

## 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. Significant 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 amounts 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 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 company 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, non-civil service contract staff and post-retirement service contract staff are accrued while others such as housing, medical and education benefits 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.

<b>4. Taxes, rates and duties</b>	2021 \$ million	2020 \$ million
Internal revenue		
Profits tax	138,354	162,750
Stamp duties	89,001	67,225
Salaries tax	65,084	66,421
Betting duty	20,877	22,012
Other internal revenue	9,837	11,547
	<u>323,153</u>	<u>329,955</u>
General rates	18,903	20,952
Duties	11,938	11,336
Motor vehicle taxes	6,594	7,219
	<u>360,588</u>	<u>369,462</u>
<b>5. Rental income</b>	2021 \$ million	2020 \$ million
Rents from HKHA's properties	18,037	19,143
Government rents charged at 3% of rateable values	12,607	13,205
Rents from government properties	1,408	2,155
Government land licences	1,397	2,316
	<u>33,449</u>	<u>36,819</u>
<b>6. Fees and charges</b>	2021 \$ million	2020 \$ million
Infrastructure	4,530	5,064
Economic	2,186	2,490
Environment and food	1,634	1,818
Security	1,095	1,251
Support	559	504
Community and external affairs	257	718
Others	141	213
	<u>10,402</u>	<u>12,058</u>
<b>7. Utilities</b>	2021 \$ million	2020 \$ million
Waterworks	2,378	2,424
Sewage services	1,069	1,245
Marine ferry terminals	1	95
	<u>3,448</u>	<u>3,764</u>

**8. Royalties and concessions**

	2021 \$ million	2020 \$ million
Bridges and tunnels	1,961	2,167
Spectrum utilisation fees	1,073	417
Parking	355	377
Quarries and mining	98	97
Others	60	103
	<u>3,547</u>	<u>3,161</u>

**9. Other operating revenue**

	2021 \$ million	2020 \$ million
Fines, forfeitures and penalties	4,772	1,801
Recovery of overpayments and losses	2,789	965
Recovery of salaries and staff on-costs	922	1,436
Amortised income of BOT arrangements (Note 3(i))	511	511
Mark Six Lottery	275	1,159
Others	1,310	1,621
	<u>10,579</u>	<u>7,493</u>

**10. Salaries, allowances and other employee benefits**

	2021 \$ million	2020 \$ million
Salaries and allowances	99,617	98,174
Pension current service cost (Note 24)	16,288	18,243
Other employee benefits	8,653	8,618
	<u>124,558</u>	<u>125,035</u>

**11. Other operating expenses**

	2021 \$ million	2020 \$ million
General other non-recurrent (Note)	254,763	36,559
Hire of services and professional fees	32,426	27,204
Grants	17,845	13,566
Miscellaneous	13,198	12,534
Maintenance	10,993	9,794
Purchase of water	4,839	4,811
Specialist supplies, stores and equipment	4,422	5,657
Light and power	3,778	3,949
Operation of waste facilities	3,530	3,568
Administration expenses	2,326	2,625
Rents and property related expenses (other than quarters)	1,347	1,320
Publicity and cultural activities	1,319	1,361
Data processing	1,059	955
	<u>351,845</u>	<u>123,903</u>

Note:

These comprise the expenditure on items of a one-off nature, including various measures and initiatives announced in the Budget which are implemented during the relevant financial year.

**12. Recurrent subventions**

	2021 \$ million	2020 \$ million
Education	83,131	80,578
Health	77,801	71,842
Social welfare	24,926	20,326
Economic	3,013	2,439
Others	4,402	4,243
	<u>193,273</u>	<u>179,428</u>

**13. Social security payments**

	2021 \$ million	2020 \$ million
Social security allowance scheme	35,346	31,513
Comprehensive social security assistance	21,158	20,305
Other payments	58	72
	<u>56,562</u>	<u>51,890</u>

**14. Operating expenses classified by function**

	2021 \$ million	2020 \$ million
Support	160,281	27,846
Economic	111,942	32,365
Education	103,383	99,936
Social welfare	102,763	92,938
Health	91,180	83,673
Security	68,084	60,924
Infrastructure	39,182	36,829
Environment and food	30,197	24,418
Housing	19,836	20,231
Community and external affairs	17,256	18,495
	<u>744,104</u>	<u>497,655</u>



**15. Land premia**

	2021 \$ million	2020 \$ million
Sales by public auction and tender	53,474	110,119
Modification of existing leases, exchanges and extensions	32,567	20,488
Private treaty grants	2,440	156
Fees received in respect of short-term waivers	241	719
	<u>88,722</u>	<u>131,482</u>

