



**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 2020**

**October 2020**

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 2020





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30 October 2020

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 2020, and on matters relating to the performance of my duties and the exercise of my powers under the Ordinance, together with a copy of the following statements duly certified by me:

- the Statement of Assets and Liabilities of the Government and the Statement of Receipts and Payments by the Government; and
- the Statement of Assets and Liabilities of each fund, and the Statement of Receipts and Payments by each fund, other than the Lotteries Fund, established in accordance with section 29 of the Public Finance Ordinance (Cap. 2).

Yours faithfully,

John Chu



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# *Report of the Director of Audit*



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **General Revenue Account**

### **Independent Auditor's Report**

### **To the President of the Legislative Council**

#### *Opinion*

I certify that I have examined and audited the financial statements of the General Revenue Account set out on pages 10 to 22, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.



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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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

# General Revenue Account

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

|                                    | Note  | 2020<br>\$'000      | 2019<br>\$'000 |
|------------------------------------|-------|---------------------|----------------|
| <b>Assets</b>                      |       |                     |                |
| Investments with the Exchange Fund | 3     | 683,611,646         | 727,669,260    |
| Deposits with banks                | 4     | 549,788             | 491,826        |
| Cash and bank balances             | 5     | 3,206,426           | 4,509,675      |
| Advances                           | 6     | 4,668,832           | 3,255,025      |
| Suspense Accounts                  | 7     | 122,368             | 36,053         |
|                                    |       | <b>692,159,060</b>  | 735,961,839    |
| <b>Liabilities</b>                 |       |                     |                |
| Deposits                           | 8     | (23,985,718)        | (23,419,273)   |
| Suspense Accounts                  | 7     | (69,476)            | (88,477)       |
|                                    |       | <b>(24,055,194)</b> | (23,507,750)   |
|                                    |       | <b>668,103,866</b>  | 712,454,089    |
| <b>Representing:</b>               |       |                     |                |
| <b>General Revenue Balance</b>     |       |                     |                |
| Balance at beginning of year       |       | 712,454,089         | 628,253,192    |
| (Deficit)/Surplus for the year     |       | (44,350,223)        | 84,200,897     |
| Balance at end of year             | 9, 10 | <b>668,103,866</b>  | 712,454,089    |

Notes 1 to 14 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# General Revenue Account

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000       | 2019<br>\$'000 |
|--|------|----------------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | <b>4,509,675</b>     | 4,226,983      |
| Revenue  | 11   | <b>491,338,328</b>   | 544,949,290    |
| Expenditure  | 12   | <b>(535,688,551)</b> | (460,748,393)  |
| <b>(Deficit)/Surplus for the year</b>              |      | <b>(44,350,223)</b>  | 84,200,897     |
| <b>Other cash movements</b>                        | 13   | <b>43,046,974</b>    | (83,918,205)   |
| <b>Cash and bank balances at end of year</b>       |      | <b>3,206,426</b>     | 4,509,675      |

Notes 1 to 14 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# 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:

|  | 2020<br>\$'000     | 2019<br>\$'000     |
|--|--------------------|--------------------|
| Investments (Notes (ii) to (iv) below) | 683,604,149        | 727,663,996        |
| Deposits                               | 7,497              | 5,264              |
|  | <u>683,611,646</u> | <u>727,669,260</u> |

# General Revenue Account

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

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Pursuant to the Financial Secretary's decision announced in the 2016-17 Budget, as from 1 July 2016, a top-up allocation of \$4.8 billion was made from the General Revenue Account to the Future Fund. The Future Fund was established on 1 January 2016 as a notional savings account within the fiscal reserves. Together with the top-up allocation, it was placed with the Exchange Fund for securing higher investment returns over a ten-year investment period in accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015. Investment return on the Future Fund placement is determined annually based on a composite rate (8.7% and 6.1% for the calendar years 2019 and 2018 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iv) below) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. In respect of the General Revenue Account portion of \$4.8 billion, such accumulated investment return not received as revenue amounted to \$1.7 billion as at 31 December 2019 (*2018: \$1.15 billion*), including the investment return for the calendar year 2019 of \$0.55 billion (*2018: \$0.36 billion*).
- (iv) The part of the fiscal reserves outside the Future Fund (Note (iii) above) is referred to as Operating and Capital Reserves. Investment income on the Operating and Capital Reserves placement with the Exchange Fund is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (*2018: 4.6%*). 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:

|                  | 2020<br>\$'000 | 2019<br>\$'000 |
|------------------|----------------|----------------|
| Hong Kong dollar | 71,450         | 90,421         |
| Foreign currency | 478,338        | 401,405        |
|                  | <u>549,788</u> | <u>491,826</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:

|   | 2020<br>\$'000   | 2019<br>\$'000   |
|---|------------------|------------------|
| Advances to Government officers   | 2,144,719        | 1,366,715        |
| Expenditure on Vietnamese migrants (Note (i) below)   | 1,161,991        | 1,161,991        |
| Payments on behalf of non-departmental public bodies,<br>trading funds and non-statutory corporations wholly-owned<br>by Government | 690,403          | 441,760          |
| Others  | 671,719          | 284,559          |
|   | <u>4,668,832</u> | <u>3,255,025</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 2019-20, the Government of the HKSAR continued to pursue the repayment of the outstanding advances from the UNHCR and to urge it to make renewed efforts to look for donations with a view to settling the amount. So far, the Government of the HKSAR has not received any further repayments.

Efforts to press the UNHCR for early settlement of the outstanding advances will continue. The Government of the HKSAR takes note of the Public Accounts Committee's suggestion to the Panel on Security in March 2020 that the Government of the HKSAR should re-consider writing off the outstanding payment, and will carefully consider the suggestion.

## 7. Suspense Accounts

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

|  | 2020<br>\$'000 | 2019<br>\$'000  |
|--|----------------|-----------------|
| <b>Assets:</b>   |                |                 |
| Correctional Services Industries (Note (i) below)                        | 26,857         | 28,759          |
| Government Logistics Department — Unallocated Stores<br>(Note (i) below) | 95,432         | 7,243           |
| The Financial Secretary Incorporated (Note (ii) below)                   | 79             | 51              |
|  | <u>122,368</u> | <u>36,053</u>   |
| <b>Liabilities:</b>  |                |                 |
| The Special Coin (Note (iii) below)                                      | (69,476)       | (88,477)        |
| Net balance  | <u>52,892</u>  | <u>(52,424)</u> |

- (i) The balances on the Correctional Services Industries Suspense Account and the Government Logistics Department — Unallocated Stores Suspense Account represent the cost of stocks in hand.

# General Revenue Account

## 7. Suspense Accounts *(Continued)*

- (ii) The balance on The Financial Secretary Incorporated Suspense Account represents the net amount arising from dealing with the regrant or renewal of Government Leases and managing the properties comprised therein.
- (iii) The balance on The Special Coin Suspense Account represents the unutilised balance of net proceeds arising from issuing and dealing with special and commemorative coins.

## 8. Deposits

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

|                          | 2020<br>\$'000    | 2019<br>\$'000    |
|--------------------------|-------------------|-------------------|
| Tax reserve certificates | 14,794,836        | 14,671,210        |
| Water deposits           | 1,929,726         | 1,896,033         |
| Tenancy deposits         | 1,822,191         | 1,964,837         |
| Tax overpayments         | 1,365,665         | 972,079           |
| Legal aid deposits       | 1,072,622         | 1,066,115         |
| Private works            | 383,273           | 354,930           |
| Others                   | 2,617,405         | 2,494,069         |
|                          | <b>23,985,718</b> | <b>23,419,273</b> |

## 9. Contingent Liabilities

As at 31 March 2020, 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 \$36,726 million (2019: \$37,289 million);
- (ii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$24,018 million (2019: \$18,275 million);
- (iii) guarantees provided under the SME Financing Guarantee Scheme — 90% Guarantee Coverage amounting to \$817 million (2019: Nil);
- (iv) legal claims, disputes and proceedings amounting to \$5,249 million (2019: \$7,981 million);
- (v) guarantees provided under the SME Loan Guarantee Scheme amounting to \$3,877 million (2019: \$4,104 million); and
- (vi) guarantees provided under the Special Loan Guarantee Scheme amounting to \$329 million (2019: \$449 million).

## 10. Commitments

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

|                               | 2020<br>\$'000    | 2019<br>\$'000    |
|-------------------------------|-------------------|-------------------|
| Non-recurrent expenditure     | 77,021,523        | 68,522,334        |
| Plant, vehicles and equipment | 11,650,245        | 8,517,328         |
| Capital subventions           | 2,733,934         | 2,610,303         |
| Capital works                 | 311,119           | 355,759           |
|                               | <b>91,716,821</b> | <b>80,005,724</b> |



# General Revenue Account

## 11. Revenue

Analysis of total revenue by Head:

| Head  | 2020                        |                           |  |               | 2019               |
|---|-----------------------------|---------------------------|--|---------------|--------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000          | Over/(Under)<br>the Estimate<br>\$'000 | Variance<br>% | Actual<br>\$'000   |
| 1 Duties  | 10,765,768                  | <b>11,390,578</b>         | 624,810                                | 5.8           | 10,635,632         |
| 2 General Rates   | 19,875,000                  | <b>20,980,582</b>         | 1,105,582                              | 5.6           | 17,166,545         |
| 3 Internal Revenue  |                             |                           |  |               |                    |
| Profits tax   | 159,600,000                 | <b>155,900,322</b>        | (3,699,678)                            | (2.3)         | 166,619,646        |
| Salaries tax  | 66,600,000                  | <b>50,412,460</b>         | (16,187,540)                           | (24.3)        | 60,145,881         |
| Stamp duties  | 76,000,000                  | <b>67,197,968</b>         | (8,802,032)                            | (11.6)        | 79,978,723         |
| Other internal revenue  | 34,935,000                  | <b>32,218,384</b>         | (2,716,616)                            | (7.8)         | 34,752,040         |
|   | 337,135,000                 | <b>305,729,134</b>        | (31,405,866)                           | (9.3)         | 341,496,290        |
| 4 Motor Vehicle Taxes   | 9,198,140                   | <b>7,218,830</b>          | (1,979,310)                            | (21.5)        | 9,432,181          |
| 5 Fines, Forfeitures and Penalties                                    | 1,539,831                   | <b>1,800,770</b>          | 260,939                                | 16.9          | 2,836,758          |
| 6 Royalties and Concessions   | 3,503,244                   | <b>3,202,674</b>          | (300,570)                              | (8.6)         | 3,500,655          |
| 7 Properties and Investments  |                             |                           |  |               |                    |
| Income from Investments with<br>the Exchange Fund<br>(Note (i) below) | -                           | <b>39,954,835</b>         | -                                      | -             | 27,605,127         |
| Others  | -                           | <b>25,050,403</b>         | -                                      | -             | 18,557,364         |
|   | 64,646,833                  | <b>65,005,238</b>         | 358,405                                | 0.6           | 46,162,491         |
| 9 Loans, Reimbursements,<br>Contributions and Other<br>Receipts       | 59,878,316                  | <b>59,982,409</b>         | 104,093                                | 0.2           | 93,050,345         |
| 10 Utilities  | 4,421,316                   | <b>3,905,742</b>          | (515,574)                              | (11.7)        | 4,440,110          |
| 11 Fees and Charges   | 14,259,108                  | <b>12,122,371</b>         | (2,136,737)                            | (15.0)        | 16,228,283         |
| Total   | <u>525,222,556</u>          | <u><b>491,338,328</b></u> | <u>(33,884,228)</u>                    | (6.5)         | <u>544,949,290</u> |

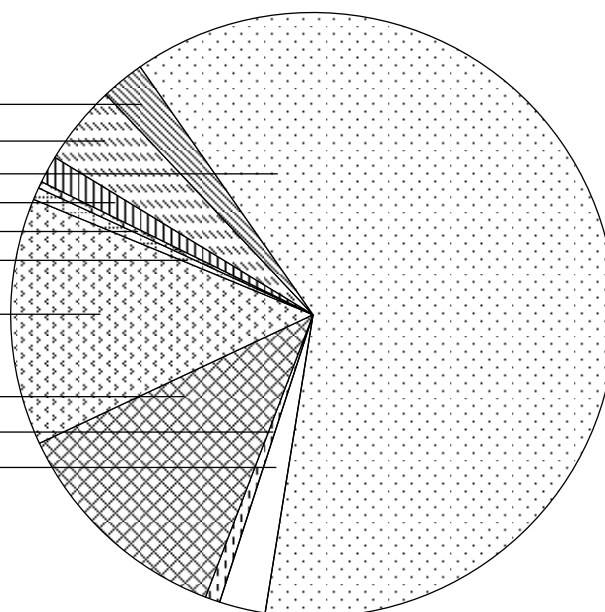
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the General Revenue Account for the calendar years 2014 and 2015 totalling \$40.99 billion (comprising \$14.84 billion for 2014 and \$26.15 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iv). The accumulated investment return was \$6.8 billion up to 31 December 2019 (2018: \$5.45 billion), including the investment return for the calendar year 2019 amounting to \$1.35 billion (2018: \$2.04 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$46.44 billion from the General Revenue Account) was earmarked for public housing development.

During the financial year 2019-20, \$21.19 billion (2019: Nil) was brought back from the Housing Reserve to the General Revenue Account and recorded as investment income. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the General Revenue Account and retained for the Housing Reserve totalled \$26.6 billion (2018: \$46.44 billion).

# General Revenue Account

## Analysis of Revenue for the year ended 31 March 2020

|  |                 |     |
|--|-----------------|-----|
| Duties   | \$11.4 Billion  | 2%  |
| General Rates  | \$21.0 Billion  | 4%  |
| Internal Revenue   | \$305.7 Billion | 62% |
| Motor Vehicle Taxes  | \$7.2 Billion   | 2%  |
| Fines, Forfeitures and Penalties   | \$1.8 Billion   | 1%  |
| Royalties and Concessions  | \$3.2 Billion   | 1%  |
| Properties and Investments   | \$65.0 Billion  | 13% |
| Loans, Reimbursements,<br>Contributions and Other Receipts<br>(Including Transfers from Funds) | \$60.0 Billion  | 12% |
| Utilities  | \$3.9 Billion   | 1%  |
| Fees and Charges   | \$12.1 Billion  | 2%  |



**Total Revenue  
\$491.3 Billion**

## 12. Expenditure

Analysis of total expenditure by Head:

| Head   | 2020                           |                   | Over/(Under)<br>the Estimate<br>\$'000 | Variance<br>% | 2019<br>Actual<br>\$'000 |
|--|--------------------------------|-------------------|--|---------------|--------------------------|
|  | Original<br>Estimate<br>\$'000 | Actual<br>\$'000  |  |               |                          |
| 21 Chief Executive's Office                              | 120,545                        | <b>122,428</b>    | 1,883                                  | 1.6           | 116,977                  |
| 22 Agriculture, Fisheries and<br>Conservation Department | 1,821,273                      | <b>1,698,910</b>  | (122,363)                              | (6.7)         | 1,604,858                |
| 25 Architectural Services Department                     | 2,379,893                      | <b>2,404,391</b>  | 24,498                                 | 1.0           | 2,231,487                |
| 24 Audit Commission                                      | 182,882                        | <b>186,468</b>    | 3,586                                  | 2.0           | 177,274                  |
| 23 Auxiliary Medical Service                             | 107,321                        | <b>98,110</b>     | (9,211)                                | (8.6)         | 95,936                   |
| 82 Buildings Department                                  | 1,656,263                      | <b>1,674,239</b>  | 17,976                                 | 1.1           | 1,556,788                |
| 26 Census and Statistics Department                      | 817,789                        | <b>753,284</b>    | (64,505)                               | (7.9)         | 665,522                  |
| 27 Civil Aid Service                                     | 124,004                        | <b>115,194</b>    | (8,810)                                | (7.1)         | 112,147                  |
| 28 Civil Aviation Department                             | 1,157,484                      | <b>1,146,785</b>  | (10,699)                               | (0.9)         | 1,062,930                |
| 33 Civil Engineering and<br>Development Department       | 3,040,354                      | <b>3,022,825</b>  | (17,529)                               | (0.6)         | 2,578,131                |
| 30 Correctional Services Department                      | 4,228,478                      | <b>4,308,750</b>  | 80,272                                 | 1.9           | 4,061,087                |
| 31 Customs and Excise Department                         | 4,943,961                      | <b>4,559,470</b>  | (384,491)                              | (7.8)         | 4,135,699                |
| 37 Department of Health                                  | 13,300,751                     | <b>12,005,663</b> | (1,295,088)                            | (9.7)         | 10,229,445               |
| 92 Department of Justice                                 | 2,329,724                      | <b>1,797,306</b>  | (532,418)                              | (22.9)        | 1,740,755                |
| 39 Drainage Services Department                          | 2,935,378                      | <b>2,959,561</b>  | 24,183                                 | 0.8           | 2,828,600                |

