

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

These consolidated financial statements are prepared on the accrual basis of accounting, except where stated otherwise, to present the overall financial performance and position of the Government of the Hong Kong Special Administrative Region (the Government) and to demonstrate the resources held by the Government in the delivery of public services.

2. Reporting entities and basis of consolidation

2.1 Reporting entities

The entities included in these consolidated financial statements are as follows:

- a) the General Revenue Account (GRA);
- b) the Funds established under section 29 of the Public Finance Ordinance (Cap. 2) (Note 35(a)(i));
- c) other Funds established by the Government for specific purposes with their funding mainly from the Government and the Government being responsible for their use (Note 35(a)(ii));
- d) government business enterprises in which the Government has an investment holding of not less than 20 percent and of which the Government shares the net earnings (Note 35(b)(ii));
- e) the Hong Kong Housing Authority (HKHA);
- f) Hong Kong Link 2004 Limited;
- g) Hong Kong Sukuk 2014 Limited; and
- h) the Exchange Fund.

2.2 Other non-departmental public bodies

Entities whose resource consumption has been accounted for in these consolidated financial statements as grants and subventions, thereby reflecting the relationship between the Government and these entities as one of purchaser and provider of services, are not consolidated.

2.3 Basis of consolidation

Entities in Notes 2.1(a), (b), (c), (e), (f) and (g) are consolidated on a line-by-line basis whereby similar items of revenue, expenses, assets and liabilities are combined to give an overall view of the Government's financial performance and position as if they were a single entity. Significant transactions and balances of indebtedness between these entities are eliminated, and adjustments are made to reflect the financial performance and position as of 31 March for entities with a different reporting date.

Entities in Notes 2.1(d) and (h) are consolidated on an equity basis whereby the Government's share of their current year's net operating results are separately disclosed in the Consolidated Statement of Financial Performance, and the Government's share of their net assets, less any impairment losses recognised, are included in the investments reported in the Consolidated Statement of Financial Position.

2.4 Consolidated entities with financial year-end dates other than 31 March

For entities consolidated on a line-by-line basis and with a financial year-end date other than 31 March, consolidation is based on the unaudited accounts covering the twelve-month period to 31 March.

For entities consolidated on an equity basis and with a reporting date other than 31 March, consolidation is based on the audited accounts available for the latest financial year, with the exception of the Exchange Fund, of which the financial year ends on 31 December and for which adjustments are made to cover a twelve-month period to 31 March.

3. Principal accounting policies

a) Revenue

For GRA and the funds established under the Public Finance Ordinance (Cap. 2), accruals are made for major revenue items (including taxes and duties, Government rent and rates, utilities, land premia and interest and investment income). Other revenue items are recognised when received.

For other consolidated entities, revenue is recognised when it is probable that the economic benefits will flow to the entities concerned and can be measured reliably.

b) Expenses

For GRA and the funds established under the Public Finance Ordinance (Cap. 2), accruals are made for major expense items (including salaries, pensions, untaken leave, contract gratuities, recurrent subventions, social security payments, other operating expenses and interest expenses). Other expense items are recognised when paid.

For other consolidated entities, expenses are recognised when a decrease in future economic benefits relating to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

c) Cash and cash equivalents

Cash and cash equivalents are cash, placements with banks and other financial institutions with an original period to maturity of not more than three months.

d) Investments with the Exchange Fund

These are funds of the Government (Note 18(b)) placed with the Exchange Fund for investment purposes, and are stated at cost.

e) Investments

Investments in government business enterprises

For investments in those government business enterprises in which the Government has an investment holding of not less than 20 percent and of which the Government shares the net earnings (refer to Note 35(b)(ii) for a list of the entities), their values are stated at the Government's share of the net assets of the entities concerned, less any impairment losses recognised. For investments in other government business enterprises, their values are stated at cost. Gains or losses arising from disposal or recognition / reversal of impairment losses are dealt with in the Consolidated Statement of Financial Performance.

Other investments

Other investments are stated at cost or fair value at the end of the financial year. Changes in the fair value of investments as well as gains or losses arising from disposal or recognition / reversal of impairment losses are dealt with in the Consolidated Statement of Financial Performance.

f) Loans and Advances

Loans and advances are stated at the principal amounts outstanding or amortised cost less provision for doubtful debts. It is reviewed at the end of the financial year to determine whether there is any concrete act or information revealing that any amount may not be fully recoverable. Gains or losses arising from recognition / reversal of provision for doubtful debts are dealt with in the Consolidated Statement of Financial Performance.

g) Accounts receivable

Accounts receivable is stated at cost or fair value less provision for doubtful debts. It is reviewed at the end of the financial year to determine whether there is any objective evidence that an impairment loss has been incurred. Gains or losses arising from recognition / reversal of provision for doubtful debts are dealt with in the Consolidated Statement of Financial Performance.

