

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Basis of preparation

These consolidated financial statements are prepared on an accrual basis, 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 34(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 34(a)(ii));
- (d) Hong Kong Housing Authority (HKHA);
- (e) Hong Kong Sukuk 2014 Limited;
- (f) Hong Kong Sukuk 2015 Limited;
- (g) Hong Kong Sukuk 2017 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 34(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 the 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 at 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 their 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 their 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 section 29 of 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 section 29 of 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 and 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 34(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, or at valuation if cost is not relevant (e.g. donated assets) or cannot be ascertained reliably or cost-effectively, less accumulated depreciation and impairment losses, if any. 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 at 31 March 2004) made by independent qualified valuers on a depreciated replacement cost basis.

Infrastructure assets reported in these financial statements comprise water supply and sewerage facilities, cruise and ferry terminals, toll-tunnels (including assets under Build-Operate-Transfer (BOT) arrangements), the Lantau Link, landfills and other environmental protection facilities.

In a 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. The asset constructed by the private sector under BOT arrangement is reported as asset in the Government's Consolidated Statement of Financial Position. At the same time, a liability of the same value as the asset under BOT arrangement is also recognised and amortised as revenue over the concession period on a straight line basis.

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	mainly 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) *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 (Note 24). For the purpose of accrual-based accounting, the present value of pension obligations under these pension schemes are determined at periodic 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.

(k) *Commitments*

Commitments comprise the outstanding balances of capital and non-recurrent funding approvals that may result in future cash outflows. 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.

(l) *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.

(m) 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	2019 \$ million	2018 \$ million
Internal revenue		
Profits tax	165,961	138,024
Stamp duties	80,008	95,195
Salaries tax	60,082	60,904
Betting duty	22,194	21,959
Other internal revenue	12,671	11,565
	<u>340,916</u>	<u>327,647</u>
General rates	16,983	21,973
Duties	10,630	10,724
Motor vehicle taxes	9,432	8,594
	<u>377,961</u>	<u>368,938</u>
5. Rental income	2019 \$ million	2018 \$ million
Rents from HKHA's properties	19,417	18,161
Government rents charged at 3% of rateable values	11,908	11,361
Government land licences	2,580	2,472
Rents from government properties	2,536	2,544
	<u>36,441</u>	<u>34,538</u>
6. Fees and charges	2019 \$ million	2018 \$ million
Economic	6,176	6,315
Infrastructure	5,358	5,282
Environment and food	1,806	1,453
Security	1,206	1,190
Community and external affairs	889	882
Support	516	506
Others	221	210
	<u>16,172</u>	<u>15,838</u>
7. Utilities	2019 \$ million	2018 \$ million
Waterworks	2,721	2,726
Sewage services	1,499	1,478
Marine ferry terminals	177	204
	<u>4,397</u>	<u>4,408</u>

8. Royalties and concessions

	2019 \$ million	2018 \$ million
Bridges and tunnels	2,571	2,306
Parking	449	434
Spectrum utilisation fees	288	288
Quarries and mining	98	130
Others	97	89
	<u>3,503</u>	<u>3,247</u>

9. Other operating revenue

	2019 \$ million	2018 \$ million
Donations received	11,249	94
Fines, forfeitures and penalties	2,837	2,327
Recovery of salaries and staff on-costs	1,454	1,471
Mark Six Lottery	1,192	1,214
Recovery of overpayments and losses	913	872
Amortised income of BOT arrangements (Note 3(i))	523	568
Others	1,551	1,466
	<u>19,719</u>	<u>8,012</u>

10. Salaries, allowances and other employee benefits

	2019 \$ million	2018 \$ million
Salaries and allowances	88,894	83,318
Pension current service cost (Note 24)	18,174	18,440
Other employee benefits	6,601	5,223
	<u>113,669</u>	<u>106,981</u>

11. Other operating expenses

	2019 \$ million	2018 \$ million
Hire of services and professional fees	23,950	21,768
General other non-recurrent	14,133	7,826
Miscellaneous	11,007	7,888
Grants	9,418	9,999
Maintenance	8,748	8,193
Purchase of water	4,797	4,782
Light and power	3,827	3,581
Specialist supplies, stores and equipment	3,683	3,109
Operation of waste facilities	3,258	2,971
Administration expenses	2,415	2,160
Publicity and cultural activities	1,215	1,369
Rents and property related expenses (other than quarters)	1,212	1,121
Data processing	781	642
	<u>88,444</u>	<u>75,409</u>