# General Revenue Account

## 12. Expenditure (Continued)

| Head  | 2020                        |                   |  |               | 2019             |
|---|-----------------------------|-------------------|--|---------------|------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000  | Over/(Under)<br>the Estimate<br>\$'000 | Variance<br>% | Actual<br>\$'000 |
| 42 Electrical and Mechanical Services Department  | 1,176,102                   | <b>1,082,143</b>  | (93,959)                               | (8.0)         | 858,717          |
| 44 Environmental Protection Department  | 6,959,161                   | <b>6,114,974</b>  | (844,187)                              | (12.1)        | 5,212,695        |
| 45 Fire Services Department   | 7,161,588                   | <b>6,943,582</b>  | (218,006)                              | (3.0)         | 6,503,011        |
| 49 Food and Environmental Hygiene Department  | 8,434,909                   | <b>8,424,324</b>  | (10,585)                               | (0.1)         | 7,551,598        |
| 46 General Expenses of the Civil Service  | 4,106,593                   | <b>3,729,492</b>  | (377,101)                              | (9.2)         | 3,550,272        |
| 166 Government Flying Service   | 735,367                     | <b>553,727</b>    | (181,640)                              | (24.7)        | 1,054,694        |
| 48 Government Laboratory  | 538,622                     | <b>552,249</b>    | 13,627                                 | 2.5           | 502,972          |
| 59 Government Logistics Department  | 568,389                     | <b>565,127</b>    | (3,262)                                | (0.6)         | 540,544          |
| 51 Government Property Agency   | 2,227,077                   | <b>1,987,288</b>  | (239,789)                              | (10.8)        | 1,963,245        |
| 143 Government Secretariat: Civil Service Bureau  | 733,778                     | <b>653,488</b>    | (80,290)                               | (10.9)        | 619,882          |
| 152 Government Secretariat: Commerce and Economic Development Bureau (Commerce, Industry and Tourism Branch)        | 3,171,327                   | <b>3,108,084</b>  | (63,243)                               | (2.0)         | 2,238,919        |
| 55 Government Secretariat: Commerce and Economic Development Bureau (Communications and Creative Industries Branch) | 903,866                     | <b>553,296</b>    | (350,570)                              | (38.8)        | 475,934          |
| 144 Government Secretariat: Constitutional and Mainland Affairs Bureau  | 766,755                     | <b>736,891</b>    | (29,864)                               | (3.9)         | 679,064          |
| 138 Government Secretariat: Development Bureau (Planning and Lands Branch)  | 1,015,941                   | <b>945,749</b>    | (70,192)                               | (6.9)         | 601,017          |
| 159 Government Secretariat: Development Bureau (Works Branch)   | 708,532                     | <b>707,778</b>    | (754)                                  | (0.1)         | 1,514,029        |
| 156 Government Secretariat: Education Bureau  | 67,944,609                  | <b>69,898,677</b> | 1,954,068                              | 2.9           | 67,645,260       |
| 137 Government Secretariat: Environment Bureau  | 1,795,931                   | <b>1,751,085</b>  | (44,846)                               | (2.5)         | 360,449          |
| 148 Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)                  | 872,510                     | <b>749,915</b>    | (122,595)                              | (14.1)        | 522,094          |

# General Revenue Account

## 12. Expenditure (Continued)

| Head  | 2020                        |                   |  |               | 2019             |
|---|-----------------------------|-------------------|--|---------------|------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000  | Over/(Under)<br>the Estimate<br>\$'000 | Variance<br>% | Actual<br>\$'000 |
| 147 Government Secretariat: Financial Services and the Treasury Bureau (The Treasury Branch)              | 305,311                     | <b>1,046,061</b>  | 740,750                                | 242.6         | 304,738          |
| 139 Government Secretariat: Food and Health Bureau (Food Branch)  | 178,304                     | <b>170,128</b>    | (8,176)                                | (4.6)         | 161,195          |
| 140 Government Secretariat: Food and Health Bureau (Health Branch)  | 71,181,690                  | <b>73,558,265</b> | 2,376,575                              | 3.3           | 65,282,861       |
| 53 Government Secretariat: Home Affairs Bureau  | 2,265,617                   | <b>2,173,751</b>  | (91,866)                               | (4.1)         | 8,994,386        |
| 135 Government Secretariat: Innovation and Technology Bureau  | 751,008                     | <b>501,667</b>    | (249,341)                              | (33.2)        | 402,888          |
| 155 Government Secretariat: Innovation and Technology Commission  | 820,794                     | <b>725,068</b>    | (95,726)                               | (11.7)        | 677,900          |
| 141 Government Secretariat: Labour and Welfare Bureau   | 937,078                     | <b>929,079</b>    | (7,999)                                | (0.9)         | 842,244          |
| 47 Government Secretariat: Office of the Government Chief Information Officer                             | 806,504                     | <b>838,089</b>    | 31,585                                 | 3.9           | 769,490          |
| 142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary | 1,030,663                   | <b>30,957,106</b> | 29,926,443                             | 2,903.6       | 785,528          |
| 96 Government Secretariat: Overseas Economic and Trade Offices  | 531,495                     | <b>415,388</b>    | (116,107)                              | (21.8)        | 349,102          |
| 151 Government Secretariat: Security Bureau   | 819,927                     | <b>815,471</b>    | (4,456)                                | (0.5)         | 702,046          |
| 158 Government Secretariat: Transport and Housing Bureau (Transport Branch)                               | 337,151                     | <b>335,452</b>    | (1,699)                                | (0.5)         | 301,694          |
| 60 Highways Department  | 4,175,667                   | <b>3,839,784</b>  | (335,883)                              | (8.0)         | 3,289,940        |
| 63 Home Affairs Department  | 3,260,297                   | <b>3,088,116</b>  | (172,181)                              | (5.3)         | 2,809,705        |
| 168 Hong Kong Observatory   | 381,364                     | <b>378,386</b>    | (2,978)                                | (0.8)         | 338,248          |
| 122 Hong Kong Police Force  | 20,682,101                  | <b>23,701,359</b> | 3,019,258                              | 14.6          | 20,036,201       |
| 62 Housing Department   | 357,962                     | <b>1,787,793</b>  | 1,429,831                              | 399.4         | 322,579          |
| 70 Immigration Department   | 6,152,753                   | <b>6,080,854</b>  | (71,899)                               | (1.2)         | 5,109,614        |
| 72 Independent Commission Against Corruption  | 1,167,704                   | <b>1,193,841</b>  | 26,137                                 | 2.2           | 1,147,380        |
| 121 Independent Police Complaints Council   | 95,852                      | <b>105,459</b>    | 9,607                                  | 10.0          | 79,199           |

# General Revenue Account

## 12. Expenditure (Continued)

| Head   | 2020                        |                   |  |               | 2019             |
|--|-----------------------------|-------------------|--|---------------|------------------|
|  | Original Estimate<br>\$'000 | Actual<br>\$'000  | Over/(Under)<br>the Estimate<br>\$'000 | Variance<br>% | Actual<br>\$'000 |
| 74 Information Services Department   | 545,982                     | <b>565,681</b>    | 19,699                                 | 3.6           | 521,502          |
| 76 Inland Revenue Department   | 1,721,902                   | <b>1,701,845</b>  | (20,057)                               | (1.2)         | 1,605,078        |
| 78 Intellectual Property Department  | 185,778                     | <b>189,824</b>    | 4,046                                  | 2.2           | 177,484          |
| 79 Invest Hong Kong  | 144,307                     | <b>144,629</b>    | 322                                    | 0.2           | 143,986          |
| 174 Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service | 48,349                      | <b>47,506</b>     | (843)                                  | (1.7)         | 37,206           |
| 80 Judiciary   | 2,109,451                   | <b>1,936,161</b>  | (173,290)                              | (8.2)         | 1,801,888        |
| 90 Labour Department   | 2,062,711                   | <b>1,940,063</b>  | (122,648)                              | (5.9)         | 1,978,118        |
| 91 Lands Department  | 3,017,840                   | <b>3,104,740</b>  | 86,900                                 | 2.9           | 2,753,754        |
| 94 Legal Aid Department  | 1,590,214                   | <b>1,481,258</b>  | (108,956)                              | (6.9)         | 1,132,580        |
| 112 Legislative Council Commission   | 954,274                     | <b>952,447</b>    | (1,827)                                | (0.2)         | 886,963          |
| 95 Leisure and Cultural Services Department  | 9,916,896                   | <b>9,829,672</b>  | (87,224)                               | (0.9)         | 9,080,260        |
| 100 Marine Department  | 1,623,339                   | <b>1,608,184</b>  | (15,155)                               | (0.9)         | 1,531,814        |
| 106 Miscellaneous Services   | 33,152,664                  | <b>375,686</b>    | (32,776,978)                           | (98.9)        | 445,685          |
| 180 Office for Film, Newspaper and Article Administration  | 51,627                      | <b>48,667</b>     | (2,960)                                | (5.7)         | 49,622           |
| 114 Office of The Ombudsman  | 122,055                     | <b>127,419</b>    | 5,364                                  | 4.4           | 121,546          |
| 116 Official Receiver's Office   | 223,201                     | <b>216,915</b>    | (6,286)                                | (2.8)         | 335,660          |
| 120 Pensions   | 39,596,125                  | <b>38,648,249</b> | (947,876)                              | (2.4)         | 36,783,768       |
| 118 Planning Department  | 788,965                     | <b>770,517</b>    | (18,448)                               | (2.3)         | 712,284          |
| 136 Public Service Commission Secretariat  | 27,694                      | <b>28,469</b>     | 775                                    | 2.8           | 27,442           |
| 160 Radio Television Hong Kong   | 1,021,055                   | <b>1,041,651</b>  | 20,596                                 | 2.0           | 1,037,585        |
| 162 Rating and Valuation Department  | 689,846                     | <b>587,760</b>    | (102,086)                              | (14.8)        | 548,747          |
| 163 Registration and Electoral Office  | 796,430                     | <b>738,093</b>    | (58,337)                               | (7.3)         | 410,120          |
| 169 Secretariat, Commissioner on Interception of Communications and Surveillance                               | 25,158                      | <b>22,146</b>     | (3,012)                                | (12.0)        | 23,845           |
| 170 Social Welfare Department  | 85,115,708                  | <b>86,158,486</b> | 1,042,778                              | 1.2           | 85,058,369       |
| 181 Trade and Industry Department  | 929,794                     | <b>963,520</b>    | 33,726                                 | 3.6           | 780,652          |
| 186 Transport Department   | 6,727,739                   | <b>5,592,416</b>  | (1,135,323)                            | (16.9)        | 3,804,756        |
| 188 Treasury   | 432,932                     | <b>444,082</b>    | 11,150                                 | 2.6           | 413,063          |
| 190 University Grants Committee  | 22,500,710                  | <b>44,102,745</b> | 21,602,035                             | 96.0          | 22,888,646       |

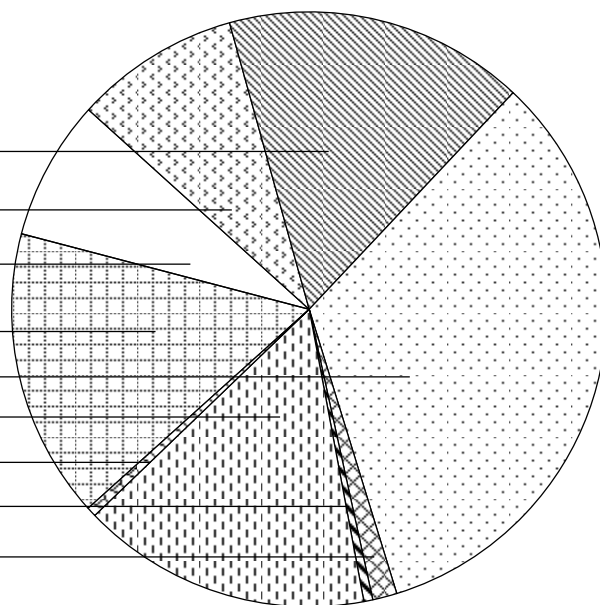
# General Revenue Account

## 12. Expenditure (Continued)

| Head  | 2020                        |                    |  |               | 2019             |
|---|-----------------------------|--------------------|--|---------------|------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000   | Over/(Under)<br>the Estimate<br>\$'000 | Variance<br>% | Actual<br>\$'000 |
| 194 Water Supplies Department                                 | 8,674,551                   | <b>8,763,553</b>   | 89,002                                 | 1.0           | 8,475,139        |
| 173 Working Family and Student<br>Financial Assistance Agency | 18,717,089                  | <b>17,929,797</b>  | (787,292)                              | (4.2)         | 6,281,861        |
|   | 508,720,785                 | <b>528,614,551</b> | 19,893,766                             | 3.9           | 438,148,393      |
| 184 Transfers to Funds  | 7,074,000                   | <b>7,074,000</b>   | -                                      | -             | 22,600,000       |
| Total   | 515,794,785                 | <b>535,688,551</b> | 19,893,766                             | 3.9           | 460,748,393      |

## Analysis of Expenditure for the year ended 31 March 2020

|                                   |                        |            |
|-----------------------------------|------------------------|------------|
| <b>Personal Emoluments</b>        | <b>\$87.5 Billion</b>  | <b>16%</b> |
| <b>Personnel Related Expenses</b> | <b>\$48.1 Billion</b>  | <b>9%</b>  |
| <b>Departmental Expenses</b>      | <b>\$40.8 Billion</b>  | <b>7%</b>  |
| <b>Other Charges</b>              | <b>\$84.4 Billion</b>  | <b>16%</b> |
| <b>Recurrent Subventions</b>      | <b>\$178.0 Billion</b> | <b>33%</b> |
| <b>Non-Recurrent Expenditure</b>  | <b>\$84.4 Billion</b>  | <b>16%</b> |
| <b>Plant, Equipment and Works</b> | <b>\$2.8 Billion</b>   | <b>1%</b>  |
| <b>Capital Subventions</b>        | <b>\$2.6 Billion</b>   | <b>1%</b>  |
| <b>Transfers to Funds</b>         | <b>\$7.1 Billion</b>   | <b>1%</b>  |



