

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) General Revenue Account (GRA);
- b) 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) Hong Kong Housing Authority (HKHA);
- e) Hong Kong Link 2004 Limited;
- f) Hong Kong Sukuk 2014 Limited;
- g) Hong Kong Sukuk 2015 Limited;
- h) Exchange Fund; and
- i) 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)).

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) to (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(h) and (i) 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*

Investments with the Exchange Fund

These are funds of the Government (Note 17(b)) placed with the Exchange Fund for investment purposes, and are stated at cost less any impairment losses recognised.

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 (Note 21) 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.

e) *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.

f) *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.

g) *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.

h) *Home Ownership Scheme (domestic) premises*

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

i) *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.

j) *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 2016 and the expiry dates of the arrangements are at Note 34.

k) *Employee benefits*

Retirement benefits

For employees participating in the Mandatory Provident Fund Schemes as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) and the Civil Service Provident Fund Scheme, the Government's contributions to the schemes are accrued.

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.

l) 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.

m) Contingent liabilities

Contingent liabilities are defined as:

- (i) possible obligations that arise 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
- (ii) present obligations that arise from past events, but are not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; or
 - the amount of the obligations cannot be measured with sufficient reliability.

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.

4. Taxes, rates and duties	2016 HK\$ million	2015 HK\$ million
Internal revenue		
Profits tax	137,106	130,724
Stamp duties	62,726	74,841
Salaries tax	58,567	60,166
Betting duty	20,127	19,479
Other internal revenue	10,456	10,377
	288,982	295,587
General rates	21,608	21,375
Duties	10,709	10,057
Motor vehicle taxes	9,311	9,549
	330,610	336,568
5. Rental income	2016 HK\$ million	2015 HK\$ million
Rents from HKHA's properties	15,591	14,883
Government rents charged at 3% of rateable values	10,008	9,151
Rents from government properties	2,507	2,467
Government land licences	2,285	2,283
	30,391	28,784
	30,391	28,784
6. Fees and charges	2016 HK\$ million	2015 HK\$ million
Economic	6,423	6,006
Infrastructure	4,936	4,841
Security	1,151	1,112
Environment and food	1,084	1,042
Community and external affairs	788	796
Support	521	550
Others	190	183
	15,093	14,530
	15,093	14,530
7. Utilities	2016 HK\$ million	2015 HK\$ million
Waterworks	2,659	2,627
Sewage services	1,217	1,132
Marine ferry terminals	205	213
	4,081	3,972
	4,081	3,972

8. Royalties and concessions	2016 HK\$ million	2015 HK\$ million
Bridges and tunnels	1,545	1,504
Spectrum utilisation fees	853	812
Parking	419	425
Quarries and mining	33	40
Others	104	119
	<u>2,954</u>	<u>2,900</u>
	<u><u>2,954</u></u>	<u><u>2,900</u></u>
9. Other operating revenue	2016 HK\$ million	2015 HK\$ million
Recovery of salaries and staff on-costs	1,513	1,511
Fines, forfeitures and penalties	1,409	1,328
Mark Six Lottery	1,219	1,182
Recovery of overpayments and losses	1,073	736
Gain on disposal of fixed assets	587	417
Others	1,836	1,587
	<u>7,637</u>	<u>6,761</u>
	<u><u>7,637</u></u>	<u><u>6,761</u></u>
10. Salaries, allowances and other employee benefits	2016 HK\$ million	2015 HK\$ million
Salaries and allowances	75,503	71,895
Pension current service cost (Note 24)	18,227	17,232
Other employee benefits	4,557	4,188
	<u>98,287</u>	<u>93,315</u>
	<u><u>98,287</u></u>	<u><u>93,315</u></u>
11. Other operating expenses	2016 HK\$ million	2015 HK\$ million
General other non-recurrent	20,808	9,989
Hire of services and professional fees	19,184	18,174
Grants	10,844	10,551
Maintenance	7,771	7,485
Miscellaneous	5,767	5,457
Purchase of water	4,296	4,031
Light and power	3,639	3,650
Specialist supplies, stores and equipment	2,761	2,613
Operation of waste facilities	2,477	2,345
Administration expenses	1,933	1,986
Publicity and cultural activities	1,041	920
Rents and management charges for properties (other than quarters)	742	758
Data processing	625	648
	<u>81,888</u>	<u>68,607</u>
	<u><u>81,888</u></u>	<u><u>68,607</u></u>

