

# Bond Fund

## REPORT OF THE DIRECTOR OF AUDIT



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

### **Independent Audit Report To the President of the Legislative Council**

I certify that I have examined and audited the financial statements of the Bond Fund set out on pages 106 to 112, which comprise the statement of assets and liabilities as at 31 March 2016, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

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

David Sun  
Director of Audit

26 October 2016

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

# Bond Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

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

Notes 1 to 9 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
22 August 2016



# Bond Fund

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

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

Notes 1 to 9 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
22 August 2016



# Bond Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Purpose and Legislation

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

### 2. Accounting Policies

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

### 3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. The investment income is calculated, in accordance with a Memorandum of Understanding entered into with the Hong Kong Monetary Authority in 2014, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The investment income for the year ended 31 March 2016 was HK\$6.69 billion (2015: HK\$3.78 billion).

### 4. Deposits

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

	2016	2015
	HK\$'000	HK\$'000
Accrued interest received from successful bidders	<u>1,576</u>	<u>2,574</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 HK\$116.01 billion as at 31 March 2016 comprising the outstanding bonds with nominal value of HK\$100.5 billion and alternative bonds with nominal value of US\$2 billion (equivalent to HK\$15.51 billion as at 31 March 2016) are not included in the Statement of Assets and Liabilities (Note 6).

# Bond Fund

## 6. Bonds Outstanding

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

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

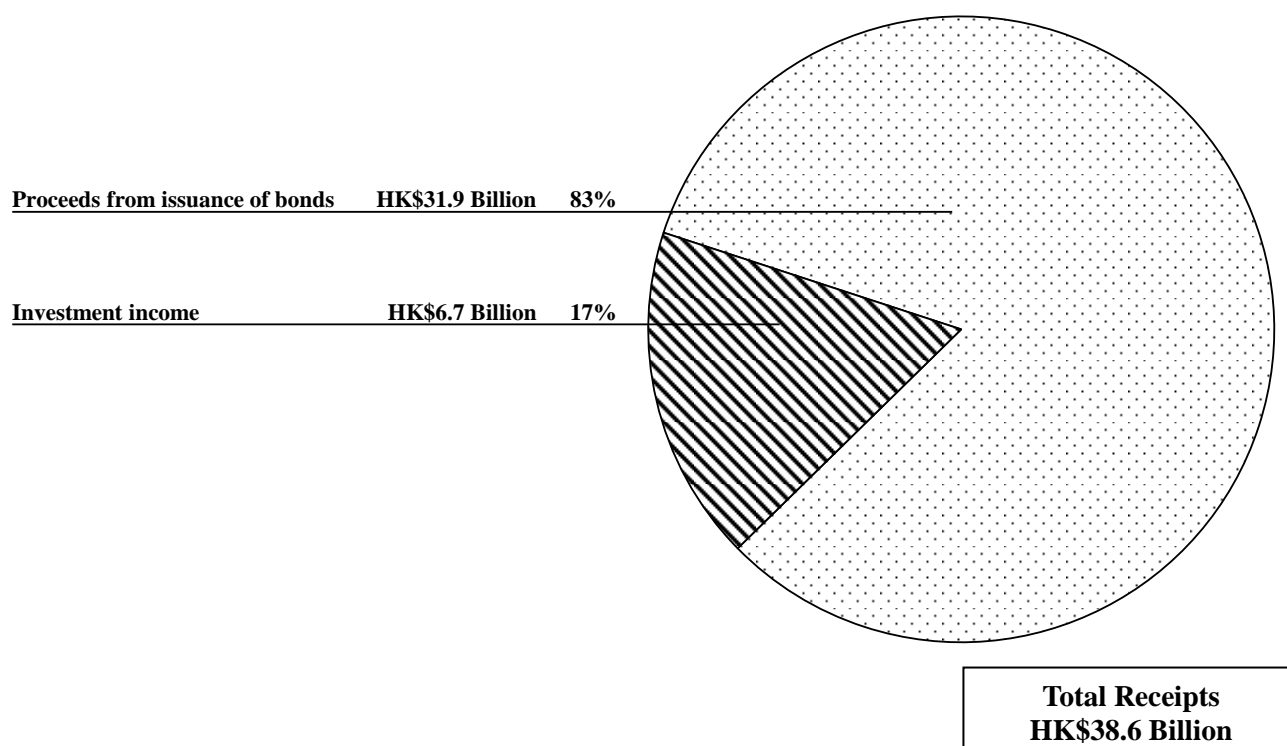
- (i) Under the institutional part of the Government Bond Programme, the Government has introduced the switch tender and the bond swap facility to enhance the liquidity of relevant bonds. Of the outstanding bond balance of HK\$100.5 billion, HK\$16.5 billion was repaid upon maturity during April 2016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