**Total Expenditure  
\$535.7 Billion**

# General Revenue Account

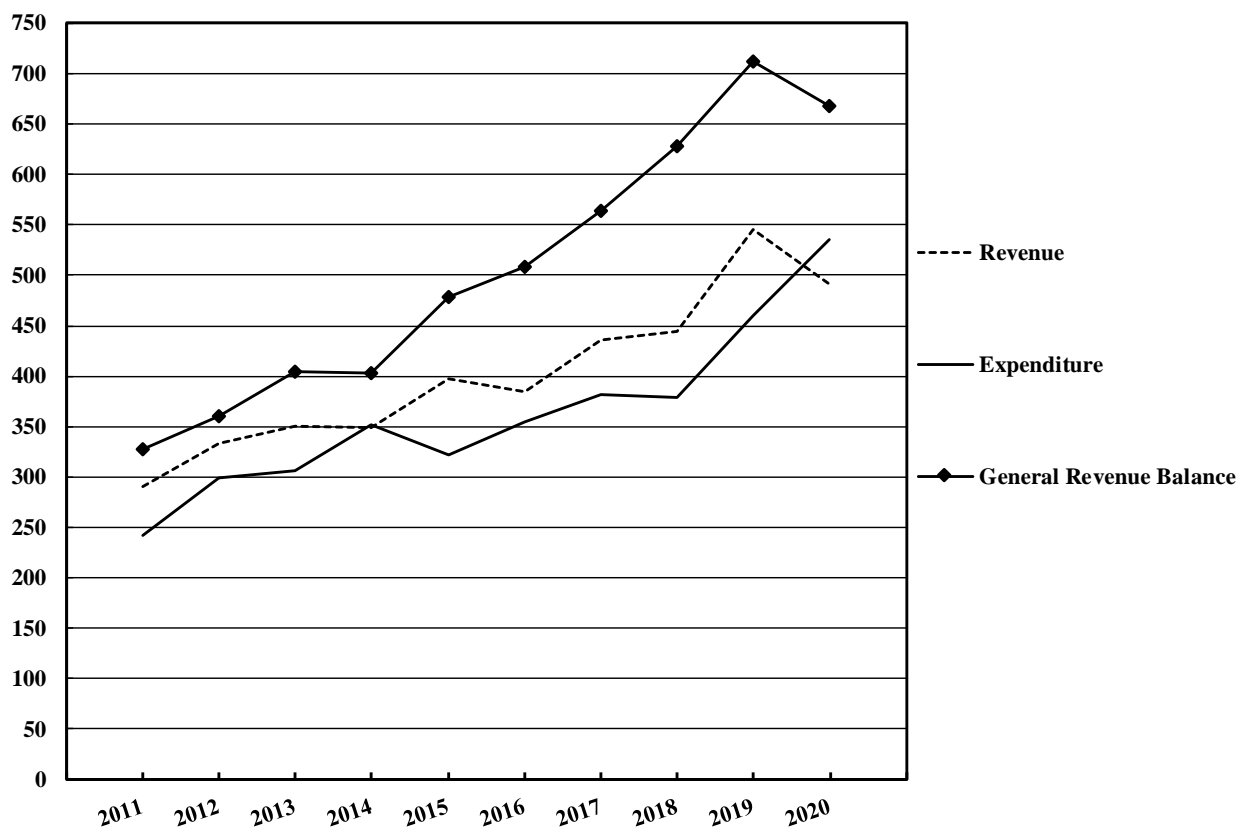
## 13. Other Cash Movements

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

|  | 2020<br>\$'000    | 2019<br>\$'000      |
|--|-------------------|---------------------|
| <b>Reduction/(Increase) in Assets</b>      |                   |                     |
| Investments with the Exchange Fund         | 44,057,614        | (86,928,513)        |
| Deposits with banks                        | (57,962)          | 40,927              |
| Advances                                   | (1,413,807)       | (353,749)           |
| Suspense Accounts                          | (86,315)          | (3,539)             |
|  | <b>42,499,530</b> | <b>(87,244,874)</b> |
| <b>Increase/(Reduction) in Liabilities</b> |                   |                     |
| Deposits                                   | 566,445           | 3,326,113           |
| Suspense Accounts                          | (19,001)          | 556                 |
|  | <b>547,444</b>    | <b>3,326,669</b>    |
|  | <b>43,046,974</b> | <b>(83,918,205)</b> |

## Revenue, Expenditure and General Revenue Balance for the years ended 31 March 2011 to 2020

\$Billion



## 14. Comparative Figures

Certain comparative figures have been re-classified to conform with the presentation of the current year.

# 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 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.



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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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 2020

(Expressed in Hong Kong dollars)

|                                    | Note    | 2020<br>\$'000 | 2019<br>\$'000 |
|------------------------------------|---------|----------------|----------------|
| <b>Assets</b>                      |         |                |                |
| Investments with the Exchange Fund | 3       | 178,653,310    | 148,640,017    |
| Cash and bank balances             |         | 1,713          | 2,084          |
|                                    |         | 178,655,023    | 148,642,101    |
| <b>Liabilities</b>                 |         |                |                |
| Deposits                           | 4       | (1,821,668)    | (1,950,222)    |
|                                    |         | 176,833,355    | 146,691,879    |
| <b>Representing:</b>               |         |                |                |
| <b>Fund Balance</b>                |         |                |                |
| Balance at beginning of year       |         | 146,691,879    | 182,753,631    |
| Surplus/(Deficit) for the year     |         | 30,141,476     | (36,061,752)   |
| Balance at end of year             | 5, 6, 7 | 176,833,355    | 146,691,879    |

Notes 1 to 10 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Capital Works Reserve Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000      | 2019<br>\$'000 |
|--|------|---------------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | <b>2,084</b>        | 5,292          |
| Receipts   | 8    | 155,198,455         | 125,848,798    |
| Payments   | 5, 9 | (125,056,979)       | (161,910,550)  |
| <b>Surplus/(Deficit) for the year</b>              |      | <b>30,141,476</b>   | (36,061,752)   |
| <b>Other cash movements</b>                        | 10   | <b>(30,141,847)</b> | 36,058,544     |
| <b>Cash and bank balances at end of year</b>       |      | <b>1,713</b>        | 2,084          |

Notes 1 to 10 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# 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:

|  | 2020<br>\$'000     | 2019<br>\$'000     |
|--|--------------------|--------------------|
| Investments (Notes (ii) and (iii) below) | 178,605,411        | 148,590,477        |
| Deposits                                 | 47,899             | 49,540             |
|  | <u>178,653,310</u> | <u>148,640,017</u> |

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). 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:

|                          | <b>2020</b>             | 2019             |
|--------------------------|-------------------------|------------------|
|                          | <b>\$'000</b>           | \$'000           |
| Contract retention money | <b>1,644,605</b>        | 1,729,715        |
| Others                   | <b>177,063</b>          | 220,507          |
|                          | <b><u>1,821,668</u></b> | <u>1,950,222</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 bonds and notes totalling \$20 billion (including institutional notes of US\$1.25 billion denominated in United States dollars) to retail and institutional investors in July 2004. Following another resolution passed under section 3(1) of the Loans Ordinance, the Government issued Green Bonds of US\$1 billion under the Government Green Bond Programme in May 2019 to provide funding for green public works projects of the Government. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

|  | <b>2020</b>             | 2019             |
|--|-------------------------|------------------|
|  | <b>\$'000</b>           | \$'000           |
| Green Bonds (Notes (i) and (ii) below)                               | <b>7,754,000</b>        | -                |
| Government bonds and notes issued in July 2004<br>(Note (iii) below) | -                       | 1,500,000        |
|  | <b><u>7,754,000</u></b> | <u>1,500,000</u> |

- (i) The Green Bonds denominated in United States dollars will mature in May 2024. During the financial year, payments of interest on the Green Bonds amounted to \$98 million (2019: Nil) and there was no repayment of principal (2019: Nil).
- (ii) The outstanding Green Bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.
- (iii) The government bonds and notes were notes denominated in Hong Kong dollars and were fully repaid at maturity in July 2019. During the financial year, payments of interest on the notes amounted to \$38 million (2019: \$77 million).

## 6. Contingent Liabilities

As at 31 March 2020, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,212 million (2019: \$2,395 million).

# Capital Works Reserve Fund

## 7. Commitments

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

| <b>Head</b>                                   | <b>2020</b>                      | <b>2019</b>                      |
|---|----------------------------------|----------------------------------|
|   | <b>\$'000</b>                    | <b>\$'000</b>                    |
| <b>Land acquisition</b>                       |                                  |                                  |
| 701 Land acquisition                          | <u>20,938,801</u>                | <u>18,395,581</u>                |
| <b>Sub-total</b>                              | <b><u>20,938,801</u></b>         | <b><u>18,395,581</u></b>         |
| <b>Capital works – Public Works Programme</b> |                                  |                                  |
| 702 Port and airport development              | <b>80,960</b>                    | 81,880                           |
| 703 Buildings                                 | <b>126,091,888</b>               | 120,095,793                      |
| 704 Drainage                                  | <b>39,464,283</b>                | 21,261,840                       |
| 705 Civil engineering                         | <b>44,706,309</b>                | 47,711,928                       |
| 706 Highways                                  | <b>89,013,001</b>                | 105,356,256                      |
| 707 New towns and urban area development      | <b>115,744,310</b>               | 70,380,235                       |
| 709 Waterworks                                | <b>19,039,912</b>                | 11,911,456                       |
| 711 Housing                                   | <b>10,550,675</b>                | <u>10,005,924</u>                |
| <b>Sub-total</b>                              | <b><u>444,691,338</u></b>        | <b><u>386,805,312</u></b>        |
| <b>Capital subventions</b>                    |                                  |                                  |
| 708 (part) Capital subventions                | <b><u>33,976,289</u></b>         | <u>38,396,289</u>                |
| <b>Sub-total</b>                              | <b><u>33,976,289</u></b>         | <b><u>38,396,289</u></b>         |
| <b>Systems and equipment</b>                  |                                  |                                  |
| 708 (part) Major systems and equipment        | <b>8,032,932</b>                 | 8,493,350                        |
| 710 Computerisation                           | <b>10,439,284</b>                | <u>12,190,239</u>                |
| <b>Sub-total</b>                              | <b><u>18,472,216</u></b>         | <b><u>20,683,589</u></b>         |
|   | <b><u><u>518,078,644</u></u></b> | <b><u><u>464,280,771</u></u></b> |

# Capital Works Reserve Fund

## 8. Receipts

|   | 2020                        |                    | 2019             |
|---|-----------------------------|--------------------|------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000   | Actual<br>\$'000 |
| Land premium  |                             |                    |                  |
| Sales by public auction and tender                        | -                           | <b>120,151,328</b> | 84,254,576       |
| Private treaty grants                                     | -                           | <b>156,084</b>     | 64,513           |
| Modification of existing leases, exchanges and extensions | -                           | <b>20,681,649</b>  | 31,733,381       |
| Fees received in respect of short term waivers            | -                           | <b>738,710</b>     | 808,131          |
|   | 143,000,000                 | <b>141,727,771</b> | 116,860,601      |
| Investment income   |                             |                    |                  |
| Investments with the Exchange Fund (Note (i) below)       | -                           | <b>5,488,216</b>   | 8,928,354        |
| Others  | -                           | <b>1,347</b>       | 1,416            |
|   | 5,260,000                   | <b>5,489,563</b>   | 8,929,770        |
| Other receipts  |                             |                    |                  |
| Donations and contributions                               | 26,972                      | <b>3,549</b>       | 19,408           |
| Others  | -                           | <b>148,844</b>     | 39,019           |
|   | 26,972                      | <b>152,393</b>     | 58,427           |
| Net proceeds from issuance of bonds                       |                             |                    |                  |
| Green Bonds   | -                           | <b>7,828,728</b>   | -                |
|   | 148,286,972                 | <b>155,198,455</b> | 125,848,798      |

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). The accumulated investment return was \$1.16 billion up to 31 December 2019 (2018: \$0.93 billion), including the investment return for the calendar year 2019 amounting to \$0.23 billion (2018: \$0.34 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$7.79 billion from the Fund) was earmarked for public housing development.

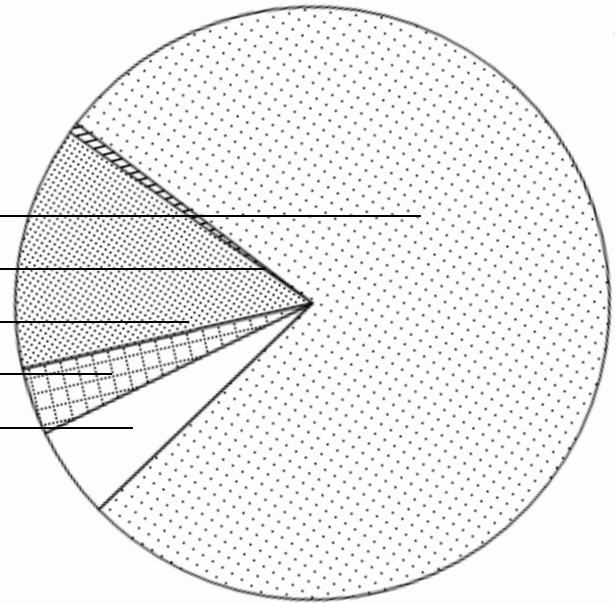
During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$8.02 billion (2018: \$7.79 billion).



# Capital Works Reserve Fund

## Analysis of Receipts for the year ended 31 March 2020

|   |                        |            |
|---|------------------------|------------|
| <u>Sales by public auction and tender</u>                                       | <u>\$120.1 Billion</u> | <u>77%</u> |
| <u>Private treaty grants and fees received in respect of short term waivers</u> | <u>\$0.9 Billion</u>   | <u>1%</u>  |
| <u>Modification of existing leases, exchanges and extensions</u>                | <u>\$20.7 Billion</u>  | <u>13%</u> |
| <u>Investment income and other receipts</u>                                     | <u>\$5.7 Billion</u>   | <u>4%</u>  |
| <u>Net proceeds from issuance of Green Bonds</u>                                | <u>\$7.8 Billion</u>   | <u>5%</u>  |



**Total Receipts  
\$155.2 Billion**

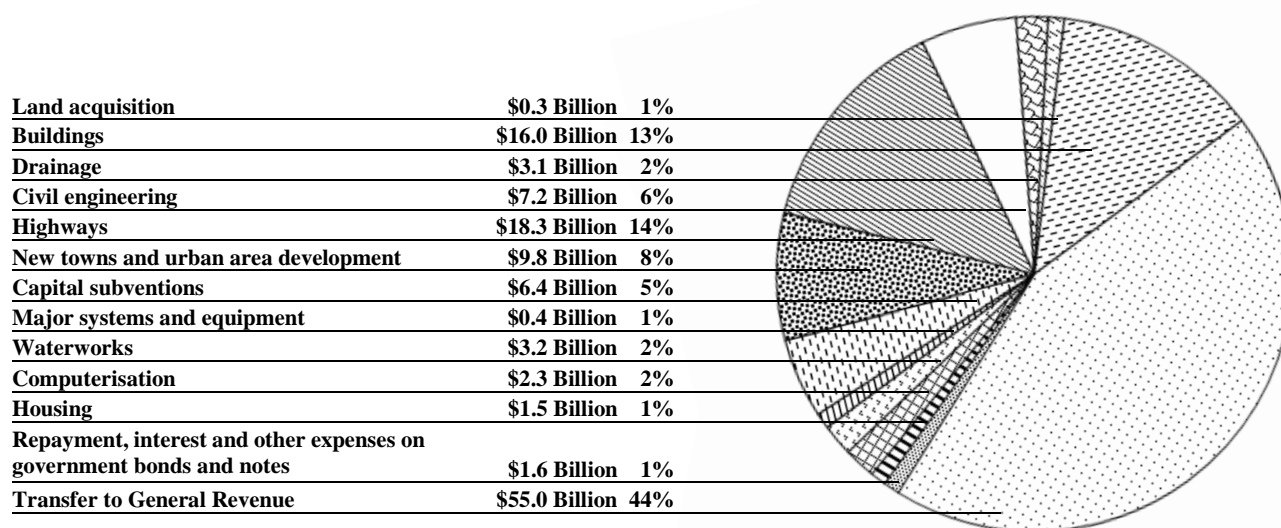
# Capital Works Reserve Fund

## 9. Payments

|   | 2020                        |                           | 2019               |
|---|-----------------------------|---------------------------|--------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000          | Actual<br>\$'000   |
| Land acquisition                                    | 3,150,440                   | <b>262,326</b>            | 580,874            |
| Public Works Programme                              |                             |                           |                    |
| Port and airport development                        | 490                         | <b>920</b>                | 972                |
| Buildings   | 21,923,316                  | <b>16,030,952</b>         | 14,053,765         |
| Drainage  | 3,236,029                   | <b>3,122,658</b>          | 2,840,242          |
| Civil engineering                                   | 8,037,397                   | <b>7,147,529</b>          | 8,396,699          |
| Highways  | 21,274,278                  | <b>18,287,479</b>         | 27,662,667         |
| New towns and urban area development                | 11,412,678                  | <b>9,768,399</b>          | 9,082,415          |
| Waterworks  | 4,261,435                   | <b>3,202,150</b>          | 2,995,969          |
| Housing   | 2,189,452                   | <b>1,461,962</b>          | 1,276,645          |
|   | 72,335,075                  | <b>59,022,049</b>         | 66,309,374         |
| Capital subventions and major systems and equipment |                             |                           |                    |
| Capital subventions                                 | 6,224,780                   | <b>6,391,407</b>          | 12,345,715         |
| Major systems and equipment                         | 836,724                     | <b>419,384</b>            | 300,111            |
|   | 7,061,504                   | <b>6,810,791</b>          | 12,645,826         |
| Computerisation                                     | 2,571,456                   | <b>2,309,053</b>          | 2,227,272          |
| Government bonds and notes                          |                             |                           |                    |
| Repayment   | 1,500,000                   | <b>1,500,000</b>          | -                  |
| Interest and other expenses                         | 38,125                      | <b>143,008</b>            | 76,880             |
|   | 1,538,125                   | <b>1,643,008</b>          | 76,880             |
| Transfer to General Revenue                         | 55,000,000                  | <b>55,000,000</b>         | 80,000,000         |
| Other payments                                      |                             |                           |                    |
| Refund of overpayment of land premium               | -                           | <b>9,752</b>              | 70,324             |
|   | <u>141,656,600</u>          | <u><b>125,056,979</b></u> | <u>161,910,550</u> |

# Capital Works Reserve Fund

## Analysis of Payments for the year ended 31 March 2020 \*



**Total Payments**  
**\$125.1 Billion**

\* Actual payments on "Port and airport development" and "Refund of overpayment of land premium" are not shown as they are less than \$0.1 billion each.

