



**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 2017**

**October 2017**

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 2017





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31 October 2017

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 2017, 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 2017

	<b>Page</b>
<b>General Revenue Account</b>	
— Report of the Director of Audit	7
— Statement of Assets and Liabilities as at 31 March 2017	10
— Statement of Receipts and Payments for the year ended 31 March 2017	11
<b>Capital Works Reserve Fund</b>	
— Report of the Director of Audit	23
— Statement of Assets and Liabilities as at 31 March 2017	26
— Statement of Receipts and Payments for the year ended 31 March 2017	27
<b>Capital Investment Fund</b>	
— Report of the Director of Audit	37
— Statement of Assets and Liabilities as at 31 March 2017	40
— Statement of Receipts and Payments for the year ended 31 March 2017	41
<b>Civil Service Pension Reserve Fund</b>	
— Report of the Director of Audit	49
— Statement of Assets and Liabilities as at 31 March 2017	52
— Statement of Receipts and Payments for the year ended 31 March 2017	53
<b>Disaster Relief Fund</b>	
— Report of the Director of Audit	57
— Statement of Assets and Liabilities as at 31 March 2017	60
— Statement of Receipts and Payments for the year ended 31 March 2017	61

**Innovation and Technology Fund**

— Report of the Director of Audit	67
— Statement of Assets and Liabilities as at 31 March 2017	70
— Statement of Receipts and Payments for the year ended 31 March 2017	71

**Land Fund**

— Report of the Director of Audit	77
— Statement of Assets and Liabilities as at 31 March 2017	80
— Statement of Receipts and Payments for the year ended 31 March 2017	81

**Loan Fund**

— Report of the Director of Audit	85
— Statement of Assets and Liabilities as at 31 March 2017	88
— Statement of Receipts and Payments for the year ended 31 March 2017	89

**Bond Fund**

— Report of the Director of Audit	97
— Statement of Assets and Liabilities as at 31 March 2017	100
— Statement of Receipts and Payments for the year ended 31 March 2017	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 2017, 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 2017 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

27 October 2017

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

# General Revenue Account

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	572,380,941	516,992,357
Deposits with banks	4	542,313	1,258,984
Cash and bank balances	5	4,341,392	3,279,897
Advances	6	2,996,632	3,041,990
		<b>580,261,278</b>	524,573,228
<b>Liabilities</b>			
Deposits	7	(16,816,005)	(16,032,856)
Suspense Accounts	8	(50,405)	(54,216)
		<b>(16,866,410)</b>	(16,087,072)
		<b>563,394,868</b>	508,486,156
<b>Representing:</b>			
<b>General Revenue Balance</b>			
Balance at beginning of year		508,486,156	478,855,628
Surplus for the year		54,908,712	29,630,528
Balance at end of year	9, 10	<b>563,394,868</b>	508,486,156

Notes 1 to 13 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# General Revenue Account

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		<b>3,279,897</b>	3,106,602
Revenue	11	<b>436,026,493</b>	384,020,956
Expenditure	12	<b>(381,117,781)</b>	(354,390,428)
<b>Surplus for the year</b>		<b>54,908,712</b>	29,630,528
<b>Other cash movements</b>	13	<b>(53,847,217)</b>	(29,457,233)
<b>Cash and bank balances at end of year</b>		<b>4,341,392</b>	3,279,897

Notes 1 to 13 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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:

	2017 \$'000	2016 \$'000
Investments (Notes (ii) to (iv) below)	572,368,301	516,978,886
Deposits	12,640	13,471
	<u>572,380,941</u>	<u>516,992,357</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, \$4.8 billion of the General Revenue Account placement with the Exchange Fund is held as the Future Fund placement as top-up to the Future Fund. The Future Fund was established on 1 January 2016 as a notional savings account within the fiscal reserves and 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 income on the Future Fund placement is determined annually based on a composite rate (4.5% for the calendar year 2016) 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 income (\$0.08 billion up to 31 December 2016 in respect of General Revenue Account portion of \$4.8 billion) 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.
- (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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). 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:

	2017 \$'000	2016 \$'000
Hong Kong dollar	91,784	93,236
Foreign currency	450,529	1,165,748
	<u>542,313</u>	<u>1,258,984</u>

## 5. Cash and Bank Balances

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

# General Revenue Account

## 6. Advances

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

	2017 \$'000	2016 \$'000
Expenditure on Vietnamese migrants (Note (i) below)	1,161,991	1,161,991
Advances to Government officers	1,074,846	1,050,923
Payments on behalf of non-departmental public bodies, trading funds and non-statutory corporations wholly-owned by Government	412,483	400,314
Others	347,312	428,762
	<u>2,996,632</u>	<u>3,041,990</u>

- (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 2016-17, 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:

	2017 \$'000	2016 \$'000
Tax reserve certificates	9,121,127	8,515,928
Water deposits	1,789,674	1,741,895
Tenancy deposits	1,746,603	1,741,352
Legal aid deposits	872,882	844,047
Tax overpayments	737,410	703,166
Private works	382,667	307,030
Others	2,165,642	2,179,438
	<u>16,816,005</u>	<u>16,032,856</u>

# 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:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Correctional Services Industries (Note (i) below)	<b>31,470</b>	29,441
Government Logistics Department — Unallocated Stores (Note (i) below)	<b>7,755</b>	7,628
The Special Coin (Note (ii) below)	<b>(89,879)</b>	(91,372)
The Financial Secretary Incorporated (Note (iii) below)	<b>249</b>	87
	<b>(50,405)</b>	(54,216)

- (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 2017, 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 \$36,799 million (2016: \$33,453 million);
- (ii) legal claims, disputes and proceedings amounting to \$26,474 million (2016: \$8,147 million);
- (iii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$20,811 million (2016: \$24,079 million);
- (iv) guarantees provided under the SME Loan Guarantee Scheme amounting to \$4,544 million (2016: \$5,253 million); and
- (v) guarantees provided under the Special Loan Guarantee Scheme amounting to \$899 million (2016: \$3,504 million).

## 10. Commitments

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

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Non-recurrent expenditure	<b>29,013,864</b>	27,856,507
Plant, vehicles and equipment	<b>7,232,944</b>	5,767,644
Capital works	<b>117,248</b>	126,667
Capital subventions	<b>1,788,195</b>	1,246,294
	<b>38,152,251</b>	34,997,112



# General Revenue Account

## 11. Revenue

Analysis of total revenue by Head:

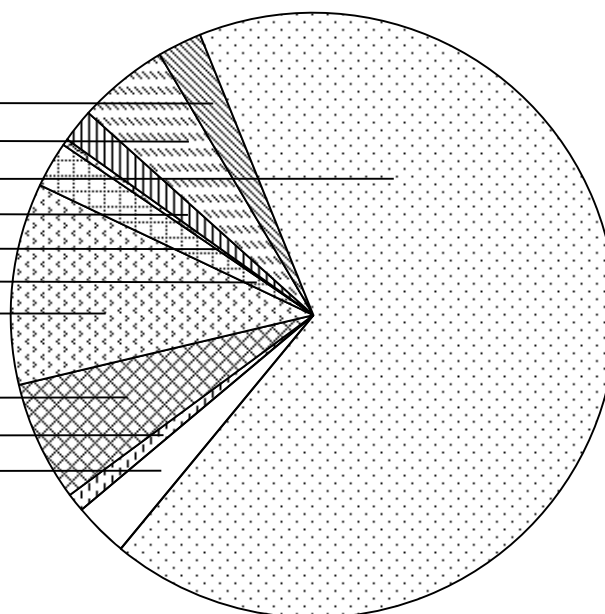
Head	2017				2016
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
1 Duties	10,938,819	<b>10,254,359</b>	(684,460)	(6.3)	10,711,592
2 General Rates	19,824,000	<b>21,250,102</b>	1,426,102	7.2	22,733,427
3 Internal Revenue					
Profits tax	138,080,000	<b>139,238,084</b>	1,158,084	0.8	140,226,643
Salaries tax	60,540,000	<b>59,077,484</b>	(1,462,516)	(2.4)	57,867,772
Stamp duties	50,000,000	<b>61,898,965</b>	11,898,965	23.8	62,680,307
Other internal revenue	30,572,752	<b>32,327,417</b>	1,754,665	5.7	30,461,525
	279,192,752	<b>292,541,950</b>	13,349,198	4.8	291,236,247
4 Motor Vehicle Taxes	9,864,577	<b>7,813,679</b>	(2,050,898)	(20.8)	9,311,023
5 Fines, Forfeitures and Penalties	1,229,125	<b>1,496,411</b>	267,286	21.7	1,408,967
6 Royalties and Concessions	10,670,684	<b>10,686,400</b>	15,716	0.1	2,954,947
7 Properties and Investments					
Income from Investments with the Exchange Fund (Note (i) below)	-	<b>16,629,501</b>	-	-	-
Others	-	<b>30,334,667</b>	-	-	20,014,709
	45,914,727	<b>46,964,168</b>	1,049,441	2.3	20,014,709
9 Loans, Reimbursements, Contributions and Other Receipts	27,637,877	<b>28,044,154</b>	406,277	1.5	6,491,391
10 Utilities	4,121,446	<b>4,256,150</b>	134,704	3.3	4,009,293
11 Fees and Charges	12,618,917	<b>12,719,120</b>	100,203	0.8	15,149,360
Total	422,012,924	<b>436,026,493</b>	14,013,569	3.3	384,020,956

- (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. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$1.38 billion (2015: \$0.82 billion), the sums set aside from the General Revenue Account and earmarked as Housing Reserve totalled \$43.19 billion (2015: \$41.81 billion).

# General Revenue Account

## Analysis of Revenue for the year ended 31 March 2017

Duties	\$10.3 Billion	2%
General Rates	\$21.2 Billion	5%
Internal Revenue	\$292.5 Billion	67%
Motor Vehicle Taxes	\$7.8 Billion	2%
Fines, Forfeitures and Penalties	\$1.5 Billion	1%
Royalties and Concessions	\$10.7 Billion	2%
Properties and Investments	\$47.0 Billion	11%
Loans, Reimbursements, Contributions and Other Receipts (Including Transfers from Funds)	\$28.0 Billion	6%
Utilities	\$4.3 Billion	1%
Fees and Charges	\$12.7 Billion	3%



**Total Revenue  
\$436.0 Billion**

## 12. Expenditure

Analysis of total expenditure by Head:

Head	2017				2016
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
21 Chief Executive's Office	110,502	<b>110,498</b>	(4)	-	106,245
22 Agriculture, Fisheries and Conservation Department	1,318,098	<b>1,250,175</b>	(67,923)	(5.2)	1,164,528
25 Architectural Services Department	1,975,984	<b>2,032,677</b>	56,693	2.9	1,944,607
24 Audit Commission	161,137	<b>164,357</b>	3,220	2.0	158,413
23 Auxiliary Medical Service	99,060	<b>96,385</b>	(2,675)	(2.7)	84,761
82 Buildings Department	1,308,654	<b>1,359,915</b>	51,261	3.9	1,251,817
26 Census and Statistics Department	768,519	<b>777,868</b>	9,349	1.2	668,960
27 Civil Aid Service	106,387	<b>106,138</b>	(249)	(0.2)	99,390
28 Civil Aviation Department	945,666	<b>950,005</b>	4,339	0.5	909,849
33 Civil Engineering and Development Department	2,607,215	<b>2,636,662</b>	29,447	1.1	2,273,572
30 Correctional Services Department	3,655,769	<b>3,775,767</b>	119,998	3.3	3,623,644
31 Customs and Excise Department	3,432,065	<b>3,497,997</b>	65,932	1.9	3,292,382
37 Department of Health	7,790,054	<b>7,304,813</b>	(485,241)	(6.2)	6,619,063
92 Department of Justice	2,240,887	<b>1,531,123</b>	(709,764)	(31.7)	1,509,258
39 Drainage Services Department	2,570,653	<b>2,594,150</b>	23,497	0.9	2,393,374

# General Revenue Account

## 12. Expenditure (Continued)

Head	2017				2016
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
42 Electrical and Mechanical Services Department	489,448	<b>477,032</b>	(12,416)	(2.5)	450,554
44 Environmental Protection Department	5,487,145	<b>4,956,727</b>	(530,418)	(9.7)	5,565,097
45 Fire Services Department	5,597,598	<b>5,563,723</b>	(33,875)	(0.6)	5,464,973
49 Food and Environmental Hygiene Department	6,401,904	<b>6,511,923</b>	110,019	1.7	6,036,130
46 General Expenses of the Civil Service	3,507,673	<b>3,261,294</b>	(246,379)	(7.0)	3,104,023
166 Government Flying Service	577,612	<b>536,119</b>	(41,493)	(7.2)	1,023,012
48 Government Laboratory	464,970	<b>473,487</b>	8,517	1.8	451,624
59 Government Logistics Department	602,467	<b>602,465</b>	(2)	-	549,695
51 Government Property Agency	1,942,685	<b>1,936,934</b>	(5,751)	(0.3)	1,901,407
143 Government Secretariat: Civil Service Bureau	578,897	<b>569,040</b>	(9,857)	(1.7)	544,261
152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)	2,081,992	<b>1,884,689</b>	(197,303)	(9.5)	2,173,288
55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch)	414,369	<b>367,022</b>	(47,347)	(11.4)	282,943
144 Government Secretariat: Constitutional and Mainland Affairs Bureau	607,974	<b>608,814</b>	840	0.1	584,572
138 Government Secretariat: Development Bureau (Planning and Lands Branch)	318,303	<b>307,301</b>	(11,002)	(3.5)	305,491
159 Government Secretariat: Development Bureau (Works Branch)	416,940	<b>408,782</b>	(8,158)	(2.0)	437,867
156 Government Secretariat: Education Bureau	53,184,149	<b>54,815,376</b>	1,631,227	3.1	52,286,462
137 Government Secretariat: Environment Bureau	77,841	<b>77,626</b>	(215)	(0.3)	76,808
148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)	765,513	<b>764,942</b>	(571)	(0.1)	241,082

