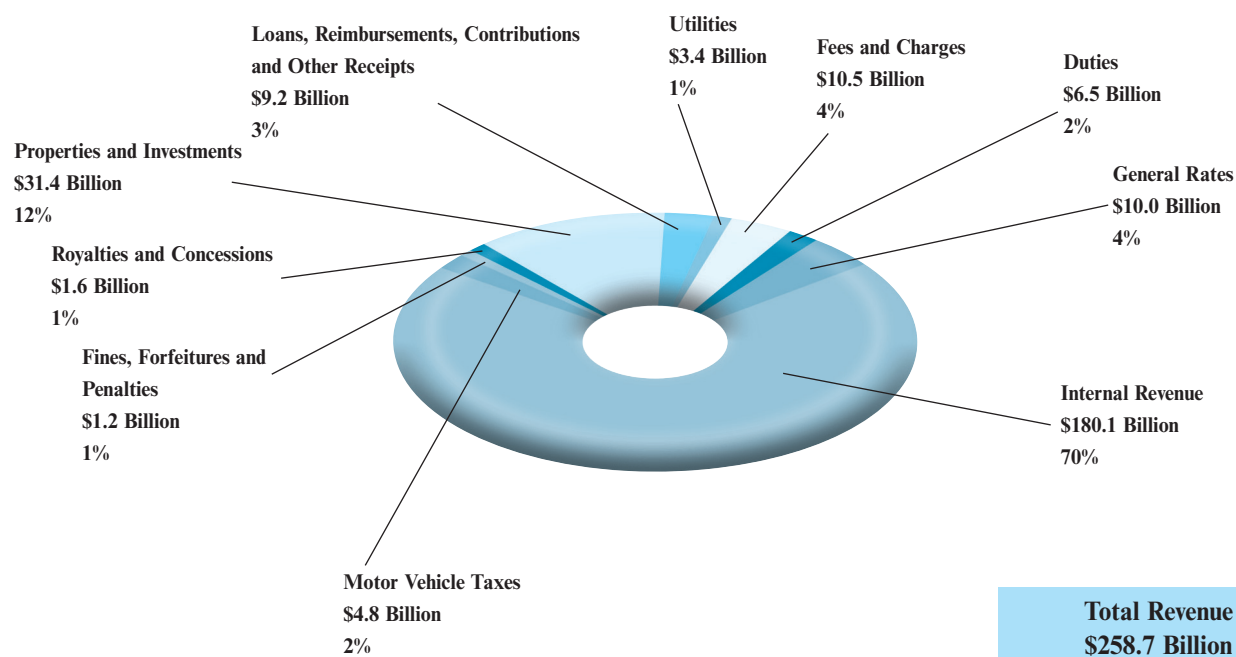
11. Revenue

Analysis of total revenue by Head:

Head	2010				2009
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
1 Duties	6,581,811	6,464,877	(116,934)	(1.8)	6,046,654
2 General Rates	13,899,000	9,957,161	(3,941,839)	(28.4)	7,174,835
3 Internal Revenue	149,651,588	180,135,801	30,484,213	20.4	192,949,724
4 Motor Vehicle Taxes	4,080,832	4,816,338	735,506	18.0	4,980,925
5 Fines, Forfeitures and Penalties	1,012,499	1,182,815	170,316	16.8	1,006,391
6 Royalties and Concessions	1,004,341	1,596,610	592,269	59.0	2,389,088
7 Properties and Investments	29,427,839	31,357,535	1,929,696	6.6	36,306,289
9 Loans, Reimbursements, Contributions and Other Receipts	5,279,733	9,223,576	3,943,843	74.7	8,592,659
10 Utilities	3,412,827	3,437,835	25,008	0.7	3,320,350
11 Fees and Charges	12,120,481	10,486,724	(1,633,757)	(13.5)	10,470,305
Total	226,470,951	258,659,272	32,188,321	14.2	273,237,220

General Revenue Account

Analysis of Revenue for the year ended 31 March 2010



12. Expenditure

Analysis of total expenditure by Head:

Head	2010				2009
	Original	Actual	Over/(Under) the Estimate	Variance	Actual
	Estimate				
	\$'000	\$'000	\$'000	%	\$'000
21 Chief Executive's Office	84,507	83,940	(567)	(0.7)	80,747
22 Agriculture, Fisheries and Conservation Department	930,068	864,098	(65,970)	(7.1)	1,080,906
25 Architectural Services Department	1,521,318	1,525,021	3,703	0.2	1,454,642
24 Audit Commission	122,364	118,358	(4,006)	(3.3)	120,442
23 Auxiliary Medical Service	70,154	69,286	(868)	(1.2)	63,888
82 Buildings Department	890,638	883,577	(7,061)	(0.8)	838,141
26 Census and Statistics Department	553,424	506,884	(46,540)	(8.4)	470,711
27 Civil Aid Service	82,067	85,398	3,331	4.1	82,156
28 Civil Aviation Department	712,824	682,763	(30,061)	(4.2)	668,315
33 Civil Engineering and Development Department	2,115,033	1,850,508	(264,525)	(12.5)	1,446,107
30 Correctional Services Department	2,698,592	2,728,487	29,895	1.1	2,627,500
31 Customs and Excise Department	2,485,416	2,408,581	(76,835)	(3.1)	2,288,494
37 Department of Health	4,120,690	4,154,864	34,174	0.8	3,351,167
92 Department of Justice	1,004,363	985,570	(18,793)	(1.9)	937,044
39 Drainage Services Department	1,769,653	1,765,310	(4,343)	(0.2)	1,680,147

General Revenue Account

12. Expenditure (Continued)

Head	2010				2009
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
42 Electrical and Mechanical Services Department	463,722	470,888	7,166	1.5	327,393
44 Environmental Protection Department	3,202,669	2,296,236	(906,433)	(28.3)	2,541,740
45 Fire Services Department	3,801,080	3,839,297	38,217	1.0	3,518,546
49 Food and Environmental Hygiene Department	4,453,871	4,318,365	(135,506)	(3.0)	4,617,041
46 General Expenses of the Civil Service	3,007,718	2,663,973	(343,745)	(11.4)	2,913,271
166 Government Flying Service	275,591	251,061	(24,530)	(8.9)	232,511
48 Government Laboratory	319,449	309,063	(10,386)	(3.3)	325,499
59 Government Logistics Department	486,498	466,864	(19,634)	(4.0)	440,237
51 Government Property Agency	1,828,181	1,650,339	(177,842)	(9.7)	1,672,778
143 Government Secretariat: Civil Service Bureau	417,851	407,594	(10,257)	(2.5)	413,908
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	1,221,053	1,224,217	3,164	0.3	1,172,507
55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Technology Branch)	66,300	194,884	128,584	193.9	72,883
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	465,160	407,334	(57,826)	(12.4)	337,664
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	308,957	657,233	348,276	112.7	296,475
159 Government Secretariat: Development Bureau (Works Branch)	239,041	216,954	(22,087)	(9.2)	199,554
156 Government Secretariat: Education Bureau	39,361,534	37,542,263	(1,819,271)	(4.6)	36,609,086
137 Government Secretariat: Environment Bureau	70,246	62,766	(7,480)	(10.6)	52,432
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	140,218	136,067	(4,151)	(3.0)	8,726,867