**16. Net revenue from home ownership assistance schemes**

	2021 \$ million	2020 \$ million
Income	15,875	24,229
Operating costs	(5,738)	(9,896)
Decrease in provisions	1	-
	<u>10,138</u>	<u>14,333</u>

Details of the flats sold were as follows:

	2021		2020	
	No. of Flats	Area (m <sup>2</sup> )	No. of Flats	Area (m <sup>2</sup> )
Tenants Purchase Scheme (TPS)	1,823	62,689	1,946	66,141
Home Ownership Scheme (HOS)	5,409	188,855	5,167	207,533
Green Form Subsidised Home Ownership Scheme (GSH)	14	407	2,531	83,604

17. (a) **Interest and investment income**

	2021 \$ million	2020 \$ million
Investment income from the Exchange Fund (Note 17(b))	72,045	58,579
Interest on loans and other investment income	18,356	8,990
	90,401	67,569
	90,401	67,569

(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 Future Fund balance (other than the part mentioned in Note 21) 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 with the Exchange Fund is determined annually based on a composite rate (12.3% and 8.7% for the calendar years 2020 and 2019 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 \$120.15 billion as at 31 March 2021 (2020: \$80.37 billion), including the accrued investment return for the financial year 2020-21 of \$39.78 billion (2019-20: \$27.28 billion). As announced in the 2021-22 Budget Speech, the accumulated investment return on the Future Fund would be brought back to the Government's accounts and recorded as investment income on a progressive basis starting from 2021-22.
- (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 2020 was 3.7% (2019: 2.9%). The annual investment income is receivable on 31 December each year.

**18. Capital expenses**

	2021 \$ million	2020 \$ million
New towns and urban area developments	13,478	9,235
Highways	13,299	31,005
Capital subventions	10,325	8,976
Buildings, plant, vehicles, equipment and minor works	8,365	5,548
Land acquisition	3,888	262
Civil engineering works	2,242	2,589
Drainage	785	914
Housing	386	701
Others	468	250
	53,236	59,480
	53,236	59,480

**19. Interest expenses**

	2021 \$ million	2020 \$ million
Interest cost on pension liabilities (Note 24)	31,748	34,885
Interest on bonds and notes issued (Note 25)	1,990	2,025
Periodic distribution payments for alternative bonds (Note 25)	268	466
	34,006	37,376
	34,006	37,376

**20. Investments in and loans to government business enterprises**

	2021 \$ million	2020 \$ million
Cost of equity holdings and other capital investments	166,004	163,648
Share of undistributed reserves (Note (a))		
Balance at beginning of year	240,427	227,559
Share of profits and losses for the year	(11,754)	19,554
Share of distributions for the year	(7,808)	(7,311)
Share of other reserve movements (Note 29)	2,225	625
Balance at end of year	223,090	240,427
Balance of investments (Note (b))	389,094	404,075
Loans outstanding	1,467	1,557
	390,561	405,632

Notes:

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

(b) This included \$143.43 billion (2020: \$152.08 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 \$200.89 billion (2020: \$213.17 billion).

## 21. Other investments

	2021 \$ million	2020 \$ million
Investments made by Bond Fund	152,849	121,060
Investments made by other funds	122,242	123,321
Investments made by HKHA	53,484	49,689
Other investments made by Land Fund (Note)	19,500	-
Asian Infrastructure Investment Bank	1,192	1,192
Asian Development Bank	232	232
New Hong Kong Tunnel Company Limited	56	56
	<u>349,555</u>	<u>295,550</u>

### Note:

Other than the investments with the Exchange Fund (Note 17(b)(i)), in a bid to uphold Hong Kong's status as an international aviation hub, the Financial Secretary exercised his authority under a resolution made under the Public Finance Ordinance (Cap. 2) in June 2020 to allocate \$27.3 billion of the Land Fund (via the Future Fund) to invest in Cathay Pacific Airways Limited. On 12 August 2020, \$19.5 billion was drawn from the assets of the Land Fund placed with the Exchange Fund for the investment in Cathay Pacific Airways Limited. The investment would remain as a part of the Future Fund (Note 17(b)(i)). The investment is held by Aviation 2020 Limited, a dedicated company wholly-owned by the Financial Secretary Incorporated as established under the Financial Secretary Incorporation Ordinance (Cap. 1015).

	2021 \$ million	2020 \$ million
Aviation 2020 Limited	<u>19,500</u>	<u>-</u>

- (i) The investment represents the cost of investment.
- (ii) The investment represents \$19.5 billion of preference shares with detachable warrants of Cathay Pacific Airways Limited.