# General Revenue Account

## 12. Expenditure (Continued)

Head	2017				2016
	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)	373,588	<b>342,091</b>	(31,497)	(8.4)	425,891
139 Government Secretariat: Food and Health Bureau (Food Branch)	147,914	<b>131,095</b>	(16,819)	(11.4)	74,779
140 Government Secretariat: Food and Health Bureau (Health Branch)	52,238,020	<b>54,049,368</b>	1,811,348	3.5	62,053,414
53 Government Secretariat: Home Affairs Bureau	1,841,596	<b>1,808,372</b>	(33,224)	(1.8)	1,693,601
135 Government Secretariat: Innovation and Technology Bureau	43,379	<b>38,837</b>	(4,542)	(10.5)	10,959
155 Government Secretariat: Innovation and Technology Commission	588,346	<b>590,739</b>	2,393	0.4	617,752
141 Government Secretariat: Labour and Welfare Bureau	807,521	<b>782,636</b>	(24,885)	(3.1)	755,297
47 Government Secretariat: Office of the Government Chief Information Officer	743,371	<b>735,443</b>	(7,928)	(1.1)	719,330
142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary	957,957	<b>911,989</b>	(45,968)	(4.8)	846,702
96 Government Secretariat: Overseas Economic and Trade Offices	391,552	<b>337,878</b>	(53,674)	(13.7)	314,386
151 Government Secretariat: Security Bureau	480,555	<b>371,884</b>	(108,671)	(22.6)	335,475
158 Government Secretariat: Transport and Housing Bureau (Transport Branch)	278,824	<b>231,057</b>	(47,767)	(17.1)	206,169
60 Highways Department	2,915,194	<b>2,810,029</b>	(105,165)	(3.6)	2,647,348
63 Home Affairs Department	2,393,355	<b>2,425,682</b>	32,327	1.4	2,397,197
168 Hong Kong Observatory	292,276	<b>298,044</b>	5,768	2.0	281,467
122 Hong Kong Police Force	17,303,546	<b>17,855,006</b>	551,460	3.2	17,064,732
62 Housing Department	287,616	<b>287,593</b>	(23)	-	1,416,806
70 Immigration Department	4,268,122	<b>4,275,049</b>	6,927	0.2	4,027,151
72 Independent Commission Against Corruption	1,011,622	<b>1,044,691</b>	33,069	3.3	1,006,621
121 Independent Police Complaints Council	62,263	<b>64,215</b>	1,952	3.1	58,903

# General Revenue Account

## 12. Expenditure (Continued)

Head	2017				2016
	Original	Actual	Over/(Under)	Variance	Actual
	Estimate \$'000	\$'000	the Estimate \$'000	%	\$'000
74 Information Services Department	457,589	<b>466,367</b>	8,778	1.9	447,532
76 Inland Revenue Department	1,506,385	<b>1,503,710</b>	(2,675)	(0.2)	1,453,411
78 Intellectual Property Department	147,456	<b>145,793</b>	(1,663)	(1.1)	137,649
79 Invest Hong Kong	128,235	<b>125,539</b>	(2,696)	(2.1)	115,681
174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service	29,211	<b>30,410</b>	1,199	4.1	30,712
80 Judiciary	1,587,460	<b>1,521,355</b>	(66,105)	(4.2)	1,382,772
90 Labour Department	1,947,292	<b>1,851,634</b>	(95,658)	(4.9)	1,815,895
91 Lands Department	2,357,013	<b>2,402,600</b>	45,587	1.9	2,323,574
94 Legal Aid Department	1,007,656	<b>1,023,633</b>	15,977	1.6	860,536
112 Legislative Council Commission	850,107	<b>874,052</b>	23,945	2.8	776,867
95 Leisure and Cultural Services Department	8,372,380	<b>8,431,164</b>	58,784	0.7	7,580,770
100 Marine Department	1,310,704	<b>1,307,032</b>	(3,672)	(0.3)	1,195,756
106 Miscellaneous Services	25,092,749	<b>115,825</b>	(24,976,924)	(99.5)	129,601
180 Office for Film, Newspaper and Article Administration	46,865	<b>46,222</b>	(643)	(1.4)	44,102
114 Office of The Ombudsman	110,820	<b>115,095</b>	4,275	3.9	111,296
116 Official Receiver's Office	190,582	<b>188,998</b>	(1,584)	(0.8)	156,898
120 Pensions	33,046,690	<b>31,948,165</b>	(1,098,525)	(3.3)	29,432,807
118 Planning Department	657,196	<b>662,442</b>	5,246	0.8	636,909
136 Public Service Commission Secretariat	25,016	<b>24,871</b>	(145)	(0.6)	22,575
160 Radio Television Hong Kong	978,448	<b>985,439</b>	6,991	0.7	840,937
162 Rating and Valuation Department	513,650	<b>512,928</b>	(722)	(0.1)	495,537
163 Registration and Electoral Office	1,114,285	<b>920,958</b>	(193,327)	(17.3)	479,939
169 Secretariat, Commissioner on Interception of Communications and Surveillance	20,126	<b>19,146</b>	(980)	(4.9)	20,419
170 Social Welfare Department	61,631,797	<b>64,434,066</b>	2,802,269	4.5	62,482,922
181 Trade and Industry Department	773,651	<b>728,440</b>	(45,211)	(5.8)	719,041
186 Transport Department	2,858,507	<b>2,652,148</b>	(206,359)	(7.2)	2,507,943
188 Treasury	376,380	<b>382,883</b>	6,503	1.7	377,218
190 University Grants Committee	17,966,125	<b>18,610,482</b>	644,357	3.6	17,581,142

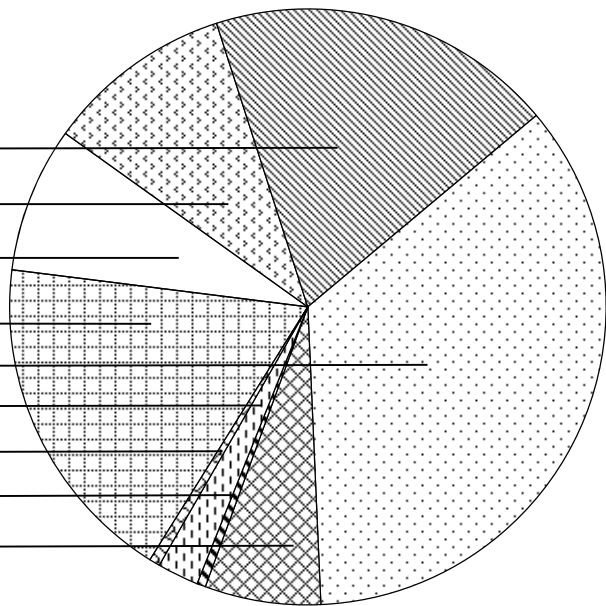
# General Revenue Account

## 12. Expenditure (Continued)

Head	2017				2016
	Original Estimate \$'000	Actual \$'000	Over/(Under) the Estimate \$'000	Variance %	Actual \$'000
194 Water Supplies Department	7,923,917	<b>8,001,067</b>	77,150	1.0	7,658,947
173 Working Family and Student Financial Assistance Agency	8,270,472	<b>5,517,793</b>	(2,752,679)	(33.3)	4,857,908
	<u>381,333,511</u>	<u><b>357,253,781</b></u>	<u>(24,079,730)</u>	<u>(6.3)</u>	<u>351,210,428</u>
184 Transfers to Funds	44,864,000	<b>23,864,000</b>	(21,000,000)	(46.8)	3,180,000
Total	<u>426,197,511</u>	<u><b>381,117,781</b></u>	<u>(45,079,730)</u>	<u>(10.6)</u>	<u>354,390,428</u>

### Analysis of Expenditure for the year ended 31 March 2017

Personal Emoluments	\$71.8 Billion	19%
Personnel Related Expenses	\$38.7 Billion	10%
Departmental Expenses	\$30.1 Billion	8%
Other Charges	\$69.0 Billion	18%
Recurrent Subventions	\$135.0 Billion	35%
Non-Recurrent Expenditure	\$8.6 Billion	2%
Plant, Equipment and Works	\$2.2 Billion	1%
Capital Subventions	\$1.8 Billion	1%
Transfers to Funds	\$23.9 Billion	6%



**Total Expenditure  
\$381.1 Billion**

# General Revenue Account

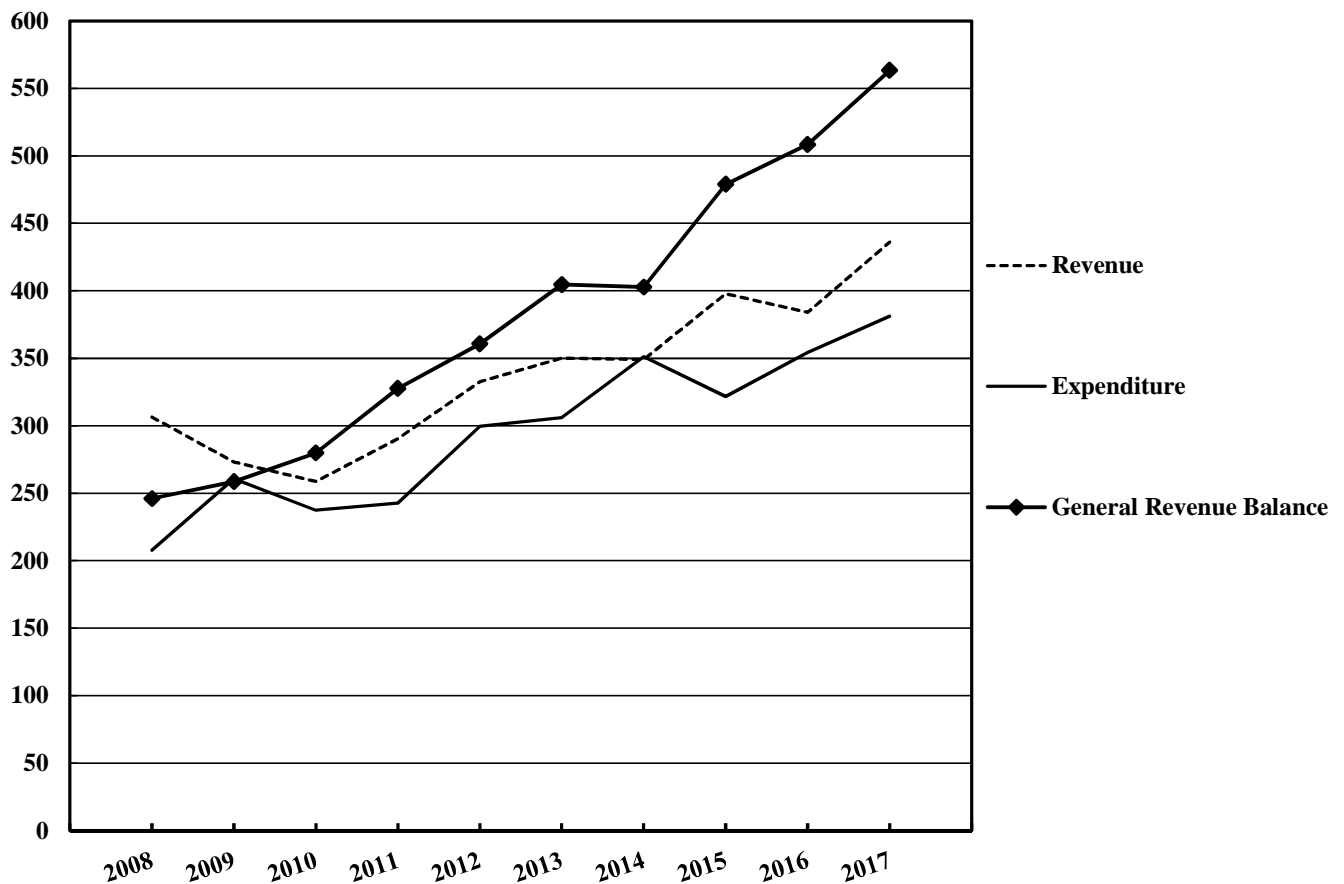
## 13. Other Cash Movements

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

	2017 \$'000	2016 \$'000
<b>(Increase)/Reduction in Assets</b>		
Investments with the Exchange Fund	(55,388,584)	(29,933,827)
Deposits with banks	716,671	(48,585)
Advances	45,358	(164,615)
	<b>(54,626,555)</b>	<b>(30,147,027)</b>
<b>Increase/(Reduction) in Liabilities</b>		
Deposits	783,149	682,222
Suspense Accounts	(3,811)	7,572
	<b>779,338</b>	<b>689,794</b>
	<b>(53,847,217)</b>	<b>(29,457,233)</b>

## Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2008 to 2017

\$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 2017, 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 2017 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

27 October 2017

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 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	102,652,670	59,926,086
Cash and bank balances		1	952
		<b>102,652,671</b>	59,927,038
<b>Liabilities</b>			
Deposits	4	(1,779,334)	(1,756,652)
		<b>100,873,337</b>	58,170,386
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		58,170,386	76,362,444
Surplus/(Deficit) for the year		42,702,951	(18,192,058)
Balance at end of year	5, 6, 7	<b>100,873,337</b>	58,170,386

Notes 1 to 10 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Capital Works Reserve Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		<b>952</b>	4,101
Receipts	8	129,996,767	60,990,535
Payments	5, 9	(87,293,816)	(79,182,593)
<b>Surplus/(Deficit) for the year</b>		<b>42,702,951</b>	(18,192,058)
<b>Other cash movements</b>	10	<b>(42,703,902)</b>	18,188,909
<b>Cash and bank balances at end of year</b>		<b>1</b>	952

Notes 1 to 10 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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:

	2017 \$'000	2016 \$'000
Investments (Notes (ii) and (iii) below)	102,604,328	59,877,819
Deposits	48,342	48,267
	<u>102,652,670</u>	<u>59,926,086</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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). 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:

	2017 \$'000	2016 \$'000
Contract retention money	1,486,928	1,375,914
Others	292,406	380,738
	<u>1,779,334</u>	<u>1,756,652</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:

	2017 \$'000	2016 \$'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 2017, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,850 million (2016: \$3,906 million).

