

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 placed with the Exchange Fund (Note 17(b)) 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 recognised 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 recognised 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 recognised 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 occurred. Gains or losses arising from recognition / reversal of provision for doubtful debts are recognised 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 or cost effectively, 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 fixed 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 an 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 effects of differences between the previous actuarial assumptions and what has actually occurred); and
 - the effects 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 exchange rates ruling at the reporting date. Exchange gains and losses on foreign currency translation are recognised in the Consolidated Statement of Financial Performance.

4. Taxes, rates and duties	2023 \$ million	2022 \$ million
Internal revenue		
Profits tax	179,623	156,649
Salaries tax	79,441	73,947
Stamp duties	69,999	99,660
Betting duty	26,359	25,432
Other internal revenue	11,115	10,104
	<u>366,537</u>	<u>365,792</u>
General rates	18,885	19,041
Duties	12,069	12,303
Motor vehicle taxes	4,966	6,167
	<u>402,457</u>	<u>403,303</u>
5. Rental income	2023 \$ million	2022 \$ million
Rents from HKHA's properties	22,469	20,235
Government rents charged at 3% of rateable values	11,976	12,409
Government land licences	1,682	1,487
Rents from government properties	1,681	1,400
	<u>37,808</u>	<u>35,531</u>
6. Fees and charges	2023 \$ million	2022 \$ million
Infrastructure	5,416	5,289
Economic	2,526	2,207
Environment and food	1,697	1,553
Security	1,591	1,238
Support	617	670
Community and external affairs	559	425
Others	156	146
	<u>12,562</u>	<u>11,528</u>
7. Utilities	2023 \$ million	2022 \$ million
Waterworks	2,109	2,198
Sewage services	978	960
Marine ferry terminals	3	-
	<u>3,090</u>	<u>3,158</u>

8. Royalties and concessions

	2023 \$ million	2022 \$ million
Bridges and tunnels	1,975	2,004
Parking	476	409
Spectrum utilisation fees	161	3,182
Quarries and mining	100	100
Others	758	60
	<u>3,470</u>	<u>5,755</u>

9. Other operating revenue

	2023 \$ million	2022 \$ million
Recovery of overpayments and losses	3,913	2,574
Fines, forfeitures and penalties	2,370	2,594
Mark Six Lottery	1,015	915
Recovery of salaries and staff on-costs	705	742
Amortised income of BOT arrangements (Note 3(i))	511	511
Others	1,671	2,505
	<u>10,185</u>	<u>9,841</u>

10. Salaries, allowances and other employee benefits

	2023 \$ million	2022 \$ million
Salaries and allowances	104,779	101,020
Pension current service cost (Note 24)	15,095	15,998
Other employee benefits	9,257	9,091
	<u>129,131</u>	<u>126,109</u>

11. Other operating expenses

	2023 \$ million	2022 \$ million
General other non-recurrent (Note)	160,272	80,258
Hire of services and professional fees	54,350	40,533
Miscellaneous	18,506	15,842
Grants	16,383	15,744
Maintenance	11,608	11,379
Specialist supplies, stores and equipment	7,414	4,545
Administration expenses	6,483	3,173
Light and power	5,030	4,326
Purchase of water	4,966	4,839
Operation of waste facilities	3,715	3,637
Publicity and cultural activities	1,652	1,349
Rents and property related expenses (other than quarters)	1,591	1,456
Data processing	1,344	1,266
	<u>293,314</u>	<u>188,347</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

	2023 \$ million	2022 \$ million
Health	95,105	82,381
Education	83,462	82,886
Social welfare	23,744	26,765
Economic	2,731	2,919
Others	4,710	4,308
	<u>209,752</u>	<u>199,259</u>

13. Social security payments

	2023 \$ million	2022 \$ million
Social security allowance scheme	41,813	38,229
Comprehensive social security assistance	22,035	22,069
Other payments	45	53
	<u>63,893</u>	<u>60,351</u>

14. Operating expenses classified by function

	2023 \$ million	2022 \$ million
Health	130,782	104,198
Social welfare	111,688	107,168
Education	102,565	101,852
Economic	93,293	66,289
Support	93,103	41,929
Security	69,834	61,812
Infrastructure	41,883	41,590
Environment and food	28,440	27,086
Housing	24,526	21,978
Community and external affairs	19,922	18,657
	<u>716,036</u>	<u>592,559</u>