12. Recurrent subventions

	2016 HK\$ million	2015 HK\$ million
Education	59,449	56,070
Health	51,133	49,462
Social welfare	14,913	12,993
Economic	2,302	1,824
Others	2,962	2,448
	<u>130,759</u>	<u>122,797</u>

13. Social security payments

	2016 HK\$ million	2015 HK\$ million
Comprehensive social security assistance	20,037	19,548
Social security allowance scheme	18,597	17,164
Other payments	42	39
	<u>38,676</u>	<u>36,751</u>

14. Operating expenses classified by function

	2016 HK\$ million	2015 HK\$ million
Education	75,063	70,944
Health	67,430	55,009
Social welfare	65,504	58,562
Security	45,716	44,064
Infrastructure	27,073	25,554
Environment and food	18,458	18,427
Support	17,849	16,826
Community and external affairs	15,504	13,432
Economic	15,463	16,175
Housing	15,020	14,499
	<u>363,080</u>	<u>333,492</u>

15. Land premia

	2016 HK\$ million	2015 HK\$ million
Sales by public auction and tender	43,308	49,473
Modification of existing leases, exchanges and extensions	19,197	13,183
Fees received in respect of short-term waivers	755	708
Private treaty grants	73	13,190
	<u>63,333</u>	<u>76,554</u>

16. Net revenue from home ownership assistance schemes

	2016 HK\$ million	2015 HK\$ million
Income	2,595	3,058
Operating costs	(501)	(596)
Decrease in provisions	9	21
	<u>2,103</u>	<u>2,483</u>

Details of the flats sold were as follows:

	2016		2015	
	No. of Flats	Area (m ²)	No. of Flats	Area (m ²)
Tenants Purchase Scheme (TPS)	3,059	108,521	3,467	123,214
Home Ownership Scheme (HOS)	-	-	86	3,862

17. (a) Interest and investment income

	2016 HK\$ million	2015 HK\$ million
Investment income from the Exchange Fund (Note 17(b))	43,180	32,207
Interest on loans and investment income	10,088	13,162
	53,268	45,369
	53,268	45,369

(b) Investments with the Exchange Fund

These Government's funds comprise the investments (Notes (i) and (ii)) 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)), and are stated at cost.

- (i) Pursuant to the directive of the Financial Secretary in the 2015-16 Budget, the Future Fund was established on 1 January 2016 with an initial endowment of HK\$219.73 billion from the balance of the Land Fund as a notional savings account within the fiscal reserves. The Future Fund placement is held in the Exchange Fund for securing higher investment returns over a ten-year investment period in accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015. Investment income on the Future Fund placement is payable at a composite rate computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note 17(b)(ii)) and the rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund together with investment income 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.
- (ii) The part of the fiscal reserves outside the Future Fund (Note 17(b)(i)) is referred to as Operating and Capital Reserves in the cash-based Consolidated Account. Investment income on the Operating and Capital Reserves placement with the Exchange Fund is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year.

18. Capital expenses

	2016 HK\$ million	2015 HK\$ million
Highways	40,541	34,809
Capital subventions	6,795	6,700
Civil engineering works	4,691	3,272
New towns and urban area developments	2,654	3,029
Buildings, plant, vehicles, equipment and minor works	1,874	2,492
Drainage	893	790
Land acquisition	656	596
Housing	548	608
Others	131	173
	58,783	52,469
	58,783	52,469

19. Interest expenses

	2016 HK\$ million	2015 HK\$ million
Interest cost on pension liabilities (Note 24)	33,827	25,443
Interest on bonds and notes issued (Note 25)	1,927	2,478
Periodic distribution payments for alternative bonds (Note 25)	277	83
	36,031	28,004
	36,031	28,004

20. Investments in government business enterprises

	2016 HK\$ million	2015 HK\$ million
Cost of investments (Note (a))	139,143	137,443
Share of undistributed reserves		
Balance at beginning of the year	173,945	160,094
Share of profits and losses for the year	36,011	28,498
Share of distributions for the year	(10,305)	(14,211)
Share of other reserve movements (Note 29)	(1,062)	(436)
Balance at end of the year	198,589	173,945
Share of net assets (Note (b))	337,732	311,388
Loans	918	2,636
	338,650	314,024

Note:

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

(b) Included HK\$140,679 million (2015: HK\$135,988 million) being the Government's share of net assets of the 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\$169,843 million (2015: HK\$141,019 million).