# Capital Works Reserve Fund

## 7. Commitments

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

<b>Head</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Land acquisition</b>		
701 Land acquisition	<u>5,245,069</u>	<u>6,181,799</u>
<b>Sub-total</b>	<u><b>5,245,069</b></u>	<u>6,181,799</u>
<b>Capital works – Public Works Programme</b>		
702 Port and airport development	<b>125,798</b>	148,701
703 Buildings	<b>51,601,799</b>	48,655,352
704 Drainage	<b>15,654,031</b>	14,814,933
705 Civil engineering	<b>57,611,836</b>	64,194,638
706 Highways	<b>130,419,439</b>	176,553,909
707 New towns and urban area development	<b>46,160,300</b>	22,930,399
709 Waterworks	<b>10,749,016</b>	12,117,324
711 Housing	<b>8,619,120</b>	3,448,818
<b>Sub-total</b>	<u><b>320,941,339</b></u>	<u>342,864,074</u>
<b>Capital subventions</b>		
708 (part) Capital subventions	<u>30,440,527</u>	<u>32,749,403</u>
<b>Sub-total</b>	<u><b>30,440,527</b></u>	<u>32,749,403</u>
<b>Systems and equipment</b>		
708 (part) Major systems and equipment	<b>4,599,006</b>	3,005,762
710 Computerisation	<b>9,313,726</b>	7,519,921
<b>Sub-total</b>	<u><b>13,912,732</b></u>	<u>10,525,683</u>
	<u><b>370,539,667</b></u>	<u>392,320,959</u>

# Capital Works Reserve Fund

## 8. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	<b>105,091,474</b>	40,309,742
Private treaty grants	-	<b>2,245,563</b>	1,440,679
Modification of existing leases, exchanges and extensions	-	<b>19,819,546</b>	18,372,959
Fees received in respect of short term waivers	-	<b>812,951</b>	769,457
	67,000,000	<b>127,969,534</b>	60,892,837
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	<b>1,879,741</b>	-
Others	-	<b>1,917</b>	2,341
	2,135,000	<b>1,881,658</b>	2,341
Transfer from General Revenue	25,000,000	-	-
Other receipts			
Donations and contributions	66,694	<b>8,265</b>	988
Others	-	<b>137,310</b>	94,369
	66,694	<b>145,575</b>	95,357
	<u>94,201,694</u>	<u><b>129,996,767</b></u>	<u>60,990,535</u>

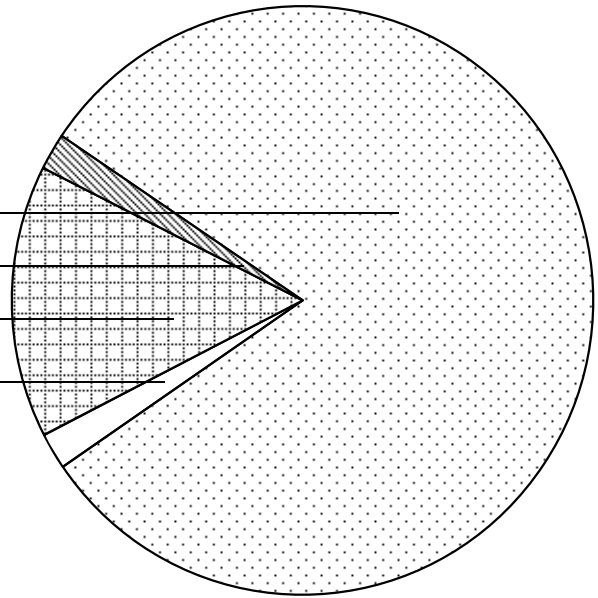
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two 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. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$0.23 billion (2015: \$0.15 billion), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$7.24 billion (2015: \$7.01 billion).



# Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2017

<u>Sales by public auction and tender</u>	<b>\$105.1 Billion</b>	<b>81%</b>
<u>Private treaty grants and fees received in respect of short term waivers</u>	<b>\$3.1 Billion</b>	<b>2%</b>
<u>Modification of existing leases, exchanges and extensions</u>	<b>\$19.8 Billion</b>	<b>15%</b>
<u>Investment income and other receipts</u>	<b>\$2.0 Billion</b>	<b>2%</b>



**Total Receipts  
\$130.0 Billion**

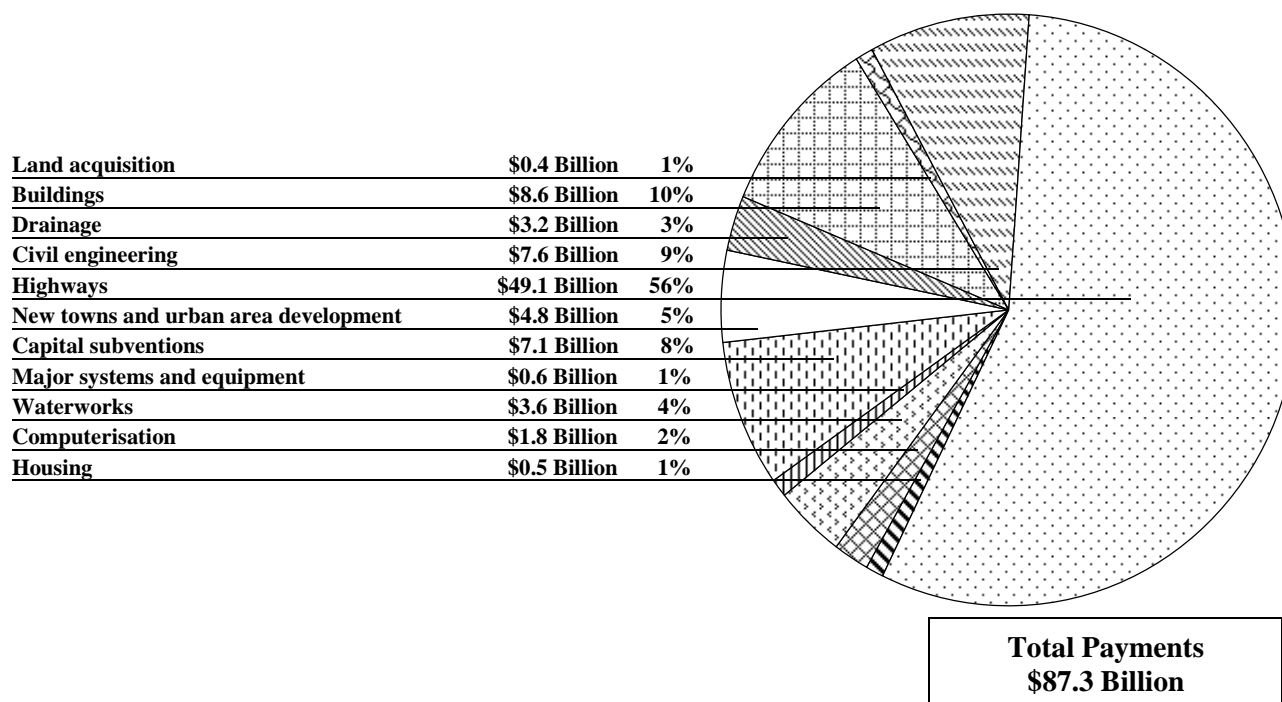
# Capital Works Reserve Fund

## 9. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	2,737,935	<b>341,879</b>	656,503
Public Works Programme			
Port and airport development	1,000	<b>1,464</b>	1,660
Buildings	8,180,240	<b>8,618,156</b>	9,157,521
Drainage	2,839,773	<b>3,198,527</b>	3,834,792
Civil engineering	7,378,858	<b>7,575,253</b>	6,040,310
Highways	43,787,761	<b>49,093,581</b>	44,168,403
New towns and urban area development	4,198,813	<b>4,729,551</b>	2,733,116
Waterworks	3,507,234	<b>3,621,936</b>	4,121,209
Housing	907,322	<b>465,313</b>	542,131
	70,801,001	<b>77,303,781</b>	70,599,142
Capital subventions and major systems and equipment			
Capital subventions	7,745,972	<b>7,119,837</b>	5,189,681
Major systems and equipment	939,800	<b>599,210</b>	1,133,293
	8,685,772	<b>7,719,047</b>	6,322,974
Computerisation	2,244,622	<b>1,816,318</b>	1,519,091
Government bonds and notes issued in July 2004			
Interest and other expenses	76,671	<b>76,669</b>	77,301
Other payments			
Refund of overpayment of land premium	-	<b>36,122</b>	7,582
	<u>84,546,001</u>	<u><b>87,293,816</b></u>	<u>79,182,593</u>

# Capital Works Reserve Fund

## Analysis of Payments for the year ended 31 March 2017 \*



\* 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

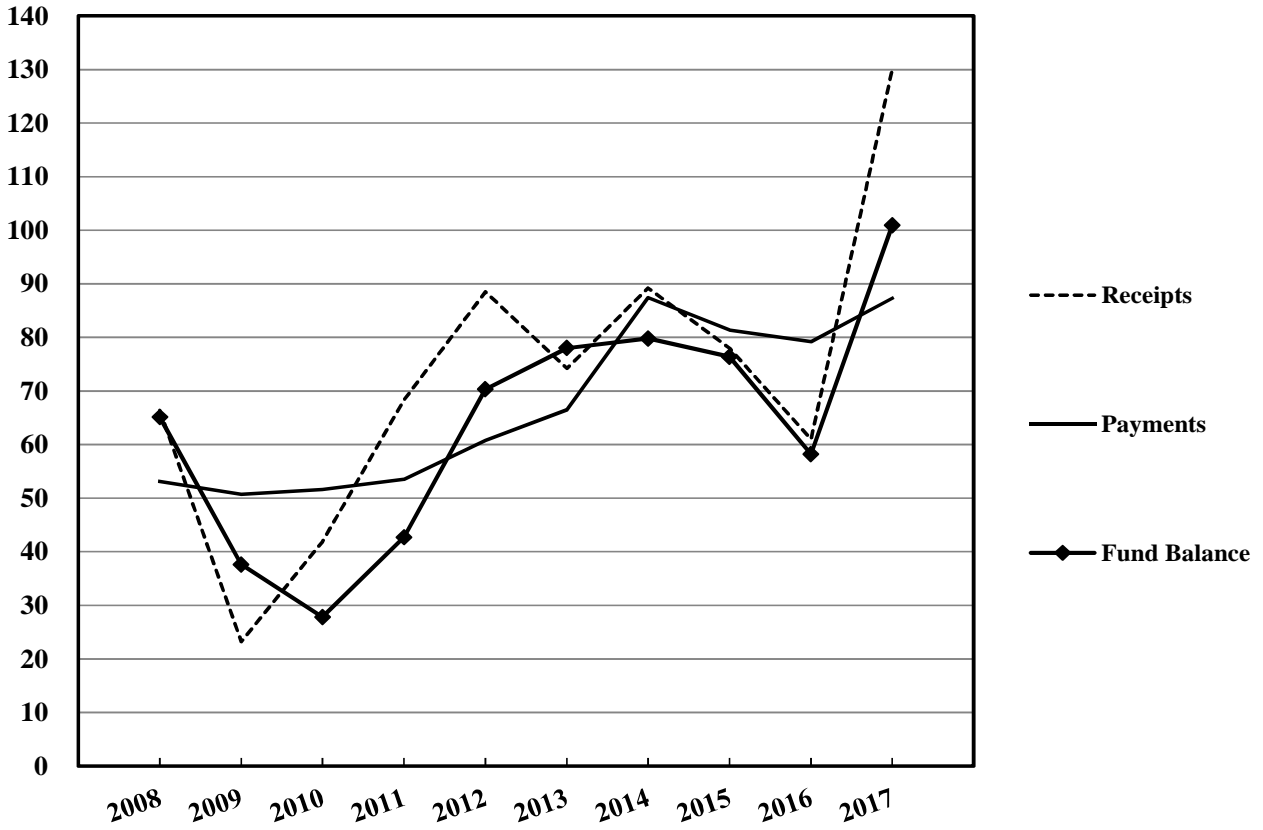
These are cash movements arising from changes in other assets and liabilities:

	2017 \$'000	2016 \$'000
<b>(Increase)/Reduction in Assets</b>		
Investments with the Exchange Fund	(42,726,584)	17,988,591
<b>Increase in Liabilities</b>		
Deposits	22,682	200,318
	<u>(42,703,902)</u>	<u>18,188,909</u>

# Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2008 to 2017

\$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 2017, 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 2017 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

27 October 2017

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



# Capital Investment Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Investments</b>	<b>3</b>		
Equity holdings		134,288,685	124,795,346
Other investments		492,371,319	465,913,116
		<b>626,660,004</b>	590,708,462
<b>Loans Outstanding</b>	<b>4</b>	1,545,829	917,454
		<b>628,205,833</b>	591,625,916
<b>Current Assets</b>			
Investments with the Exchange Fund	5	3,078,306	2,835,100
Cash and bank balances		-	1
		<b>3,078,306</b>	2,835,101
		<b>631,284,139</b>	594,461,017
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>628,205,833</b>	591,625,916
<b>Available Fund</b>	<b>7</b>		
Balance at beginning of year		2,835,101	1,443,088
Surplus for the year		243,205	1,392,013
Balance at end of year		<b>3,078,306</b>	2,835,101
	<b>8, 9</b>	<b>631,284,139</b>	594,461,017

Notes 1 to 12 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Capital Investment Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		1	1
Receipts	10	10,436,544	1,409,367
Payments	11	(10,193,339)	(17,354)
<b>Surplus for the year</b>		243,205	1,392,013
<b>Other cash movements</b>	12	(243,206)	(1,392,013)
<b>Cash and bank balances at end of year</b>		-	1

Notes 1 to 12 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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)

	2017			2016		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at beginning of year	124,795,346	465,913,116	590,708,462	123,077,992	454,316,039	577,394,031
<b>Additions</b>						
Cash acquisitions	9,493,339	-	9,493,339	17,354	-	17,354
Non-cash acquisitions	-	26,458,203	26,458,203	1,700,000	11,597,077	13,297,077
	9,493,339	26,458,203	35,951,542	1,717,354	11,597,077	13,314,431
<b>Balance at end of year</b>	<b>134,288,685</b>	<b>492,371,319</b>	<b>626,660,004</b>	<b>124,795,346</b>	<b>465,913,116</b>	<b>590,708,462</b>

# Capital Investment Fund

## 4. Loans Outstanding

	2017 \$'000	2016 \$'000
Balance at beginning of year	917,454	2,635,126
<b>Additions</b>		
Loan payments	700,000	-
Capitalised interest	23,979	76,593
	723,979	76,593
<b>Deductions</b>		
Loan repayments	(95,604)	(94,265)
Loan conversion to equity	-	(1,700,000)
	(95,604)	(1,794,265)
<b>Balance at end of year</b>	<b>1,545,829</b>	<b>917,454</b>

## 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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). 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 2017, the Government had the following contingent liabilities:

- (i) possible capital subscriptions to the Asian Development Bank amounting to \$5,804 million (2016: \$5,990 million); and
- (ii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,957 million (2016: \$2,002 million).

# Capital Investment Fund

## 9. Commitments

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

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Investments	<b>54,011</b>	71,350
Loans	<b>2,978,500</b>	2,028,500
	<b>3,032,511</b>	2,099,850

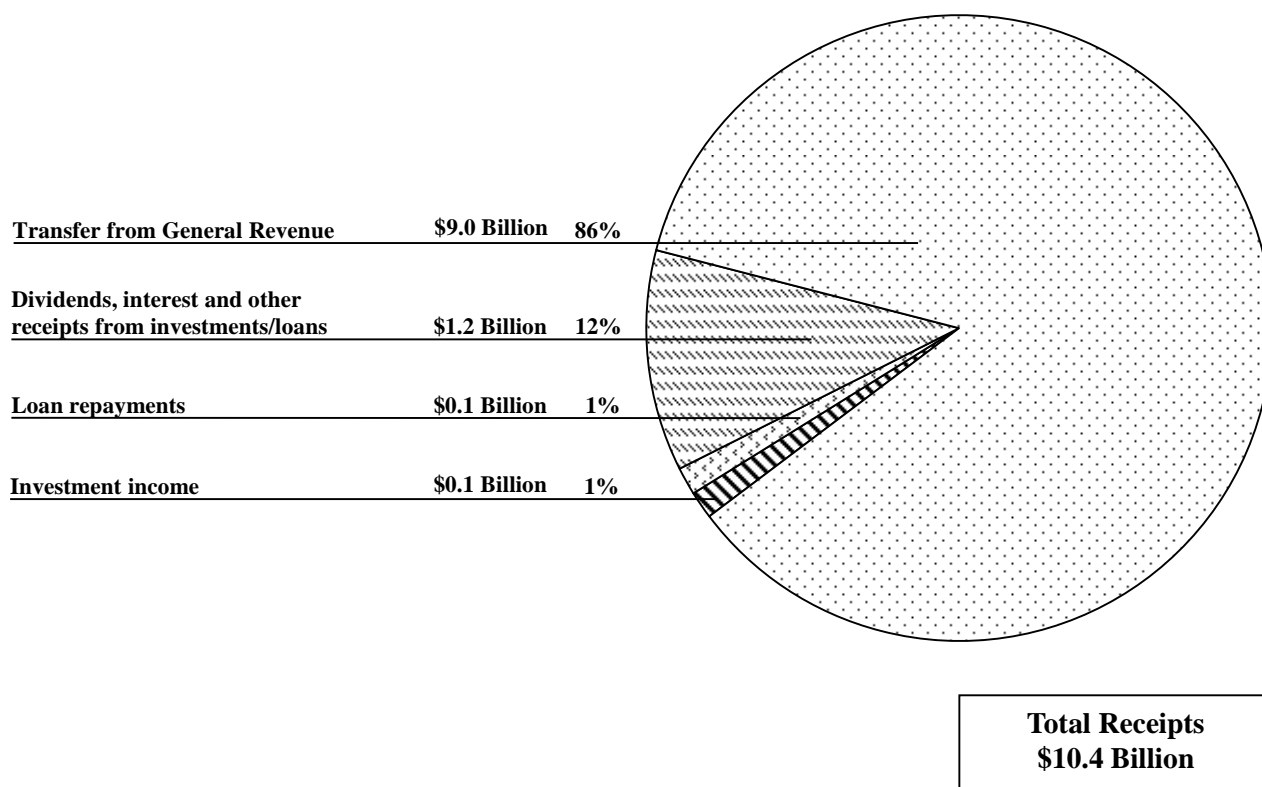
## 10. Receipts

	<b>2017</b>		2016
	Original Estimate \$'000	<b>Actual</b> <b>\$'000</b>	Actual \$'000
Dividends, interest and other receipts from investments/loans	1,229,302	<b>1,251,359</b>	1,315,102
Loan repayments	94,327	<b>95,604</b>	94,265
Investment income			
Investments with the Exchange Fund (Note (i) below)	82,000	<b>89,581</b>	-
Transfer from General Revenue	9,000,000	<b>9,000,000</b>	-
	<u>10,405,629</u>	<u><b>10,436,544</b></u>	<u>1,409,367</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$177 million (comprising \$79 million for 2014 and \$98 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 5(iii) and shall be received on a date as determined by the Financial Secretary. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$6 million (2015: \$4 million), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$187 million (2015: \$181 million).

# Capital Investment Fund

## Analysis of Receipts for the year ended 31 March 2017

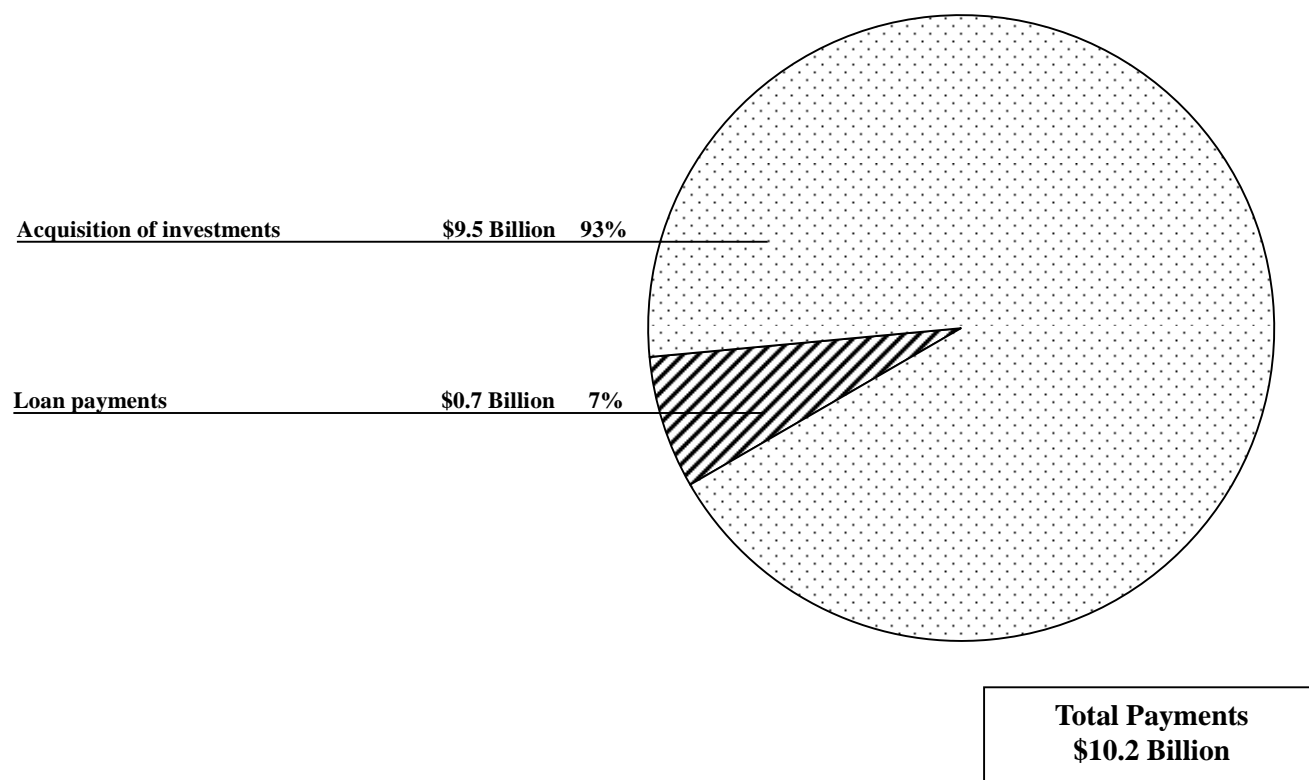


## 11. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments			
Equity holdings	17,525	<b>9,493,339</b>	17,354
Loan payments	1,662,118	<b>700,000</b>	-
Additional commitments	9,476,000	-	-
	<u>11,155,643</u>	<u><b>10,193,339</b></u>	<u>17,354</u>