h) *Stocks in hand*

Stocks in hand comprise stores, parts and consumables for own consumption or sale in the course of the Government's operations. They are reported in the Consolidated Statement of Financial Position using the weighted average cost method to the extent that they are material. Stocks in hand are reported as expenses when they are used.

i) *Home Ownership Scheme (domestic) premises*

Stock of re-purchased properties and unsold new premises are stated at the lower of cost and net realisable value. Premises under development are stated at cost.

j) *Fixed assets*

Except for land, some infrastructure assets (mainly roads and drains) and heritage assets, the Government's fixed assets and those of the HKHA (which has been consolidated on a line-by-line basis in these financial statements) are reported in these accrual-based financial statements.

Fixed assets are stated at cost less accumulated depreciation. Cost comprises expenditure incurred in acquiring or bringing a fixed asset to its condition and location intended at the time of acquisition, construction or development. Subsequent expenditure relating to an existing fixed asset is added to the carrying amount of the fixed asset if it is probable that future economic benefits in excess of the originally assessed standard of performance of the asset will be obtained.

For those buildings whose costs cannot be ascertained reliably, their costs are based on valuation (as of 31 March 2004) made by independent qualified valuers on a depreciated replacement cost basis. For Cross-Harbour Tunnel, which was reverted to the Government on 1 September 1999 after the expiry of a Build-Operate-Transfer arrangement, it is valued at its original construction cost less accumulated depreciation up to the date of reversion.

Infrastructure assets reported in these financial statements comprise water supplies, sewage services, cruise and ferry terminals, toll-tunnels, the Lantau Link, landfills and other environmental protection facilities.

Depreciation is provided on a straight line basis to amortise the costs or valuations of fixed assets over their estimated useful lives as follows:

– Infrastructure assets	mainly 50 years
– Buildings	10 - 50 years
– Computer software and hardware	5 - 10 years
– Civil engineering works	30 - 50 years
– Boats and vessels	4 - 20 years
– Lighting and ventilation	20 years
– Other plant and equipment	5 - 15 years

No depreciation is provided for capital works / projects in progress.

The gain or loss on retirement or disposal of a fixed asset is determined as the difference between the net disposal proceeds (if any) and its net book value, and is recognised in the Consolidated Statement of Financial Performance in the year of retirement or disposal.

k) *Assets under Build-Operate-Transfer arrangements*

In a Build-Operate-Transfer (BOT) arrangement, the Government enters into an agreement with a private sector company under which the company agrees to finance, design and build a facility at its own cost, and is given a concession, usually for a fixed period, to operate that facility and collect revenue from its operation before transferring the facility to the Government at the end of the concession period. For assets constructed by the private sector under BOT arrangements, both the title to the assets and the economic benefits arising from the assets are not passed to the Government until the arrangements expire.

Assets under BOT arrangements are therefore not reported as assets in the Government's Consolidated Statement of Financial Position until the arrangements expire. At the expiry of such arrangements, the related assets are recognised and depreciated according to the accounting policy on fixed assets.

A list of the assets under BOT arrangements as at 31 March 2015 and the expiry dates of the arrangements are at Note 34.

l) *Employee benefits*

Retirement benefits

For non-civil service contract staff participating in the Mandatory Provident Fund Schemes as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485), the Government's contributions to the schemes are accrued. For other employees participating in the Mandatory Provident Fund Schemes and Civil Service Provident Fund Scheme, the Government's contributions to the schemes are reported as expenses upon payment.

The Government operates a number of pension schemes which are defined benefit schemes (see Note 24). For the purpose of accrual-based accounting, the present value of pension obligations under these pension schemes are determined at periodical intervals by an independent qualified actuary using the Projected Unit Credit Method. The pension benefits included in the Consolidated Statement of Financial Performance comprise the following expense items, all of which are accounted for on the accrual basis except otherwise indicated:

- (i) *current service cost* – represents the increase in the present value of pension obligations arising from service in the financial year being reported on;
- (ii) *interest cost* – represents the increase in the present value of pension obligations which arises because the pension benefits are one year closer to settlement;
- (iii) *actuarial gain / loss* – represents the decrease (for actuarial gain) or increase (for actuarial loss) in the present value of pension obligations arising from:
 - experience adjustments (i.e. the effect of differences between the previous actuarial assumptions and what has actually occurred); and
 - the effect of changes in actuarial assumptions.

Actuarial gain / loss is recognised in full as identified; and

- (iv) *curtailment loss* – represents the increase in the present value of pension obligations arising from the payment of pension benefits to participants of the voluntary retirement schemes earlier than would otherwise be the case. Curtailment loss is recognised in full as identified.