### 10. Other Cash Movements

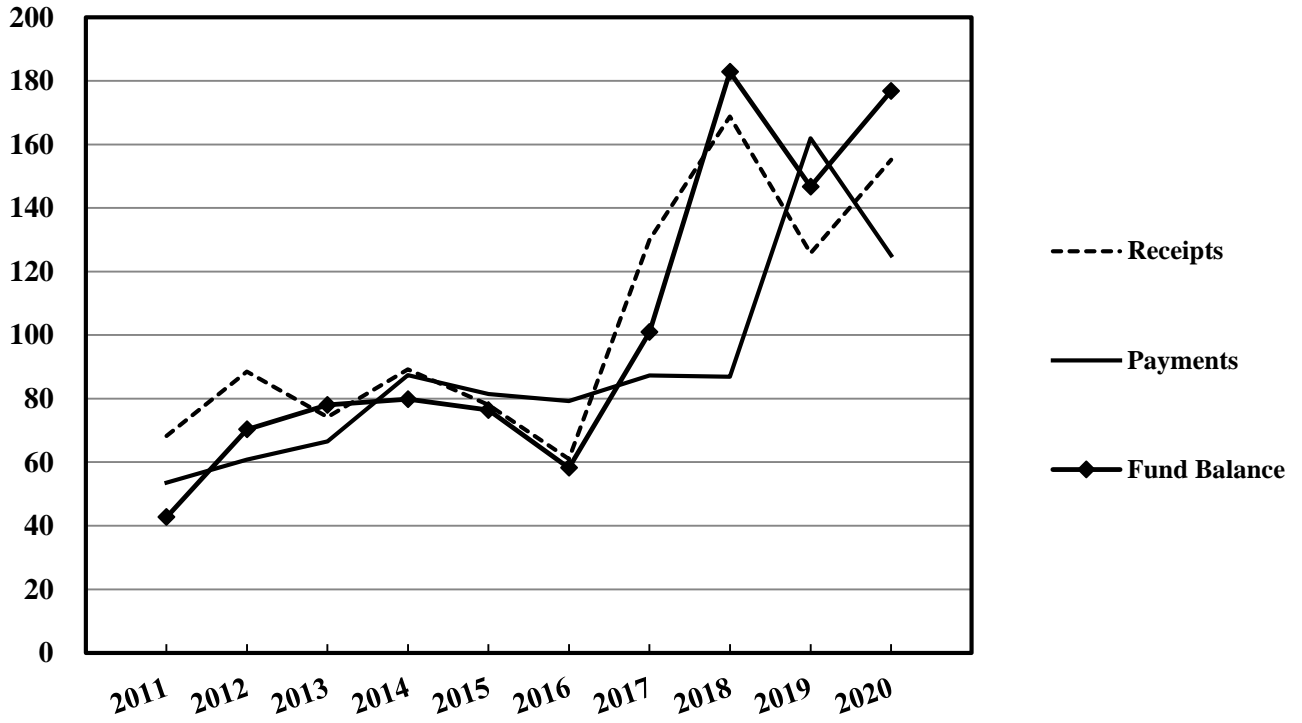
These are cash movements arising from changes in other assets and liabilities:

|  | 2020<br>\$'000      | 2019<br>\$'000    |
|--|---------------------|-------------------|
| <b>(Increase)/Reduction in Assets</b>      |                     |                   |
| Investments with the Exchange Fund         | (30,013,293)        | 36,056,124        |
| <b>(Reduction)/Increase in Liabilities</b> |                     |                   |
| Deposits                                   | (128,554)           | 2,420             |
|  | <u>(30,141,847)</u> | <u>36,058,544</u> |

# Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$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 46, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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



# Capital Investment Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

|                                    | Note        | 2020<br>\$'000     | 2019<br>\$'000 |
|------------------------------------|-------------|--------------------|----------------|
| <b>Assets</b>                      |             |                    |                |
| <b>Investments</b>                 | <b>3</b>    |                    |                |
| Equity holdings                    |             | 151,377,132        | 147,449,916    |
| Other investments                  |             | 588,512,179        | 565,183,137    |
|                                    |             | <b>739,889,311</b> | 712,633,053    |
| <b>Loans Outstanding</b>           | <b>4</b>    | 1,557,376          | 1,656,579      |
|                                    |             | <b>741,446,687</b> | 714,289,632    |
| <b>Current Assets</b>              |             |                    |                |
| Investments with the Exchange Fund | 5           | 3,360,002          | 331,598        |
| Cash and bank balances             |             | 1                  | 1              |
|                                    |             | <b>3,360,003</b>   | 331,599        |
|                                    |             | <b>744,806,690</b> | 714,621,231    |
| <b>Representing:</b>               |             |                    |                |
| <b>Total Fund Balance</b>          |             |                    |                |
| <b>Applied Fund</b>                | <b>6</b>    | <b>741,446,687</b> | 714,289,632    |
| <b>Available Fund</b>              | <b>7</b>    |                    |                |
| Balance at beginning of year       |             | 331,599            | 2,917,527      |
| Surplus/(Deficit) for the year     |             | 3,028,404          | (2,585,928)    |
| Balance at end of year             |             | <b>3,360,003</b>   | 331,599        |
|                                    | <b>8, 9</b> | <b>744,806,690</b> | 714,621,231    |

Notes 1 to 12 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Capital Investment Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000 | 2019<br>\$'000 |
|--|------|----------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | 1              | 1              |
| Receipts   | 10   | 6,955,620      | 1,401,518      |
| Payments   | 11   | (3,927,216)    | (3,987,446)    |
| <b>Surplus/(Deficit) for the year</b>              |      | 3,028,404      | (2,585,928)    |
| <b>Other cash movements</b>                        | 12   | (3,028,404)    | 2,585,928      |
| <b>Cash and bank balances at end of year</b>       |      | 1              | 1              |

Notes 1 to 12 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# 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)

|                               | 2020                      |                             |                    | 2019                      |                             |                    |
|-------------------------------|---------------------------|-----------------------------|--------------------|---------------------------|-----------------------------|--------------------|
|                               | Equity Holdings<br>\$'000 | Other Investments<br>\$'000 | Total<br>\$'000    | Equity Holdings<br>\$'000 | Other Investments<br>\$'000 | Total<br>\$'000    |
| Balance at beginning of year  | 147,449,916               | 565,183,137                 | 712,633,053        | 138,381,137               | 518,693,108                 | 657,074,245        |
| <b>Additions</b>              |                           |                             |                    |                           |                             |                    |
| Cash acquisitions             | 3,927,216                 | -                           | 3,927,216          | 3,987,446                 | -                           | 3,987,446          |
| Non-cash acquisitions         | -                         | 23,329,042                  | 23,329,042         | 5,081,333                 | 46,490,029                  | 51,571,362         |
|                               | 3,927,216                 | 23,329,042                  | 27,256,258         | 9,068,779                 | 46,490,029                  | 55,558,808         |
| <b>Balance at end of year</b> | <b>151,377,132</b>        | <b>588,512,179</b>          | <b>739,889,311</b> | <b>147,449,916</b>        | <b>565,183,137</b>          | <b>712,633,053</b> |

# Capital Investment Fund

## 4. Loans Outstanding

|                               | 2020<br>\$'000          | 2019<br>\$'000          |
|-------------------------------|-------------------------|-------------------------|
| Balance at beginning of year  | 1,656,579               | 2,085,028               |
| <b>Additions</b>              |                         |                         |
| Capitalised interest          | -                       | 29,201                  |
| <b>Deductions</b>             |                         |                         |
| Loan repayments               | (99,203)                | (457,650)               |
| <b>Balance at end of year</b> | <u><u>1,557,376</u></u> | <u><u>1,656,579</u></u> |

## 5. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). 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 2020, the Government had the following contingent liabilities:

- (i) subscription to callable shares in the Asian Development Bank amounting to \$5,833 million (2019: \$5,985 million);
- (ii) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2019: \$4,800 million) with commitment approved; and
- (iii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$975 million (2019: \$1,866 million).

# Capital Investment Fund

## 9. Commitments

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

|                              | 2020<br>\$'000           | 2019<br>\$'000           |
|------------------------------|--------------------------|--------------------------|
| Investments (Note (i) below) | 13,991,137               | 17,920,446               |
| Loans                        | <u>2,270,000</u>         | <u>2,270,000</u>         |
|                              | <u><b>16,261,137</b></u> | <u><b>20,190,446</b></u> |

- (i) These included an approved commitment of \$4,800 million (2019: \$4,800 million) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 8(ii)).

## 10. Receipts

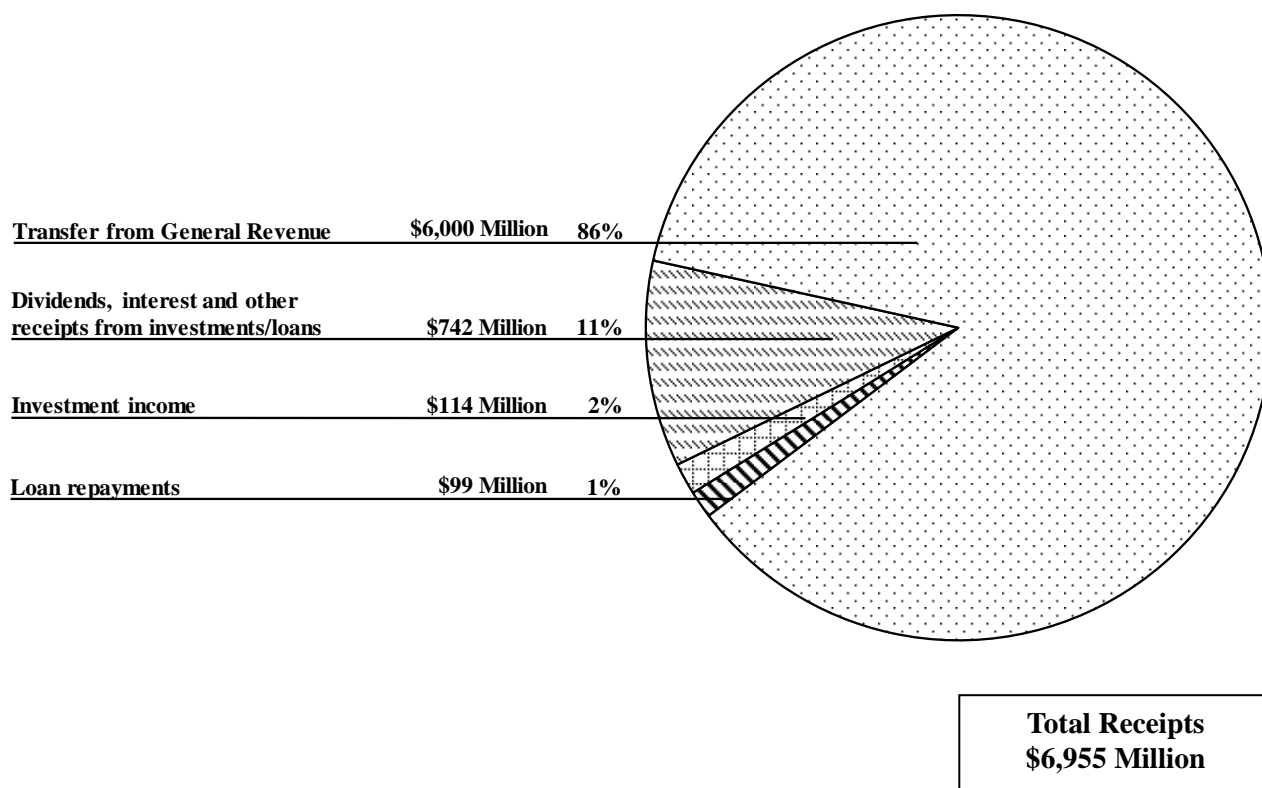
|   | 2020                           |                  | 2019             |
|---|--------------------------------|------------------|------------------|
|   | Original<br>Estimate<br>\$'000 | Actual<br>\$'000 | Actual<br>\$'000 |
| Dividends, interest and other receipts from investments/loans | 1,238,927                      | 742,664          | 830,407          |
| Loan repayments   | 97,946                         | 99,203           | 457,650          |
| Investment income   |                                |                  |                  |
| Investments with the Exchange Fund (Note (i) below)           | -                              | 113,751          | 113,460          |
| Others  | -                              | 2                | 1                |
|   | 88,000                         | 113,753          | 113,461          |
| Transfer from General Revenue                                 | 6,000,000                      | 6,000,000        | -                |
|   | <u>7,424,873</u>               | <u>6,955,620</u> | <u>1,401,518</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). The accumulated investment return was \$30 million up to 31 December 2019 (2018: \$24 million), including the investment return for the calendar year 2019 amounting to \$6 million (2018: \$9 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$201 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$207 million (2018: \$201 million).