# Capital Investment Fund

## Analysis of Payments for the year ended 31 March 2017



### 12. Other Cash Movements

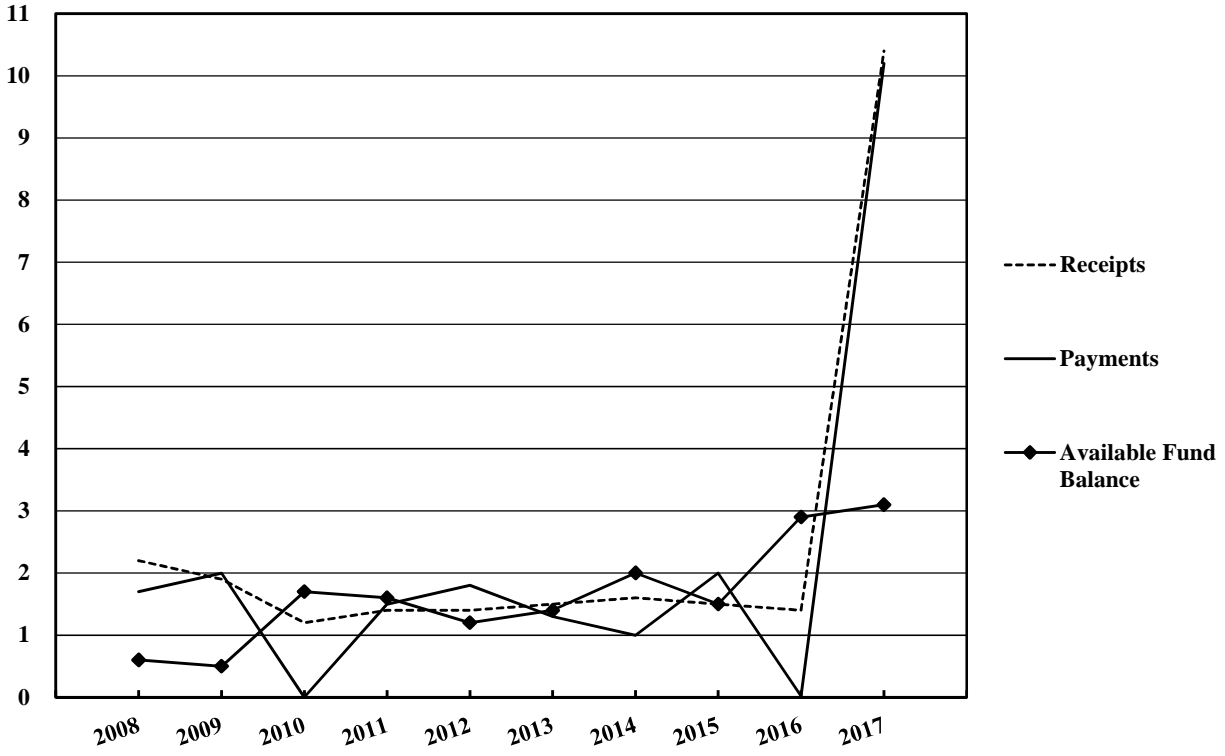
These are cash movements arising from changes in other assets and liabilities:

	2017 \$'000	2016 \$'000
<b>Increase in Assets</b>		
Investments with the Exchange Fund	<u>243,206</u>	<u>1,392,013</u>

# Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2008 to 2017

\$Billion





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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 2017, 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 2017 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

27 October 2017

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 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	<u>31,899,385</u>	<u>27,128,846</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		27,128,846	27,028,846
Surplus for the year		<u>4,770,539</u>	<u>100,000</u>
Balance at end of year		<u>31,899,385</u>	<u>27,128,846</u>

Notes 1 to 5 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Civil Service Pension Reserve Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		-	-
Receipts	4	4,770,539	100,000
Payments		-	-
<b>Surplus for the year</b>		4,770,539	100,000
<b>Other cash movements</b>	5	(4,770,539)	(100,000)
<b>Cash and bank balances at end of year</b>		-	-

Notes 1 to 5 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). The annual investment income is receivable on 31 December each year.

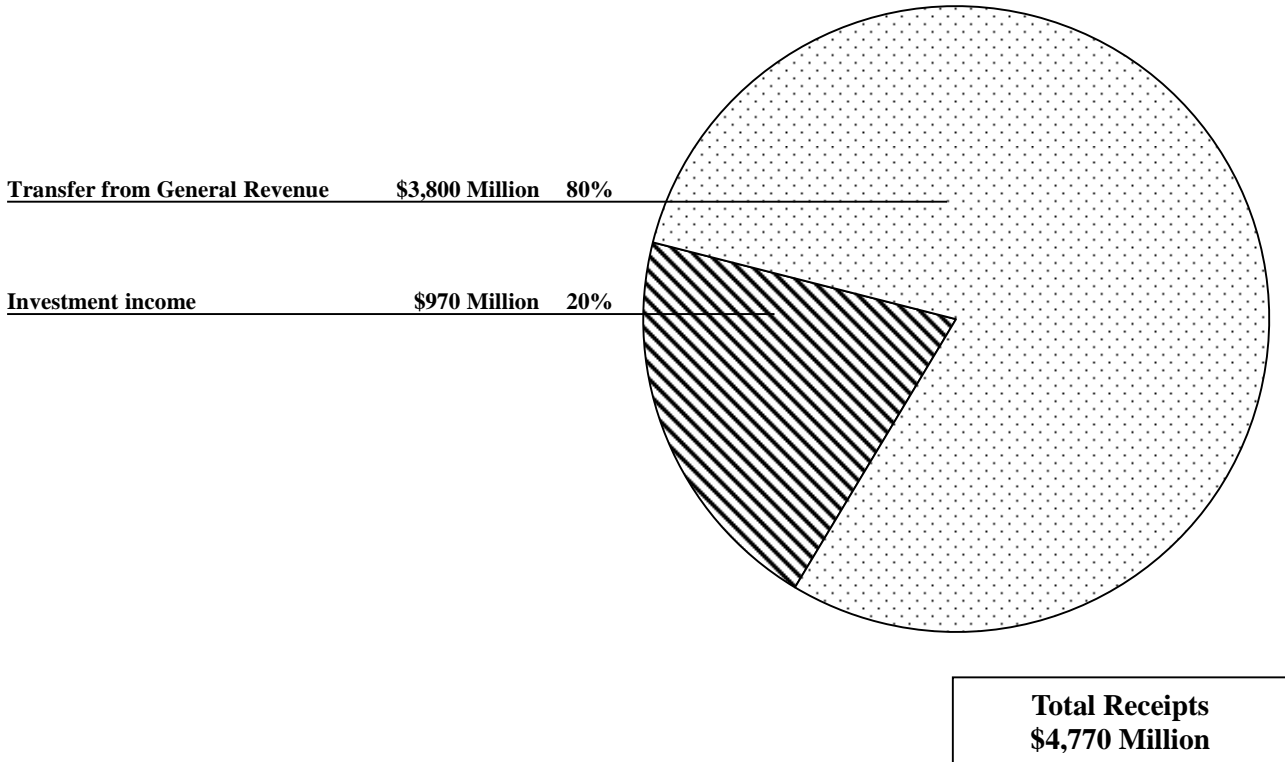
### 4. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	989,000	<b>970,539</b>	-
Transfer from General Revenue	3,800,000	<b>3,800,000</b>	100,000
	4,789,000	<b>4,770,539</b>	100,000

- (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. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$0.09 billion (2015: \$0.05 billion), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$2.6 billion (2015: \$2.51 billion).

# Civil Service Pension Reserve Fund

Analysis of Receipts for the year ended 31 March 2017



## 5. Other Cash Movements

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

	2017 \$'000	2016 \$'000
<b>Increase in Assets</b>		
Investments with the Exchange Fund	<u>4,770,539</u>	<u>100,000</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 2017, 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 2017 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

27 October 2017

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

# Disaster Relief Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	<u>27,743</u>	<u>14,539</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		14,539	15,584
Surplus/(Deficit) for the year		<u>13,204</u>	<u>(1,045)</u>
Balance at end of year		<u>27,743</u>	<u>14,539</u>

Notes 1 to 6 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Disaster Relief Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		-	-
Receipts	4	67,648	81,102
Payments	5	(54,444)	(82,147)
<b>Surplus/(Deficit) for the year</b>		13,204	(1,045)
<b>Other cash movements</b>	6	(13,204)	1,045
<b>Cash and bank balances at end of year</b>		-	-

Notes 1 to 6 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). The annual investment income is receivable on 31 December each year.

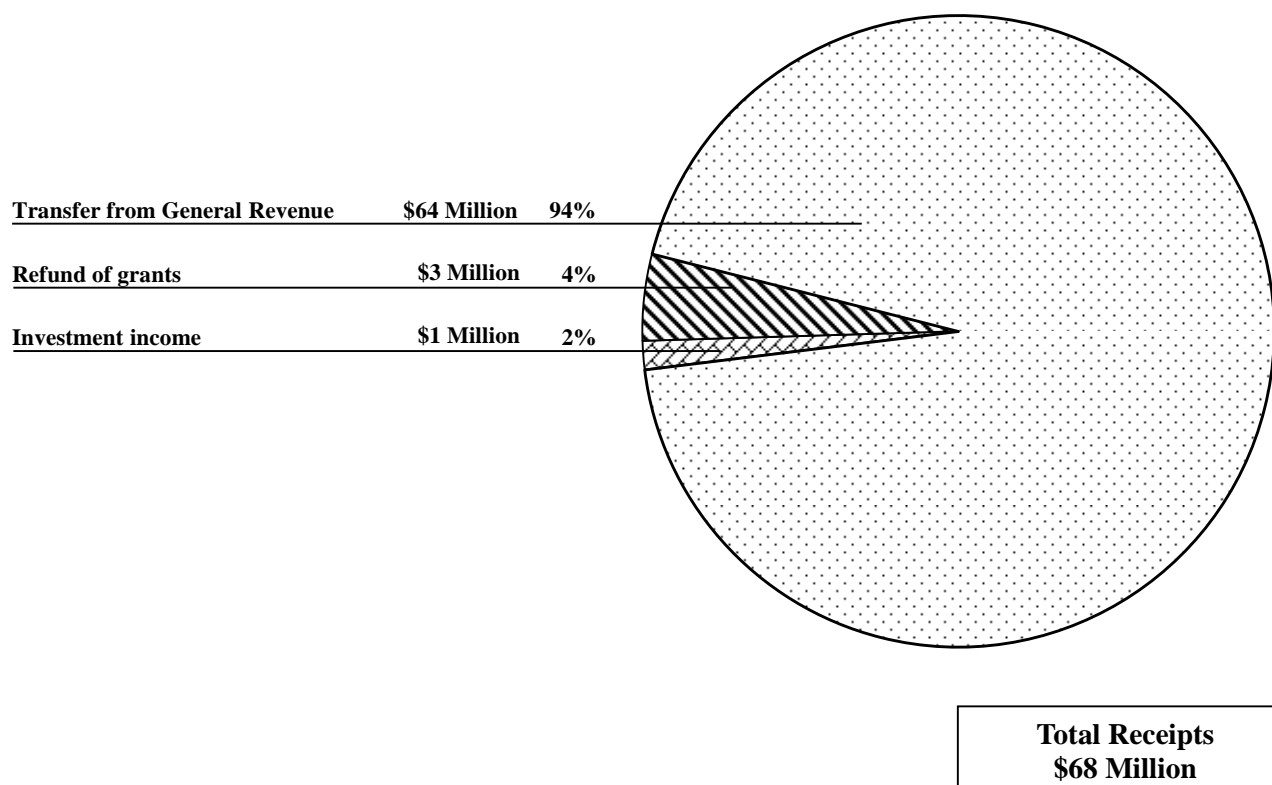
### 4. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	2,000	<b>1,314</b>	-
Transfer from General Revenue	64,000	<b>64,000</b>	80,000
Refund of grants	-	<b>2,334</b>	1,102
	66,000	<b>67,648</b>	81,102

- (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. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$0.08 million (2015: \$0.06 million), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$2.46 million (2015: \$2.38 million).

# Disaster Relief Fund

## Analysis of Receipts for the year ended 31 March 2017



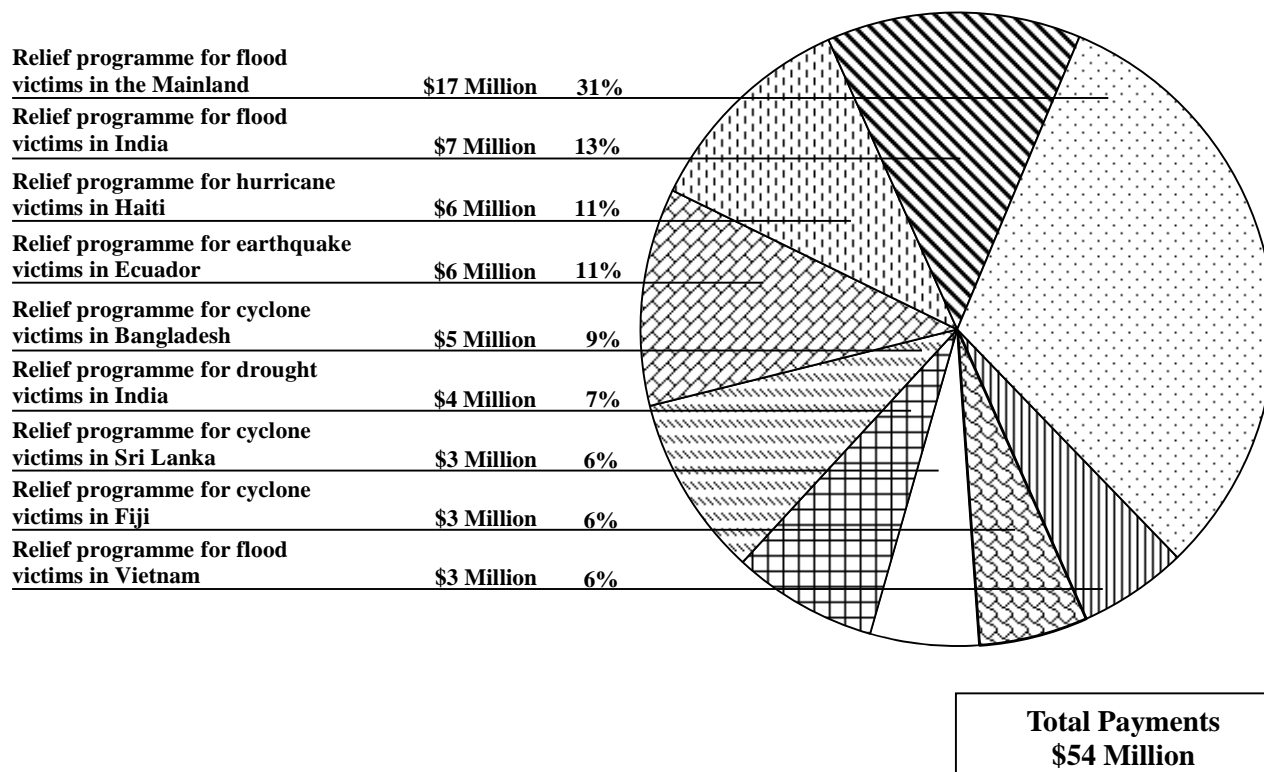
## 5. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Relief programmes for			
flood victims in the Mainland	-	16,760	-
flood victims in India	-	7,125	6,093
hurricane victims in Haiti	-	6,521	-
earthquake victims in Ecuador	-	6,202	-
cyclone victims in Bangladesh	-	5,322	-
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	-
earthquake victims in Nepal	-	-	66,774
cyclone victims in Vanuatu	-	-	3,920
earthquake victims in Pakistan	-	-	2,930
flood victims in Myanmar	-	-	2,430
	-	54,444	82,147