Other employee benefits

Contract gratuities and untaken leave for civil servants and non-civil service contract staff are accrued while other benefits such as housing, medical and education are recognised when they are paid.

m) *Commitments*

Commitments comprise the outstanding balance of capital and non-recurrent funding approval that may result in future cash outflow. Outstanding commitments (if any) are disclosed in Note 31 and classified by:

- Capital works projects, property, plant and equipment and capital subventions;
- Non-recurrent expenditure;
- Investments; and
- Loans and non-recurrent grants

n) *Foreign currency translation*

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at 31 March. Exchange gains and losses on foreign currency translation are dealt with in the Consolidated Statement of Financial Performance.

o) *Change in accounting policy*

The reporting scope of commitments was expanded to cover capital subventions, non-recurrent expenditure and non-recurrent grants starting from the financial year 2014-15 as explained in Note 3(m) above. The comparative figures for the financial year 2013-14 are restated to conform to the change in accounting policy. The change in accounting policy will not affect the Consolidated Statement of Financial Performance and the Consolidated Statement of Financial Position.

4. Taxes, rates and duties	2015 HK\$ million	2014 HK\$ million
Internal revenue		
Profits tax	130,724	119,265
Stamp duties	74,841	41,511
Salaries tax	60,166	55,977
Betting duty	19,479	18,067
Other internal revenue	10,377	9,686
	<u>295,587</u>	<u>244,506</u>
General rates	21,375	14,878
Duties	10,057	9,696
Motor vehicle taxes	9,549	8,338
	<u>336,568</u>	<u>277,418</u>
5. Rental income	2015 HK\$ million	2014 HK\$ million
Rents from HKHA's properties	14,883	11,903
Government rents charged at 3% of rateable values	9,151	8,443
Rents from government properties	2,467	2,323
Government land licences	2,283	2,032
	<u>28,784</u>	<u>24,701</u>
6. Fees and charges	2015 HK\$ million	2014 HK\$ million
Economic	6,006	3,463
Infrastructure	4,841	4,893
Security	1,112	1,093
Environment and food	1,042	1,024
Community and external affairs	796	808
Support	550	435
Others	183	204
	<u>14,530</u>	<u>11,920</u>
7. Utilities	2015 HK\$ million	2014 HK\$ million
Waterworks	2,627	2,579
Sewage services	1,132	1,050
Marine ferry terminals	213	209
	<u>3,972</u>	<u>3,838</u>

8. Royalties and concessions	2015 HK\$ million	2014 HK\$ million
Bridges and tunnels	1,504	1,470
Spectrum utilisation fee	812	2,316
Parking	425	430
Vehicles examination	31	33
Others	128	181
	2,900	4,430
	2,900	4,430
9. Other operating revenue	2015 HK\$ million	2014 HK\$ million
Recovery of salaries and staff on-costs	1,511	1,441
Fines, forfeitures and penalties	1,328	1,957
Mark Six Lottery	1,182	1,159
Recovery of overpayments and losses	736	764
Gain on disposal of fixed assets	417	990
Others	1,587	1,483
	6,761	7,794
	6,761	7,794
10. Salaries, allowances and other employee benefits	2015 HK\$ million	2014 HK\$ million
Salaries and allowances	71,895	67,582
Pension current service cost (Note 24)	17,232	17,324
Other employee benefits	4,188	3,791
	93,315	88,697
	93,315	88,697
11. Other operating expenses	2015 HK\$ million	2014 HK\$ million
Hire of services and professional fees	18,174	16,525
Grants	10,551	10,868
General other non-recurrent	9,989	25,045
Maintenance	7,485	6,950
Miscellaneous	5,457	4,146
Purchase of water	4,031	3,802
Light and power	3,650	3,475
Specialist supplies, stores and equipment	2,613	2,947
Operation of waste facilities	2,345	1,949
Administration expenses	1,986	1,905
Publicity and cultural activities	920	796
Rents and management charges for properties (other than quarters)	758	712
Data processing	648	633
	68,607	79,753
	68,607	79,753

12. Recurrent subventions

	2015 HK\$ million	2014 HK\$ million
Education	56,070	52,480
Health	49,462	46,048
Social welfare	12,993	11,989
Economic	1,824	1,652
Others	2,448	2,212
	<u>122,797</u>	<u>114,381</u>

13. Social security payments

	2015 HK\$ million	2014 HK\$ million
Comprehensive social security assistance	19,548	19,339
Social security allowance scheme	17,164	17,448
Other payments	39	43
	<u>36,751</u>	<u>36,830</u>