15. Land premia

	2023 \$ million	2022 \$ million
Modification of existing leases, exchanges and extensions	34,273	44,169
Sales by public auction and tender	32,977	91,841
Fees received in respect of short-term waivers	253	281
Private treaty grants	201	8,217
	<u>67,704</u>	<u>144,508</u>

16. Net revenue from home ownership assistance schemes

	2023 \$ million	2022 \$ million
Income	11,506	13,526
Operating costs	<u>(4,377)</u>	<u>(4,548)</u>
	<u>7,129</u>	<u>8,978</u>

Details of the flats sold were as follows:

	2023		2022	
	No. of Flats	Area (m ²)	No. of Flats	Area (m ²)
Tenants Purchase Scheme (TPS)	1,304	40,939	5,713	193,566
Home Ownership Scheme (HOS)	3,302	128,815	4,107	150,201
Green Form Subsidised Home Ownership Scheme (GSH)	1,034	28,994	-	-

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

	2023 \$ million	2022 \$ million
Investment (loss) / income from the Exchange Fund (Note 17(b))	(1,556)	103,697
Interest on loans and other investment income	17,559	14,859
	<u>16,003</u>	<u>118,556</u>

(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. In October 2022, the arrangement was extended for a further five-year period. Investment return on the Future Fund placement with the Exchange Fund is determined annually based on a composite rate 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 2030 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. For the purpose of accrual-based accounting, the investment return for the year is accrued as revenue and the amount receivable as at 31 March is accrued as investment income receivable (Note 23).
- (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.

18. Capital expenses

	2023 \$ million	2022 \$ million
New towns and urban area developments	19,802	15,321
Buildings, plant, vehicles, equipment and minor works	11,187	10,427
Capital subventions	10,642	11,028
Highways	10,369	10,199
Land acquisition	6,084	3,160
Civil engineering works	2,415	2,280
Housing	1,830	1,198
Drainage	1,196	1,201
Others	524	523
	64,049	55,337
	64,049	55,337

19. Interest expenses

	2023 \$ million	2022 \$ million
Interest cost on pension liabilities (Note 24)	33,057	32,521
Interest on bonds issued (Note 25)	6,392	3,840
Periodic distribution payments for alternative bonds (Note 25)	246	244
	39,695	36,605
	39,695	36,605

20. Investments in and loans to government business enterprises

	2023 \$ million	2022 \$ million
Cost of equity holdings and other capital investments	170,415	165,371
Share of undistributed reserves (Note (a))		
Balance at beginning of year	228,249	223,090
Share of profits and losses for the year	(881)	7,849
Share of distributions for the year	(10,010)	(6,180)
Share of other reserve movements (Note 29)	(2,150)	2,367
Disposal of investment	-	1,123
Balance at end of year	215,208	228,249
Balance of investments (Note (b))	385,623	393,620
Loans outstanding	1,424	1,383
	387,047	395,003

Notes:

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

(b) This included \$146.61 billion (2022: \$146.57 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 \$191.39 billion (2022: \$193.94 billion).

21. Other investments

	2023 \$ million	2022 \$ million
Investments made by Bond Fund	251,216	210,026
Investments made by other funds	118,711	120,622
Investments made by HKHA	55,658	56,734
Other investments made by Land Fund (Note)	20,592	19,500
Asian Infrastructure Investment Bank	1,192	1,192
Asian Development Bank	232	232
	<u>447,601</u>	<u>408,306</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, comprising preference shares with detachable warrants. 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). On 30 June 2023, Cathay Pacific Airways Limited paid the Government \$1.52 billion to settle the outstanding deferred dividend payments on the preference shares.

The Financial Secretary announced in the 2020-21 Budget Speech that part of the Future Fund would be used to establish the Hong Kong Growth Portfolio (HKGP) to make strategic investments in projects with a Hong Kong nexus. The objectives of HKGP are to reinforce Hong Kong's status as a financial, commercial and innovation centre, as well as raising Hong Kong's productivity and competitiveness in the long run, while seeking reasonable risk-adjusted returns.