# Disaster Relief Fund

## Analysis of Payments for the year ended 31 March 2017



## 6. Other Cash Movements

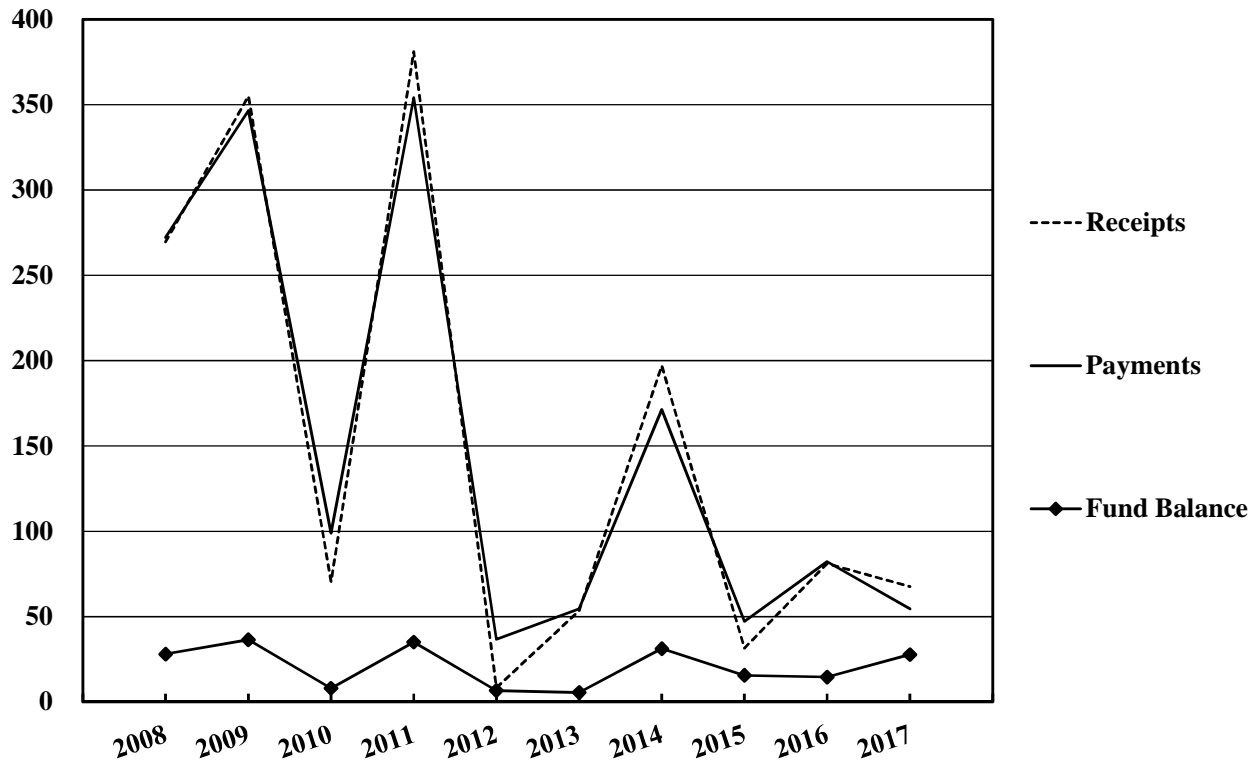
These are cash movements arising from changes in other assets and liabilities:

	2017 \$'000	2016 \$'000
<b>(Increase)/Reduction in Assets</b>		
Investments with the Exchange Fund	<u>(13,204)</u>	<u>1,045</u>

# Disaster Relief Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2008 to 2017

\$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 2017, 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 2017 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

27 October 2017

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 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	7,988,980	41,743
Cash and bank balances		2,485	1
		<u>7,991,465</u>	<u>41,744</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		41,744	987,397
Surplus/(Deficit) for the year		7,949,721	(945,653)
Balance at end of year	4	<u>7,991,465</u>	<u>41,744</u>

Notes 1 to 7 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Innovation and Technology Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		<b>1</b>	<b>183</b>
Receipts	5	9,207,183	68,606
Payments	6	(1,257,462)	(1,014,259)
<b>Surplus/(Deficit) for the year</b>		<b>7,949,721</b>	<b>(945,653)</b>
<b>Other cash movements</b>	7	<b>(7,947,237)</b>	<b>945,471</b>
<b>Cash and bank balances at end of year</b>		<b>2,485</b>	<b>1</b>

Notes 1 to 7 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017





# 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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). The annual investment income is receivable on 31 December each year.

### 4. Commitments

The approved grants that were unpaid were as follows:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Grants	<b>3,983,217</b>	2,142,577

# Innovation and Technology Fund

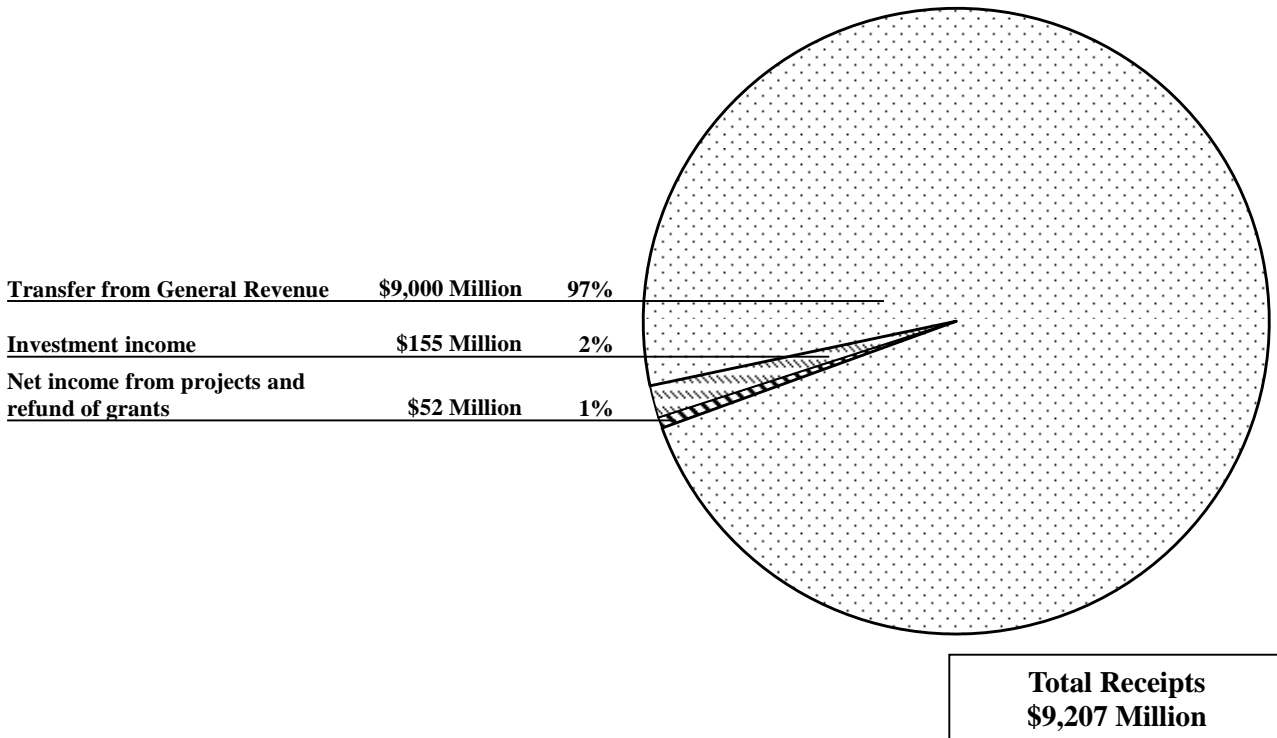
## 5. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	<b>152,972</b>	-
Others	-	<b>2,002</b>	2,221
	112,000	<b>154,974</b>	2,221
Net income from projects	8,974	<b>4,621</b>	11,901
Refund of grants	-	<b>47,588</b>	54,484
Transfer from General Revenue	5,000,000	<b>9,000,000</b>	-
	5,120,974	<b>9,207,183</b>	68,606

- (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. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$3 million (*2015: \$3 million*), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$103 million (*2015: \$100 million*).

# Innovation and Technology Fund

## Analysis of Receipts for the year ended 31 March 2017



### 6. Payments

	<b>2017</b>		2016
	Original Estimate \$'000	<b>Actual \$'000</b>	Actual \$'000
Grants	1,257,495	<b>1,257,462</b>	1,014,259

### 7. Other Cash Movements

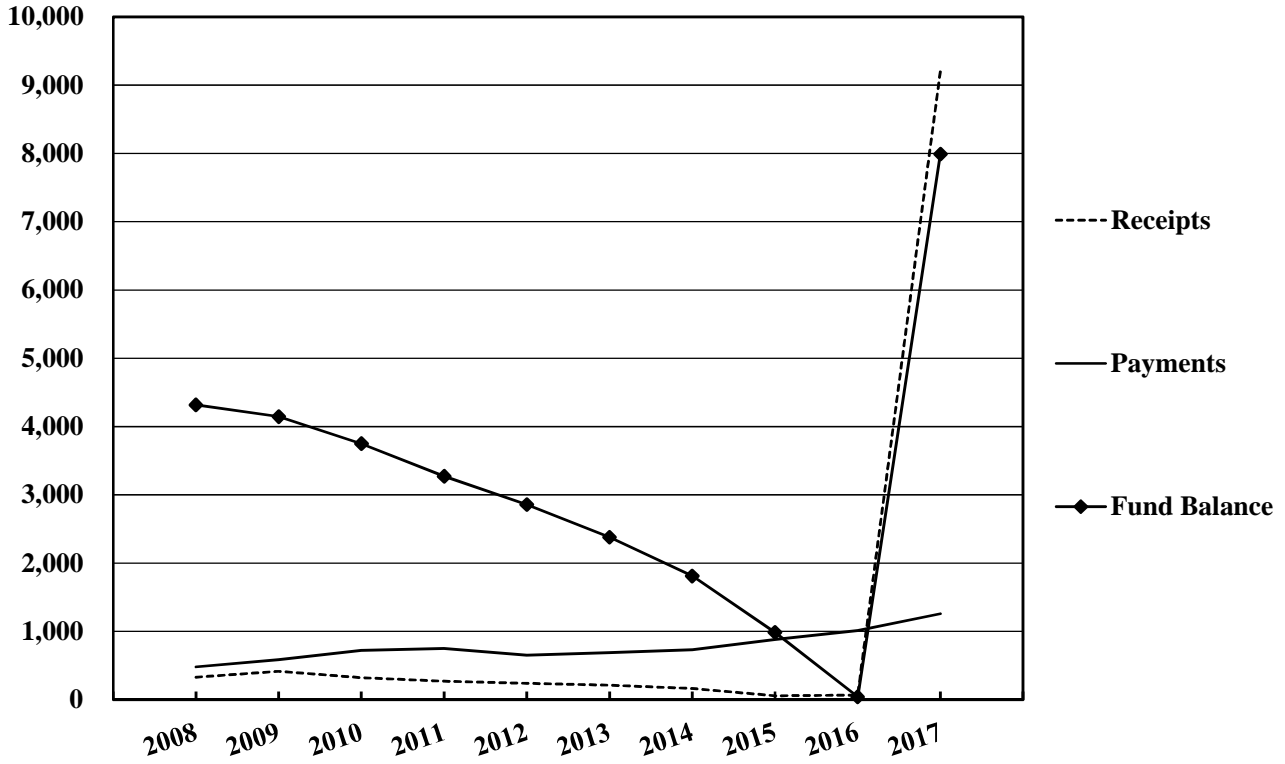
These are cash movements arising from changes in other assets and liabilities:

	<b>2017 \$'000</b>	2016 \$'000
<b>(Increase)/Reduction in Assets</b>		
Investments with the Exchange Fund	<b>(7,947,237)</b>	945,471

# Innovation and Technology Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2008 to 2017

\$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 2017, 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 2017 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

27 October 2017

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



# Land Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	<u>219,729,659</u>	<u>219,729,659</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		219,729,659	219,729,659
Surplus for the year		-	-
Balance at end of year	3	<u>219,729,659</u>	<u>219,729,659</u>

Notes 1 to 4 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Land Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		-	-
Receipts	4	-	-
Payments		-	-
<b>Surplus for the year</b>		-	-
<b>Other cash movements</b>		-	-
<b>Cash and bank balances at end of year</b>		-	-

Notes 1 to 4 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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 is 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 income on the Future Fund placement is determined annually based on a composite rate (4.5% for the calendar year 2016) 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 income (\$9.99 billion up to 31 December 2016 in respect of the Land Fund portion of \$219.73 billion) 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.