14. Operating expenses classified by function

	2015 HK\$ million	2014 HK\$ million
Education	70,944	67,244
Social welfare	58,562	55,862
Health	55,009	50,991
Security	44,064	41,625
Infrastructure	25,554	24,577
Environment and food	18,427	14,462
Support	16,826	16,052
Economic	16,175	33,249
Housing	14,499	13,847
Community and external affairs	13,432	13,432
	<u>333,492</u>	<u>331,341</u>

15. Capital expenses

	2015 HK\$ million	2014 HK\$ million
Highways	34,809	34,278
Capital subventions	6,700	21,946
Civil engineering works	3,272	947
New towns and urban area developments	3,029	2,506
Buildings	2,299	2,600
Drainage	790	1,349
Housing	608	460
Land acquisition	596	1,657
Others	366	790
	<u>52,469</u>	<u>66,533</u>

16. Land premia

	2015 HK\$ million	2014 HK\$ million
Sales by public auction and tender	49,473	57,450
Private treaty grants	13,190	192
Modification of existing leases, exchanges and extensions	13,183	9,627
Fees received in respect of short-term waivers	708	582
	<u>76,554</u>	<u>67,851</u>

17. Net revenue from home ownership assistance schemes

	2015 HK\$ million	2014 HK\$ million
Income	3,058	3,707
Operating costs	(596)	(1,309)
Decrease in provisions	21	14
	<u>2,483</u>	<u>2,412</u>

Details of the flats sold are as follows:

	2015		2014	
	No. of Flats	Area (m ²)	No. of Flats	Area (m ²)
Tenants Purchase Scheme (TPS)	3,467	123,214	3,246	117,135
Home Ownership Scheme (HOS)	86	3,862	829	44,463
Private Sector Participation Scheme (PSPS)	-	-	1	54
Buy or Rent Option Scheme	-	-	1	60

18. (a) Interest and investment income

	2015 HK\$ million	2014 HK\$ million
Investment income from the Exchange Fund (Note 18(b))	32,207	34,528
Interest on loans and investment income	13,162	12,205
	<u>45,369</u>	<u>46,733</u>

(b) Investments with the Exchange Fund

These are the Government's funds deposited with the Exchange Fund for investment purposes and are stated at cost in the Consolidated Statement of Financial Position. These Government's funds comprise the investments and deposits held by the General Revenue Account and the Funds established under section 29 of the Public Finance Ordinance (Cap. 2) except Bond Fund (Note 35(a)(i)). Effective from 1 April 2007, the investment income is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher. The annual investment income is receivable on 31 December of each year.

19. Interest expenses

	2015 HK\$ million	2014 HK\$ million
Interest cost on pension liabilities (Note 24)	25,443	24,342
Interest on bonds and notes issued (Note 25)	2,478	2,508
Periodic distribution payments for alternative bonds (Note 25)	83	-
	28,004	26,850
	28,004	26,850

20. Investments in government business enterprises

	2015 HK\$ million	2014 HK\$ million
Cost of investments (Note (a))	137,443	137,443
Share of undistributed reserves		
Balance at beginning of the year	160,094	150,889
Share of profits and losses for the year	28,498	20,979
Share of distributions for the year	(14,211)	(11,467)
Share of other reserve movements (Note 29)	(436)	(307)
Balance at end of the year	173,945	160,094
Share of net assets (Note (b))	311,388	297,537
Loans	2,636	2,705
	314,024	300,242

Note:

(a) Refer to Note 35(b)(ii) for a list of the government business enterprises consolidated on an equity basis.

(b) Included HK\$135,988 million (2014: HK\$127,208 million) being the Government's share of net assets of MTR Corporation Limited (as at end of the company's financial year). The corresponding market value of the Government's investment in the company, which is listed in Hong Kong, was HK\$141,019 million (2014: HK\$130,154 million).

21. Other investments

	2015 HK\$ million	2014 HK\$ million
Investments made by Bond Fund	120,058	100,678
Investments made by other funds	86,986	84,810
Investments made by HKHA	59,244	61,286
Asian Development Bank	232	232
New Hong Kong Tunnel Company Limited	56	56
	266,576	247,062
	266,576	247,062

22. Loans and advances

	2015 HK\$ million	2014 HK\$ million
Education loans	15,849	14,669
Advances (Note (a))	2,911	2,708
Loan to the Guangdong Provincial People's Government for water quality improvement project	946	1,064
Civil servants housing loans (Note (b))	175	103
Home Purchase / Assistance Loans provided by HKHA	128	195
Other loans	2,808	2,285
	22,817	21,024
	22,817	21,024

Note:

(a) Included in the advances above is a sum of HK\$1,162 million (2014: HK\$1,162 million) being the outstanding balance of expenditure on Vietnamese migrants recoverable from the United Nations High Commissioner for Refugees (UNHCR). The last repayment, amounting to HK\$4 million, was received in February 1998. In January 1998, the High Commissioner for Refugees informed the Government of the Hong Kong Special Administrative Region (HKSAR) that in the absence of further funding prospects, the repayment in February 1998 was the last reimbursement that the UNHCR could realistically foresee. If the UNHCR defaults on repayment of the outstanding advances, the Government of the HKSAR will not be able to enforce repayment through legal means as the UNHCR is immune from suit under the International Organisations and Diplomatic Privileges Ordinance (Cap. 190). Consequently, the full recovery of the amount due is doubtful.