21. Other investments

	2016 HK\$ million	2015 HK\$ million
Investments made by Bond Fund	128,412	120,058
Investments made by other funds	85,583	86,986
Investments made by HKHA	49,389	59,244
Asian Development Bank	232	232
New Hong Kong Tunnel Company Limited	56	56
	263,672	266,576
	263,672	266,576

22. Loans and advances

	2016 HK\$ million	2015 HK\$ million
Education loans	16,648	15,849
Advances (Note (a))	3,074	2,911
Loan to the Guangdong Provincial People's Government for water quality improvement project	827	946
Civil servants housing loans (Note (b))	182	175
Home Purchase / Assistance Loans provided by HKHA	73	128
Other loans	3,390	2,808
	24,194	22,817
	24,194	22,817

Note:

(a) Included in the advances above is a sum of HK\$1,162 million (2015: 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 2015-16, 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\$209 million (2015: HK\$108 million).

(c) The balances of loans and advances are arrived after netting off provision for doubtful debts totalling HK\$389 million (2015: HK\$384 million).

23. Other assets

	2016 HK\$ million	2015 HK\$ million
Investment income receivable from the Exchange Fund		
Housing Reserve (Note (a))	74,764	27,860
Others	9,554	14,188
	84,318	42,048
Accounts receivable (Note (b))	33,523	29,523
HOS (domestic) premises (Note (c))	5,424	1,960
Balance of proceeds receivable from sale of housing loans	4,263	4,241
Prepayments	2,424	2,079
Stocks in hand	1,991	1,818
Issue discounts and expenses on bonds and notes (Note 25)	637	672
	132,580	82,341
	132,580	82,341

Note:

(a) Pursuant to the Financial Secretary's directive in December 2015, the HK\$45.15 billion investment income for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. 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 17(b)(ii) 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\$17.69 million (2015: HK\$23.03 million).

(c) Representing properties under development.

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 2016 as well as the current service cost for the financial year 2015-16 were assessed by an independent qualified actuary using the Projected Unit Credit Method and the following principal actuarial assumptions:

	<u>2016</u>	<u>2015</u>
Discount rate	4% p.a.	4.25% 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>		
2016-17 (Note (b))	4.19% – 4.68%	3.5%
2017-18 and thereafter	3.5% p.a.	3.5% p.a.
<u>Judges and judicial officers</u>		
2016-17 and thereafter	3.5% p.a.	3.5% p.a.
– Promotion and annual increments (based on a set of service-related rates)		
	0% – 2.5% p.a.	0% – 2.5% p.a.

Note:

- (a) The Government's pension obligations are 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\$27,129 million as at 31 March 2016 (2015: HK\$27,029 million).
- (b) The assumed increase of 3.5% used in previous actuarial assessment has been updated to take into account the 2016-17 pay adjustments for civil service (a pay increase of 4.19% for civil servants in the directorate and upper salary bands; and a pay increase of 4.68% for those in the middle and lower salary bands).

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

	2016 HK\$ million	2015 HK\$ million
Present value of pension obligations at beginning of the year	815,832	747,157
Expenses recognised in the Consolidated Statement of Financial Performance	87,833	94,679
Benefits paid	(28,919)	(26,004)
Present value of pension obligations at end of the year	<u>874,746</u>	<u>815,832</u>

Expenses recognised in the Consolidated Statement of Financial Performance:

	2016 HK\$ million	2015 HK\$ million
Interest cost (Note 19)	33,827	25,443
Current service cost (Note 10)	18,227	17,232
Actuarial loss (Note 3(k)(iii))	35,779	52,004
	<u>87,833</u>	<u>94,679</u>