# 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 2016 was 3.3% (2015: 5.5%). Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$0.68 billion (2015: \$0.44 billion), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$21.11 billion (2015: \$20.43 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 2017, 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 2017 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

27 October 2017

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



# Loan Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Loans Outstanding</b>	<b>3</b>		
Housing loans		3,070,889	3,122,638
Education loans		17,353,286	16,763,924
Other loans		6,427,960	4,267,875
		<b>26,852,135</b>	<b>24,154,437</b>
<b>Net Current Assets</b>			
<b>Current Assets</b>			
Investments with the Exchange Fund	4	4,191,834	4,470,666
Cash and bank balances		13,814	15,067
		<b>4,205,648</b>	<b>4,485,733</b>
<b>Current Liabilities</b>			
Deposits	5	(22,100)	(18,200)
		<b>4,183,548</b>	<b>4,467,533</b>
		<b>31,035,683</b>	<b>28,621,970</b>
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>26,852,135</b>	<b>24,154,437</b>
<b>Available Fund</b>	<b>7</b>		
Balance at beginning of year		4,467,533	2,471,882
(Deficit)/Surplus for the year		(283,985)	1,995,651
Balance at end of year		<b>4,183,548</b>	<b>4,467,533</b>
	<b>8</b>	<b>31,035,683</b>	<b>28,621,970</b>

Notes 1 to 11 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Loan Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		<b>15,067</b>	17,057
Receipts	9	4,385,497	5,185,601
Payments	10	(4,669,482)	(3,189,950)
<b>(Deficit)/Surplus for the year</b>		<b>(283,985)</b>	1,995,651
<b>Other cash movements</b>	11	<b>282,732</b>	(1,997,641)
<b>Cash and bank balances at end of year</b>		<b>13,814</b>	15,067

Notes 1 to 11 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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

	2017			2016		
	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000	Housing Loans \$'000	Education Loans \$'000	Other Loans \$'000
Balance at beginning of year	3,122,638	16,763,924	4,267,875	3,121,128	15,951,654	3,804,839
<b>Additions</b>						
Loan payments	242,551	2,156,277	2,270,654	230,113	2,350,924	608,913
Capitalised interest	78	-	124,739	130	-	119,985
	<b>242,629</b>	<b>2,156,277</b>	<b>2,395,393</b>	230,243	2,350,924	728,898
<b>Deductions</b>						
Loan repayments	(124,708)	(1,565,085)	(235,308)	(19,454)	(1,537,211)	(260,899)
Loans written off	(84)	(1,830)	-	-	(1,443)	(4,963)
Proceeds from sale of loans	(169,586)	-	-	(209,279)	-	-
	<b>(294,378)</b>	<b>(1,566,915)</b>	<b>(235,308)</b>	(228,733)	(1,538,654)	(265,862)
<b>Balance at end of year</b>	<b>3,070,889</b>	<b>17,353,286</b>	<b>6,427,960</b>	3,122,638	16,763,924	4,267,875

# Loan Fund

## 4. Investments with the Exchange Fund

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

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Investments (Notes (ii) and (iii) below)	<b>4,190,965</b>	4,469,548
Deposits	<b>869</b>	1,118
	<b>4,191,834</b>	4,470,666

(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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). 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:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Students	<b>21,962</b>	18,059
Others	<b>138</b>	141
	<b>22,100</b>	18,200

## 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:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Approved loans under loan schemes operating on non-revolving basis that were unpaid	<b>5,610,481</b>	7,771,481
Balance of approved loans operating on revolving basis available for granting of new loans	<b>11,350,387</b>	11,525,559
	<b>16,960,868</b>	19,297,040

# Loan Fund

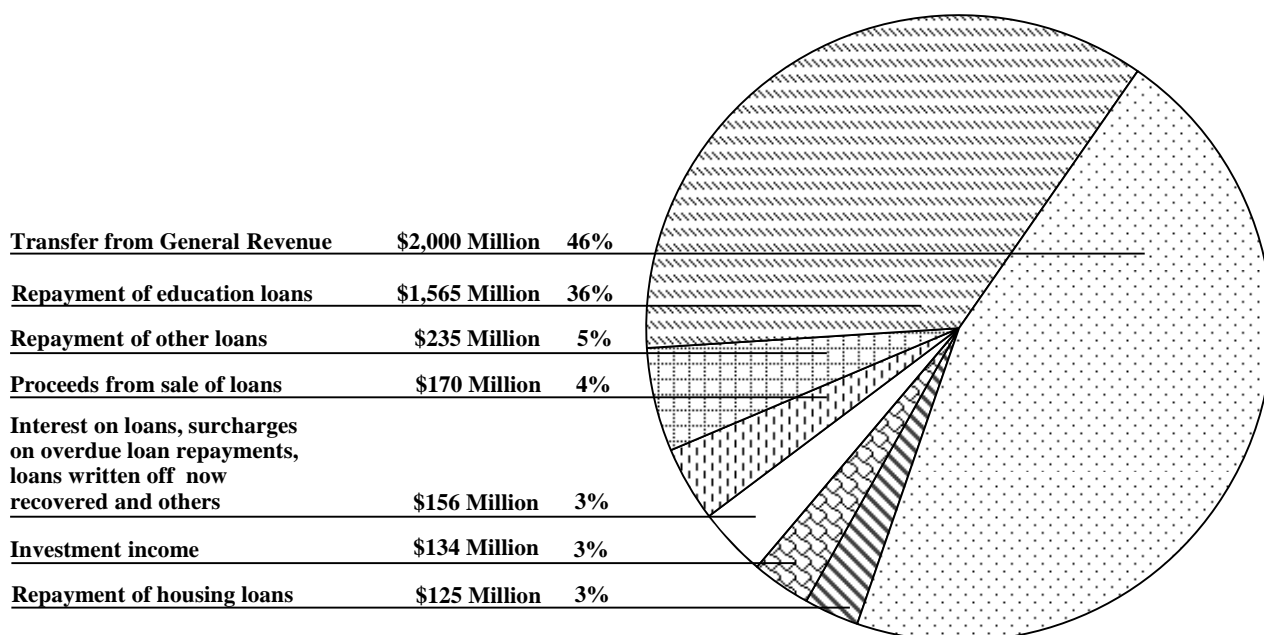
## 9. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan repayments			
Housing loans	46,944	<b>124,708</b>	19,454
Education loans	1,775,331	<b>1,565,085</b>	1,537,211
Other loans	255,309	<b>235,308</b>	260,899
	2,077,584	<b>1,925,101</b>	1,817,564
Interest on loans	131,267	<b>151,436</b>	154,942
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	<b>134,594</b>	-
Others	-	<b>4</b>	2
	93,000	<b>134,598</b>	2
Surcharges on overdue loan repayments	4,130	<b>4,730</b>	3,786
Proceeds from sale of loans	224,500	<b>169,586</b>	209,279
Loans written off now recovered	-	<b>1</b>	5
Others	-	<b>45</b>	23
Transfer from General Revenue	2,000,000	<b>2,000,000</b>	3,000,000
	<u>4,530,481</u>	<u><b>4,385,497</b></u>	<u>5,185,601</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. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$6 million (2015: \$3 million), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$177 million (2015: \$171 million).

# Loan Fund

## Analysis of Receipts for the year ended 31 March 2017



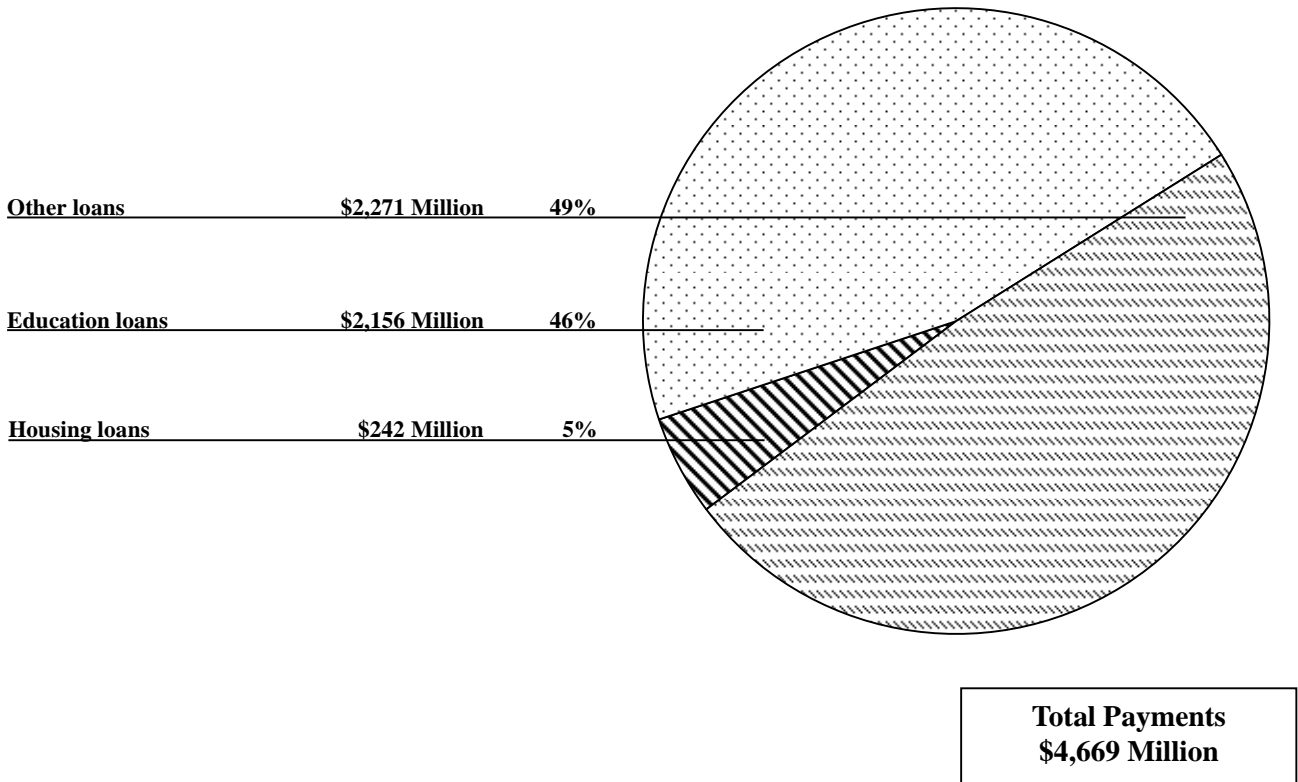
**Total Receipts  
\$4,385 Million**

## 10. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments			
Housing loans	276,700	<b>242,551</b>	230,113
Education loans	2,423,592	<b>2,156,277</b>	2,350,924
Other loans	3,990,220	<b>2,270,654</b>	608,913
	<u>6,690,512</u>	<u><b>4,669,482</b></u>	<u>3,189,950</u>