12. Recurrent subventions

	2019 \$ million	2018 \$ million
Education	74,306	68,483
Health	64,120	55,921
Social welfare	17,547	15,639
Economic	2,790	2,619
Others	3,322	3,181
	<u>162,085</u>	<u>145,843</u>

13. Social security payments

	2019 \$ million	2018 \$ million
Social security allowance scheme	34,027	21,889
Comprehensive social security assistance	20,535	20,588
Other payments	67	53
	<u>54,629</u>	<u>42,530</u>

14. Operating expenses classified by function

	2019 \$ million	2018 \$ million
Social welfare	90,819	71,030
Education	89,801	84,000
Health	73,968	63,901
Security	53,731	50,173
Infrastructure	32,311	29,407
Environment and food	20,901	19,507
Support	20,214	19,210
Economic	18,168	16,595
Housing	17,560	16,696
Community and external affairs	17,296	16,079
	<u>434,769</u>	<u>386,598</u>

15. Land premia

	2019 \$ million	2018 \$ million
Sales by public auction and tender	93,266	108,091
Modification of existing leases, exchanges and extensions	32,000	45,552
Fees received in respect of short-term waivers	842	769
Private treaty grants	64	65
	<u>126,172</u>	<u>154,477</u>

16. Net revenue from home ownership assistance schemes

	2019 \$ million	2018 \$ million
Income	9,799	10,021
Operating costs	(5,174)	(3,972)
Increase in provisions	(1)	-
	<u>4,624</u>	<u>6,049</u>

Details of the flats sold were as follows:

	2019		2018	
	No. of Flats	Area (m ²)	No. of Flats	Area (m ²)
Tenants Purchase Scheme (TPS)	2,975	101,306	3,594	124,905
Home Ownership Scheme (HOS)	3,344	130,417	1,938	79,174
Green Form Subsidised Home Ownership Scheme (GSH)	-	-	857	28,985

17. (a) Interest and investment income

	2019 \$ million	2018 \$ million
Investment income from the Exchange Fund (Note 17(b))	51,909	57,435
Interest on loans and investment income	11,374	12,296
	63,283	69,731
	63,283	69,731

(b) Investments with the Exchange Fund

These comprise the investments (Notes (i) and (ii)) and deposits held by the GRA and the Funds established under section 29 of the Public Finance Ordinance (Cap. 2) except Bond Fund (Note 34(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 \$219.73 billion from the balance of the Land Fund as a notional savings account within the fiscal reserves. As from 1 July 2016, the Future Fund also includes a top-up allocation of \$4.8 billion from the GRA, representing about one-third of the actual consolidated surplus in the 2015-16 cash-based Consolidated Account. The entire Future Fund balance is placed with the Exchange Fund for securing higher investment returns over a ten-year investment period in accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015. Investment return on the Future Fund placement is determined annually based on a composite rate (6.1% and 9.6% for the calendar years 2018 and 2017 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (ii) below) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return accrued and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. Such accumulated investment return accrued as revenue amounted to \$53.09 billion as at 31 March 2019 (2018: \$41.51 billion), including the accrued investment return for the financial year 2018-19 of \$11.58 billion (2017-18: \$28.40 billion).
- (ii) The part of the fiscal reserves outside the Future Fund (Note (i) above) 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 government bond (replacing the three-year Exchange Fund Notes with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2018 was 4.6% (2017: 2.8%). The annual investment income is receivable on 31 December each year.