General Revenue Account

12. Expenditure (Continued)

Head	2010				2009
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch)	4,893,429	4,621,800	(271,629)	(5.6)	3,422,595
139 Government Secretariat: Food and Health Bureau (Food Branch)	97,459	69,428	(28,031)	(28.8)	43,568
140 Government Secretariat: Food and Health Bureau (Health Branch)	33,387,074	33,090,536	(296,538)	(0.9)	32,990,350
53 Government Secretariat: Home Affairs Bureau	1,340,002	4,247,874	2,907,872	217.0	7,459,789
155 Government Secretariat: Innovation and Technology Commission	518,516	464,122	(54,394)	(10.5)	502,533
141 Government Secretariat: Labour and Welfare Bureau	569,440	487,322	(82,118)	(14.4)	468,650
47 Government Secretariat: Office of the Government Chief Information Officer	655,842	650,253	(5,589)	(0.9)	559,836
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	521,144	476,839	(44,305)	(8.5)	454,103
96 Government Secretariat: Overseas Economic and Trade Offices	314,701	282,587	(32,114)	(10.2)	278,198
151 Government Secretariat: Security Bureau	172,625	157,575	(15,050)	(8.7)	154,579
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	134,537	125,709	(8,828)	(6.6)	116,833
60 Highways Department	2,228,180	2,190,677	(37,503)	(1.7)	2,141,206
63 Home Affairs Department	1,625,816	1,573,126	(52,690)	(3.2)	1,511,036
168 Hong Kong Observatory	220,491	216,501	(3,990)	(1.8)	206,315
122 Hong Kong Police Force	12,573,067	12,714,049	140,982	1.1	12,239,394
62 Housing Department	130,531	1,926,950	1,796,419	1,376.2	2,638,648
70 Immigration Department	2,876,801	2,849,659	(27,142)	(0.9)	2,821,346
72 Independent Commission Against Corruption	808,148	766,922	(41,226)	(5.1)	750,071
121 Independent Police Complaints Council	28,283	26,441	(1,842)	(6.5)	17,361

General Revenue Account

12. Expenditure (Continued)

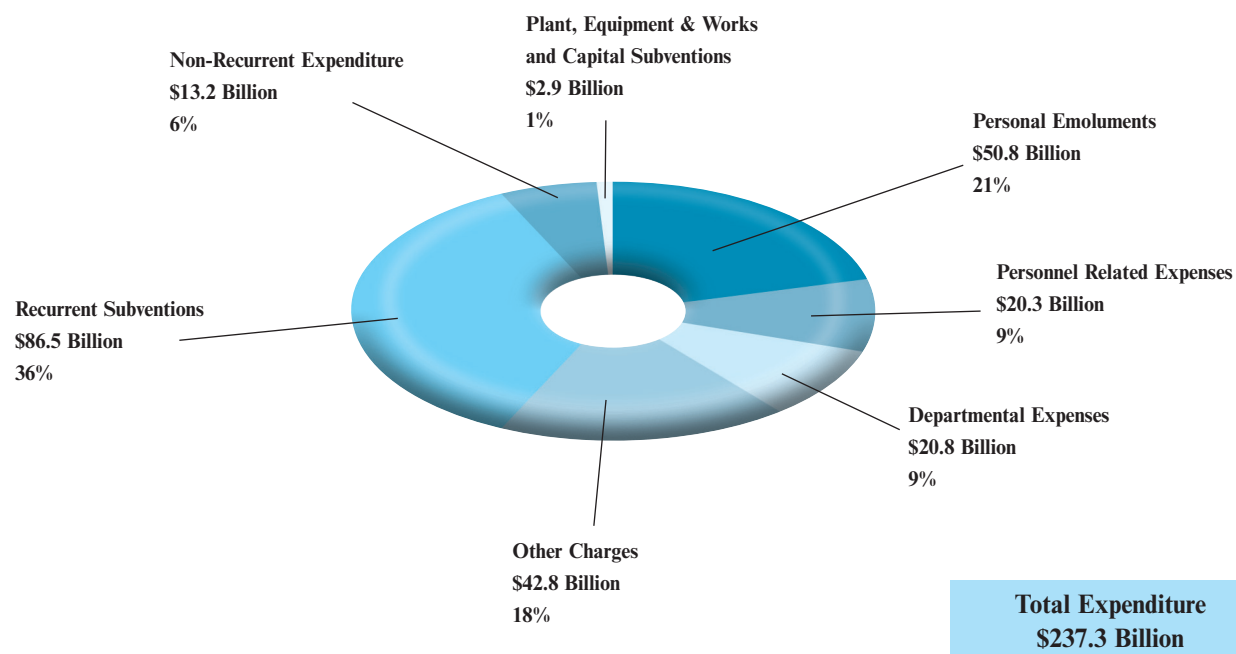
Head	2010				2009
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
74 Information Services Department	379,335	354,983	(24,352)	(6.4)	353,053
76 Inland Revenue Department	1,276,595	1,151,572	(125,023)	(9.8)	1,182,802
78 Intellectual Property Department	98,261	95,189	(3,072)	(3.1)	91,199
79 Invest Hong Kong	111,562	111,339	(223)	(0.2)	108,023
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	27,271	23,389	(3,882)	(14.2)	27,265
80 Judiciary	1,118,507	1,000,227	(118,280)	(10.6)	969,547
90 Labour Department	1,134,197	1,168,835	34,638	3.1	1,070,059
91 Lands Department	1,793,888	1,710,935	(82,953)	(4.6)	1,691,823
94 Legal Aid Department	752,482	715,522	(36,960)	(4.9)	661,163
112 Legislative Council Commission	407,454	416,752	9,298	2.3	399,269
95 Leisure and Cultural Services Department	5,426,130	5,336,675	(89,455)	(1.6)	5,097,452
100 Marine Department	960,879	920,371	(40,508)	(4.2)	915,454
106 Miscellaneous Services	9,594,408	65,527	(9,528,881)	(99.3)	46,580
114 Office of The Ombudsman	90,272	89,990	(282)	(0.3)	89,037
116 Official Receiver's Office	140,854	115,440	(25,414)	(18.0)	114,669
120 Pensions	17,582,620	16,910,922	(671,698)	(3.8)	15,699,877
118 Planning Department	485,532	464,573	(20,959)	(4.3)	459,879
136 Public Service Commission	17,090	16,921	(169)	(1.0)	18,138
160 Radio Television Hong Kong	507,957	482,669	(25,288)	(5.0)	470,758
162 Rating and Valuation Department	403,124	383,942	(19,182)	(4.8)	381,184
163 Registration and Electoral Office	78,444	72,492	(5,952)	(7.6)	323,385
169 Secretariat, Commissioner on Interception of Communications and Surveillance	12,843	10,762	(2,081)	(16.2)	10,129
170 Social Welfare Department	39,105,111	39,529,326	424,215	1.1	38,533,357
173 Student Financial Assistance Agency	3,905,839	3,765,914	(139,925)	(3.6)	3,550,987
180 Television and Entertainment Licensing Authority	191,132	106,915	(84,217)	(44.1)	132,447
181 Trade and Industry Department	581,080	724,461	143,381	24.7	541,867
186 Transport Department	1,216,175	1,106,377	(109,798)	(9.0)	1,089,278
188 Treasury	336,131	318,947	(17,184)	(5.1)	311,860

General Revenue Account

12. Expenditure (Continued)

Head	2010				2009
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
190 University Grants Committee	11,645,763	11,539,375	(106,388)	(0.9)	30,364,275
194 Water Supplies Department	5,755,418	5,758,714	3,296	0.1	5,302,286
	247,522,690	237,235,469	(10,287,221)	(4.2)	260,444,312
184 Transfers to Funds	15,409,200	59,200	(15,350,000)	(99.6)	350,000
Total	262,931,890	237,294,669	(25,637,221)	(9.8)	260,794,312