# Loan Fund

## Analysis of Payments for the year ended 31 March 2017



### 11. Other Cash Movements

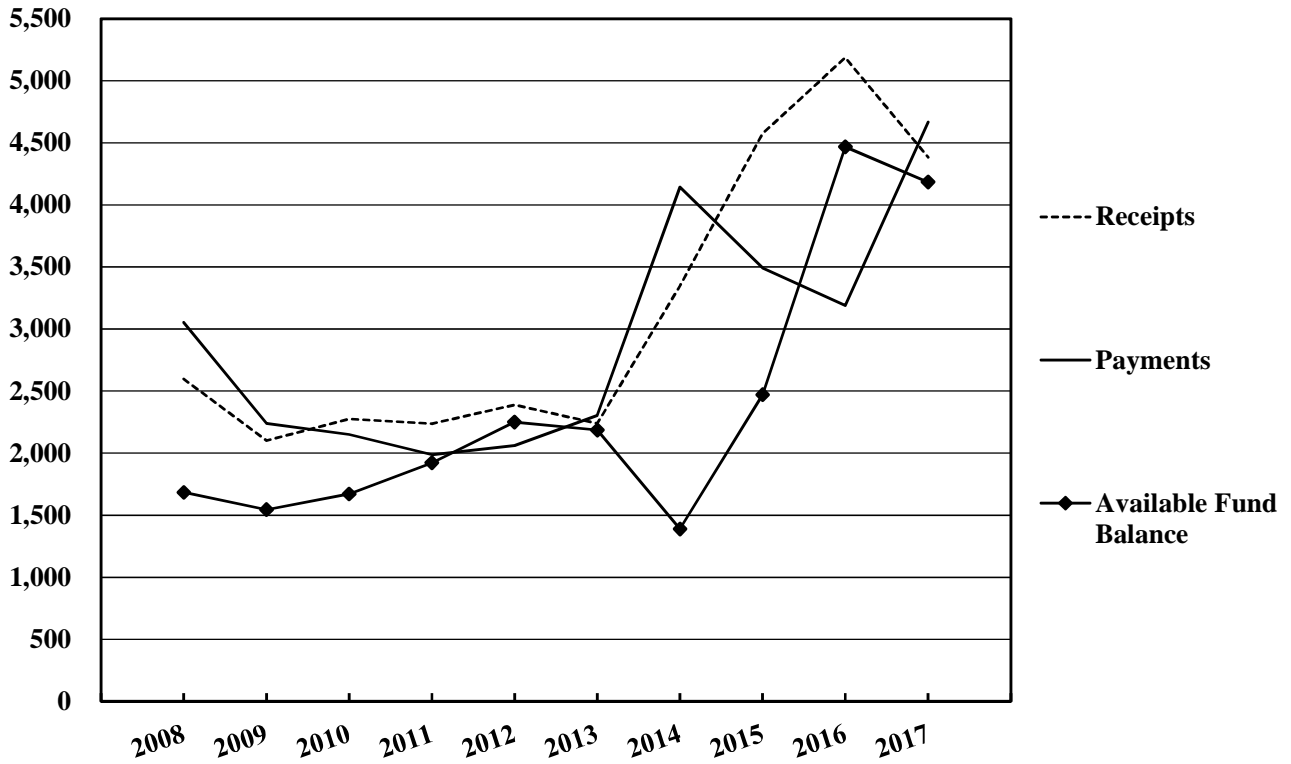
These are cash movements arising from changes in other assets and liabilities:

	2017 \$'000	2016 \$'000
<b>Reduction/(Increase) in Assets</b>		
Investments with the Exchange Fund	278,832	(1,998,466)
<b>Increase in Liabilities</b>		
Deposits	3,900	825
	282,732	(1,997,641)

# Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2008 to 2017

\$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 2017, 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 2017 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

27 October 2017

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

# Bond Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	141,378,989	128,413,370
<b>Liabilities</b>			
Deposits	4	-	(1,576)
		<u>141,378,989</u>	<u>128,411,794</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		128,411,794	120,057,649
Surplus for the year		12,967,195	8,354,145
Balance at end of year	5, 6	<u>141,378,989</u>	<u>128,411,794</u>

Notes 1 to 9 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# Bond Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Cash and bank balances at beginning of year</b>		-	-
Receipts	7	42,132,745	38,596,795
Payments	8	(29,165,550)	(30,242,650)
<b>Surplus for the year</b>		12,967,195	8,354,145
<b>Other cash movements</b>	9	(12,967,195)	(8,354,145)
<b>Cash and bank balances at end of year</b>		-	-

Notes 1 to 9 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
28 August 2017



# 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 Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). 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:

	2017	2016
	\$'000	\$'000
Accrued interest received from successful bidders	-	1,576

### 5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (c)(i) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraphs (e)(i) and (ea)(i) of the Resolution. The liabilities totalling \$126.39 billion as at 31 March 2017 comprising the outstanding bonds with nominal value of \$103.08 billion and alternative bonds with nominal value of US\$3 billion (equivalent to \$23.31 billion as at 31 March 2017) 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:

	2017 \$'000	2016 \$'000
<b>Bonds</b>		
Balance at beginning of year	100,500,000	104,400,000
<b>Issuance of bonds under</b>		
Tender to institutional investors	16,600,000	14,100,000
Subscription to retail investors	13,000,000	10,000,000
	29,600,000	24,100,000
<b>Repayment of bonds issued under</b>		
Tender to institutional investors	(17,000,000)	(18,000,000)
Subscription to retail investors	(10,021,560)	(10,000,000)
	(27,021,560)	(28,000,000)
Balance at end of year	103,078,440	100,500,000
<b>Alternative bonds</b> (Note (i) below)		
Balance at beginning of year	15,509,000	7,755,000
Issuance of bonds (Note (ii) below)	7,760,200	7,752,600
Foreign currency translation difference	43,050	1,400
Balance at end of year (Note (iii) below)	23,312,250	15,509,000
<b>Total outstanding bonds</b>	126,390,690	116,009,000

- (i) Alternative bonds are denominated in United States dollars.
- (ii) During the financial year, alternative bonds with nominal value of US\$1 billion were issued to institutional investors under section 2A of the Loans Ordinance.
- (iii) The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period.



# Bond Fund

## 6. Bonds Outstanding (Continued)

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

	2017 \$'000	2016 \$'000
<b>Bonds</b>		
Within one year	24,400,000	27,000,000
After one year but within two years	23,200,000	24,400,000
After two years but within five years (Note (v) below)	40,378,440	33,600,000
After five years	15,100,000	15,500,000
	<b>103,078,440</b>	100,500,000
<b>Alternative bonds</b> (Notes (i) and (iii) above)		
After two years but within five years	15,541,500	15,509,000
After five years	7,770,750	-
	<b>23,312,250</b>	15,509,000
<b>Total outstanding bonds</b>	<b>126,390,690</b>	116,009,000

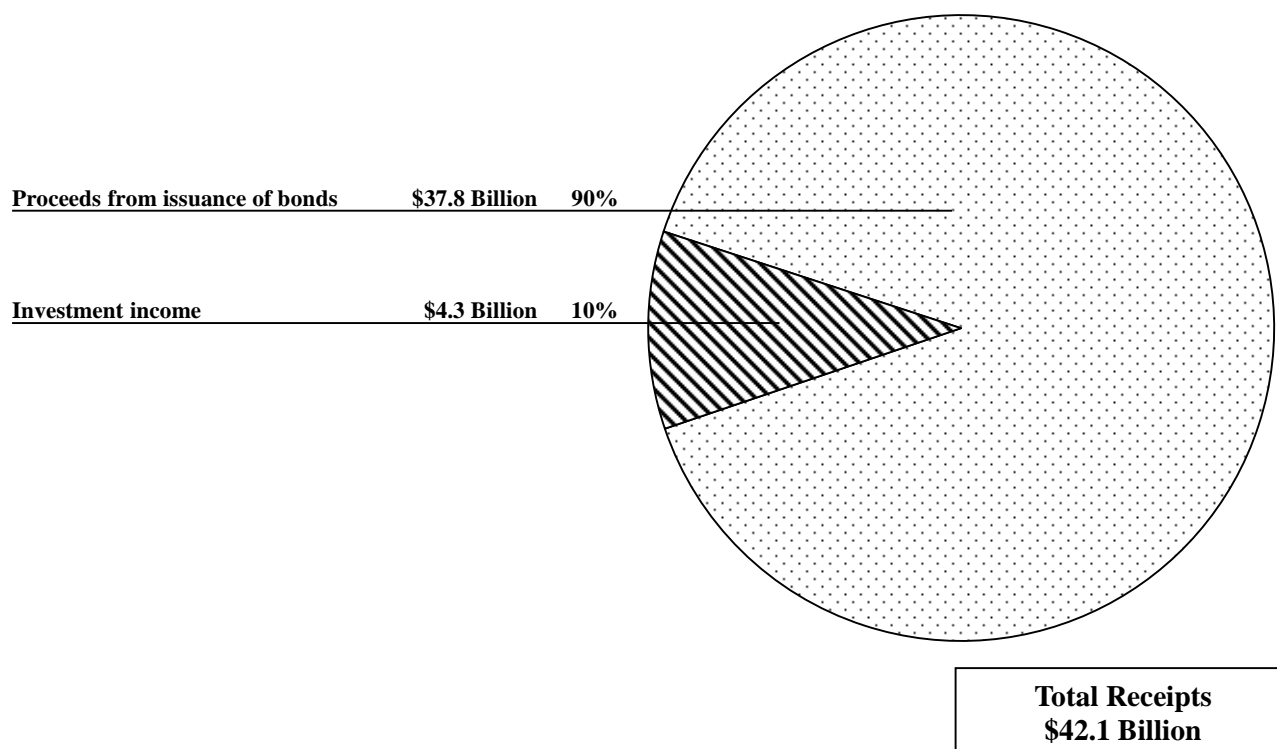
(v) The outstanding bonds included Silver Bonds with nominal value of \$2.98 billion (2016: Nil) which might be redeemed before maturity upon request from bond holders.

## 7. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Proceeds from bonds issued under			
Tender or subscription	32,300,000	30,039,446	24,155,712
Switch tender	800,000	-	-
Bond swap facility	1,000,000	-	-
	34,100,000	30,039,446	24,155,712
Proceeds from issuance of alternative bonds	-	7,760,200	7,752,600
Investment income			
Investments with the Exchange Fund	-	4,332,958	6,688,364
Others	-	141	119
	4,200,000	4,333,099	6,688,483
	38,300,000	42,132,745	38,596,795

# Bond Fund

## Analysis of Receipts for the year ended 31 March 2017

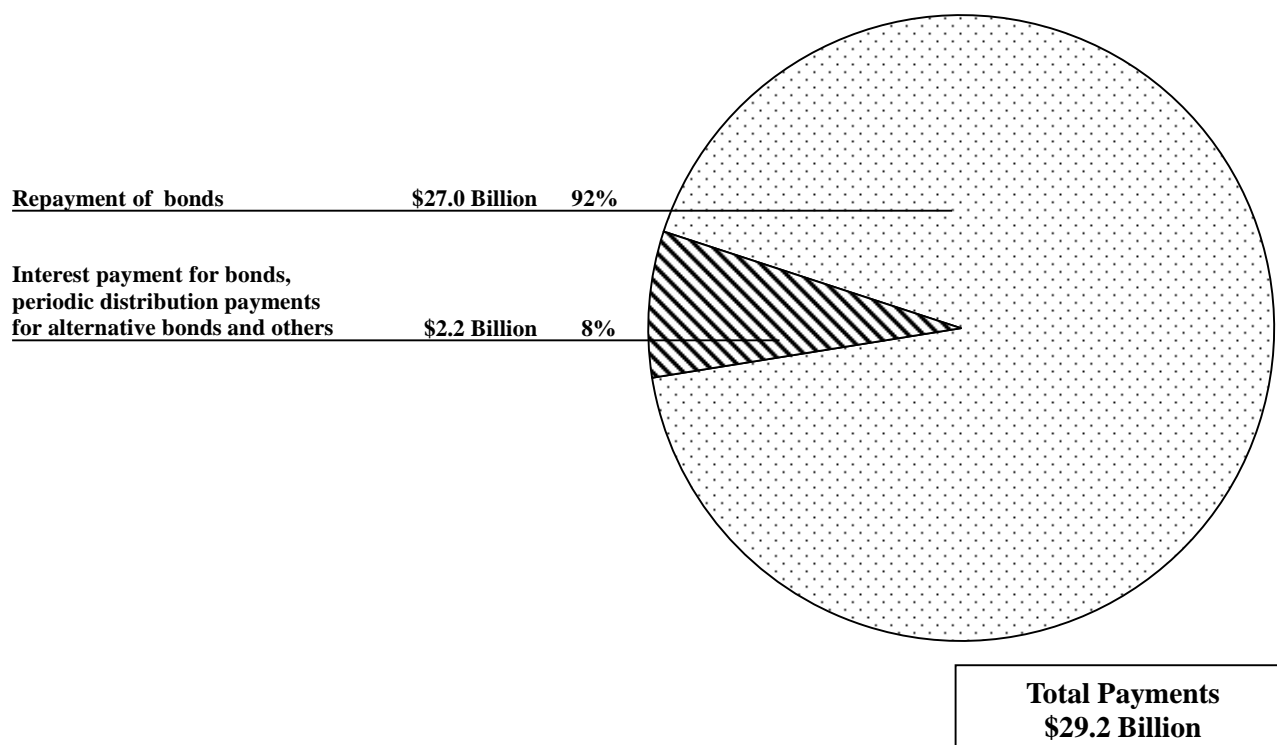


## 8. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Repayment of bonds issued under			
Tender or subscription	27,000,000	<b>27,021,560</b>	28,000,000
Switch tender	800,000	-	-
Bond swap facility	1,000,000	-	-
	28,800,000	<b>27,021,560</b>	28,000,000
Interest payment for bonds	2,104,459	<b>1,805,381</b>	1,978,456
Periodic distribution payments for alternative bonds	304,122	<b>302,646</b>	228,898
Others	41,210	<b>35,963</b>	35,296
	<u>31,249,791</u>	<u><b>29,165,550</b></u>	<u>30,242,650</u>

# Bond Fund

## Analysis of Payments for the year ended 31 March 2017



### 9. Other Cash Movements

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

	2017 \$'000	2016 \$'000
<b>Increase in Assets</b>		
Investments with the Exchange Fund	12,965,619	8,353,147
<b>Reduction in Liabilities</b>		
Deposits	1,576	998
	<u>12,967,195</u>	<u>8,354,145</u>

# Bond Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2017

\$Billion