22. Loans and advances

	2023 \$ million	2022 \$ million
Education loans	23,698	22,264
Advances (Note (a))	4,860	3,573
Civil servants housing loans	1,254	1,199
Home Purchase / Assistance Loans provided by HKHA	2	5
Loan to the Guangdong Provincial People's Government for water quality improvement project	-	118
Other loans	10,507	10,471
	<u>40,321</u>	<u>37,630</u>

Notes:

- (a) These included a sum of \$1,162 million (2022: \$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 2022-23, 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 \$282 million (2022: \$278 million).

23. Other assets

	2023 \$ million	2022 \$ million
Investment income receivable from the Exchange Fund		
Housing Reserve (Note (a))	-	23,398
Future Fund (Note 17(b)(i))	96,660	162,618
Others	8,855	15,269
	105,515	201,285
Accounts receivable (Note (b))	45,369	41,077
HOS (domestic) premises (Note (c))	17,267	14,786
Prepayments	3,337	2,420
Stocks in hand	2,352	2,553
Issue discounts and expenses on bonds (Note 25)	1,798	768
Balance of proceeds receivable from sale of housing loans	-	4,554
	<u>175,638</u>	<u>267,443</u>

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 would be brought back to the Government's accounts over four financial years from 2019-20 to 2022-23. As at 31 March 2023, the balance of the Housing Reserve had been fully brought back to the Government's accounts.
- (b) The balance is arrived after netting off provision for doubtful debts totalling \$18.84 million (2022: \$19.63 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 2023 as well as the current service cost for the financial year 2022-23 were assessed by an independent qualified actuary using the Projected Unit Credit Method and the following principal actuarial assumptions:

	<u>2023</u>	<u>2022</u>
Discount rate	3.5% 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>		
2023-24 (Note (b))	2.87% – 4.65%	3.5%
2024-25 and thereafter	3.5% p.a.	3.5% p.a.
<u>Judges and judicial officers</u>		
2023-24 (Note (b))	3.62%	3.5%
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% – 2.0% p.a.	0% – 2.0% 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 \$53,864 million as at 31 March 2023 (2022: \$48,813 million).
- (b) The assumed increase of 3.5% used in previous actuarial assessment has been updated to take into account the 2023-24 pay adjustment for civil service (a pay increase of 2.87% for civil servants in the upper salary band and the directorate; and a pay increase of 4.65% for civil servants in the middle and lower salary bands) and judicial service (a pay increase of 3.62% for judges and judicial officers).

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

	2023 \$ million	2022 \$ million
Present value of pension obligations at beginning of year	1,047,790	1,031,063
Expenses recognised in the Consolidated Statement of Financial Performance	12,629	59,816
Benefits paid	<u>(45,022)</u>	<u>(43,089)</u>
Present value of pension obligations at end of year	<u><u>1,015,397</u></u>	<u><u>1,047,790</u></u>

Expenses recognised in the Consolidated Statement of Financial Performance:

	2023 \$ million	2022 \$ million
Interest cost (Note 19)	33,057	32,521
Current service cost (Note 10)	15,095	15,998
Actuarial (gain) / loss (Note 3(j)(iii))	<u>(35,523)</u>	<u>11,297</u>
	<u><u>12,629</u></u>	<u><u>59,816</u></u>

25. Bonds issued

	Principal Amount Outstanding at 31 March 2023 \$ million	Principal Amount Outstanding at 31 March 2022 \$ million
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Green Bonds (Note (a)) with maturity as follows:

Within one year	800	-
After one year but within two years	22,839	-
After two years but within five years	58,895	32,739
After five years	39,964	23,941
	<u>122,498</u>	<u>56,680</u>

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

Bonds (Note (b))		
Within one year (Note (c))	39,246	31,709
After one year but within two years (Note (d))	66,316	33,808
After two years but within five years (Note (e))	75,031	78,254
After five years	25,500	27,600
	<u>206,093</u>	<u>171,371</u>

Alternative bonds (Note (f))

After two years but within five years	7,850	7,828
	<u>213,943</u>	<u>179,199</u>
	<u><u>336,441</u></u>	<u><u>235,879</u></u>

Notes:

- (a) The Government issued Green Bonds of US\$1 billion in May 2019, US\$2.5 billion in February 2021, US\$1 billion in November 2021, EUR1.75 billion in November 2021, RMB5 billion in November 2021, HK\$20 billion in May 2022, US\$3 billion in January 2023, EUR1.25 billion in January 2023, RMB10 billion in January 2023 and HK\$0.8 billion in February 2023 under the Government Green Bond Programme to provide funding for green projects. The Green Bonds were denominated in United States dollars (US\$7.5 billion will mature between May 2024 and January 2053), Euros (EUR3 billion will mature between January 2025 and November 2041), Renminbi (RMB15 billion will mature between November 2024 and January 2028) and Hong Kong dollars (HK\$20.8 billion will mature between February 2024 and May 2025). 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 \$23.5 billion were issued to institutional investors through tender, bonds with nominal value totalling \$45 billion were issued to retail investors through subscription, and bonds with nominal value totalling \$2 billion were issued through switch tender. Bonds with nominal value totalling \$28.8 billion issued through tender, bonds with nominal value totalling \$4.98 billion issued through subscription, and bonds with nominal value totalling \$2 billion issued through switch tender were repaid during the financial year.
- (c) The outstanding bonds included Silver Bonds with nominal value of \$14.25 billion (2022: \$2.91 billion) which might be redeemed before maturity upon request from bond holders.
- (d) The outstanding bonds included Silver Bonds with nominal value of \$28.82 billion (2022: \$14.81 billion) which might be redeemed before maturity upon request from bond holders.
- (e) The outstanding bonds included Silver Bonds with nominal value of \$44.53 billion (2022: \$29.85 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 reporting date.

26. Other liabilities

	2023 \$ million	2022 \$ million
Provisions		
Untaken leave (Note)	28,171	29,012
Contract gratuities	971	866
Others	1,296	1,292
	<u>30,438</u>	<u>31,170</u>
Deposits	28,662	27,253
Accounts payable	13,373	11,951
Deferred income of assets under BOT arrangements (Note 3(i))	619	1,131
Others	1,099	1,358
	<u>74,191</u>	<u>72,863</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 2023 and 31 March 2022 were as follows:

	2023 \$ million	2022 \$ million
Balance at beginning of year	708,557	833,622
Transfer to General Reserve (Note 29)		
Deficit for the year	(69,599)	(125,031)
Other reserve movements	(72)	(34)
	(69,671)	(125,065)
Balance at end of year	638,886	708,557

The Exchange Fund's abridged Balance Sheets (unaudited) as at 31 March 2023 and 31 March 2022 were as follows:

	2023 \$ million	2022 \$ million
Assets		
Foreign currency assets	3,905,266	4,325,872
Hong Kong dollar assets	171,837	182,481
	4,077,103	4,508,353
Liabilities		
Placements by Fiscal Reserves	(830,997)	(955,769)
Certificates of Indebtedness	(606,575)	(610,201)
Exchange Fund Bills and Notes issued	(1,210,094)	(1,188,770)
Placements by banks and other financial institutions	(75,926)	(8,030)
Government-issued currency notes and coins in circulation	(13,015)	(13,118)
Balance of the banking system	(76,939)	(337,551)
Placements by Hong Kong Special Administrative Region Government funds and statutory bodies	(430,437)	(386,407)
Placements by subsidiaries	(30,918)	(21,952)
Other liabilities	(163,316)	(277,998)
	(3,438,217)	(3,799,796)
Net assets	638,886	708,557

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 2022	424,927	223,364	28,010	71,820	100,212	848,333
Additions	624	376	1,008	1,189	48,519	51,716
Transfers	18,303	5,516	2,124	5,181	(31,124)	-
Retirements or disposals	(727)	(79)	(618)	(628)	(94)	(2,146)
At 31 March 2023	443,127	229,177	30,524	77,562	117,513	897,903
<u>Accumulated depreciation</u>						
At 1 April 2022	130,775	83,482	22,908	34,197	-	271,362
Charge for the year	8,836	5,452	2,136	3,522	-	19,946
Written back	(529)	(66)	(599)	(608)	-	(1,802)
At 31 March 2023	139,082	88,868	24,445	37,111	-	289,506
<u>Net book value</u>						
At 31 March 2023	304,045	140,309	6,079	40,451	117,513	608,397
At 31 March 2022	294,152	139,882	5,102	37,623	100,212	576,971

Note:

Including assets under BOT arrangements as at 31 March 2023. 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 2023.