During the financial year 2014-15, 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.

- (b) After deducting the sums received from sale of civil servants housing loans of HK\$108 million (2014: HK\$151 million).
- (c) The balances of loans and advances are arrived after netting off provision for doubtful debts totalling HK\$384 million (2014: HK\$380 million).

23. Other assets

	2015 HK\$ million	2014 HK\$ million
Investment income receivable from the Exchange Fund (Note (a))	42,048	8,667
Accounts receivable (Note (b))	29,523	33,634
Balance of proceeds receivable from sale of housing loans	4,241	4,220
Prepayments	2,079	2,037
HOS (domestic) premises (Note (c))	1,960	940
Stocks in hand	1,818	1,678
Issue discounts and expenses on bonds and notes (Note 25)	672	585
	82,341	51,761
	82,341	51,761

Note:

- (a) Included the HK\$27.49 billion investment income for the calendar year 2014 set aside and retained within the Exchange Fund as provision for the Housing Reserve pursuant to the Financial Secretary's directive in December 2014, and not received on 31 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 18(b) and shall be receivable on a date as determined by the Financial Secretary.
- (b) The balance is arrived after netting off provision for doubtful debts totalling HK\$23.03 million (2014: HK\$26.48 million).
- (c) Representing properties under development and unsold HOS / PSPS flats.

24. Provision for pensions

The Government operates four major types of pension schemes:

- a) *Civil Service Pension Scheme* – refers to the pension benefits governed by Pensions Ordinance (Cap. 89), Pension Benefits Ordinance (Cap. 99), Pensions (Increase) Ordinance (Cap. 305), Pensions (Special Provisions) (Hospital Authority) Ordinance (Cap. 80), Pensions (Special Provisions) (Hong Kong Polytechnic) Ordinance (Cap. 90), Pensions (Special Provisions) (Vocational Training Council) Ordinance (Cap. 387) and Pensions (Special Provisions) (The Hong Kong Institute of Education) Ordinance (Cap. 477);
- b) *Judicial Service Pension Scheme* – refers to the pension benefits governed by Pension Benefits (Judicial Officers) Ordinance (Cap. 401) and Pensions (Increase) Ordinance (Cap. 305);
- c) *Widows and Orphans Pension Scheme* – refers to the pension benefits governed by Widows and Orphans Pension Ordinance (Cap. 94) and Widows and Orphans Pension (Increase) Ordinance (Cap. 205); and
- d) *Surviving Spouses' and Children's Pensions Scheme* – refers to the pension benefits governed by Surviving Spouses' and Children's Pensions Ordinance (Cap. 79) and Pensions (Increase) Ordinance (Cap. 305).

All the pension schemes above are defined benefit schemes with the civil and judicial service pension schemes being non-contributory and the other two schemes being contributory (either at a fixed amount or as a percentage on salaries). The Civil Service Pension Scheme and the dependant pension schemes are closed schemes. Civil servants offered appointment on or after 1 June 2000 are not eligible to join. The operation and funding of the pension schemes are governed by the relevant pension legislation. For the purpose of accrual-based accounting, the Government's financial liabilities under these schemes as at 31 March 2015 as well as the current service cost for the financial year 2014-15 were assessed by an independent qualified actuary using the Projected Unit Credit Method and the following principal actuarial assumptions:

	<u>2015</u>	<u>2014</u>
Discount rate	4.25% p.a.	3.5% p.a.
Expected rate of return on the assets of the pension schemes	Not applicable (Note (a))	
Future salary increases:		
– Price inflation and real wage growth		
<u>Civil servants</u>		
2015-16 (Note (b))	3.96% – 4.62%	3%
2016-17 and thereafter	3.5% p.a.	3% p.a.
<u>Judges and judicial officers</u>		
2015-16 (Note (b))	4.41%	3%
2016-17 and thereafter	3.5% p.a.	3% p.a.
– Promotion and annual increments (based on a set of service-related rates)	0% – 2.5% p.a.	0% – 3.7% p.a.