18. Capital expenses

	2019 \$ million	2018 \$ million
Highways	27,640	34,148
Capital subventions	14,704	9,546
New towns and urban area developments	8,826	6,233
Civil engineering works	6,504	6,620
Buildings, plant, vehicles, equipment and minor works	5,736	4,546
Housing	832	516
Drainage	696	844
Land acquisition	581	441
Others	582	270
	66,101	63,164
	66,101	63,164

19. Interest expenses

	2019 \$ million	2018 \$ million
Interest cost on pension liabilities (Note 24)	35,236	33,604
Interest on bonds and notes issued (Note 25)	1,894	1,690
Periodic distribution payments for alternative bonds (Note 25)	552	550
	37,682	35,844
	37,682	35,844

20. Investments in and loans to government business enterprises

	2019 \$ million	2018 \$ million
Cost of equity holdings and other capital investments	159,977	151,166
Share of undistributed reserves (Note (a))		
Balance at beginning of year	216,688	185,884
Share of profits and losses for the year	28,867	45,194
Share of distributions for the year	(17,190)	(16,529)
Share of other reserve movements (Note 29)	(806)	2,139
Balance at end of year	227,559	216,688
Balance of investments (Note (b))	387,536	367,854
Loans outstanding	1,657	2,085
	389,193	369,939

Notes:

(a) Refer to Note 34(b)(ii) for a list of the government business enterprises consolidated on an equity basis.

(b) Included \$146.64 billion (2018: \$135.10 billion) 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 \$190.70 billion (2018: \$206.66 billion).

21. Other investments

	2019 \$ million	2018 \$ million
Investments made by Bond Fund	138,403	138,156
Investments made by other funds	99,044	91,312
Investments made by HKHA	37,083	39,086
Asian Infrastructure Investment Bank	1,192	1,192
Asian Development Bank	232	232
New Hong Kong Tunnel Company Limited	56	56
	276,010	270,034
	276,010	270,034

22. Loans and advances

	2019 \$ million	2018 \$ million
Education loans	17,786	17,546
Advances (Note (a))	3,286	2,934
Loan to the Guangdong Provincial People's Government for water quality improvement project	473	591
Civil servants housing loans (Note (b))	190	192
Home Purchase / Assistance Loans provided by HKHA	21	28
Other loans	9,932	8,008
	31,688	29,299

Notes:

- (a) Included in the advances above is a sum of \$1,162 million (2018: \$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 \$4 million, was received in February 1998. In January 1998, the High Commissioner for Refugees informed the Government 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 will not be able to enforce repayment through legal means as the UNHCR is immune from suit under the International Organizations and Diplomatic Privileges Ordinance (Cap. 190). Consequently, the full recovery of the amount due is doubtful.

During the financial year 2018-19, the Government 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 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 \$281 million (2018: \$293 million).
- (c) The balances of loans and advances are arrived after netting off provision for doubtful debts totalling \$401 million (2018: \$381 million).

23. Other assets

	2019 \$ million	2018 \$ million
Investment income receivable from the Exchange Fund		
Housing Reserve (Note (a))	82,965	79,646
Future Fund (Note 17(b)(i))	53,093	41,510
Others	8,869	12,961
	144,927	134,117
Accounts receivable (Note (b))	42,403	29,794
HOS (domestic) premises (Note (c))	12,209	10,867
Balance of proceeds receivable from sale of housing loans	4,413	4,332
Stocks in hand	1,925	1,969
Prepayments	1,866	2,543
Issue discounts and expenses on bonds and notes (Note 25)	882	581
	208,625	184,203

Notes:

- (a) Pursuant to the Financial Secretary's directives, the investment incomes for the calendar years 2014 and 2015 totalling \$72.64 billion (comprising \$27.49 billion for 2014 and \$45.15 billion for 2015) were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in Note 17(b)(ii). As announced in the 2019-20 Budget Speech, the Housing Reserve will be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23.
- (b) The balance is arrived after netting off provision for doubtful debts totalling \$47.24 million (2018: \$19.82 million).
- (c) Representing properties under development and unsold new HOS / GSH 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 Education University of Hong Kong) 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 2019 as well as the current service cost for the financial year 2018-19 were assessed by an independent qualified actuary using the Projected Unit Credit Method and the following principal actuarial assumptions:

	<u>2019</u>	<u>2018</u>
Discount rate	3.5% p.a.	3.75% 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>		
2019-20 (Note (b))	4.75% – 5.26%	3.0%
2020-21 to 2023-24	3.0% p.a.	3.0% – 3.5% p.a.
2024-25 and thereafter	3.5% p.a.	3.5% p.a.
<u>Judges and judicial officers</u>		
2019-20 (Note (b))	5.63%	3.0%
2020-21 to 2023-24	3.0% p.a.	3.0% – 3.5% p.a.
2024-25 and thereafter	3.5% p.a.	3.5% p.a.
– Promotion and annual increments (based on a set of service-related rates)	0% – 2.1% p.a.	0% – 2.1% p.a.