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 2023 and 31 March 2022 were as follows:

	2023 \$ million	2022 \$ million
Balance at beginning of year	750,648	725,036
Net deficit for the year	(294,329)	(71,822)
Share of other reserve movements of government business enterprises (Note 20)	(2,150)	2,367
Other reserve movements of the Exchange Fund (Note 27)	(72)	(34)
Transfer from Exchange Fund Reserve (Note 27)	69,671	125,065
Transfer to Capital Expenditure Reserve (being net increase in fixed assets) (Note 30)	(31,426)	(29,964)
Balance at end of year	<u>492,342</u>	<u>750,648</u>

30. Capital Expenditure Reserve

The total net book value of fixed assets (Note 28) reported in the Consolidated Statement of Financial Position is represented by the Capital Expenditure Reserve. The movements of the Capital Expenditure Reserve during the years ended 31 March 2023 and 31 March 2022 were as follows:

	2023 \$ million	2022 \$ million
Balance at beginning of year	576,971	547,007
Transfer from General Reserve (Note 29)	<u>31,426</u>	<u>29,964</u>
Balance at end of year	<u>608,397</u>	<u>576,971</u>

31. Commitments

Outstanding commitments as at 31 March 2023 and 31 March 2022 not provided for in these consolidated financial statements were as follows:

	2023 \$ million	2022 \$ million
(i) Capital works projects, property, plant and equipment, and capital subventions	<u>837,306</u>	<u>765,396</u>
(ii) Non-recurrent expenditure	<u>148,157</u>	<u>166,338</u>
(iii) Investments (Note)	<u>47,923</u>	<u>46,167</u>
(iv) Loans and non-recurrent grants	<u>42,792</u>	<u>39,937</u>

Note:

These included an approved commitment of \$4.8 billion (2022: \$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 2023, the Government had the following contingent liabilities:

- (a) financial exposure on the default guarantees of \$86,708 million (2022: \$86,907 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 \$5,333 million (2022: \$3,906 million);
- (b) guarantees provided under the SME Financing Guarantee Scheme – 100% Guarantee Product amounting to \$97,152 million (2022: \$75,915 million);
- (c) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$44,078 million (2022: \$40,316 million);
- (d) guarantees provided under the SME Financing Guarantee Scheme – Special Concessionary Measures amounting to \$33,558 million (2022: \$30,988 million);
- (e) legal claims, disputes and proceedings amounting to \$16,007 million (2022: \$15,301 million);
- (f) guarantees provided under the SME Financing Guarantee Scheme – 90% Guarantee Product amounting to \$10,701 million (2022: \$9,277 million);
- (g) subscription to callable shares in the Asian Development Bank amounting to \$5,801 million (2022: \$5,946 million);
- (h) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2022: \$4,800 million) with commitment approved;
- (i) guarantees provided under the SME Loan Guarantee Scheme amounting to \$1,602 million (2022: \$2,399 million);
- (j) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$893 million (2022: \$920 million);
- (k) guarantees provided under the Special Loan Guarantee Scheme amounting to \$185 million (2022: \$214 million); and
- (l) financial exposure on Structural Safety Guarantee covering 34,269 units (2022: 24,651 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 2023, 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).

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. 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. Pneumoconiosis Ex Gratia Fund
18. Qualifications Framework Fund †
19. Quality Education Fund †
20. Queen Elizabeth Foundation for the Mentally Handicapped
21. Research Endowment Fund †
22. Self-financing Post-secondary Education Fund †
23. Sir David Trench Fund for Recreation
24. Social Innovation and Entrepreneurship Development Fund
25. Student Activities Support Fund †
26. Supplementary Legal Aid Fund †
27. Trust Fund for Severe Acute Respiratory Syndrome
28. 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 †	52.3%
6. Hong Kong Science and Technology Parks Corporation	100%
7. Kowloon-Canton Railway Corporation †	100%
8. Land Registry Trading Fund	100%
9. MTR Corporation Limited †	74.7%
10. Office of the Communications Authority Trading Fund	100%
11. Post Office Trading Fund	100%
12. Urban Renewal Authority	100%
13. West Rail Property Development Limited † ✧	100%

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

^ The company was dissolved on 11 June 2022.

* The company was dissolved on 3 June 2023.

✧ The Government directly owns equity interest of 49% 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.