Note:

- (a) The Government's pension obligations is basically unfunded and hence there is no expected rate of return on the assets of the pension schemes. The pension legislation provides that payments of all pension benefits should be charged to the General Revenue. Accordingly, funds are set aside every year from the General Revenue Account for pension payments. To meet payments of civil service pensions in the most unlikely event that the Government cannot meet such liabilities from the General Revenue, the Government has since 1995 maintained a Civil Service Pension Reserve Fund which could cover the estimated pension payment for one year. The balance of this Fund was HK\$27,029 million as at 31 March 2015 (2014: HK\$27,029 million).
- (b) The assumed increase of 3% used in previous actuarial assessment has been updated to take into account the 2015-16 pay adjustments for civil service (a pay increase of 3.96% for civil servants in the directorate and upper salary bands; and a pay increase of 4.62% for those in the middle and lower salary bands) and the proposed 2015-16 pay adjustment for judicial service (a pay increase of 4.41% for judges and judicial officers).

Movements in the liabilities recognised in the Consolidated Statement of Financial Position:

	2015 HK\$ million	2014 HK\$ million
Present value of pension obligations at beginning of the year	747,157	714,745
Expenses recognised in the Consolidated Statement of Financial Performance	94,679	55,908
Benefits paid	(26,004)	(23,496)
Present value of pension obligations at end of the year	<u>815,832</u>	<u>747,157</u>

Expenses recognised in the Consolidated Statement of Financial Performance:

	2015 HK\$ million	2014 HK\$ million
Interest cost (Note 19)	25,443	24,342
Current service cost (Note 10)	17,232	17,324
Actuarial loss (Note 3(1)(iii))	52,004	14,242
	<u>94,679</u>	<u>55,908</u>

25. Bonds and notes issued

	Principal Amount Outstanding at 31 March 2015 HK\$ million	Principal Amount Outstanding at 31 March 2014 HK\$ million
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Government bonds and notes (Note (a)) with maturity as follows:

Within one year	-	9,697
After two years but within five years	1,500	-
After five years	-	1,500
	<u>1,500</u>	<u>11,197</u>

Government bonds issued under the Government Bond Programme with maturity as follows:

Bonds with nominal value in Hong Kong dollars (Note (b))		
Within one year	28,000	20,000
After one year but within two years	27,000	28,000
After two years but within five years	37,600	30,500
After five years	11,800	15,500
	104,400	94,000
Alternative bonds with nominal value in United State dollars (Note (c))		
After two years but within five years	7,755	-
	<u>112,155</u>	<u>94,000</u>
	<u>113,655</u>	<u>105,197</u>

Note:

- (a) In July 2004, the Government issued bonds and notes totalling HK\$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollar. The outstanding bonds and notes are denominated in Hong Kong dollars with maturity in July 2019. During the financial year, repayments of HK\$9,688 million principal and payments of HK\$325 million interest were made.
- (b) During the financial year, bonds with nominal value totalling HK\$20.4 billion were issued to institutional investors through tender, and bonds with nominal value totalling HK\$10 billion were issued to retail investors through subscription. Bonds with nominal value totalling HK\$10 billion issued through tender and bonds with nominal value totalling HK\$10 billion issued through subscription were repaid during the financial year.

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. During the financial year, bonds with nominal value totalling HK\$0.8 billion was early repaid for issuance of other bonds with the same nominal value under a switch tender.

Of the outstanding bond balance of HK\$104.4 billion, HK\$16.5 billion was repaid upon maturity during April 2015 to July 2015.

- (c) 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 (Cap. 61). The outstanding balance of these alternative bonds with nominal value of US\$1 billion (HK\$7.76 billion) will mature in September 2019.

26. Other liabilities

	2015 HK\$ million	2014 HK\$ million
Provisions		
Untaken leave (Note)	26,451	25,838
Contract gratuities	645	584
Others	1,871	1,899
	<hr/>	<hr/>
	28,967	28,321
Deposits	16,920	18,134
Accounts payable	9,538	11,783
Others	360	480
	<hr/>	<hr/>
	55,785	58,718
	<hr/> <hr/>	<hr/> <hr/>

Note:

The provision for 'untaken leave' gives an indication of the overall amount of leave earned but not yet taken by serving officers calculated at their current salary levels. As and when officers clear their untaken leave balance, such liability is expected to decrease. In case officers have untaken leave when leaving the Government, the liability for untaken leave will be absorbed within the salary provisions for the departments concerned. It should be noted that both leave earning rates and leave accumulation limits have been substantially reduced for civil servants offered appointment on or after 1 June 2000. To illustrate, the average leave earning rate of these civil servants is about 20 days per annum and the average accumulation limit is about 40 days. As such, it is expected that the Government's liability for untaken leave will decline in the long run.