Analysis of Expenditure for the year ended 31 March 2010



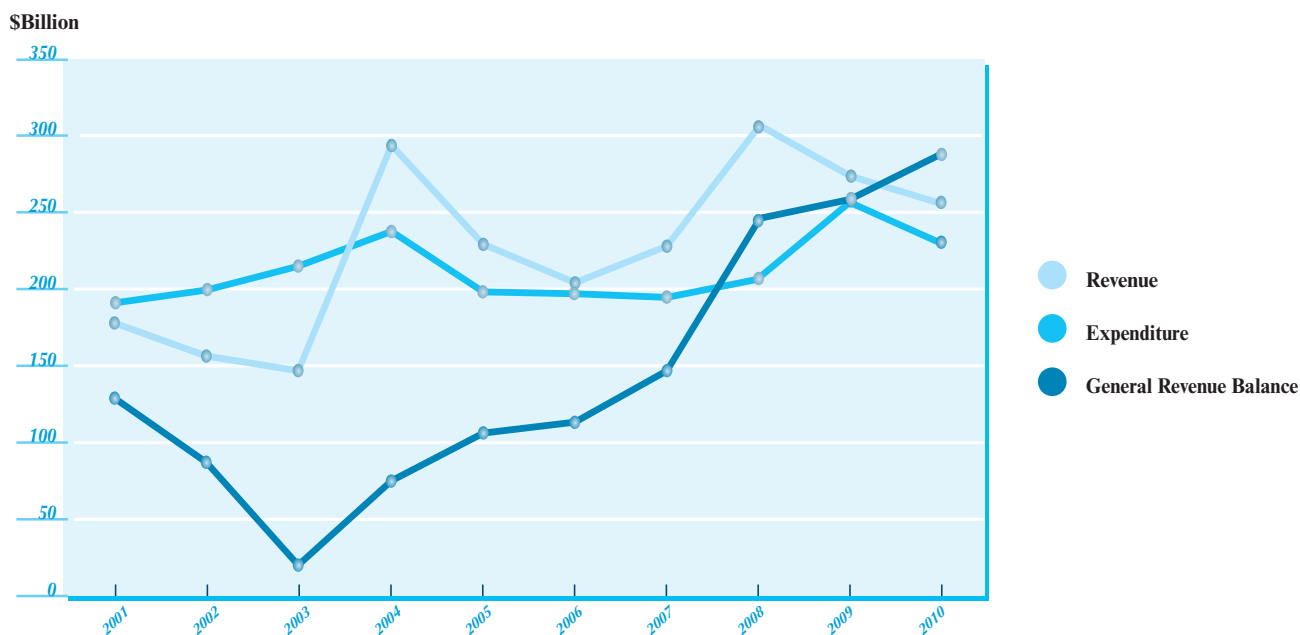
General Revenue Account

13. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Reduction/(Increase) in Assets:		
Investments with the Exchange Fund	(23,172,876)	(13,988,192)
Deposits with banks	79,573	73,324
Advances	13,956	(297,724)
Suspense Accounts	9,173	(2,838)
	(23,070,174)	(14,215,430)
Increase/(Reduction) in Liabilities:		
Deposits	1,642,800	403,394
Suspense Accounts	1,648	(1,240)
	1,644,448	402,154
	<u>(21,425,726)</u>	<u>(13,813,276)</u>

Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2001 to 2010



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Works Reserve Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 23 to 30, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Capital Works Reserve Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	28,555,803	38,260,819
Deposits with banks	4	64	62
Cash and bank balances		1,975	1,850
Advances	5	78,389	86,409
		28,636,231	38,349,140
Liabilities	7		
Deposits	6	(790,105)	(798,358)
		<u>27,846,126</u>	<u>37,550,782</u>
Representing:			
Fund Balance			
Balance at 1 April 2009		37,550,782	65,115,227
Deficit for the year		(9,704,656)	(27,564,445)
Balance at 31 March 2010		<u>27,846,126</u>	<u>37,550,782</u>

Notes 1 to 10 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		1,850	6,850
Revenue	8	41,876,919	23,154,852
Expenditure	9	(51,581,575)	(50,719,297)
Deficit for the year		(9,704,656)	(27,564,445)
Other cash movements	10	9,704,781	27,559,445
Cash and bank balances at 31 March 2010		1,975	1,850

Notes 1 to 10 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Capital Works Reserve Fund was set up to finance public works programmes, acquisitions of land, capital subventions and major systems and equipment items. It was initially established on 1 April 1982 by a Resolution of the Legislative Council on 20 January 1982 and has been reconstituted since 1 January 1998 under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

2. Accounting Policies

- (i) The accounts of the Capital Works Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions. 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 advances and deposits referred to in the Notes below.
- (ii) Currency balances other than Hong Kong dollar are stated at weighted average cost.

3. Investments with the Exchange Fund

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

	2010	2009
	\$'000	\$'000
Investments (see (ii) and (iii) below)	28,482,767	38,159,559
Deposits	73,036	101,260
	<u>28,555,803</u>	<u>38,260,819</u>

- (ii) The investments represent the cost of investments together with interest of \$2.21 billion received in the year ended 31 March 2010.
- (iii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Deposits with Banks

These are foreign currency deposits placed with licensed banks in Hong Kong:

	2010	2009
	\$'000	\$'000
Foreign currency	<u>64</u>	<u>62</u>

Capital Works Reserve Fund

5. 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:

	2010 \$'000	2009 \$'000
Advances for Tsing Ma Control Area non-scheduled maintenance works	1,027	9,047
Advances in respect of other capital works projects	77,362	77,362
	78,389	86,409

The advance account for the non-scheduled maintenance works of Tsing Ma Control Area (TMCA) was opened in July 2004 following the securitisation of revenue receivable from the tolls of certain Government-owned tunnels and bridges. This account is for payment to the TMCA operator in respect of the non-scheduled maintenance works as long as the Toll Revenue Bonds remain outstanding. With the full repayment of the Toll Revenue Bonds in February 2010, the arrangement of payment to the TMCA operator through this account has ceased, and the balance of this account was cleared on 12 May 2010.

6. 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 to revenue:

	2010 \$'000	2009 \$'000
Contract retentions	468,877	472,539
Others	321,228	325,819
	790,105	798,358

7. Liabilities

The following outstanding liabilities under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities:

	2010 \$'000	2009 \$'000
Outstanding government bonds and notes	11,204,688	14,688,125

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 dollar. The outstanding amount will mature within the period from August 2014 to July 2019. During the financial year, repayments of \$3.5 billion principal and payments of \$0.64 billion interest were made.

The institutional notes denominated in United States dollar are translated into Hong Kong dollar at the rate of exchange ruling on the last working day of the year.

Capital Works Reserve Fund

8. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium:			
Sales by public auction and tender	-	14,465,941	813,660
Private treaty grants	-	1,323,072	6,645,555
Modification of existing leases, exchanges and extensions	-	23,445,497	9,026,913
Fees received in respect of short term waivers	-	397,570	449,730
	16,500,000	39,632,080	16,935,858
Investment income	1,727,000	2,216,750	6,083,361
Transfer from General Revenue	15,000,000	-	-
Other revenue:			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	3,000	9,500	2,000
Others	-	18,589	133,633
	134,000	28,089	135,633
	33,361,000	41,876,919	23,154,852