25. Bonds and notes issued

	Principal Amount Outstanding at 31 March 2016 HK\$ million	Principal Amount Outstanding at 31 March 2015 HK\$ million
Government bonds and notes (Note (a)) with maturity as follows:		
After two years but within five years	<u>1,500</u>	<u>1,500</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	27,000	28,000
After one year but within two years	24,400	27,000
After two years but within five years	33,600	37,600
After five years	15,500	11,800
	100,500	104,400
Alternative bonds with nominal value in United State dollars (Note (c))		
After two years but within five years	<u>15,509</u>	<u>7,755</u>
	<u>116,009</u>	<u>112,155</u>
	<u>117,509</u>	<u>113,655</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, there were payments of interest of HK\$77 million on the notes but no repayment of principal.
- (b) During the financial year, bonds with nominal value totalling HK\$14.1 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\$18 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. Of the outstanding bond balance of HK\$100.5 billion, HK\$16.5 billion was repaid upon maturity during April 2016 to July 2016.

- (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\$2 billion (HK\$15.51 billion) will mature within the period from September 2019 to June 2020.

26. Other liabilities

	2016 HK\$ million	2015 HK\$ million
Provisions		
Untaken leave (Note)	26,883	26,451
Contract gratuities	628	645
Others	1,679	1,871
	<hr/>	<hr/>
	29,190	28,967
Deposits	17,717	16,920
Accounts payable	9,542	9,538
Others	423	360
	<hr/>	<hr/>
	56,872	55,785
	<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 2016 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 2016 and 31 March 2015 were as follows:

	2016 HK\$ million	2015 HK\$ million
Balance at beginning of the year	627,036	637,668
Transfer to General Reserve (Note 29)	(70,629)	(10,632)
Balance at end of the year	<u>556,407</u>	<u>627,036</u>

The Exchange Fund's abridged Balance Sheets (unaudited) as at 31 March 2016 and 31 March 2015 were as follows:

	2016 HK\$ million	2015 HK\$ million
Assets		
Foreign currency assets	3,336,055	3,023,452
Hong Kong dollar assets	168,853	256,020
	3,504,908	3,279,472
Liabilities		
Placements by Fiscal Reserves	(853,155)	(838,272)
Certificates of Indebtedness	(368,819)	(348,992)
Exchange Fund Bills and Notes issued	(856,862)	(796,300)
Placements by banks and other financial institutions	(60,664)	(63,171)
Government-issued currency notes and coins in circulation	(11,661)	(11,432)
Balance of the banking system	(363,390)	(239,200)
Placements by Hong Kong Special Administrative Region government funds and statutory bodies	(288,234)	(268,819)
Other liabilities	(145,716)	(86,250)
	(2,948,501)	(2,652,436)
Net assets	<u>556,407</u>	<u>627,036</u>

28. Fixed assets

	<u>Buildings</u> HK\$ million	<u>Infrastructure Assets</u> HK\$ million	<u>Computer Assets</u> HK\$ million	<u>Other Plant and Equipment</u> HK\$ million	<u>Capital Works / Projects in Progress</u> HK\$ million	<u>Total</u> HK\$ million
<u>At cost</u>						
At 1 April 2015	287,465	140,040	15,824	29,942	81,630	554,901
Additions	453	369	574	1,776	36,473	39,645
Transfers	15,016	16,869	1,745	3,967	(37,597)	-
Retirements or disposals	(622)	(421)	(284)	(723)	-	(2,050)
At 31 March 2016	302,312	156,857	17,859	34,962	80,506	592,496
<u>Accumulated depreciation</u>						
At 1 April 2015	83,707	48,350	12,258	18,294	-	162,609
Charge for the year	5,822	4,012	1,523	2,113	-	13,470
Written back	(265)	(271)	(281)	(669)	-	(1,486)
At 31 March 2016	89,264	52,091	13,500	19,738	-	174,593
<u>Net book value</u>						
At 31 March 2016	<u>213,048</u>	<u>104,766</u>	<u>4,359</u>	<u>15,224</u>	<u>80,506</u>	<u>417,903</u>
At 31 March 2015	<u>203,758</u>	<u>91,690</u>	<u>3,566</u>	<u>11,648</u>	<u>81,630</u>	<u>392,292</u>