**22. Loans and advances**

	2021 \$ million	2020 \$ million
Education loans	19,692	17,825
Advances (Note (a))	4,003	4,698
Civil servants housing loans	918	591
Loan to the Guangdong Provincial People’s Government for water quality improvement project	236	355
Home Purchase / Assistance Loans provided by HKHA	10	15
Other loans	10,366	10,152
	35,225	33,636

Notes:

(a) These included a sum of \$1,162 million (2020: \$1,162 million) being the outstanding balance of expenditure on Vietnamese migrants recoverable from the United Nations High Commissioner for Refugees (UNHCR). In January 1998, the High Commissioner for Refugees informed the Government that in the absence of further funding prospects, the repayment of \$4 million 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 2020-21, 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. The Government takes note of the Public Accounts Committee’s suggestion to the Panel on Security in March 2020 that the Government should re-consider writing off the outstanding payment, and will carefully consider the suggestion.

(b) The balances of loans and advances are arrived after netting off provision for doubtful debts totalling \$294 million (2020: \$334 million).

### 23. Other assets

	2021 \$ million	2020 \$ million
Investment income receivable from the Exchange Fund		
Housing Reserve (Note (a))	44,601	64,158
Future Fund (Note 17(b)(i))	120,154	80,368
Others	11,844	11,375
	176,599	155,901
Accounts receivable (Note (b))	52,237	57,933
HOS (domestic) premises (Note (c))	11,082	10,024
Balance of proceeds receivable from sale of housing loans	4,545	4,511
Stocks in hand	2,362	2,109
Prepayments	2,293	2,133
Issue discounts and expenses on bonds and notes (Note 25)	723	807
	249,841	233,418
	249,841	233,418

#### 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). The accumulated investment return accrued was \$15.13 billion up to 31 March 2021 (2020: \$12.71 billion), including the accrued investment return for the financial year 2020-21 amounting to \$2.42 billion (2019-20: \$2.38 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018) was earmarked for public housing development.

During the financial year 2020-21, \$21.98 billion (2019-20: \$21.19 billion) was brought back from the Housing Reserve to the GRA and recorded as investment income. As at 31 March 2021, the investment incomes and the accumulated investment return accrued as revenue and retained for the Housing Reserve totalled \$44.60 billion (2019-20: \$64.16 billion).

- (b) The balance is arrived after netting off provision for doubtful debts totalling \$19.62 million (2020: \$19.78 million).
- (c) Representing properties under development and unsold 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 2021 as well as the current service cost for the financial year 2020-21 were assessed by an independent qualified actuary using the Projected Unit Credit Method and the following principal actuarial assumptions:

	<u>2021</u>	<u>2020</u>
Discount rate	3.25% p.a.	3.25% 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>		
2021-22 (Notes (b) and (c))	0%	3.0%
2022-23 to 2025-26	3.0% p.a.	3.0% p.a.
2026-27 and thereafter	3.5% p.a.	3.0% p.a.
<u>Judges and judicial officers</u>		
2021-22 (Note (b))	0%	3.0%
2022-23 to 2025-26	3.0% p.a.	3.0% p.a.
2026-27 and thereafter	3.5% p.a.	3.0% p.a.
– Promotion and annual increments (based on a set of service-related rates)	0% – 2.0% 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 \$42,770 million as at 31 March 2021 (2020: \$39,426 million).
- (b) The assumed increase of 3.0% used in previous actuarial assessment has been updated to take into account the 2021-22 pay adjustment for civil service (pay freeze for civil servants in the upper, middle and lower salary bands and the directorate) and judicial service (pay freeze for judges and judicial officers).
- (c) The salary adjustments arising from the Grade Structure Review for the Disciplined Services Grades have been separately assessed and recognised in the pension obligations.

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

	2021 \$ million	2020 \$ million
Present value of pension obligations at beginning of year	1,003,217	1,021,671
Expenses recognised in the Consolidated Statement of Financial Performance	70,014	19,697
Benefits paid	<u>(42,168)</u>	<u>(38,151)</u>
Present value of pension obligations at end of year	<u><u>1,031,063</u></u>	<u><u>1,003,217</u></u>

Expenses recognised in the Consolidated Statement of Financial Performance:

	2021 \$ million	2020 \$ million
Interest cost (Note 19)	31,748	34,885
Current service cost (Note 10)	16,288	18,243
Actuarial loss / (gain) (Note 3(j)(iii))	<u>21,978</u>	<u>(33,431)</u>
	<u><u>70,014</u></u>	<u><u>19,697</u></u>