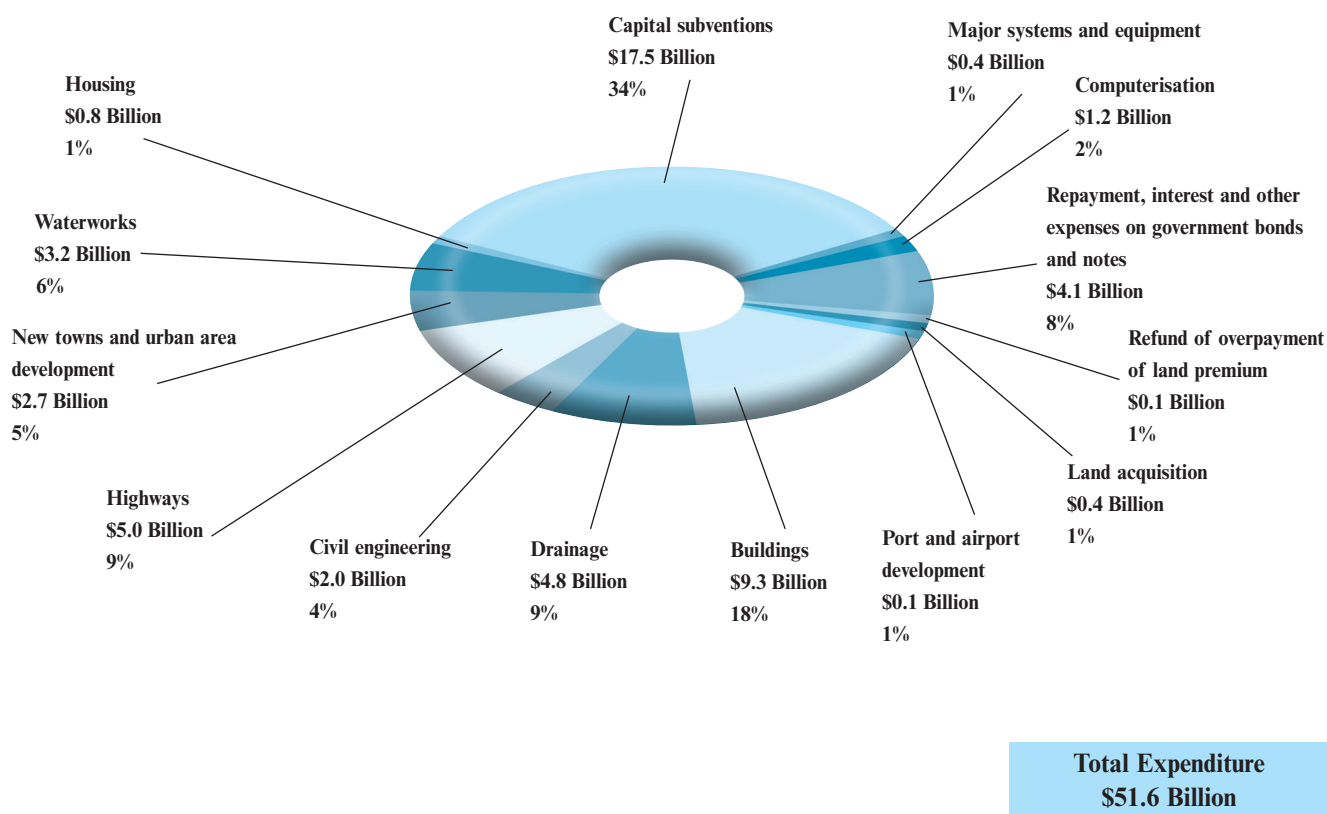
Capital Works Reserve Fund

9. Expenditure

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	1,758,410	394,075	926,340
Public Works Programme:			
Port and airport development	1,167	68,534	2,556
Buildings	9,186,540	9,297,893	7,314,892
Drainage	3,350,022	4,764,307	2,651,799
Civil engineering	1,921,372	2,018,659	1,782,393
Highways	5,263,386	4,995,220	3,979,190
New towns and urban area development	1,828,783	2,699,422	1,823,176
Waterworks	2,965,614	3,213,621	2,152,895
Housing	557,726	822,135	547,924
	25,074,610	27,879,791	20,254,825
Capital subventions and major systems and equipment:			
Capital subventions	14,248,294	17,447,700	24,754,848
Major systems and equipment	1,048,680	437,963	359,625
	15,296,974	17,885,663	25,114,473
Computerisation	1,753,947	1,156,086	951,198
Government bonds and notes:			
Repayment	3,500,000	3,500,000	2,700,000
Interest and other expenses	642,089	639,709	752,638
	4,142,089	4,139,709	3,452,638
Other payments:			
Refund of overpayment of land premium	-	126,251	19,823
	<u>48,026,030</u>	<u>51,581,575</u>	<u>50,719,297</u>

Capital Works Reserve Fund

Analysis of Expenditure for the year ended 31 March 2010



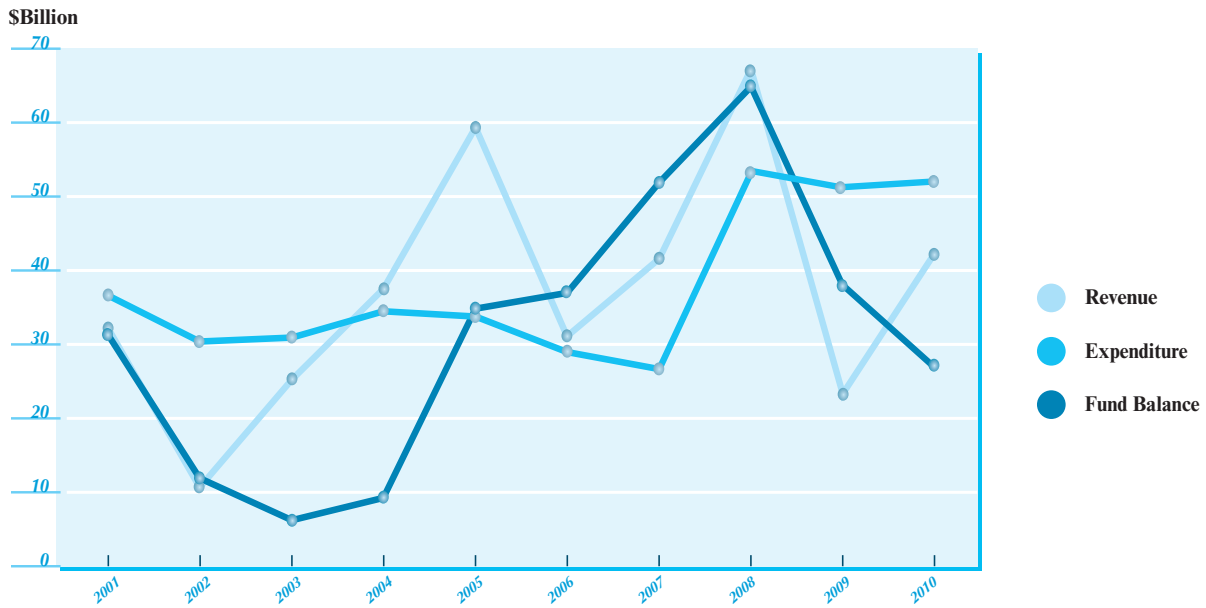
10. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Reduction/(Increase) in Assets:		
Investments with the Exchange Fund	9,705,016	27,683,310
Deposits with banks	(2)	(3)
Advances	8,020	9,180
	9,713,034	27,692,487
Reduction in Liabilities:		
Deposits	(8,253)	(133,042)
	<u>9,704,781</u>	<u>27,559,445</u>

Capital Works Reserve Fund

Revenue, Expenditure and Fund Balance for the years ended 31 March 2001 to 2010



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Investment Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Capital Investment Fund set out on pages 33 to 38, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Capital Investment Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments	3		
Equity Holdings		118,576,687	114,067,171
Other Investments		398,434,531	395,596,027
		517,011,218	509,663,198
Loans	4	3,951,458	7,056,961
		520,962,676	516,720,159
Current Assets			
Investments with the Exchange Fund	5	1,736,404	504,259
Cash and bank balances		1	1
		1,736,405	504,260
		522,699,081	517,224,419
Representing:			
Total Fund Balance			
Applied Fund	6	520,962,676	516,720,159
Available Fund	7		
Balance at 1 April 2009		504,260	562,307
Surplus/(Deficit) for the year		1,232,145	(58,047)
Balance at 31 March 2010		1,736,405	504,260
	8	522,699,081	517,224,419

Notes 1 to 11 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		1	2
Revenue	9	1,232,145	1,917,224
Expenditure	10	-	(1,975,271)
Surplus/(Deficit) for the year		1,232,145	(58,047)
Other cash movements	11	(1,232,145)	58,046
Cash and bank balances at 31 March 2010		1	1

Notes 1 to 11 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Capital Investment Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Capital Investment Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions.
- (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)

	2010			2009		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at 1 April 2009	114,067,171	395,596,027	509,663,198	112,964,815	390,370,946	503,335,761
Additions:						
Non-cash acquisitions	4,509,516	2,838,504	7,348,020	1,133,856	5,225,081	6,358,937
Deductions:						
Disposal	-	-	-	(31,500)	-	(31,500)
Balance at 31 March 2010	118,576,687	398,434,531	517,011,218	114,067,171	395,596,027	509,663,198

Capital Investment Fund

4. Loans Outstanding

	2010 \$'000	2009 \$'000
Balance at 1 April 2009	7,056,961	7,090,880
Additions:		
Loan payments	-	175,271
Capitalised interest	249,206	433,042
	249,206	608,313
Deductions:		
Loan repayments	(16,815)	(642,232)
Loan conversion to equity	(3,337,894)	-
	(3,354,709)	(642,232)
Balance at 31 March 2010	3,951,458	7,056,961

5. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 7 of the Resolution:

	2010 \$'000	2009 \$'000
Investments (see (ii) and (iii) below)	1,736,403	504,258
Deposits	1	1
	<u>1,736,404</u>	<u>504,259</u>

(ii) The investments represent the cost of investments together with interest of \$55 million received in the year ended 31 March 2010.