# Capital Investment Fund

## Analysis of Receipts for the year ended 31 March 2020



### 11. Payments

|                            | 2020                        |                  | 2019             |
|----------------------------|-----------------------------|------------------|------------------|
|                            | Original Estimate<br>\$'000 | Actual<br>\$'000 | Actual<br>\$'000 |
| Acquisition of investments |                             |                  |                  |
| Equity holdings            | 4,133,235                   | <b>3,927,216</b> | 3,987,446        |

### 12. Other Cash Movements

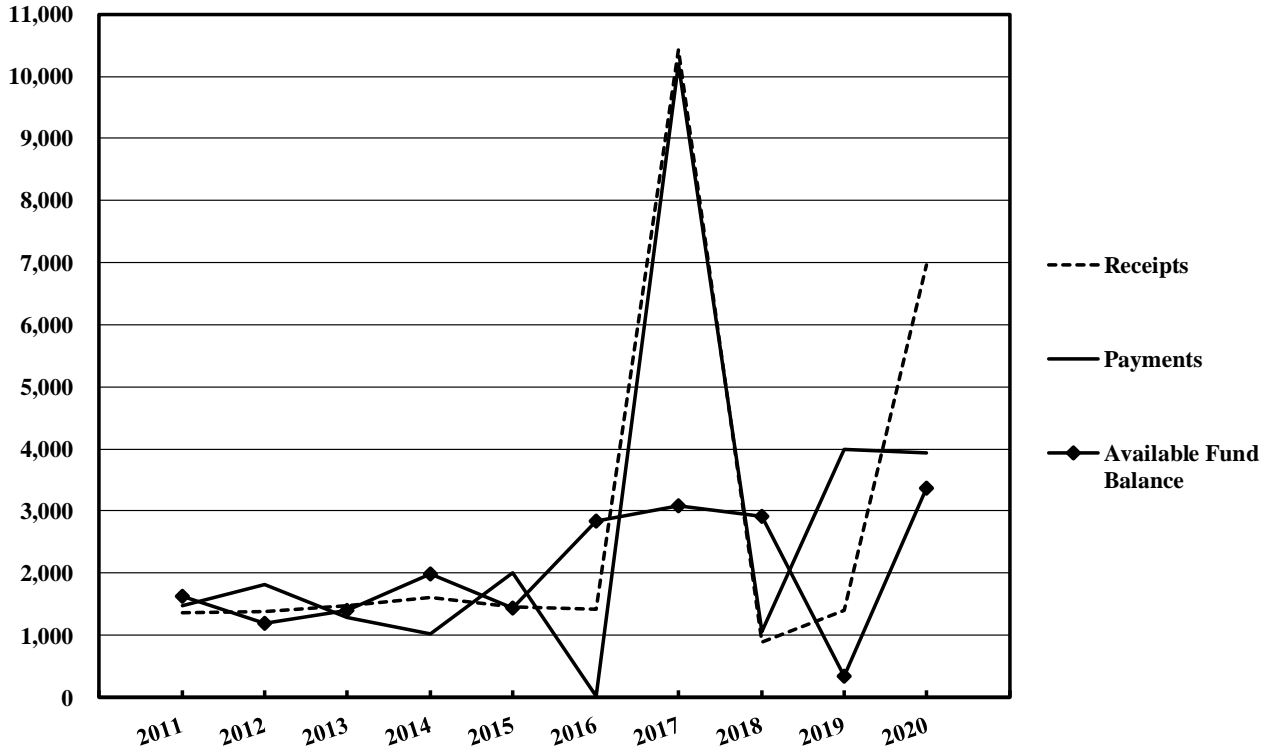
These are cash movements arising from changes in other assets and liabilities:

|                                       | 2020<br>\$'000     | 2019<br>\$'000 |
|---------------------------------------|--------------------|----------------|
| <b>(Increase)/Reduction in Assets</b> |                    |                |
| Investments with the Exchange Fund    | <b>(3,028,404)</b> | 2,585,928      |

# Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2011 to 2020

\$Million



# *Report of the Director of Audit*



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **Civil Service Pension Reserve Fund**

### **Independent Auditor's Report**

### **To the President of the Legislative Council**

#### *Opinion*

I certify that I have examined and audited the financial statements of the Civil Service Pension Reserve Fund set out on pages 50 to 53, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.



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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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 2020

(Expressed in Hong Kong dollars)

|                                    | Note | 2020<br>\$'000    | 2019<br>\$'000    |
|------------------------------------|------|-------------------|-------------------|
| <b>Assets</b>                      |      |                   |                   |
| Investments with the Exchange Fund | 3    | <u>39,426,465</u> | <u>38,315,321</u> |
| <b>Representing:</b>               |      |                   |                   |
| <b>Fund Balance</b>                |      |                   |                   |
| Balance at beginning of year       |      | 38,315,321        | 35,129,267        |
| Surplus for the year               |      | <u>1,111,144</u>  | <u>3,186,054</u>  |
| Balance at end of year             |      | <u>39,426,465</u> | <u>38,315,321</u> |

Notes 1 to 5 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Civil Service Pension Reserve Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000 | 2019<br>\$'000 |
|--|------|----------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | -              | -              |
| Receipts   | 4    | 1,111,144      | 3,186,054      |
| Payments   |      | -              | -              |
| <b>Surplus for the year</b>                        |      | 1,111,144      | 3,186,054      |
| <b>Other cash movements</b>                        | 5    | (1,111,144)    | (3,186,054)    |
| <b>Cash and bank balances at end of year</b>       |      | -              | -              |

Notes 1 to 5 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Civil Service Pension Reserve Fund

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

### 1. Purpose and Legislation

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

### 2. Accounting Policy

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

### 3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (f) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). The annual investment income is receivable on 31 December each year.

### 4. Receipts

|  | 2020                           |                         | 2019             |
|--|--------------------------------|-------------------------|------------------|
|  | Original<br>Estimate<br>\$'000 | <b>Actual</b><br>\$'000 | Actual<br>\$'000 |
| Investment income                                      |                                |                         |                  |
| Investments with the Exchange Fund<br>(Note (i) below) | 1,111,000                      | <b>1,111,144</b>        | 1,656,054        |
| Transfer from General Revenue                          | -                              | -                       | 1,530,000        |
|  | 1,111,000                      | <b>1,111,144</b>        | 3,186,054        |

# Civil Service Pension Reserve Fund

## 4. Receipts (Continued)

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$2.46 billion (comprising \$0.97 billion for 2014 and \$1.49 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). The accumulated investment return was \$0.41 billion up to 31 December 2019 (2018: \$0.33 billion), including the investment return for the calendar year 2019 amounting to \$0.08 billion (2018: \$0.12 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$2.79 billion from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.87 billion (2018: \$2.79 billion).

## 5. Other Cash Movements

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

|                                    | 2020<br>\$'000   | 2019<br>\$'000   |
|------------------------------------|------------------|------------------|
| <b>Increase in Assets</b>          |                  |                  |
| Investments with the Exchange Fund | <u>1,111,144</u> | <u>3,186,054</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 58 to 63, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.



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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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

# Disaster Relief Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

|                                    | Note | 2020<br>\$'000 | 2019<br>\$'000 |
|------------------------------------|------|----------------|----------------|
| <b>Assets</b>                      |      |                |                |
| Investments with the Exchange Fund | 3    | <u>36,331</u>  | <u>24,123</u>  |
| <b>Representing:</b>               |      |                |                |
| <b>Fund Balance</b>                |      |                |                |
| Balance at beginning of year       |      | 24,123         | 16,417         |
| Surplus for the year               |      | <u>12,208</u>  | <u>7,706</u>   |
| Balance at end of year             |      | <u>36,331</u>  | <u>24,123</u>  |

Notes 1 to 6 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Disaster Relief Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000  | 2019<br>\$'000 |
|--|------|-----------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | -               | -              |
| Receipts   | 4    | 78,991          | 73,286         |
| Payments   | 5    | (66,783)        | (65,580)       |
| <b>Surplus for the year</b>                        |      | <b>12,208</b>   | <b>7,706</b>   |
| <b>Other cash movements</b>                        | 6    | <b>(12,208)</b> | <b>(7,706)</b> |
| <b>Cash and bank balances at end of year</b>       |      | <b>-</b>        | <b>-</b>       |

Notes 1 to 6 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Disaster Relief Fund

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

### 1. Purpose and Legislation

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

### 2. Accounting Policy

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

### 3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (i) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). The annual investment income is receivable on 31 December each year.

### 4. Receipts

|  | 2020                           |                  | 2019             |
|--|--------------------------------|------------------|------------------|
|  | Original<br>Estimate<br>\$'000 | Actual<br>\$'000 | Actual<br>\$'000 |
| Investment income                                      |                                |                  |                  |
| Investments with the Exchange Fund<br>(Note (i) below) | 2,000                          | 1,523            | 1,988            |
| Transfer from General Revenue                          | 74,000                         | 74,000           | 70,000           |
| Refund of grants                                       | -                              | 3,468            | 1,298            |
|  | <u>76,000</u>                  | <u>78,991</u>    | <u>73,286</u>    |

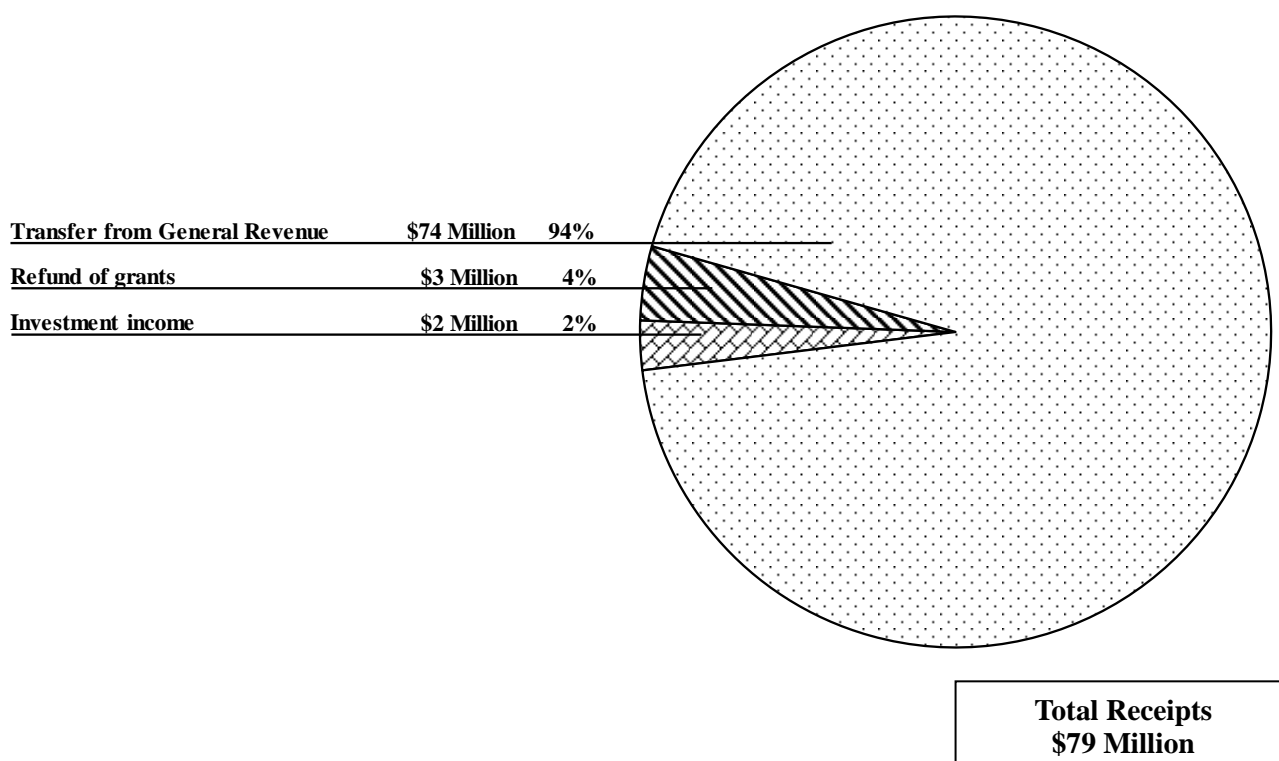
# Disaster Relief Fund

## 4. Receipts (Continued)

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$2.32 million (comprising \$1.06 million for 2014 and \$1.26 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). The accumulated investment return was \$0.4 million up to 31 December 2019 (2018: \$0.32 million), including the investment return for the calendar year 2019 amounting to \$0.08 million (2018: \$0.11 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$2.64 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$2.72 million (2018: \$2.64 million).

### Analysis of Receipts for the year ended 31 March 2020

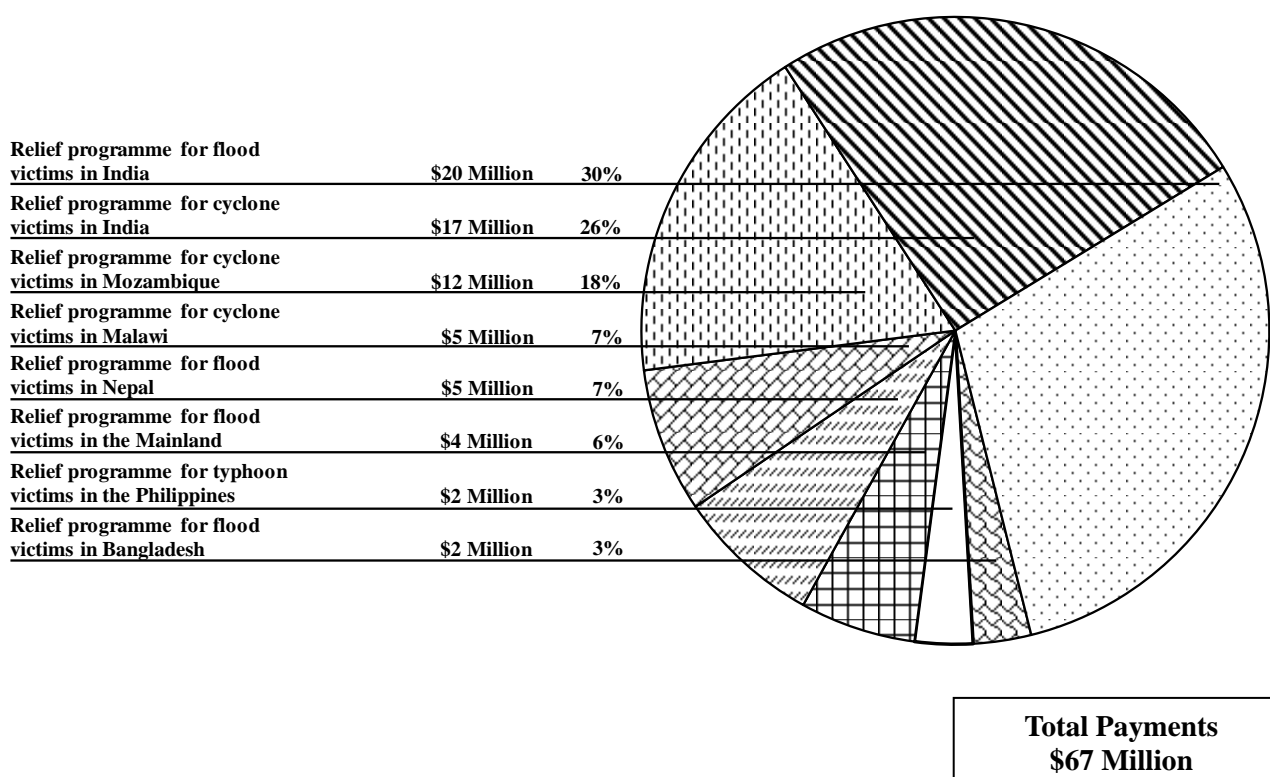


# Disaster Relief Fund

## 5. Payments

|   | 2020                        |                  | 2019             |
|---|-----------------------------|------------------|------------------|
|   | Original Estimate<br>\$'000 | Actual<br>\$'000 | Actual<br>\$'000 |
| Relief programmes for                       |                             |                  |                  |
| flood victims in India                      | -                           | 19,698           | 23,986           |
| cyclone victims in India                    | -                           | 16,983           | -                |
| cyclone victims in Mozambique               | -                           | 11,734           | -                |
| cyclone victims in Malawi                   | -                           | 5,289            | -                |
| flood victims in Nepal                      | -                           | 4,615            | -                |
| flood victims in the Mainland               | -                           | 4,542            | 7,015            |
| typhoon victims in the Philippines          | -                           | 2,286            | 5,399            |
| flood victims in Bangladesh                 | -                           | 1,636            | -                |
| earthquake victims in Indonesia             | -                           | -                | 10,419           |
| earthquake and tsunami victims in Indonesia | -                           | -                | 8,800            |
| flood victims in Kenya                      | -                           | -                | 6,217            |
| earthquake victims in Papua New Guinea      | -                           | -                | 3,207            |
| typhoon victims in the Mainland             | -                           | -                | 537              |
|   | -                           | 66,783           | 65,580           |