Notes:

- (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 GRA 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 \$38,315 million as at 31 March 2019 (2018: \$35,129 million).
- (b) The assumed increase of 3.0% used in previous actuarial assessment has been updated to take into account the proposed 2019-20 pay adjustments for civil service (a pay increase of 4.75% for civil servants in the directorate and upper salary bands; and a pay increase of 5.26% for those in the middle and lower salary bands) and judicial service (a pay increase of 5.63% for judges and judicial officers).

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

	2019 \$ million	2018 \$ million
Present value of pension obligations at beginning of year	964,599	919,197
Expenses recognised in the Consolidated Statement of Financial Performance	93,300	79,271
Benefits paid	(36,228)	(33,869)
Present value of pension obligations at end of year	<u>1,021,671</u>	<u>964,599</u>

Expenses recognised in the Consolidated Statement of Financial Performance:

	2019 \$ million	2018 \$ million
Interest cost (Note 19)	35,236	33,604
Current service cost (Note 10)	18,174	18,440
Actuarial loss (Note 3(j)(iii))	39,890	27,227
	<u>93,300</u>	<u>79,271</u>

25. Bonds and notes issued

	Principal Amount Outstanding at 31 March 2019 \$ million	Principal Amount Outstanding at 31 March 2018 \$ million
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Government bonds and notes (Note (a)) with maturity as follows:

Within one year	1,500	-
After one year but within two years	-	1,500
	1,500	1,500

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

Bonds (Note (b))		
Within one year (Note (c))	32,256	23,200
After one year but within two years (Note (d))	12,395	32,324
After two years but within five years (Note (e))	32,296	28,770
After five years	17,800	13,900
	94,747	98,194

Alternative bonds (Note (f))

Within one year	7,850	-
After one year but within two years	7,850	7,847
After two years but within five years	-	7,847
After five years	7,850	7,847
	<u>23,550</u>	<u>23,541</u>
	<u>118,297</u>	<u>121,735</u>
	<u>119,797</u>	<u>123,235</u>

Notes:

- (a) In July 2004, the Government issued bonds and notes totalling \$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollars. The outstanding bonds and notes were notes denominated in Hong Kong dollars and were repaid at maturity in July 2019. During the financial year, there were payments of interest of \$77 million on the notes.
- (b) During the financial year, bonds with nominal value totalling \$16.9 billion were issued to institutional investors through tender, and bonds with nominal value totalling \$3 billion were issued to retail investors through subscription. Bonds with nominal value totalling \$13.2 billion issued through tender and bonds with nominal value totalling \$10.15 billion issued through subscription were repaid during the financial year.
- (c) The outstanding bonds included Silver Bonds with nominal value of \$2.86 billion (2018: Nil) which might be redeemed before maturity upon request from bond holders.
- (d) The outstanding bonds included Silver Bonds with nominal value of \$2.89 billion (2018: \$2.92 billion) which might be redeemed before maturity upon request from bond holders.
- (e) The outstanding bonds included Silver Bonds with nominal value of \$3 billion (2018: 2.97 billion) which might be redeemed before maturity upon request from bond holders.
- (f) Alternative bonds are denominated in United States dollars. The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period.

26. Other liabilities

	2019 \$ million	2018 \$ million
Provisions		
Untaken leave (Note)	26,993	26,777
Contract gratuities	671	717
Others	1,939	1,711
	<u>29,603</u>	<u>29,205</u>
Deposits	26,136	22,857
Accounts payable	10,983	9,961
Deferred income of assets under BOT arrangements (Note 3(i))	2,644	3,167
Others	504	631
	<u>69,870</u>	<u>65,821</u>

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.