(iii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

6. Applied Fund

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

7. Available Fund

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

8. Contingent Liabilities

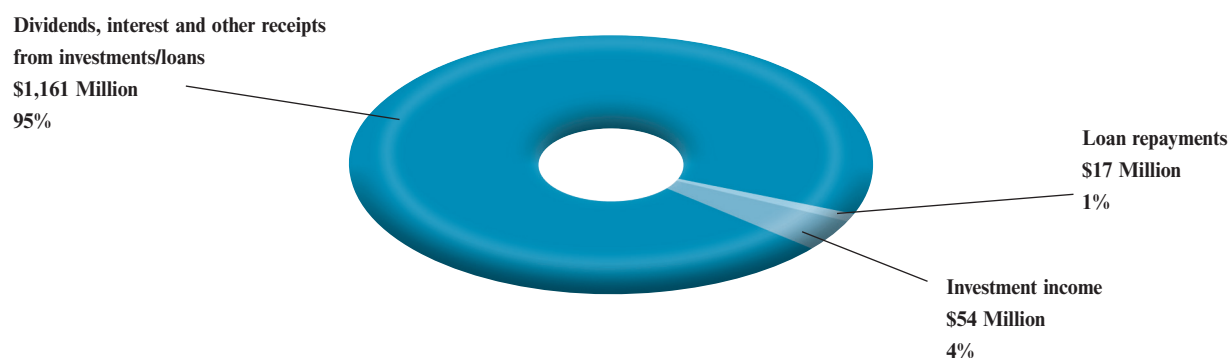
As at 31 March 2010, the amount of possible capital subscriptions to the Asian Development Bank was \$2,114 million.

Capital Investment Fund

9. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	825,315	1,160,794	1,177,096
Loan repayments	47,134	16,815	642,232
Investment income	56,000	54,536	85,674
Proceeds from sale of equity holdings	-	-	12,222
	<u>928,449</u>	<u>1,232,145</u>	<u>1,917,224</u>

Analysis of Revenue for the year ended 31 March 2010



Total Revenue
\$1,232 Million

10. Expenditure

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments	380,503	-	175,271
Transfer to General Revenue	600,000	-	1,800,000
	<u>980,503</u>	<u>-</u>	<u>1,975,271</u>

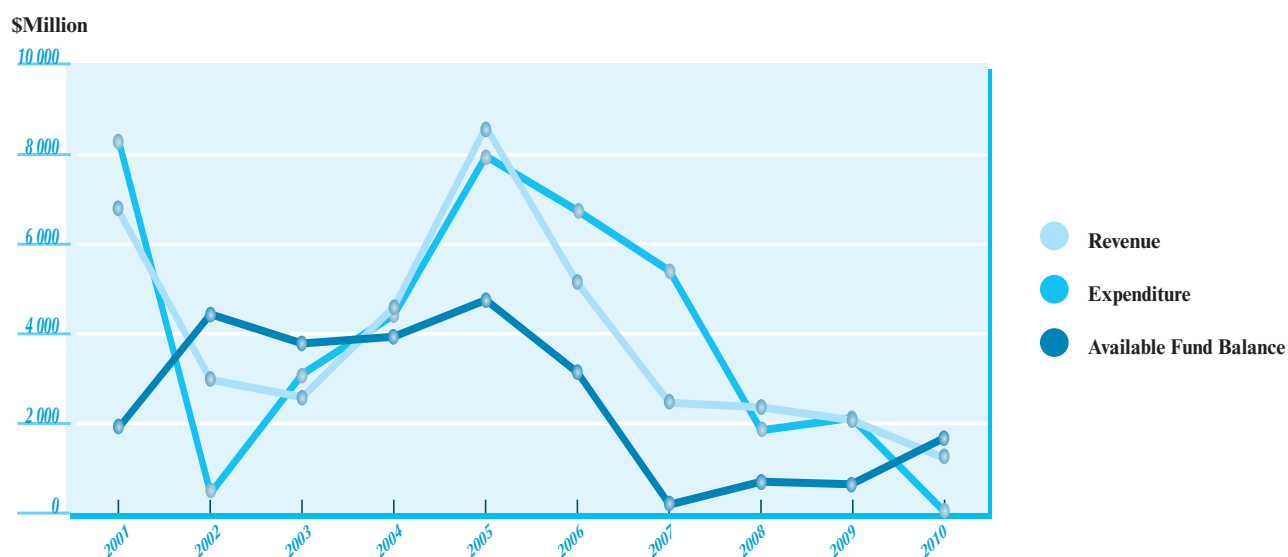
Capital Investment Fund

11. Other Cash Movements

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

	2010 \$'000	2009 \$'000
(Increase)/Reduction in Assets:		
Investments with the Exchange Fund	<u>(1,232,145)</u>	<u>58,046</u>

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2001 to 2010



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Loan Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Loan Fund set out on pages 41 to 47, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Loan Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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

Loan Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Loans Outstanding	3		
Housing Loans		3,185,309	3,184,514
Education Loans		11,801,729	11,407,911
Other Loans		3,609,766	3,722,452
		18,596,804	18,314,877
Net Current Assets			
Current Assets			
Investments with the Exchange Fund	4	1,654,708	1,526,132
Cash and bank balances		23,444	26,091
		1,678,152	1,552,223
Current Liabilities			
Deposits	5	(6,406)	(6,391)
		1,671,746	1,545,832
		20,268,550	19,860,709
Representing:			
Total Fund Balance			
Applied Fund	6	18,596,804	18,314,877
Available Fund	7		
Balance at 1 April 2009		1,545,832	1,684,591
Surplus/(Deficit) for the year		125,914	(138,759)
Balance at 31 March 2010		1,671,746	1,545,832
	8	20,268,550	19,860,709

Notes 1 to 11 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Loan Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		26,091	38,695
Revenue	9	2,275,648	2,101,121
Expenditure	10	(2,149,734)	(2,239,880)
Surplus/(Deficit) for the year		125,914	(138,759)
Other cash movements	11	(128,561)	126,155
Cash and bank balances at 31 March 2010		23,444	26,091

Notes 1 to 11 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Loan Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Loan Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions.
- (ii) The Statement of Assets and Liabilities is structured to show the overall financial position of the Fund including the total outstanding loans.
- (iii) For the purposes of these financial statements, a contingent liability is defined as:
 - (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
 - (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

3. Loans Outstanding

	2010			2009		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at 1 April 2009	3,184,514	11,407,911	3,722,452	3,214,559	10,677,657	3,850,095
Additions:						
Loan payments	222,995	1,835,986	90,744	103,685	2,051,133	85,033
Capitalised interest	(26)	-	75,069	875	-	69,310
	222,969	1,835,986	165,813	104,560	2,051,133	154,343
Deductions:						
Loan repayments	(50,171)	(1,439,745)	(261,933)	(62,231)	(1,320,129)	(264,122)
Loans written off	(452)	(2,423)	(16,566)	(4,304)	(750)	(17,864)
Proceeds from sale of loans	(171,551)	-	-	(68,070)	-	-
	(222,174)	(1,442,168)	(278,499)	(134,605)	(1,320,879)	(281,986)
Balance at 31 March 2010	3,185,309	11,801,729	3,609,766	3,184,514	11,407,911	3,722,452

Loan Fund

4. Investments with the Exchange Fund

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

	2010	2009
	\$'000	\$'000
Investments (see (ii) and (iii) below)	1,654,471	1,512,880
Deposits	237	13,252
	<u>1,654,708</u>	<u>1,526,132</u>

- (ii) The investments represent the cost of investments together with interest of \$120 million received in the year ended 31 March 2010.
- (iii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

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 to revenue:

	2010	2009
	\$'000	\$'000
Students	6,324	6,289
Others	82	102
	<u>6,406</u>	<u>6,391</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. Contingent Liabilities

There are contingent liabilities as listed below, with the maximum amount of each liability as at 31 March 2010 indicated in brackets:

