

Bond Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission The Government of the Hong Kong Special Administrative Region

Independent Audit Report **To the President of the Legislative Council**

I certify that I have examined and audited the financial statements of the Bond Fund set out on pages 94 to 97, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the period from 10 July 2009 (date of establishment) to 31 March 2010, and a summary of significant accounting policies and other explanatory notes.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and proper presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements properly present the assets and liabilities of the Bond Fund as at 31 March 2010 and the receipts and payments for the period from 10 July 2009 (date of establishment) to 31 March 2010 in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2010

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000
Assets		
Investments with the Exchange Fund	3	11,582,423
Representing:		
Fund Balance		
Balance at 10 July 2009		-
Surplus for the period		11,582,423
Balance at 31 March 2010	4	11,582,423

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD FROM 10 JULY 2009 (DATE OF ESTABLISHMENT OF THE FUND) TO 31 MARCH 2010

	Note	2010 \$'000
Cash and bank balances at 10 July 2009		-
Revenue	5	11,599,422
Expenditure	6	(16,999)
Surplus for the period		11,582,423
Other cash movements	7	(11,582,423)
Cash and bank balances at 31 March 2010		-

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



Bond Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Bond Fund was established with effect from 10 July 2009 by a Resolution (hereinafter referred to as the Resolution) passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 8 July 2009. Sums raised under the Government Bond Programme are credited to the Bond Fund. The Hong Kong Monetary Authority has been directed by the Financial Secretary to, inter alia, assist in managing the investment concerning the Bond Fund.

2. Accounting Policy

The accounts of the Bond Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions. The Statement of Assets and Liabilities of the Fund excludes outstanding liabilities in respect of sums borrowed under paragraph (c)(i) of the Resolution referred to in Note 4 below.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution. They represent the cost of investments together with interest of \$101 million received in the period from 10 July 2009 to 31 March 2010.
- (ii) The return on the investments is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher.

4. Liabilities

The following outstanding liabilities in respect of sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities:

	2010
	\$'000
Outstanding government bonds	<u>11,500,000</u>

Following a resolution passed under section 3(1) of the Loans Ordinance in July 2009, the Government issued bonds of \$11,500 million to institutional investors during the period from 10 July 2009 to 31 March 2010. Interest payments of \$16 million were made in the same period. These bonds will mature within the period from September 2011 to January 2020.

5. Revenue

	2010	
	Original Estimate \$'000	Actual \$'000
Proceeds from issuance of bonds	-	11,498,598
Investment income	-	100,824
	<u>-</u>	<u>11,599,422</u>

Bond Fund

6. Expenditure

	2010	
	Original Estimate \$'000	Actual \$'000
Interest payment for bonds	-	15,968
Others	-	1,031
	<u>-</u>	<u>16,999</u>

7. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities.

	2010 \$'000
Increase in Assets:	
Investments with the Exchange Fund	<u>11,582,423</u>