29. General Reserve

	2016 HK\$ million	2015 HK\$ million
Balance at beginning of the year	553,672	495,254
Net (deficit) / surplus for the year	(18,821)	69,818
Share of other reserve movements in government business enterprises (Note 20)	(1,062)	(436)
Transfer from Exchange Fund Reserve (Note 27)	70,629	10,632
Transfer to Capital Expenditure Reserve (being net increase in fixed assets) (Note 30)	(25,611)	(21,596)
Balance at end of the year	<u>578,807</u>	<u>553,672</u>

30. Capital Expenditure Reserve

	2016 HK\$ million	2015 HK\$ million
Balance at beginning of the year	392,292	370,696
Transfer from General Reserve (Note 29)	<u>25,611</u>	<u>21,596</u>
Balance at end of the year	<u><u>417,903</u></u>	<u><u>392,292</u></u>

31. Commitments

Outstanding commitments as at 31 March 2016 and 31 March 2015 not provided for in the consolidated financial statements were as follows:

	2016 HK\$ million	2015 HK\$ million
(i) Capital works projects, property, plant and equipment, and capital subventions	<u>436,055</u>	<u>399,825</u>
(ii) Non-recurrent expenditure	<u><u>30,508</u></u>	<u><u>31,967</u></u>
(iii) Loans and non-recurrent grants	<u><u>32,778</u></u>	<u><u>24,825</u></u>

32. Contingent liabilities

As at 31 March 2016, the Government had the following contingent liabilities:

- a) financial exposure on the default guarantees of HK\$37,049 million (2015: HK\$39,011 million) provided for mortgage loans of flats sold under HOS, Private Sector Participation Scheme (PSPS) and TPS of HKHA amounting to HK\$183 million (2015: HK\$103 million);
- b) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to HK\$33,453 million (2015: HK\$31,614 million);
- c) guarantees provided under the SME Financing Guarantee Scheme - Special Concessionary Measures amounting to HK\$24,079 million (2015: HK\$27,022 million);
- d) legal claims, disputes and proceedings amounting to HK\$12,053 million (2015: HK\$12,773 million);
- e) possible capital subscriptions to the Asian Development Bank amounting to HK\$5,990 million (2015: HK\$5,892 million);
- f) guarantees provided under the SME Loan Guarantee Scheme amounting to HK\$5,253 million (2015: HK\$6,406 million);
- g) guarantees provided under the Special Loan Guarantee Scheme amounting to HK\$3,504 million (2015: HK\$20,442 million);
- h) guarantees provided for a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to HK\$2,002 million (2015: HK\$2,048 million); and
- i) financial exposure on Structural Safety Guarantee covering 27,450 units (2015: 27,450 units) of HOS and PSPS flats the amount of which could not be reasonably ascertained.

The Government was relieved of its obligations as the guarantor under a commercial loan of the Ocean Park Corporation (2015: HK\$1,388 million).

33. Events after the reporting period

After 31 March 2016, 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 2016 and the expiry dates of the arrangements are as follows:

- a) Eastern Harbour Crossing (expires in August 2016);
- b) Tate's Cairn Tunnel (expires in July 2018);
- c) 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. Qualifications Framework Fund † φ
18. Quality Education Fund †
19. Queen Elizabeth Foundation for the Mentally Handicapped
20. Research Endowment Fund †
21. Self-financing Post-secondary Education Fund †
22. Sir David Trench Fund for Recreation
23. Social Innovation and Entrepreneurship Development Fund
24. Supplementary Legal Aid Fund †
25. Trust Fund for Severe Acute Respiratory Syndrome
26. Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas

(iii) Hong Kong Housing Authority

(iv) Hong Kong Link 2004 Limited *

(v) Hong Kong Sukuk 2014 Limited

(vi) Hong Kong Sukuk 2015 Limited φ

b) Entities consolidated on an equity basis

(i) 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 †	53.0%
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 †	75.7%
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 2015-16.

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

* The company was dissolved on 28 July 2015.

^ The fund ceased to operate on 3 March 2016.

36. Comparative figures

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