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 reported in the Consolidated Statement of Financial Position are represented by the Exchange Fund Reserve. The movements of the Exchange Fund Reserve during the years ended 31 March 2019 and 31 March 2018 were as follows:

	2019 \$ million	2018 \$ million
Balance at beginning of year	714,677	591,531
Transfer from General Reserve (Note 29)		
Surplus for the year	1,141	122,491
Other reserve movements	(4)	655
	1,137	123,146
Balance at end of year	715,814	714,677

The Exchange Fund's abridged Balance Sheets (unaudited) as at 31 March 2019 and 31 March 2018 were as follows:

	2019 \$ million	2018 \$ million
Assets		
Foreign currency assets	3,922,132	3,911,701
Hong Kong dollar assets	249,064	238,403
	4,171,196	4,150,104
Liabilities		
Placements by fiscal reserves	(1,188,075)	(1,117,372)
Certificates of Indebtedness	(500,731)	(490,906)
Exchange Fund Bills and Notes issued	(1,062,719)	(1,047,517)
Placements by banks and other financial institutions	(56,346)	(59,337)
Government-issued currency notes and coins in circulation	(12,868)	(12,613)
Balance of the banking system	(64,753)	(179,731)
Placements by Hong Kong Special Administrative Region government funds and statutory bodies	(313,173)	(301,271)
Placements by subsidiaries	(8,075)	-
Other liabilities	(248,642)	(226,680)
	(3,455,382)	(3,435,427)
Net assets	715,814	714,677

28. Fixed assets

	Buildings \$ million	Infrastructure Assets (Note) \$ million	Computer Assets \$ million	Other Plant and Equipment \$ million	Capital Works / Projects in Progress \$ million	Total \$ million
<u>At cost</u>						
At 1 April 2018	336,140	197,842	21,445	40,258	97,404	693,089
Additions	534	203	735	13,126	31,967	46,565
Transfers	32,367	9,424	1,635	4,977	(48,403)	-
Retirements or disposals	(363)	(189)	(790)	(338)	(40)	(1,720)
At 31 March 2019	368,678	207,280	23,025	58,023	80,928	737,934
<u>Accumulated depreciation</u>						
At 1 April 2018	101,016	64,543	17,388	23,825	-	206,772
Charge for the year	7,095	4,639	1,606	2,602	-	15,942
Written back	(211)	(164)	(780)	(301)	-	(1,456)
At 31 March 2019	107,900	69,018	18,214	26,126	-	221,258
<u>Net book value</u>						
At 31 March 2019	260,778	138,262	4,811	31,897	80,928	516,676
At 31 March 2018	235,124	133,299	4,057	16,433	97,404	486,317

Note:

Including assets under BOT arrangements as at 31 March 2019. Their names, concession periods and related Ordinances are as follows:

<u>Assets under BOT arrangements</u>	<u>Concession periods</u>	<u>Ordinances</u>
(a) Western Harbour Crossing	August 1993 - August 2023	Western Harbour Crossing Ordinance (Cap. 436)
(b) Tai Lam Tunnel and Yuen Long Approach Road	May 1995 - May 2025	Tai Lam Tunnel and Yuen Long Approach Road Ordinance (Cap. 474)

According to the respective Ordinances, the private sector companies shall make the assets available for use for the passage of motor vehicles upon payment of the tolls during the concession periods.

The BOT arrangements for Cross-Harbour Tunnel (concession period: September 1969 - August 1999), Eastern Harbour Crossing (concession period: August 1986 - August 2016) and Tate's Cairn Tunnel (concession period: July 1988 - July 2018) have expired as at 31 March 2019.

29. General Reserve

The net financial assets reported in the Consolidated Statement of Financial Position are represented by the General Reserve. The movements of the General Reserve during the years ended 31 March 2019 and 31 March 2018 were as follows:

	2019 \$ million	2018 \$ million
Balance at beginning of year	830,174	657,721
Net surplus for the year	103,838	320,090
Share of other reserve movements in government business enterprises (Note 20)	(806)	2,139
Other reserve movements of the Exchange Fund (Note 27)	(4)	655
Transfer to Exchange Fund Reserve (Note 27)	(1,137)	(123,146)
Transfer to Capital Expenditure Reserve (being net increase in fixed assets) (Note 30)	(30,359)	(27,285)
Balance at end of year	<u>901,706</u>	<u>830,174</u>

30. Capital Expenditure Reserve

The total net book value of fixed assets reported in the Consolidated Statement of Financial Position (Note 28) is represented by the Capital Expenditure Reserve. The movements of the Capital Expenditure Reserve during the years ended 31 March 2019 and 31 March 2018 were as follows:

	2019 \$ million	2018 \$ million
Balance at beginning of year	486,317	459,032
Transfer from General Reserve (Note 29)	<u>30,359</u>	<u>27,285</u>
Balance at end of year	<u>516,676</u>	<u>486,317</u>

31. Commitments

Outstanding commitments as at 31 March 2019 and 31 March 2018 not provided for in the consolidated financial statements were as follows:

	2019 \$ million	2018 \$ million
(i) Capital works projects, property, plant and equipment, and capital subventions	<u>510,104</u>	<u>463,945</u>
(ii) Non-recurrent expenditure	<u>71,362</u>	<u>31,998</u>
(iii) Investments (Note)	<u>17,180</u>	<u>10,610</u>
(iv) Loans and non-recurrent grants	<u>41,362</u>	<u>31,518</u>

Note:

These included an approved commitment of \$4.8 billion (2018: \$4.8 billion) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 32(f)).

32. Contingent liabilities

As at 31 March 2019, the Government had the following contingent liabilities:

- (a) financial exposure on the default guarantees of \$47,911 million (2018: \$42,572 million) provided for mortgage loans of flats sold under HOS, Private Sector Participation Scheme (PSPS), Buy Or Rent Option Scheme (BRO), GSH and TPS of HKHA amounting to \$224 million (2018: \$242 million);
- (b) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$37,289 million (2018: \$39,881 million);
- (c) guarantees provided under the SME Financing Guarantee Scheme - Special Concessionary Measures amounting to \$18,275 million (2018: \$19,763 million);
- (d) legal claims, disputes and proceedings amounting to \$10,376 million (2018: \$10,826 million);
- (e) subscription to callable shares in the Asian Development Bank amounting to \$5,985 million (2018: \$6,265 million);
- (f) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2018: \$4,800 million) with commitment approved;
- (g) guarantees provided under the SME Loan Guarantee Scheme amounting to \$4,104 million (2018: \$4,234 million);
- (h) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,866 million (2018: \$1,911 million);
- (i) guarantees provided under the Special Loan Guarantee Scheme amounting to \$449 million (2018: \$654 million); and
- (j) financial exposure on Structural Safety Guarantee covering 28,583 units (2018: 26,645 units) of HOS, PSPS, BRO and GSH flats the amount of which could not be reasonably ascertained.

33. Events after the reporting period

After 31 March 2019, 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. Entities consolidated in these financial statements

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

(i) Core Government – comprising the GRA 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. Arts Development Fund for Persons with Disabilities
3. Beat Drugs Fund Association
4. Community Care Fund
5. Construction Innovation and Technology Fund †
6. Consumer Legal Action Fund
7. Education Development Fund †
8. Elder Academy Development Foundation
9. Elite Athletes Development Fund
10. Emergency Relief Fund
11. Environment and Conservation Fund
12. Gifted Education Fund †
13. Health Care and Promotion Scheme
14. HKSAR Government Scholarship Fund †
15. Hong Kong Paralympians Fund
16. Language Fund †
17. New Technology Training Fund
18. Pneumoconiosis Ex Gratia Fund
19. Qualifications Framework Fund †
20. Quality Education Fund †
21. Queen Elizabeth Foundation for the Mentally Handicapped
22. Research Endowment Fund †
23. Self-financing Post-secondary Education Fund †
24. Sir David Trench Fund for Recreation
25. Social Innovation and Entrepreneurship Development Fund
26. Student Activities Support Fund †
27. Supplementary Legal Aid Fund †
28. Trust Fund for Severe Acute Respiratory Syndrome
29. Trust Fund in Support of Reconstruction in the Sichuan Earthquake Stricken Areas

(iii) Hong Kong Housing Authority

(iv) Hong Kong Sukuk 2014 Limited

(v) Hong Kong Sukuk 2015 Limited

(vi) Hong Kong Sukuk 2017 Limited

(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 †	52.7%
6. Hong Kong Science and Technology Parks Corporation	100%
7. IEC Holdings Limited ϕ	100%
8. Kowloon-Canton Railway Corporation †	100%
9. Land Registry Trading Fund	100%
10. MTR Corporation Limited †	75.5%
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.

ϕ The Government owns 88.2% of the company directly and the rest through the Airport Authority.

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

35. Comparative figures

Comparative figures are re-classified as necessary to conform with the presentation of the current year.