**25. Bonds and notes issued**

	Principal Amount Outstanding at 31 March 2021 \$ million	Principal Amount Outstanding at 31 March 2020 \$ million
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Green Bonds (Note (a)) with maturity as follows:

After two years but within five years	15,552	7,754
After five years	11,664	-
	<u>27,216</u>	<u>7,754</u>

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

Bonds (Note (b))		
Within one year (Note (c))	17,430	12,361
After one year but within two years (Note (d))	29,752	17,468
After two years but within five years (Note (e))	51,875	35,284
After five years	20,100	18,100
	<u>119,157</u>	<u>83,213</u>

Alternative bonds (Note (f))

Within one year	-	7,754
After five years	7,776	7,754
	<u>7,776</u>	<u>15,508</u>
	<u>126,933</u>	<u>98,721</u>
	<u><u>154,149</u></u>	<u><u>106,475</u></u>



Notes:

- (a) The Government issued Green Bonds of US\$1 billion and US\$2.5 billion under the Government Green Bond Programme in May 2019 and February 2021 respectively to provide funding for green public works projects of the Government. The Green Bonds denominated in United States dollars will mature between May 2024 and February 2051. The outstanding Green Bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.
- (b) During the financial year, bonds with nominal value totalling \$18.4 billion were issued to institutional investors through tender, and bonds with nominal value totalling \$30 billion were issued to retail investors through subscription. Bonds with nominal value totalling \$9.5 billion issued through tender and bonds with nominal value totalling \$2.96 billion issued through subscription were repaid during the financial year.
- (c) The outstanding bonds included Silver Bonds with nominal value of \$2.93 billion (2020: \$2.86 billion) which might be redeemed before maturity upon request from bond holders.
- (d) The outstanding bonds included Silver Bonds with nominal value of \$2.95 billion (2020: \$2.97 billion) which might be redeemed before maturity upon request from bond holders.
- (e) The outstanding bonds included Silver Bonds with nominal value of \$14.97 billion (2020: \$2.98 billion) which might be redeemed before maturity upon request from bond holders.
- (f) Alternative bonds are denominated in United States dollars. During the financial year, alternative bonds with nominal value of US\$1 billion (equivalent to HK\$7.75 billion) were repaid. The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.

## 26. Other liabilities

	2021 \$ million	2020 \$ million
Provisions		
Untaken leave (Note)	28,855	28,169
Contract gratuities	807	750
Others	2,191	2,212
	<hr/>	<hr/>
	31,853	31,131
Deposits	26,221	26,704
Accounts payable	10,043	10,390
Deferred income of assets under BOT arrangements (Note 3(i))	1,639	2,150
Others	1,451	725
	<hr/>	<hr/>
	<u>71,207</u>	<u>71,100</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 2021 and 31 March 2020 were as follows:

	2021 \$ million	2020 \$ million
Balance at beginning of year	636,515	715,814
Transfer from General Reserve (Note 29)		
Surplus / (Deficit) for the year	196,947	(79,365)
Other reserve movements	160	66
	197,107	(79,299)
Balance at end of year	833,622	636,515

The Exchange Fund's abridged Balance Sheets (unaudited) as at 31 March 2021 and 31 March 2020 were as follows:

	2021 \$ million	2020 \$ million
<b>Assets</b>		
Foreign currency assets	4,305,177	3,839,464
Hong Kong dollar assets	230,496	255,167
	4,535,673	4,094,631
<b>Liabilities</b>		
Placements by fiscal reserves	(926,195)	(1,177,676)
Certificates of Indebtedness	(567,231)	(524,145)
Exchange Fund Bills and Notes issued	(1,068,743)	(1,157,560)
Placements by banks and other financial institutions	(63,068)	-
Government-issued currency notes and coins in circulation	(13,053)	(12,875)
Balance of the banking system	(457,462)	(54,054)
Placements by Hong Kong Special Administrative Region government funds and statutory bodies	(343,606)	(320,012)
Placements by subsidiaries	(16,169)	(12,804)
Other liabilities	(246,524)	(198,990)
	(3,702,051)	(3,458,116)
<b>Net assets</b>	833,622	636,515

## 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
<b><u>At cost</u></b>						
At 1 April 2020	382,306	212,060	24,913	61,320	79,837	760,436
Additions	7	233	1,157	1,091	40,090	42,578
Transfers	24,305	4,575	809	5,033	(34,722)	-
Retirements or disposals	(729)	(98)	(419)	(431)	(13)	(1,690)
At 31 March 2021	405,889	216,770	26,460	67,013	85,192	801,324
<b><u>Accumulated depreciation</u></b>						
At 1 April 2020	115,321	73,692	19,853	28,775	-	237,641
Charge for the year	7,924	4,854	2,008	3,080	-	17,866
Written back	(317)	(48)	(414)	(411)	-	(1,190)
At 31 March 2021	122,928	78,498	21,447	31,444	-	254,317
<b><u>Net book value</u></b>						
At 31 March 2021	282,961	138,272	5,013	35,569	85,192	547,007
At 31 March 2020	266,985	138,368	5,060	32,545	79,837	522,795

**Note:**

Including assets under BOT arrangements as at 31 March 2021. 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) expired as at 31 March 2021.