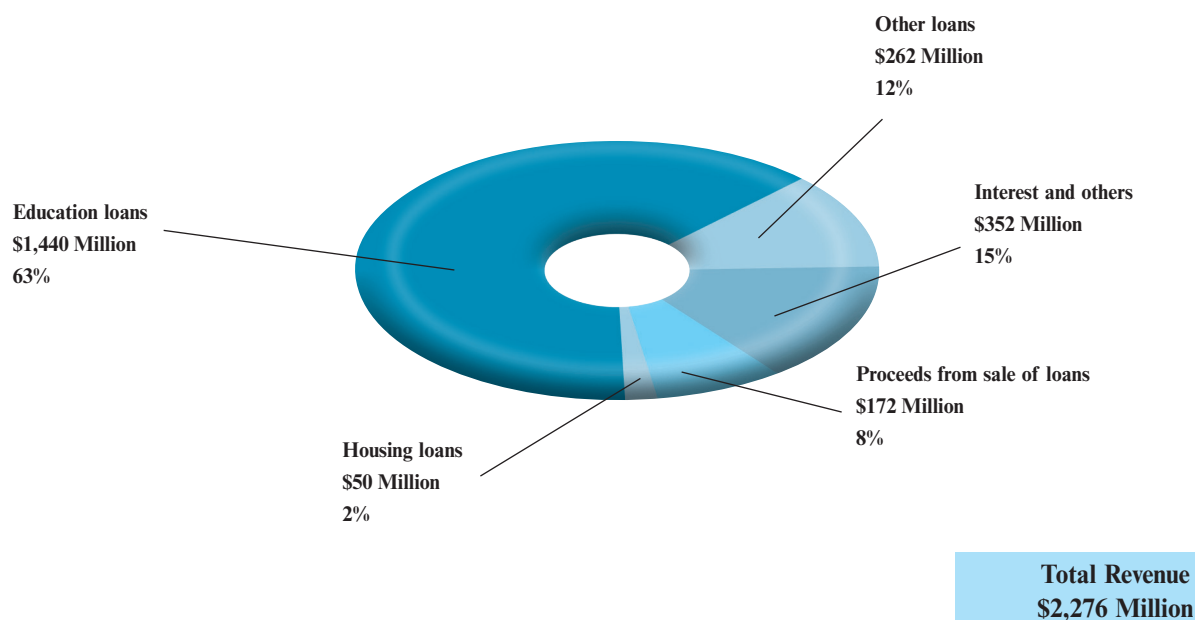
- (i) Guarantee provided for commercial loan of the Ocean Park Corporation (\$1,388 million); and
- (ii) Guarantee provided under a special finance scheme for small and medium enterprises (\$18 million).

Loan Fund

9. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments:			
Housing loans	50,636	50,171	62,231
Education loans	1,532,615	1,439,745	1,320,129
Other loans	269,390	261,933	264,122
	1,852,641	1,751,849	1,646,482
Interest on loans	276,242	230,148	247,399
Investment income	86,000	119,730	136,910
Surcharges on overdue loan repayments	2,200	2,296	2,250
Proceeds from sale of loans	85,000	171,551	68,070
Repayments waived now recovered	-	71	-
Others	-	3	10
Appropriation from General Revenue	400,000	-	-
	<u>2,702,083</u>	<u>2,275,648</u>	<u>2,101,121</u>

Analysis of Revenue for the year ended 31 March 2010

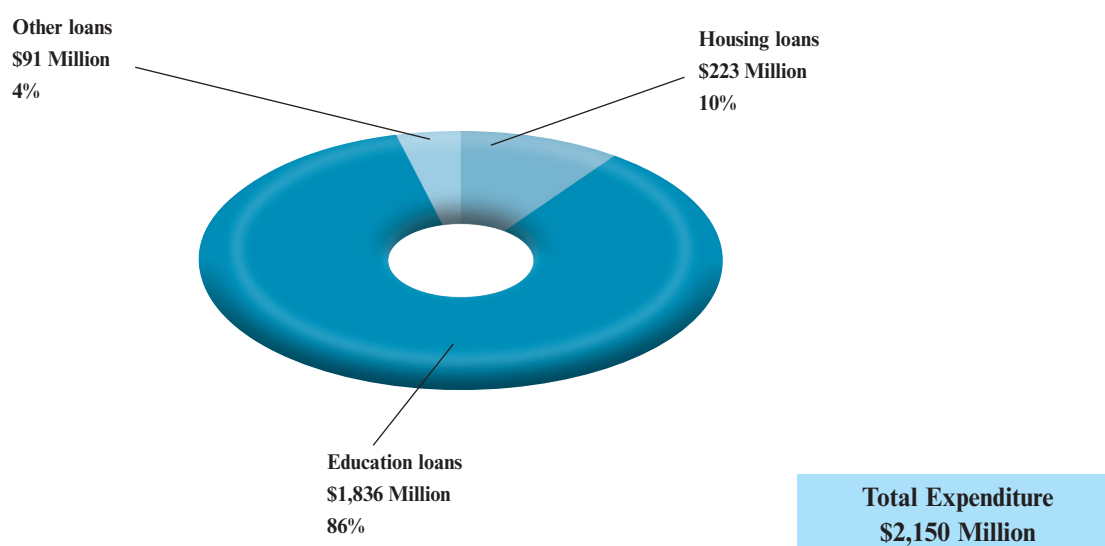


Loan Fund

10. Expenditure

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments:			
Housing loans	98,600	222,995	103,685
Education loans	2,372,281	1,835,986	2,051,133
Other loans	121,887	90,744	85,033
	2,592,768	2,149,725	2,239,851
Others	-	9	29
	2,592,768	2,149,734	2,239,880

Analysis of Expenditure for the year ended 31 March 2010



Loan Fund

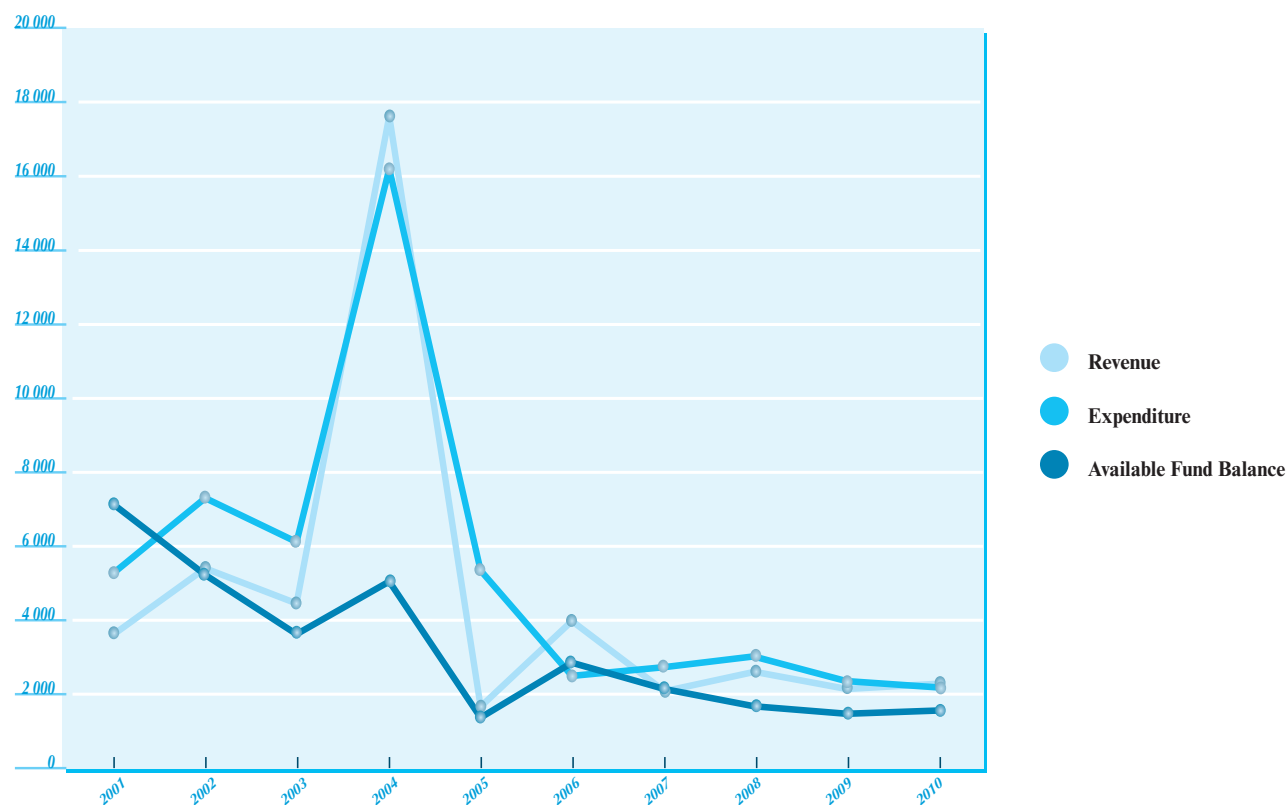
11. Other Cash Movements

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

	2010 \$'000	2009 \$'000
(Increase)/Reduction in Assets:		
Investments with the Exchange Fund	(128,576)	123,896
Increase in Liabilities:		
Deposits	15	2,259
	<u>(128,561)</u>	<u>126,155</u>