### Analysis of Payments for the year ended 31 March 2020



# Disaster Relief Fund

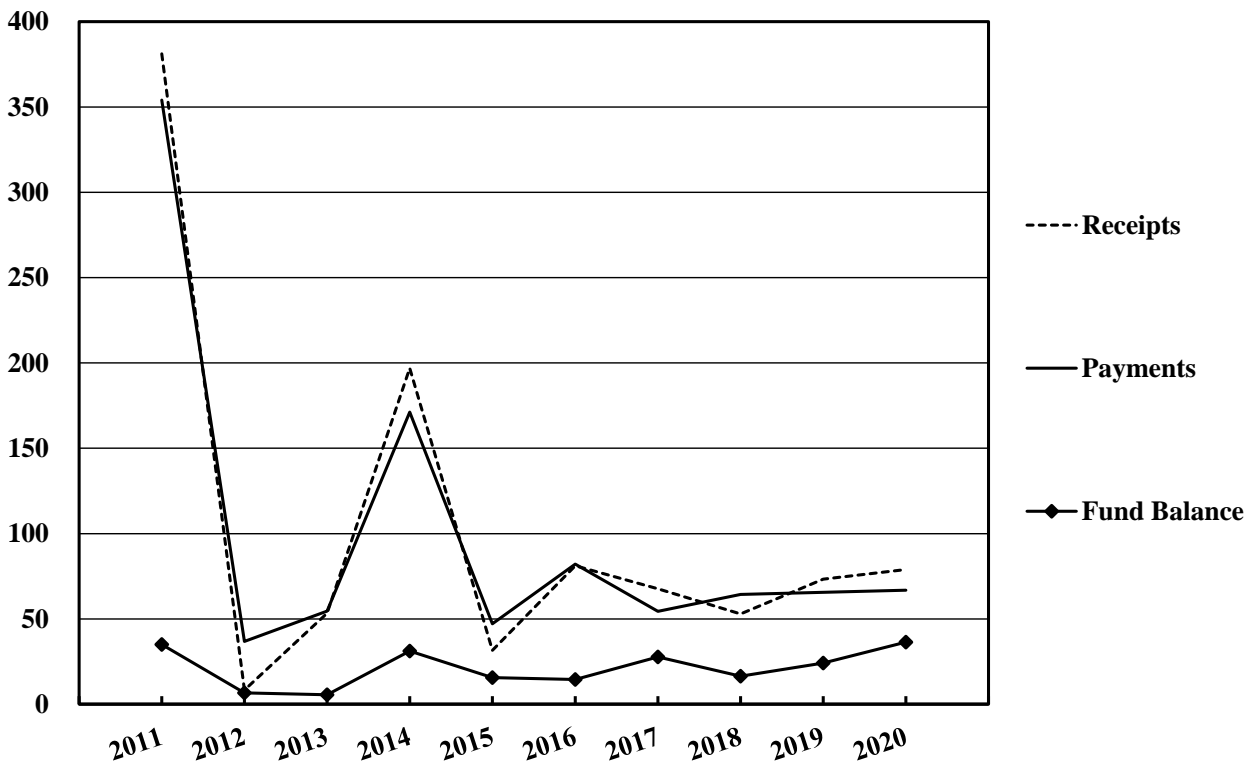
## 6. Other Cash Movements

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

|                                    | 2020<br>\$'000 | 2019<br>\$'000 |
|------------------------------------|----------------|----------------|
| <b>Increase in Assets</b>          |                |                |
| Investments with the Exchange Fund | <b>12,208</b>  | 7,706          |

## Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$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 68 to 73, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

#### ***Director of Accounting Services' responsibilities for the financial statements***

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

#### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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 2020

(Expressed in Hong Kong dollars)

|                                    | Note | 2020<br>\$'000    | 2019<br>\$'000    |
|------------------------------------|------|-------------------|-------------------|
| <b>Assets</b>                      |      |                   |                   |
| Investments with the Exchange Fund | 3    | 24,833,070        | 25,938,662        |
| Cash and bank balances             |      | 1                 | 303               |
|                                    |      | <u>24,833,071</u> | <u>25,938,965</u> |
| <b>Representing:</b>               |      |                   |                   |
| <b>Fund Balance</b>                |      |                   |                   |
| Balance at beginning of year       |      | 25,938,965        | 6,796,372         |
| (Deficit)/Surplus for the year     |      | (1,105,894)       | 19,142,593        |
| Balance at end of year             | 4    | <u>24,833,071</u> | <u>25,938,965</u> |

Notes 1 to 7 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Innovation and Technology Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000     | 2019<br>\$'000 |
|--|------|--------------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | <b>303</b>         | 1,044          |
| Receipts   | 5    | 778,523            | 20,717,384     |
| Payments   | 6    | (1,884,417)        | (1,574,791)    |
| <b>(Deficit)/Surplus for the year</b>              |      | <b>(1,105,894)</b> | 19,142,593     |
| <b>Other cash movements</b>                        | 7    | <b>1,105,592</b>   | (19,143,334)   |
| <b>Cash and bank balances at end of year</b>       |      | <b>1</b>           | 303            |

Notes 1 to 7 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Innovation and Technology Fund

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

### 1. Purpose and Legislation

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

### 2. Accounting Policy

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

### 3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 6 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). The annual investment income is receivable on 31 December each year.

### 4. Commitments

The approved grants that were unpaid were as follows:

|        | <b>2020</b>       | 2019       |
|--------|-------------------|------------|
|        | <b>\$'000</b>     | \$'000     |
| Grants | <b>15,253,294</b> | 14,577,010 |

# Innovation and Technology Fund

## 5. Receipts

|  | 2020                        |                       | 2019              |
|--|-----------------------------|-----------------------|-------------------|
|  | Original Estimate<br>\$'000 | Actual<br>\$'000      | Actual<br>\$'000  |
| Investment income                                      |                             |                       |                   |
| Investments with the Exchange Fund<br>(Note (i) below) | -                           | <b>740,182</b>        | 668,268           |
| Others   | -                           | <b>2,952</b>          | 2,017             |
|  | 706,000                     | <b>743,134</b>        | 670,285           |
| Net income from projects                               | 147                         | <b>58</b>             | 1,220             |
| Refund of grants                                       | -                           | <b>35,331</b>         | 45,879            |
| Transfer from General Revenue                          | -                           | -                     | 20,000,000        |
|  | <u>706,147</u>              | <u><b>778,523</b></u> | <u>20,717,384</u> |

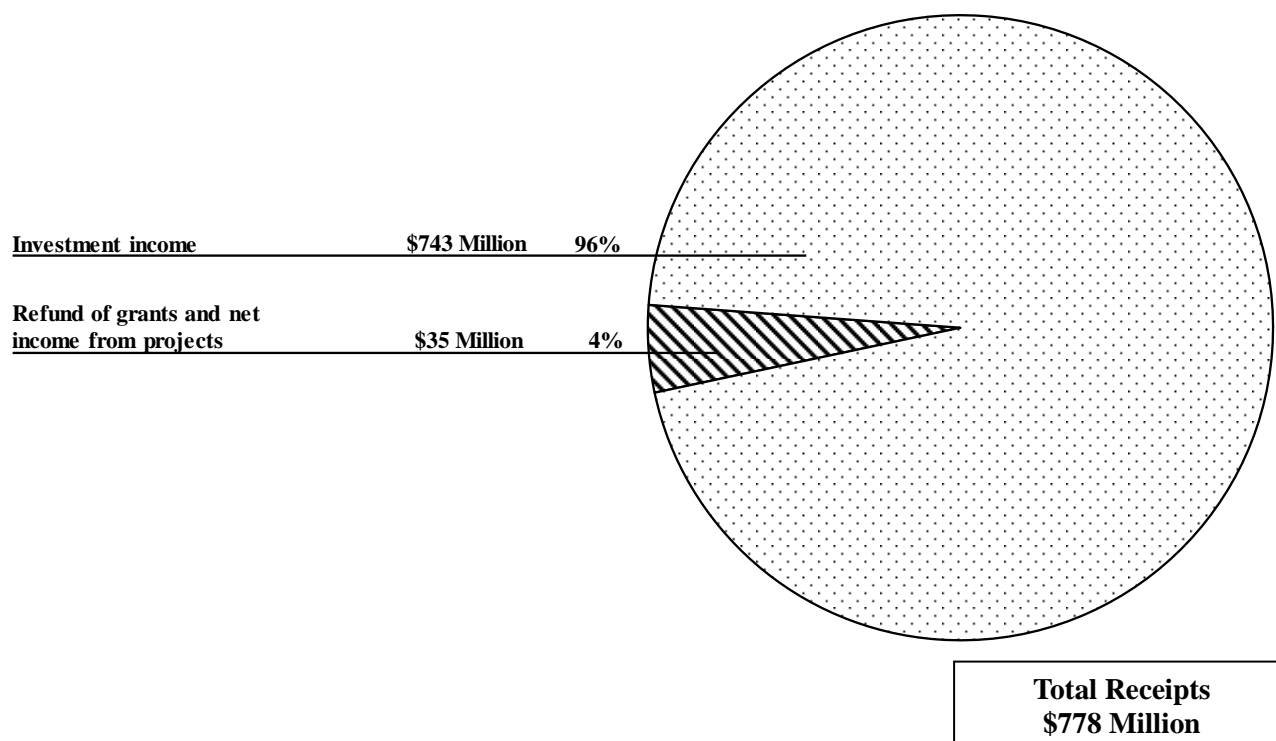
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$97 million (comprising \$57 million for 2014 and \$40 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 3(iii). The accumulated investment return was \$17 million up to 31 December 2019 (2018: \$14 million), including the investment return for the calendar year 2019 amounting to \$3 million (2018: \$5 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$111 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$114 million (2018: \$111 million).



# Innovation and Technology Fund

## Analysis of Receipts for the year ended 31 March 2020



## 6. Payments

|        | 2020                     |                  | 2019          |
|--------|--------------------------|------------------|---------------|
|        | Original Estimate \$'000 | Actual \$'000    | Actual \$'000 |
| Grants | 3,968,239                | <b>1,884,417</b> | 1,574,791     |

## 7. Other Cash Movements

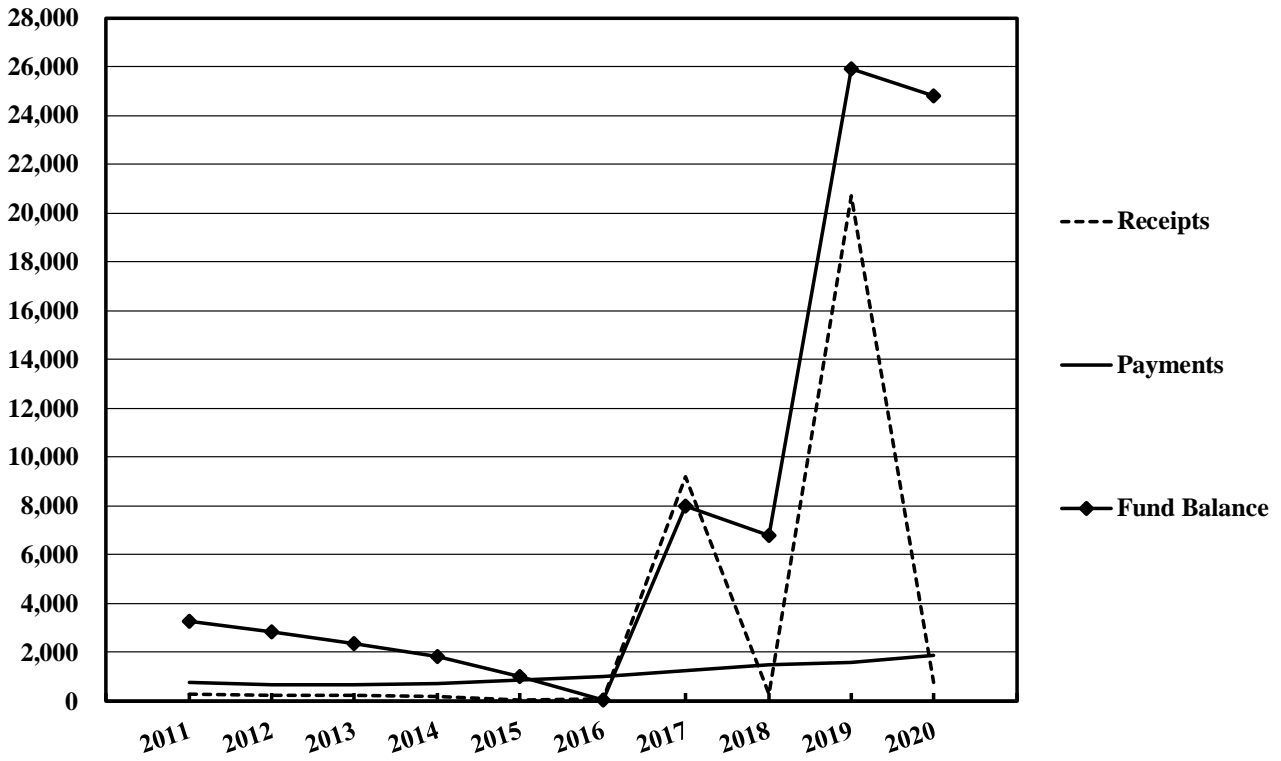
These are cash movements arising from changes in other assets and liabilities:

|                                       | 2020<br>\$'000   | 2019<br>\$'000 |
|---------------------------------------|------------------|----------------|
| <b>Reduction/(Increase) in Assets</b> |                  |                |
| Investments with the Exchange Fund    | <b>1,105,592</b> | (19,143,334)   |

# Innovation and Technology Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$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 78 to 81, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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

# Land Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

|                                    | Note | 2020<br>\$'000     | 2019<br>\$'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.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Land Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000 | 2019<br>\$'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.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020





# Land Fund

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

### 1. Purpose and Legislation

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

### 2. Accounting Policy

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

### 3. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) Between 1 April 2007 and 31 December 2015, the investment income was calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever was the higher.
- (iv) With effect from 1 January 2016, the assets of the Fund have been held as a notional savings account within the fiscal reserves called the Future Fund. In accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015, investment return on the Future Fund placement is determined annually based on a composite rate (8.7% and 6.1% for the calendar years 2019 and 2018 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iii) above) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. In respect of the Land Fund portion of \$219.73 billion, such accumulated investment return not received as revenue amounted to \$71.84 billion as at 31 December 2019 (2018: \$48.03 billion), including the investment return for the calendar year 2019 of \$23.81 billion (2018: \$16.02 billion).
- (v) In June 2020, in a bid to uphold Hong Kong's status as an international aviation hub, the Financial Secretary exercised his authority under the Resolution to allocate \$27.3 billion of the Future Fund to invest in the Cathay Pacific Airways Limited. The investment would remain as a part of the Future Fund (Note (iv) above).

# 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). The accumulated investment return was \$3.36 billion up to 31 December 2019 (*2018: \$2.71 billion*), including the investment return for the calendar year 2019 amounting to \$0.65 billion (*2018: \$1 billion*). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. The rate of investment return for the calendar year 2019 was 2.9% (*2018: 4.6%*). At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$22.7 billion from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$23.35 billion (*2018: \$22.7 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 86 to 93, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.