27. Exchange Fund Reserve

The Monetary Authority, under delegated authority from the Financial Secretary as Controller of the Exchange Fund, manages the Exchange Fund in accordance with the provisions of the Exchange Fund Ordinance (Cap. 66). The net assets of the Exchange Fund as at 31 March 2015 are represented by the Exchange Fund Reserve in the Consolidated Statement of Financial Position. The movements of the Exchange Fund Reserve during the years ended 31 March 2015 and 31 March 2014 were as follows:

	2015 HK\$ million	2014 HK\$ million
Balance at beginning of the year	637,668	628,095
Transfer (to) / from General Reserve (Note 29)	(10,632)	9,573
Balance at end of the year	627,036	637,668

The Exchange Fund's abridged Balance Sheets (unaudited) as at 31 March 2015 and 31 March 2014 were as follows:

	2015 HK\$ million	2014 HK\$ million
Assets		
Foreign currency assets	3,023,452	2,808,148
Hong Kong dollar assets	256,020	196,007
	3,279,472	3,004,155
Liabilities		
Placements by Fiscal Reserves	(838,272)	(766,985)
Certificates of Indebtedness	(348,992)	(326,835)
Exchange Fund Bills and Notes issued	(796,300)	(749,960)
Placements by banks and other financial institutions	(63,171)	(50,579)
Government-issued currency notes and coins in circulation	(11,432)	(10,951)
Balance of the banking system	(239,200)	(163,912)
Placements by Hong Kong Special Administrative Region government funds and statutory bodies	(268,819)	(236,070)
Other liabilities	(86,250)	(61,195)
	(2,652,436)	(2,366,487)
Net assets	627,036	637,668

28. Fixed assets

	Buildings HK\$ million	Infrastructure Assets HK\$ million	Computer Assets HK\$ million	Other Plant and Equipment HK\$ million	Capital Works / Projects in Progress HK\$ million	Total HK\$ million
<u>At cost</u>						
At 1 April 2014	282,424	133,780	15,290	28,542	62,531	522,567
Additions	97	273	434	826	32,458	34,088
Transfers	5,626	6,144	728	825	(13,323)	-
Disposals	(682)	(157)	(628)	(251)	(36)	(1,754)
At 31 March 2015	287,465	140,040	15,824	29,942	81,630	554,901
<u>Accumulated depreciation</u>						
At 1 April 2014	78,568	45,024	11,534	16,745	-	151,871
Charge for the year	5,468	3,460	1,326	1,768	-	12,022
Written back on disposals	(329)	(134)	(602)	(219)	-	(1,284)
At 31 March 2015	83,707	48,350	12,258	18,294	-	162,609
<u>Net book value</u>						
At 31 March 2015	203,758	91,690	3,566	11,648	81,630	392,292
At 31 March 2014	203,856	88,756	3,756	11,797	62,531	370,696

29. General Reserve

	2015 HK\$ million	2014 HK\$ million
Balance at beginning of the year	495,254	486,071
Net surplus for the year	69,818	38,683
Share of other reserve movements in government business enterprises (Note 20)	(436)	(307)
Share of accumulated fund of specific purposes funds (Note 35(a)(ii))	-	16
Transfer from / (to) Exchange Fund Reserve (Note 27)	10,632	(9,573)
Transfer to Capital Expenditure Reserve (being net increase in fixed assets) (Note 30)	(21,596)	(19,636)
Balance at end of the year	553,672	495,254

30. Capital Expenditure Reserve

	2015 HK\$ million	2014 HK\$ million
Balance at beginning of the year	370,696	351,060
Transfer from General Reserve (Note 29)	<u>21,596</u>	<u>19,636</u>
Balance at end of the year	<u><u>392,292</u></u>	<u><u>370,696</u></u>

31. Commitments

Outstanding commitments as at 31 March 2015 and 31 March 2014 not provided for in the consolidated financial statements were as follows:

	2015 HK\$ million	2014 (as restated) HK\$ million
(i) Capital works projects, property, plant and equipment, and capital subventions	<u>399,825</u>	<u>430,290</u>
(ii) Non-recurrent expenditure	<u>31,967</u>	<u>35,261</u>
(iii) Loans and non-recurrent grants	<u><u>24,825</u></u>	<u><u>24,584</u></u>

32. Contingent liabilities

As at 31 March 2015, the Government had the following contingent liabilities:

- a) financial exposure on the default guarantees of HK\$39,011 million (2014: HK\$39,964 million) provided for mortgage loans of flats sold under HOS, PSPS and TPS of HKHA amounting to HK\$103 million (2014: HK\$140 million);
- b) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to HK\$31,614 million (2014: HK\$31,397 million);
- c) guarantees provided under the SME Financing Guarantee Scheme - Special Concessionary Measures amounting to HK\$27,022 million (2014: HK\$26,531 million);
- d) guarantees provided under the Special Loan Guarantee Scheme amounting to HK\$20,442 million (2014: HK\$41,689 million);
- e) legal claims, disputes and proceedings amounting to HK\$12,773 million (2014: HK\$6,409 million);
- f) guarantees provided under loan guarantee schemes for small and medium enterprises amounting to HK\$6,406 million (2014: HK\$7,610 million);
- g) possible capital subscriptions to the Asian Development Bank amounting to HK\$5,892 million (2014: HK\$6,577 million);
- h) guarantees provided for a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to HK\$2,048 million (2014: Nil);
- i) guarantees provided for a commercial loan of the Ocean Park Corporation amounting to HK\$1,388 million (2014: HK\$1,388 million); and
- j) financial exposure on Structural Safety Guarantee covering 27,450 units (2014: 27,365 units) of HOS and PSPS flats the amount of which could not be reasonably ascertained.

33. Events after the reporting period

After 31 March 2015, the Legislative Council and its Finance Committee have approved laws and proposals which have a financial effect on Government revenue and expenditure. These laws and proposals can be accessed at the Legislative Council website – www.legco.gov.hk.

34. Assets under Build-Operate-Transfer arrangements

The names of the assets under Build-Operate-Transfer arrangements as at 31 March 2015 and the expiry dates of the arrangements are as follows:

- a) The Eastern Harbour Crossing (expires in August 2016);
- b) The Tate's Cairn Tunnel (expires in July 2018);
- c) The Western Harbour Crossing (expires in August 2023); and
- d) Tai Lam Tunnel and Yuen Long Approach Road (expires in May 2025).

35. Entities consolidated in these financial statements

a) Entities consolidated on a line-by-line basis

(i) Core Government – comprising the General Revenue Account and the Funds established under section 29 of the Public Finance Ordinance (Cap. 2):

1. Capital Works Reserve Fund
2. Capital Investment Fund
3. Civil Service Pension Reserve Fund
4. Disaster Relief Fund
5. Innovation and Technology Fund
6. Land Fund
7. Loan Fund
8. Lotteries Fund
9. Bond Fund

(ii) Funds established by the Government for specific purposes with their funding mainly from the Government and the Government being responsible for their use:

1. AIDS Trust Fund
2. Beat Drugs Fund Association
3. Community Care Fund
4. Consumer Legal Action Fund
5. Education Development Fund †
6. Elder Academy Development Foundation
7. Elite Athletes Development Fund
8. Emergency Relief Fund
9. Environment and Conservation Fund
10. Health Care and Promotion Fund
11. Health Services Research Fund
12. HKSAR Government Scholarship Fund †
13. Hong Kong Paralympians Fund
14. Language Fund †
15. New Technology Training Fund
16. Pneumoconiosis Ex Gratia Fund
17. Quality Education Fund †
18. Queen Elizabeth Foundation for the Mentally Handicapped
19. Research Endowment Fund †
20. Self-financing Post-secondary Education Fund †
21. Sir David Trench Fund for Recreation
22. Social Innovation and Entrepreneurship Development Fund φ
23. Supplementary Legal Aid Fund †
24. Trust Fund for Severe Acute Respiratory Syndrome
25. Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas

(iii) The Hong Kong Housing Authority

(iv) Hong Kong Link 2004 Limited *

(v) Hong Kong Sukuk 2014 Limited φ

b) Entities consolidated on an equity basis

- (i) The Exchange Fund †
- (ii) Government business enterprises in which the Government has an investment holding of not less than 20 percent and of which the Government shares the net earnings:

	% owned
1. Airport Authority	100%
2. Companies Registry Trading Fund	100%
3. Electrical and Mechanical Services Trading Fund	100%
4. Hong Kong Cyberport Development Holdings Limited	100%
5. Hongkong International Theme Parks Limited †	53.6%
6. Hong Kong Science and Technology Parks Corporation	100%
7. Hong Kong IEC Limited	74.9%
8. Kowloon-Canton Railway Corporation †	100%
9. Land Registry Trading Fund	100%
10. MTR Corporation Limited †	76.0%
11. Office of the Communications Authority Trading Fund	100%
12. Post Office Trading Fund	100%
13. Urban Renewal Authority	100%
14. West Rail Property Development Limited † ◇	100%

† Financial year-end date not coterminous with that of the Government.

∅ Included in the consolidated financial statements starting from the financial year 2014-15.

◇ The Government owns 49% of the company directly and the rest through Kowloon-Canton Railway Corporation.

* Financial statements prepared on a liquidation basis as the company was dissolved on 28 July 2015.

36. Comparative figures

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