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2001 to 2010

\$Million



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Civil Service Pension Reserve Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Civil Service Pension Reserve Fund set out on pages 51 to 53, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Civil Service Pension Reserve Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	21,630,774	20,253,534
Representing:			
Fund Balance			
Balance at 1 April 2009		20,253,534	18,508,928
Surplus for the year		1,377,240	1,744,606
Balance at 31 March 2010		21,630,774	20,253,534

Notes 1 to 5 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Civil Service Pension Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		-	-
Revenue	4	1,377,240	1,744,606
Expenditure		-	-
Surplus for the year		1,377,240	1,744,606
Other cash movements	5	(1,377,240)	(1,744,606)
Cash and bank balances at 31 March 2010		-	-

Notes 1 to 5 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Civil Service Pension Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (f) of the Resolution. They represent the cost of investments together with interest of \$1.38 billion received in the year ended 31 March 2010.
- (ii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income	1,377,000	1,377,240	1,744,606

5. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Increase in Assets:		
Investments with the Exchange Fund	1,377,240	1,744,606

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Disaster Relief Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Disaster Relief Fund set out on pages 57 to 61, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Disaster Relief Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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

Disaster Relief Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	<u>8,014</u>	<u>36,455</u>
Representing:			
Fund Balance			
Balance at 1 April 2009		36,455	28,034
(Deficit)/Surplus for the year		<u>(28,441)</u>	<u>8,421</u>
Balance at 31 March 2010		<u>8,014</u>	<u>36,455</u>

Notes 1 to 6 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Disaster Relief Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		-	-
Revenue	4	70,469	354,967
Expenditure	5	(98,910)	(346,546)
(Deficit)/Surplus for the year		(28,441)	8,421
Other cash movements	6	28,441	(8,421)
Cash and bank balances at 31 March 2010		-	-

Notes 1 to 6 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Disaster Relief Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policy

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

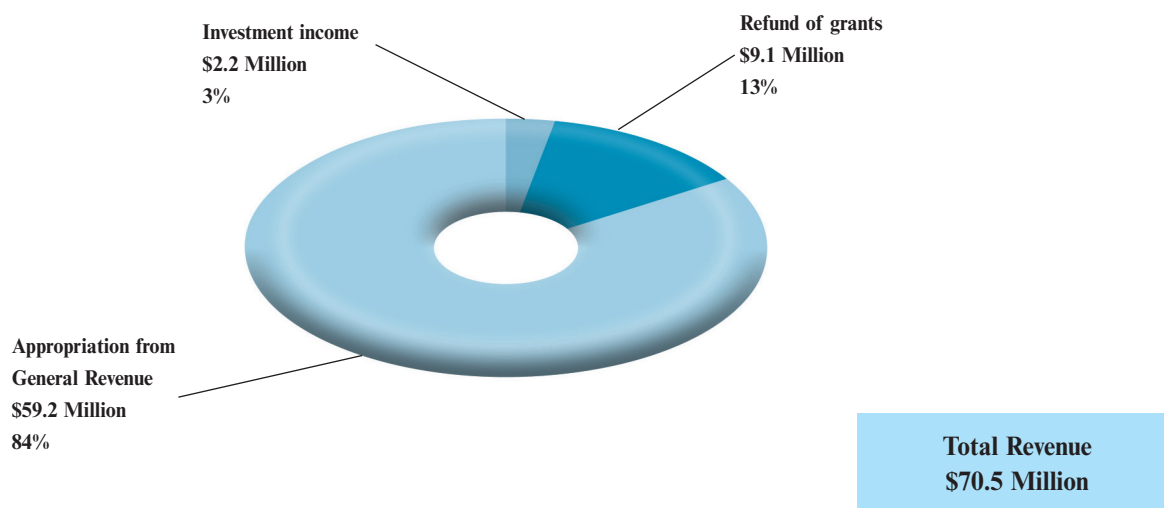
3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (i) of the Resolution. They represent the cost of investments together with interest of \$2.2 million received in the year ended 31 March 2010.
- (ii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income	3,000	2,199	3,405
Appropriation from General Revenue	9,200	59,200	350,000
Refund of grants	46	9,070	1,562
	<u>12,246</u>	<u>70,469</u>	<u>354,967</u>

Analysis of Revenue for the year ended 31 March 2010



Disaster Relief Fund

5. Expenditure

	2010 Actual \$'000	2009 Actual \$'000
Relief programmes for:		
typhoon victims in Taiwan	55,000	-
typhoon victims in the Philippines	10,120	-
earthquake victims in Haiti	8,000	-
flood victims in the Mainland	7,090	-
earthquake victims in Indonesia	5,410	-
cyclone victims in India	2,800	-
cyclone victims in Bangladesh	2,500	-
snowstorm victims in the Mainland	2,500	1,276
earthquake victims in the Mainland	2,090	333,447
earthquake victims in Chile	2,000	-
drought victims in the Mainland	1,400	-
cyclone victims in Myanmar	-	5,560
flood victims in India	-	3,563
victims of food crisis in Kenya	-	2,700
	98,910	346,546

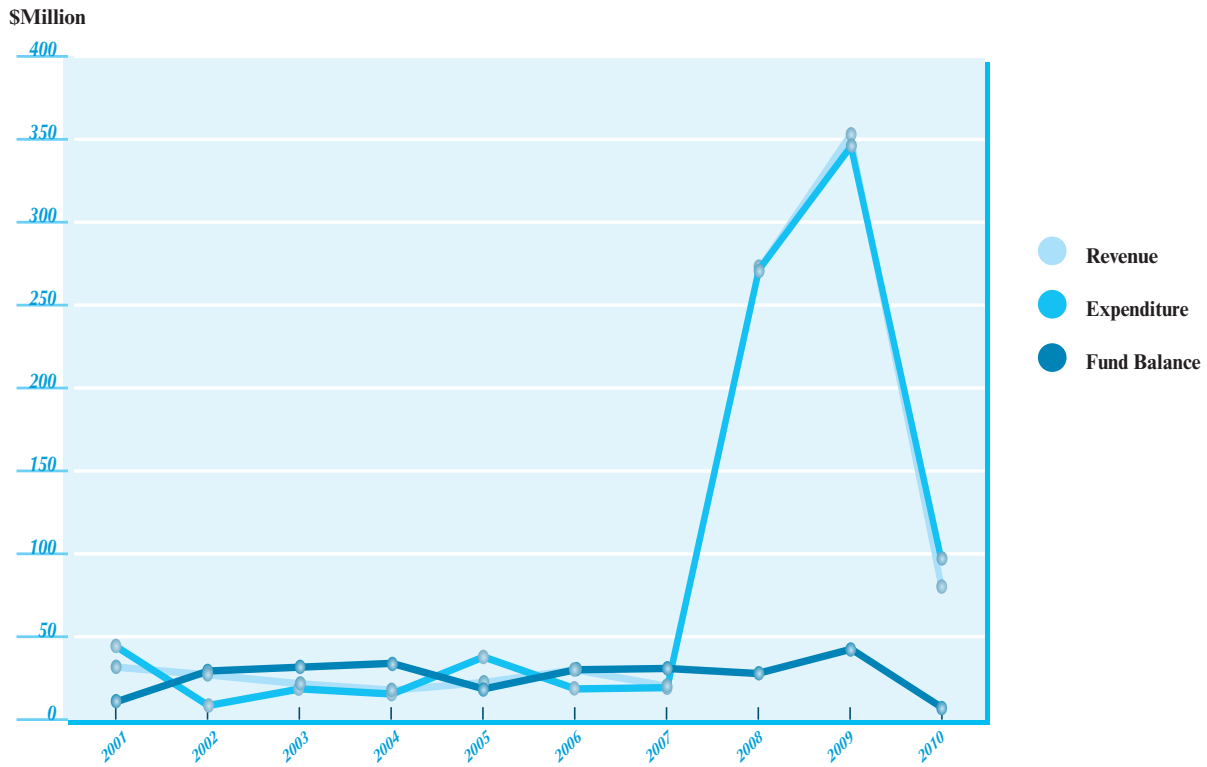
6. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Reduction/(Increase) in Assets:		
Investments with the Exchange Fund	28,441	(8,421)