## 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 2021 and 31 March 2020 were as follows:

	2021 \$ million	2020 \$ million
Balance at beginning of year	1,000,827	901,706
Net (deficit) / surplus for the year	(56,857)	25,250
Share of other reserve movements in government business enterprises (Note 20)	2,225	625
Other reserve movements of the Exchange Fund (Note 27)	160	66
Transfer to Exchange Fund Reserve (Note 27)	(197,107)	79,299
Transfer to Capital Expenditure Reserve (being net increase in fixed assets) (Note 30)	(24,212)	(6,119)
Balance at end of year	<u>725,036</u>	<u>1,000,827</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 2021 and 31 March 2020 were as follows:

	2021 \$ million	2020 \$ million
Balance at beginning of year	522,795	516,676
Transfer from General Reserve (Note 29)	<u>24,212</u>	<u>6,119</u>
Balance at end of year	<u>547,007</u>	<u>522,795</u>

## 31. Commitments

Outstanding commitments as at 31 March 2021 and 31 March 2020 not provided for in these consolidated financial statements were as follows:

	2021 \$ million	2020 \$ million
(i) Capital works projects, property, plant and equipment, and capital subventions	<u>697,906</u>	<u>570,235</u>
(ii) Non-recurrent expenditure	<u>144,955</u>	<u>104,213</u>
(iii) Investments (Note)	<u>39,088</u>	<u>13,510</u>
(iv) Loans and non-recurrent grants	<u>45,692</u>	<u>45,130</u>

Note:

These included an approved commitment of \$4.8 billion (2020: \$4.8 billion) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 32(h)).

### 32. Contingent liabilities

As at 31 March 2021, the Government had the following contingent liabilities:

- (a) financial exposure on the default guarantees of \$77,932 million (2020: \$67,104 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 \$2,858 million (2020: \$1,915 million);
- (b) guarantees provided under the SME Financing Guarantee Scheme – 100% Guarantee Coverage amounting to \$45,413 million (2020: Nil);
- (c) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$37,468 million (2020: \$36,726 million);
- (d) guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures amounting to \$27,546 million (2020: \$24,018 million);
- (e) legal claims, disputes and proceedings amounting to \$6,346 million (2020: \$7,461 million);
- (f) subscription to callable shares in the Asian Development Bank amounting to \$6,054 million (2020: \$5,833 million);
- (g) guarantees provided under the SME Financing Guarantee Scheme – 90% Guarantee Coverage amounting to \$5,312 million (2020: \$817 million);
- (h) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2020: \$4,800 million) with commitment approved;
- (i) guarantees provided under the SME Loan Guarantee Scheme amounting to \$3,141 million (2020: \$3,877 million);
- (j) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$947 million (2020: \$975 million);
- (k) guarantees provided under the Special Loan Guarantee Scheme amounting to \$230 million (2020: \$329 million); and
- (l) financial exposure on Structural Safety Guarantee covering 24,309 units (2020: 22,319 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 2021, the Legislative Council and its Finance Committee have approved laws and proposals which have financial effect on Government revenue and expenditure. These laws and proposals can be accessed at the Legislative Council website ([www.legco.gov.hk](http://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. Anti-epidemic Fund
3. Arts Development Fund for Persons with Disabilities
4. Beat Drugs Fund Association
5. Community Care Fund
6. Construction Innovation and Technology Fund †
7. Consumer Legal Action Fund
8. Education Development Fund †\*
9. Elder Academy Development Foundation
10. Elite Athletes Development Fund
11. Emergency Relief Fund
12. Environment and Conservation Fund
13. Gifted Education Fund †
14. Health Care and Promotion Scheme
15. HKSAR Government Scholarship Fund †
16. Hong Kong Paralympians Fund
17. Language 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 †	52.5%
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 †	75.0%
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.

\* The fund ceased operation at the end of the 2018/19 school year and the last set of financial statements was prepared for the period up to 31 August 2020.

^ The company is in the process of winding up following member's resolutions passed on 26 March 2021.

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.