# Bond Fund

## 7. Receipts

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

### Analysis of Receipts for the year ended 31 March 2016

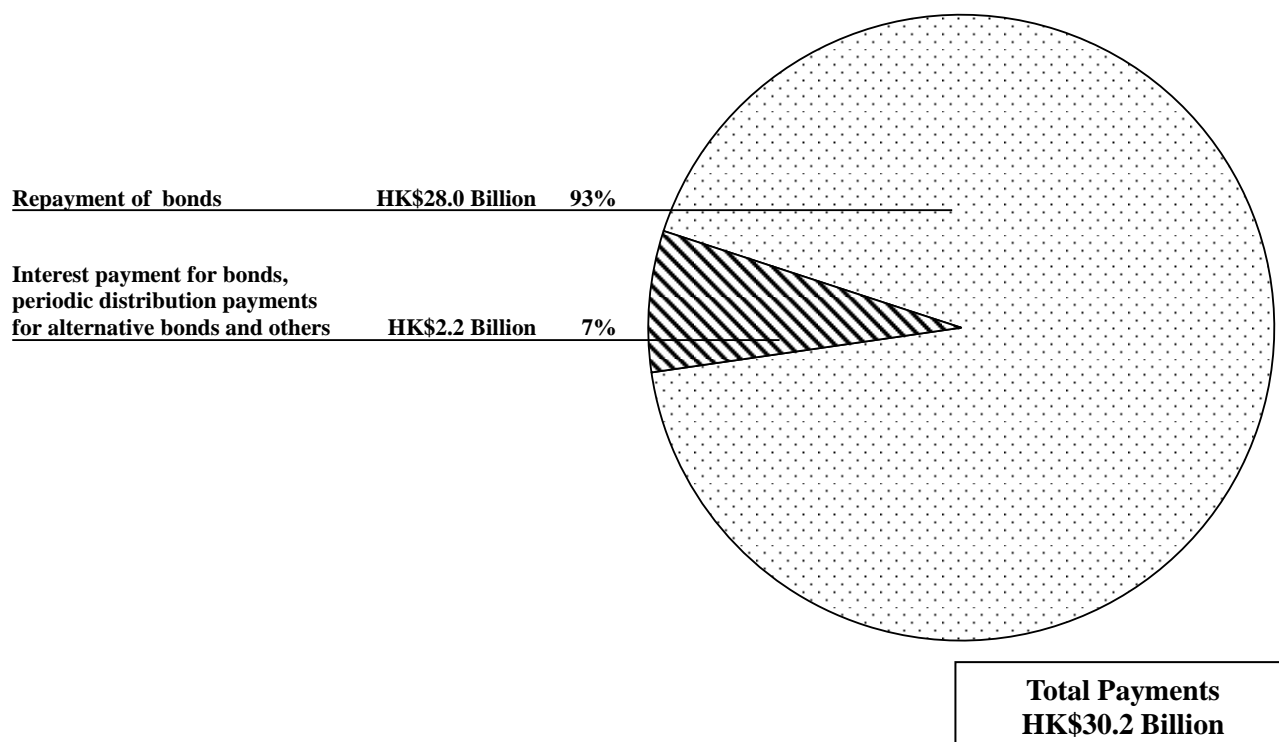


# Bond Fund

## 8. Payments

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

### Analysis of Payments for the year ended 31 March 2016





# Bond Fund

## 9. Other Cash Movements

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

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

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

HK\$Billion