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

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

### ***Director of Accounting Services' responsibilities for the financial statements***

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

### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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

# Loan Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

|                                    | Note     | 2020<br>\$'000    | 2019<br>\$'000 |
|------------------------------------|----------|-------------------|----------------|
| <b>Assets</b>                      |          |                   |                |
| <b>Loans Outstanding</b>           | <b>3</b> |                   |                |
| Housing loans                      |          | 3,420,503         | 3,025,540      |
| Education loans                    |          | 17,949,149        | 17,910,590     |
| Other loans                        |          | 10,516,414        | 10,475,776     |
|                                    |          | <b>31,886,066</b> | 31,411,906     |
| <b>Net Current Assets</b>          |          |                   |                |
| <b>Current Assets</b>              |          |                   |                |
| Investments with the Exchange Fund | 4        | 4,664,835         | 3,549,714      |
| Cash and bank balances             |          | 12,300            | 12,339         |
|                                    |          | <b>4,677,135</b>  | 3,562,053      |
| <b>Current Liabilities</b>         |          |                   |                |
| Deposits                           | 5        | (32,194)          | (27,186)       |
|                                    |          | <b>4,644,941</b>  | 3,534,867      |
|                                    |          | <b>36,531,007</b> | 34,946,773     |
| <b>Representing:</b>               |          |                   |                |
| <b>Total Fund Balance</b>          |          |                   |                |
| <b>Applied Fund</b>                | <b>6</b> | <b>31,886,066</b> | 31,411,906     |
| <b>Available Fund</b>              | <b>7</b> |                   |                |
| Balance at beginning of year       |          | 3,534,867         | 4,094,387      |
| Surplus/(Deficit) for the year     |          | 1,110,074         | (559,520)      |
| Balance at end of year             |          | <b>4,644,941</b>  | 3,534,867      |
|                                    | <b>8</b> | <b>36,531,007</b> | 34,946,773     |

Notes 1 to 11 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Loan Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000     | 2019<br>\$'000 |
|--|------|--------------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | <b>12,339</b>      | 12,489         |
| Receipts   | 9    | 3,458,827          | 3,851,999      |
| Payments   | 10   | (2,348,753)        | (4,411,519)    |
| <b>Surplus/(Deficit) for the year</b>              |      | <b>1,110,074</b>   | (559,520)      |
| <b>Other cash movements</b>                        | 11   | <b>(1,110,113)</b> | 559,370        |
| <b>Cash and bank balances at end of year</b>       |      | <b>12,300</b>      | 12,339         |

Notes 1 to 11 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020





# 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

|                               | 2020                       |                              |                          | 2019                       |                              |                          |
|-------------------------------|----------------------------|------------------------------|--------------------------|----------------------------|------------------------------|--------------------------|
|                               | Housing<br>Loans<br>\$'000 | Education<br>Loans<br>\$'000 | Other<br>Loans<br>\$'000 | Housing<br>Loans<br>\$'000 | Education<br>Loans<br>\$'000 | Other<br>Loans<br>\$'000 |
| Balance at beginning of year  | 3,025,540                  | 17,910,590                   | 10,475,776               | 3,030,699                  | 17,678,138                   | 8,639,340                |
| <b>Additions</b>              |                            |                              |                          |                            |                              |                          |
| Loan payments                 | 428,544                    | 1,797,122                    | 123,087                  | 297,840                    | 2,194,076                    | 1,919,603                |
| Capitalised interest          | 36                         | 122,848                      | 194,167                  | 35                         | -                            | 193,750                  |
|                               | 428,580                    | 1,919,970                    | 317,254                  | 297,875                    | 2,194,076                    | 2,113,353                |
| <b>Deductions</b>             |                            |                              |                          |                            |                              |                          |
| Loan repayments               | (33,617)                   | (1,881,116)                  | (255,564)                | (21,920)                   | (1,960,998)                  | (259,102)                |
| Loans written off             | -                          | (295)                        | (21,052)                 | (244)                      | (626)                        | (17,815)                 |
| Proceeds from sale of loans   | -                          | -                            | -                        | (280,870)                  | -                            | -                        |
|                               | (33,617)                   | (1,881,411)                  | (276,616)                | (303,034)                  | (1,961,624)                  | (276,917)                |
| <b>Balance at end of year</b> | <b>3,420,503</b>           | <b>17,949,149</b>            | <b>10,516,414</b>        | <b>3,025,540</b>           | <b>17,910,590</b>            | <b>10,475,776</b>        |

# Loan Fund

## 4. Investments with the Exchange Fund

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

|  | <b>2020</b>      | 2019      |
|--|------------------|-----------|
|  | <b>\$'000</b>    | \$'000    |
| Investments (Notes (ii) and (iii) below) | <b>4,662,805</b> | 3,547,945 |
| Deposits                                 | <b>2,030</b>     | 1,769     |
|  | <b>4,664,835</b> | 3,549,714 |

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

(iii) The investment income is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). 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>2020</b>   | 2019   |
|----------|---------------|--------|
|          | <b>\$'000</b> | \$'000 |
| Students | <b>32,045</b> | 27,066 |
| Others   | <b>149</b>    | 120    |
|          | <b>32,194</b> | 27,186 |

## 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>2020</b>       | 2019       |
|--|-------------------|------------|
|  | <b>\$'000</b>     | \$'000     |
| Approved loans under loan schemes operating on non-revolving basis that were unpaid        | <b>1,331,881</b>  | 1,331,881  |
| Balance of approved loans operating on revolving basis available for granting of new loans | <b>10,813,071</b> | 11,199,455 |
|  | <b>12,144,952</b> | 12,531,336 |

# Loan Fund

## 9. Receipts

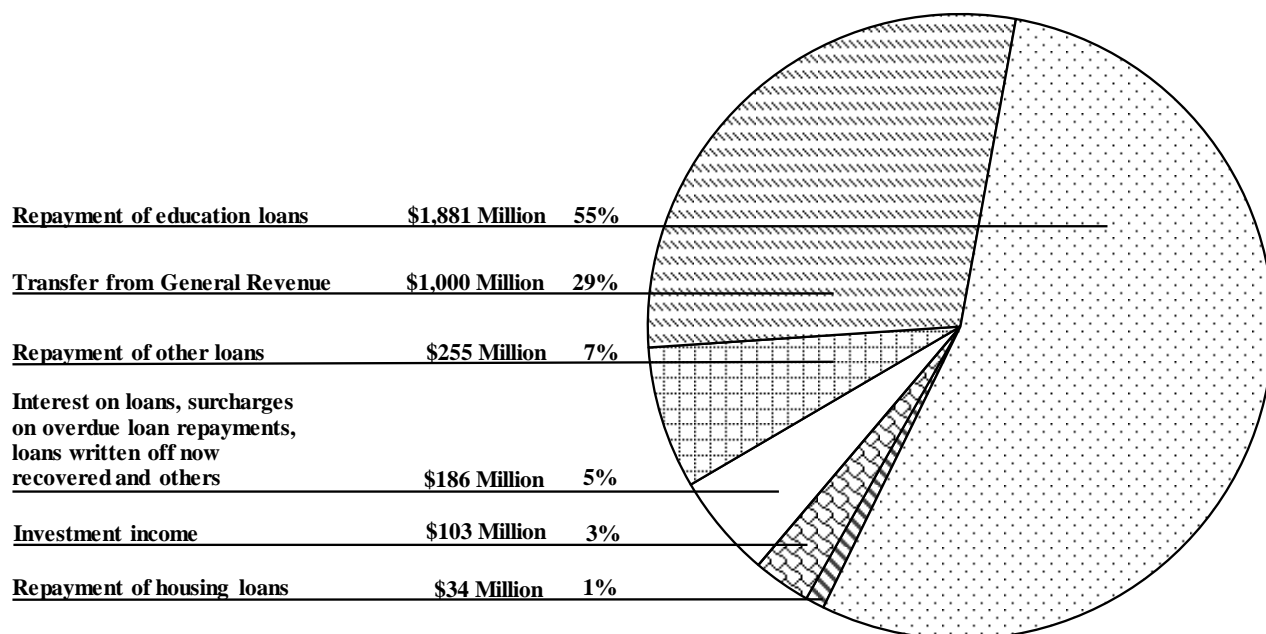
|  | 2020                        |                         | 2019             |
|--|-----------------------------|-------------------------|------------------|
|  | Original Estimate<br>\$'000 | Actual<br>\$'000        | Actual<br>\$'000 |
| Loan repayments  |                             |                         |                  |
| Housing loans  | 55,143                      | <b>33,617</b>           | 21,920           |
| Education loans  | 1,768,183                   | <b>1,881,116</b>        | 1,960,998        |
| Other loans  | 289,448                     | <b>255,564</b>          | 259,102          |
|  | 2,112,774                   | <b>2,170,297</b>        | 2,242,020        |
| Interest on loans                                      | 196,357                     | <b>180,381</b>          | 165,951          |
| Investment income                                      |                             |                         |                  |
| Investments with the Exchange Fund<br>(Note (i) below) | -                           | <b>103,153</b>          | 157,760          |
| Others   | -                           | <b>87</b>               | 62               |
|  | 83,000                      | <b>103,240</b>          | 157,822          |
| Surcharges on overdue loan repayments                  | 5,738                       | <b>4,388</b>            | 5,312            |
| Proceeds from sale of loans                            | -                           | -                       | 280,870          |
| Loans written off now recovered                        | -                           | <b>506</b>              | 4                |
| Others   | -                           | <b>15</b>               | 20               |
| Transfer from General Revenue                          | 1,000,000                   | <b>1,000,000</b>        | 1,000,000        |
|  | <u>3,397,869</u>            | <u><b>3,458,827</b></u> | <u>3,851,999</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). The accumulated investment return was \$28 million up to 31 December 2019 (2018: \$22 million), including the investment return for the calendar year 2019 amounting to \$6 million (2018: \$8 million). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$190 million from the Fund) was earmarked for public housing development.

During the financial year 2019-20, no amount was brought back from the Housing Reserve to the Fund. As at 31 December 2019, the investment incomes and the accumulated investment return not received and recorded by the Fund and retained for the Housing Reserve totalled \$196 million (2018: \$190 million).

# Loan Fund

## Analysis of Receipts for the year ended 31 March 2020



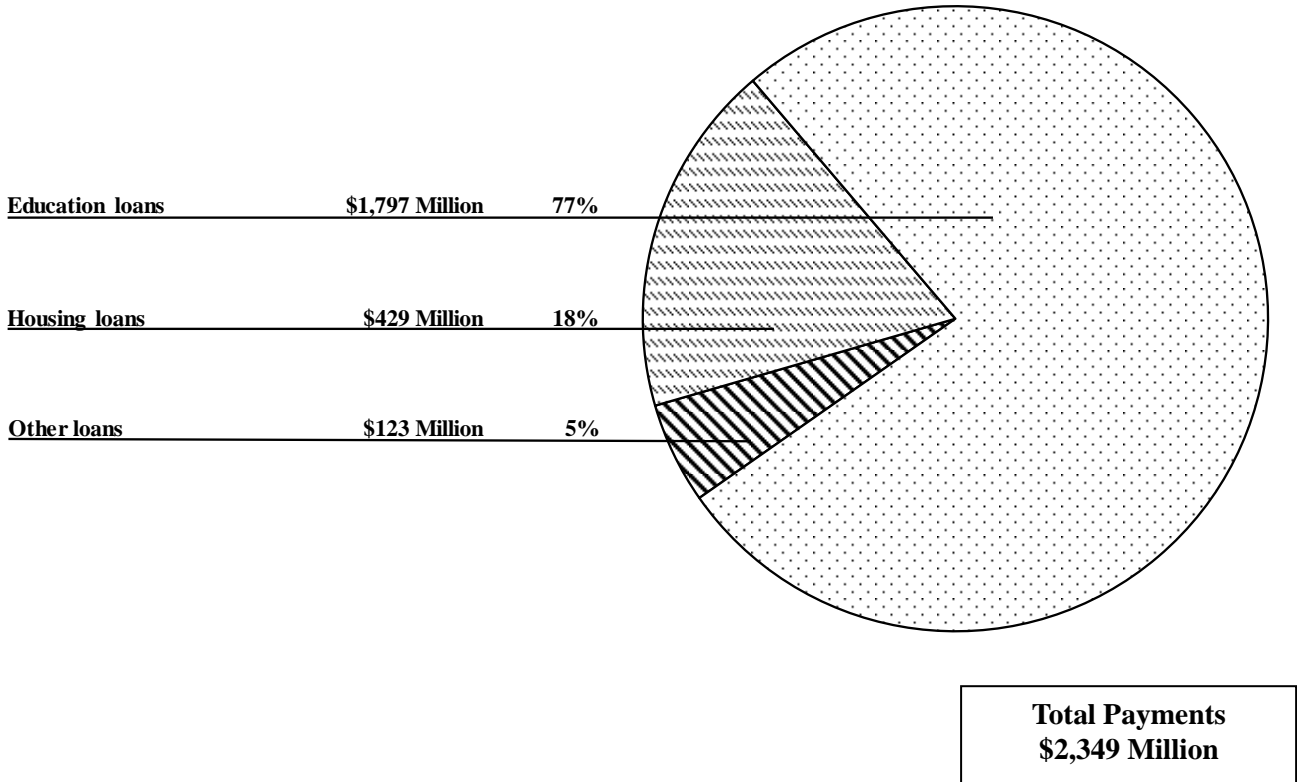
**Total Receipts**  
**\$3,459 Million**

## 10. Payments

|                 | 2020                        |                  | 2019             |
|-----------------|-----------------------------|------------------|------------------|
|                 | Original Estimate<br>\$'000 | Actual<br>\$'000 | Actual<br>\$'000 |
| Loan payments   |                             |                  |                  |
| Housing loans   | 591,900                     | 428,544          | 297,840          |
| Education loans | 2,003,772                   | 1,797,122        | 2,194,076        |
| Other loans     | 178,015                     | 123,087          | 1,919,603        |
|                 | <u>2,773,687</u>            | <u>2,348,753</u> | <u>4,411,519</u> |

# Loan Fund

## Analysis of Payments for the year ended 31 March 2020



### 11. Other Cash Movements

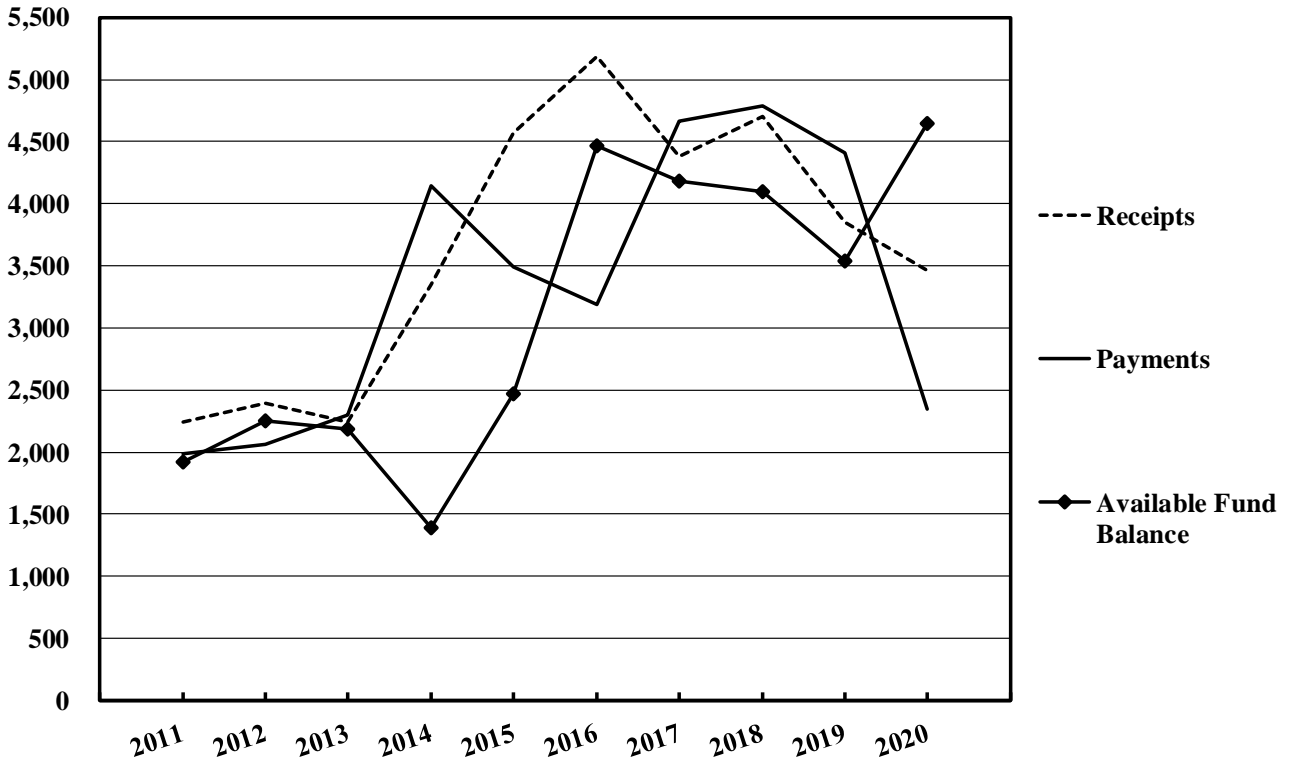
These are cash movements arising from changes in other assets and liabilities:

|                                       | 2020<br>\$'000     | 2019<br>\$'000 |
|---------------------------------------|--------------------|----------------|
| <b>(Increase)/Reduction in Assets</b> |                    |                |
| Investments with the Exchange Fund    | (1,115,121)        | 555,540        |
| <b>Increase in Liabilities</b>        |                    |                |
| Deposits                              | 5,008              | 3,830          |
|                                       | <u>(1,110,113)</u> | <u>559,370</u> |

# Loan Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2011 to 2020

\$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 98 to 105, which comprise the statement of assets and liabilities as at 31 March 2020, 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 2020 published by the Treasury, other than the financial statements and my auditor's report thereon.