Disaster Relief Fund

Revenue, Expenditure and Fund Balance for the years ended 31 March 2001 to 2010



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Land Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Land Fund set out on pages 65 to 67, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Land Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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

Land Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	<u>175,846,303</u>	<u>164,650,096</u>
Representing:			
Fund Balance			
Balance at 1 April 2009		164,650,096	150,467,409
Surplus for the year		<u>11,196,207</u>	<u>14,182,687</u>
Balance at 31 March 2010		<u>175,846,303</u>	<u>164,650,096</u>

Notes 1 to 5 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Land Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		-	-
Revenue	4	11,196,207	14,182,687
Expenditure		-	-
Surplus for the year		11,196,207	14,182,687
Other cash movements	5	(11,196,207)	(14,182,687)
Cash and bank balances at 31 March 2010		-	-

Notes 1 to 5 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Land Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Land Fund was set up with effect from 1 July 1997 by a Resolution (hereinafter referred to as the Resolution) passed by the then Provisional Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) in July 1997. The Hong Kong Monetary Authority has been directed by the Financial Secretary to manage the investment of the Fund's assets. From 1 July 1997 to 31 October 1998, the assets of the Fund were managed as a separate portfolio. With effect from 1 November 1998, the assets of the Fund have been merged into the Exchange Fund and invested in the same way as the other fiscal reserves placed with the Exchange Fund.

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. They represent the cost of investments together with interest of \$11.2 billion received in the year ended 31 March 2010.
- (ii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income	11,196,000	11,196,207	14,182,687

5. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Increase in Assets:		
Investments with the Exchange Fund	11,196,207	14,182,687

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Innovation and Technology Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Innovation and Technology Fund set out on pages 71 to 74, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Innovation and Technology Fund as at 31 March 2010 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	3,749,017	4,147,359
Cash and bank balances		-	1
		<u>3,749,017</u>	<u>4,147,360</u>
Representing:			
Fund Balance			
Balance at 1 April 2009		4,147,360	4,317,444
Deficit for the year		(398,343)	(170,084)
Balance at 31 March 2010	4	<u>3,749,017</u>	<u>4,147,360</u>

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Innovation and Technology Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		1	1
Revenue	5	323,259	416,781
Expenditure	6	(721,602)	(586,865)
Deficit for the year		(398,343)	(170,084)
Other cash movements	7	398,342	170,084
Cash and bank balances at 31 March 2010		-	1

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Innovation and Technology Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policy

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

3. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 6 of the Resolution:

	2010	2009
	\$'000	\$'000
Investments (see (ii) and (iii) below)	3,749,016	4,147,358
Deposits	1	1
	3,749,017	4,147,359

(ii) The investments represent the cost of investments together with interest of \$272 million received in the year ended 31 March 2010.

(iii) Effective from 1 April 2007, the return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Commitments

The approved grants that were unpaid as at 31 March 2010 amounted to \$994 million.

5. Revenue

	2010	2009
	Original Estimate \$'000	Actual \$'000
Investment income	251,000	398,529
Net income from projects	6	12
Refund of grants	-	18,240
	251,006	416,781

Innovation and Technology Fund

6. Expenditure

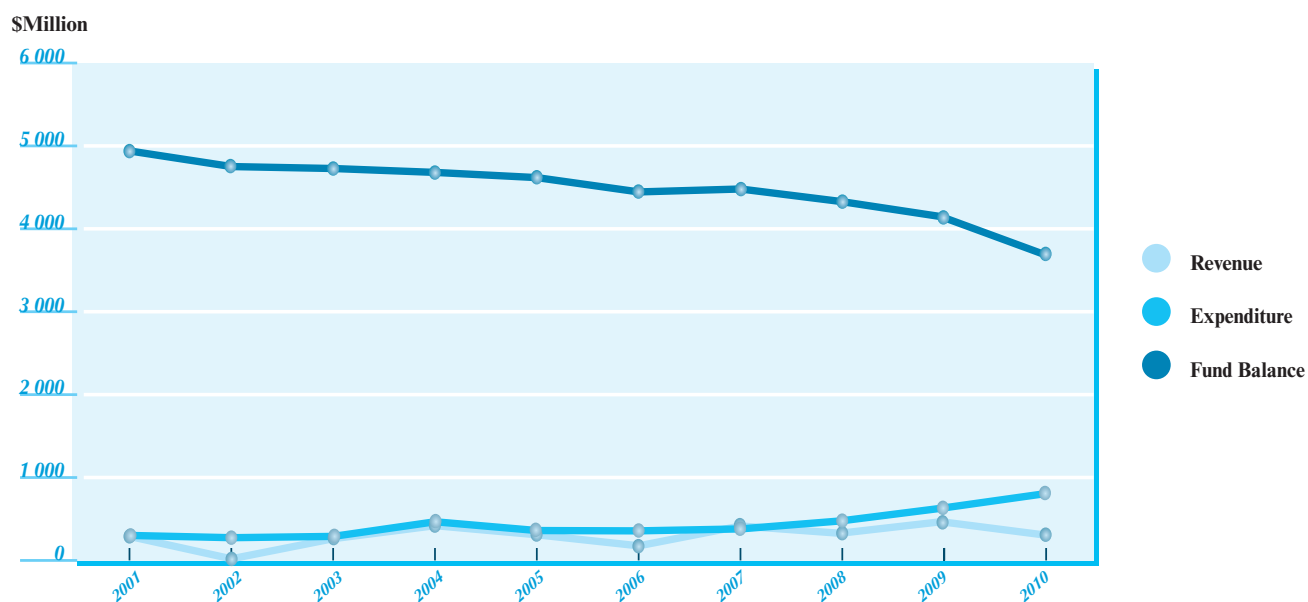
	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	1,277,861	721,602	586,865

7. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Reduction in Assets:		
Investments with the Exchange Fund	398,342	170,084

Revenue, Expenditure and Fund Balance for the years ended 31 March 2001 to 2010



Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Bond Fund

Independent Audit Report

To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Bond Fund set out on pages 77 to 80, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the period from 10 July 2009 (date of establishment) to 31 March 2010, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Bond Fund as at 31 March 2010 and the receipts and payments for the period from 10 July 2009 (date of establishment) to 31 March 2010 in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000
Assets		
Investments with the Exchange Fund	3	11,582,423
Representing:		
Fund Balance		
Balance at 10 July 2009		-
Surplus for the period		11,582,423
Balance at 31 March 2010	4	11,582,423

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD FROM 10 JULY 2009 (DATE OF ESTABLISHMENT OF THE FUND) TO 31 MARCH 2010

	Note	2010 \$'000
Cash and bank balances at 10 July 2009		-
Revenue	5	11,599,422
Expenditure	6	(16,999)
Surplus for the period		11,582,423
Other cash movements	7	(11,582,423)
Cash and bank balances at 31 March 2010		-

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

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

2. Accounting Policy

The accounts of the Bond Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions. 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 4 below.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution. They represent the cost of investments together with interest of \$101 million received in the period from 10 July 2009 to 31 March 2010.
- (ii) The return on the investments is calculated 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 for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Liabilities

The following outstanding liabilities in respect of sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities:

	2010 \$'000
Outstanding government bonds	<u><u>11,500,000</u></u>

Following a resolution passed under section 3(1) of the Loans Ordinance in July 2009, the Government issued bonds of \$11,500 million to institutional investors during the period from 10 July 2009 to 31 March 2010. Interest payments of \$16 million were made in the same period. These bonds will mature within the period from September 2011 to January 2020.

5. Revenue

	2010	
	Original Estimate \$'000	Actual \$'000
Proceeds from issuance of bonds	-	11,498,598
Investment income	-	100,824
	<u>-</u>	<u><u>11,599,422</u></u>

Bond Fund

6. Expenditure

	2010	
	Original Estimate \$'000	Actual \$'000
Interest payment for bonds	-	15,968
Others	-	1,031
	-	16,999

7. Other Cash Movements

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

	2010 \$'000
Increase in Assets:	
Investments with the Exchange Fund	11,582,423



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