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

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

#### ***Director of Accounting Services' responsibilities for the financial statements***

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

#### ***Auditor's responsibilities for the audit of the financial statements***

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

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

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

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

John Chu  
Director of Audit

28 October 2020

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

# Bond Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2020

(Expressed in Hong Kong dollars)

|                                    | Note | 2020<br>\$'000     | 2019<br>\$'000     |
|------------------------------------|------|--------------------|--------------------|
| <b>Assets</b>                      |      |                    |                    |
| Investments with the Exchange Fund | 3    | 121,059,760        | 138,402,570        |
| <b>Liabilities</b>                 |      |                    |                    |
| Deposits                           | 4    | (2,610)            | -                  |
|                                    |      | <u>121,057,150</u> | <u>138,402,570</u> |
| <b>Representing:</b>               |      |                    |                    |
| <b>Fund Balance</b>                |      |                    |                    |
| Balance at beginning of year       |      | 138,402,570        | 138,155,143        |
| (Deficit)/Surplus for the year     |      | (17,345,420)       | 247,427            |
| Balance at end of year             | 5, 6 | <u>121,057,150</u> | <u>138,402,570</u> |

Notes 1 to 9 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Bond Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2020

(Expressed in Hong Kong dollars)

|  | Note | 2020<br>\$'000 | 2019<br>\$'000 |
|--|------|----------------|----------------|
| <b>Cash and bank balances at beginning of year</b> |      | -              | -              |
| Receipts   | 7    | 25,064,579     | 25,923,255     |
| Payments   | 8    | (42,409,999)   | (25,675,828)   |
| <b>(Deficit)/Surplus for the year</b>              |      | (17,345,420)   | 247,427        |
| <b>Other cash movements</b>                        | 9    | 17,345,420     | (247,427)      |
| <b>Cash and bank balances at end of year</b>       |      | -              | -              |

Notes 1 to 9 form part of these financial statements.

**Charlix WONG**  
Director of Accounting Services  
27 August 2020



# Bond Fund

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

### 1. Purpose and Legislation

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

### 2. Accounting Policies

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

### 3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. The investment income is calculated, in accordance with a Memorandum of Understanding entered into with the Hong Kong Monetary Authority in 2014, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year government bond for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2019 was 2.9% (2018: 4.6%). 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:

|   | 2020         | 2019     |
|---|--------------|----------|
|   | \$'000       | \$'000   |
| Accrued interest received from successful bidders | <u>2,610</u> | <u>-</u> |

### 5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (c)(i) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraphs (e)(i) and (ea)(i) of the Resolution. The liabilities totalling \$98.72 billion as at 31 March 2020 comprising the outstanding bonds with nominal value of \$83.21 billion and alternative bonds with nominal value of US\$2 billion (equivalent to \$15.51 billion as at 31 March 2020) 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:

|   | 2020<br>\$'000      | 2019<br>\$'000 |
|---|---------------------|----------------|
| <b>Bonds</b>                              |                     |                |
| Balance at beginning of year              | 94,747,380          | 98,193,880     |
| <b>Issuance of bonds under</b>            |                     |                |
| Tender to institutional investors         | 17,800,000          | 16,900,000     |
| Subscription to retail investors          | 3,000,000           | 3,000,000      |
|   | <b>20,800,000</b>   | 19,900,000     |
| <b>Repayment of bonds issued under</b>    |                     |                |
| Tender to institutional investors         | (19,400,000)        | (13,200,000)   |
| Subscription to retail investors          | (12,934,560)        | (10,146,500)   |
|   | <b>(32,334,560)</b> | (23,346,500)   |
| Balance at end of year                    | <b>83,212,820</b>   | 94,747,380     |
| <b>Alternative bonds (Note (i) below)</b> |                     |                |
| Balance at beginning of year              | 23,550,000          | 23,541,000     |
| Repayment of bonds (Note (ii) below)      | (7,829,900)         | -              |
| Foreign currency translation difference   | (211,600)           | 9,000          |
| Balance at end of year (Note (iii) below) | <b>15,508,500</b>   | 23,550,000     |
| <b>Total outstanding bonds</b>            | <b>98,721,320</b>   | 118,297,380    |

- (i) Alternative bonds are denominated in United States dollars.
- (ii) During the financial year, alternative bonds with nominal value of US\$1 billion (equivalent to HK\$7.83 billion) were repaid.
- (iii) The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.

# Bond Fund

## 6. Bonds Outstanding (Continued)

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

|  | 2020<br>\$'000    | 2019<br>\$'000 |
|--|-------------------|----------------|
| <b>Bonds</b>   |                   |                |
| Within one year (Note (v) below)                         | 12,361,190        | 32,256,330     |
| After one year but within two years (Note (vi) below)    | 17,467,930        | 12,394,920     |
| After two years but within five years (Note (vii) below) | 35,283,700        | 32,296,130     |
| After five years   | 18,100,000        | 17,800,000     |
|  | <b>83,212,820</b> | 94,747,380     |
| <b>Alternative bonds</b> (Notes (i) to (iii) above)      |                   |                |
| Within one year  | 7,754,250         | 7,850,000      |
| After one year but within two years                      | -                 | 7,850,000      |
| After five years   | 7,754,250         | 7,850,000      |
|  | <b>15,508,500</b> | 23,550,000     |
| <b>Total outstanding bonds</b>                           | <b>98,721,320</b> | 118,297,380    |

(v) The outstanding bonds included Silver Bonds with nominal value of \$2.86 billion (2019: \$2.86 billion) which might be redeemed before maturity upon request from bond holders.

(vi) The outstanding bonds included Silver Bonds with nominal value of \$2.97 billion (2019: \$2.89 billion) which might be redeemed before maturity upon request from bond holders.

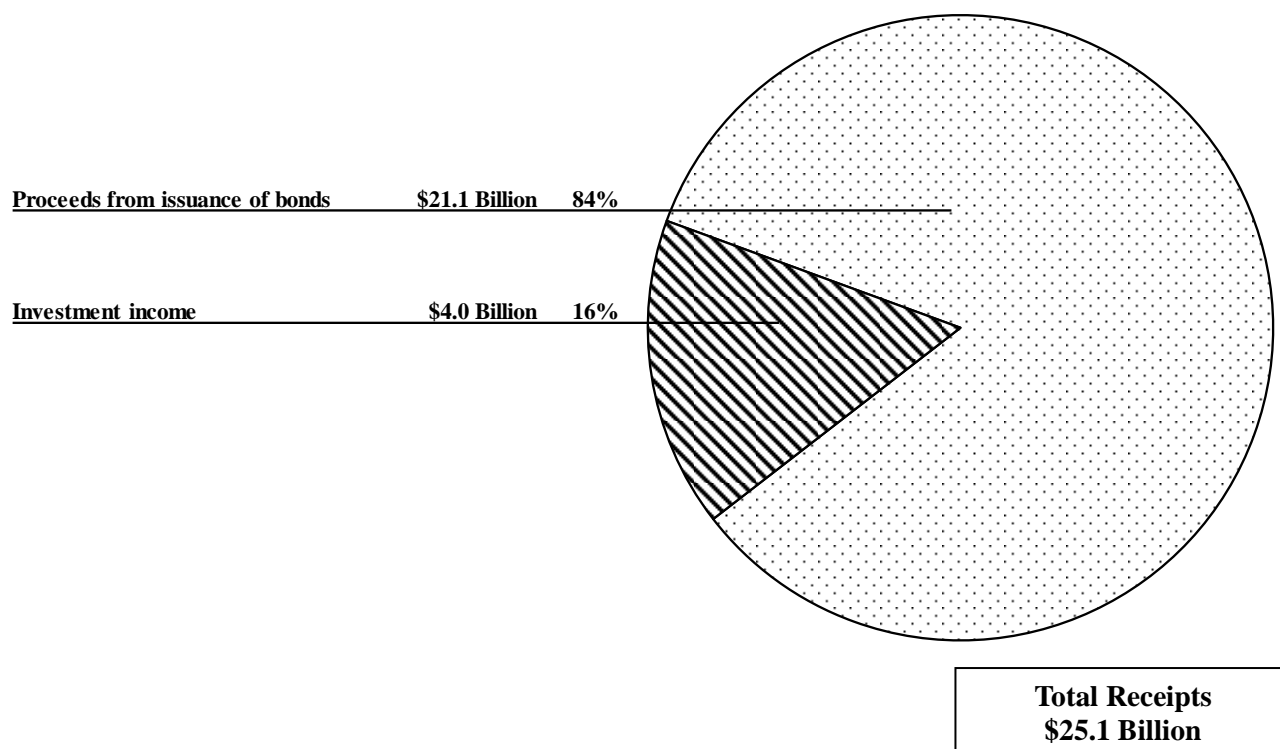
(vii) The outstanding bonds included Silver Bonds with nominal value of \$2.98 billion (2019: \$3 billion) which might be redeemed before maturity upon request from bond holders.

## 7. Receipts

|                                    | 2020                           |                   | 2019             |
|------------------------------------|--------------------------------|-------------------|------------------|
|                                    | Original<br>Estimate<br>\$'000 | Actual<br>\$'000  | Actual<br>\$'000 |
| Proceeds from bonds issued under   |                                |                   |                  |
| Tender or subscription             | 19,900,000                     | 21,038,820        | 19,457,620       |
| Bond swap facility                 | 1,000,000                      | -                 | -                |
|                                    | 20,900,000                     | 21,038,820        | 19,457,620       |
| Investment income                  |                                |                   |                  |
| Investments with the Exchange Fund | -                              | 4,024,289         | 6,464,799        |
| Others                             | -                              | 1,470             | 836              |
|                                    | 4,056,000                      | 4,025,759         | 6,465,635        |
|                                    | <b>24,956,000</b>              | <b>25,064,579</b> | 25,923,255       |

# Bond Fund

## Analysis of Receipts for the year ended 31 March 2020



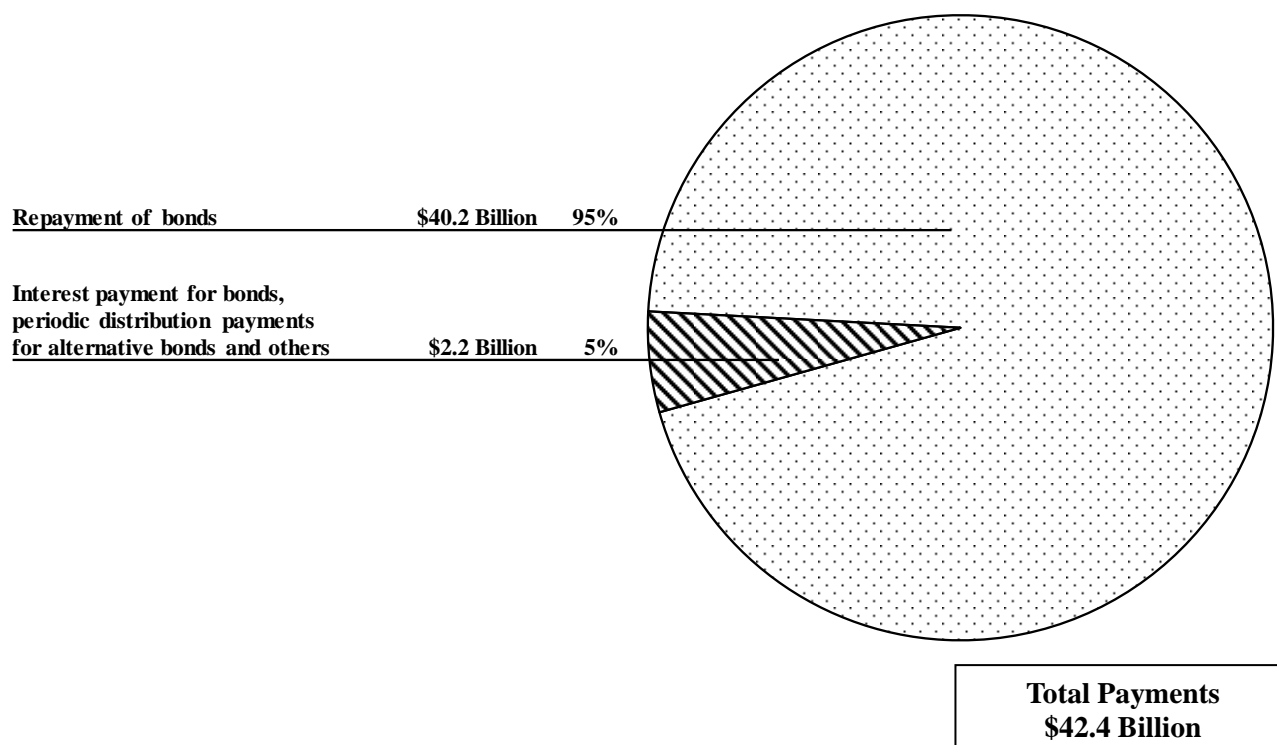
## 8. Payments

|  | 2020                        |                          | 2019              |
|--|-----------------------------|--------------------------|-------------------|
|  | Original Estimate<br>\$'000 | Actual<br>\$'000         | Actual<br>\$'000  |
| Repayment of bonds issued under                      |                             |                          |                   |
| Tender or subscription                               | 32,417,409                  | <b>32,334,560</b>        | 23,346,500        |
| Bond swap facility                                   | 1,000,000                   | -                        | -                 |
|  | 33,417,409                  | <b>32,334,560</b>        | 23,346,500        |
| Repayment of alternative bonds                       | 7,800,000                   | <b>7,829,900</b>         | -                 |
| Interest payment for bonds                           | 1,771,986                   | <b>1,762,548</b>         | 1,762,901         |
| Periodic distribution payments for alternative bonds | 392,028                     | <b>471,818</b>           | 551,604           |
| Others   | 11,851                      | <b>11,173</b>            | 14,823            |
|  | <u>43,393,274</u>           | <u><b>42,409,999</b></u> | <u>25,675,828</u> |



# Bond Fund

## Analysis of Payments for the year ended 31 March 2020



### 9. Other Cash Movements

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

|  | 2020<br>\$'000    | 2019<br>\$'000   |
|--|-------------------|------------------|
| <b>Reduction/(Increase) in Assets</b>      |                   |                  |
| Investments with the Exchange Fund         | 17,342,810        | (246,180)        |
| <b>Increase/(Reduction) in Liabilities</b> |                   |                  |
| Deposits                                   | 2,610             | (1,247)          |
|  | <u>17,345,420</u> | <u>(247,427)</u> |

# Bond Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2011 to 2020

\$Billion

