

# 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 98 to 101, which comprise the statement of assets and liabilities as at 31 March 2012, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **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 about 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 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 of the Bond Fund for the year ended 31 March 2012 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun  
Director of Audit

26 October 2012

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

# Bond Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	<u>52,019,013</u>	<u>28,452,075</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		28,452,075	11,582,423
Surplus for the year		<u>23,566,938</u>	<u>16,869,652</u>
Balance at end of year	4	<u>52,019,013</u>	<u>28,452,075</u>

Notes 1 to 7 form part of these financial statements.

**Mrs Lesley Y C WONG**  
Director of Accounting Services  
15 August 2012



# Bond Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Cash and bank balances at beginning of year</b>		-	-
Revenue	5	31,384,643	17,139,343
Expenditure	6	(7,817,705)	(269,691)
<b>Surplus for the year</b>		<b>23,566,938</b>	16,869,652
<b>Other cash movements</b>	7	<b>(23,566,938)</b>	(16,869,652)
<b>Cash and bank balances at end of year</b>		<b>-</b>	<b>-</b>

Notes 1 to 7 form part of these financial statements.

Mrs Lesley Y C WONG  
Director of Accounting Services  
15 August 2012



# 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. 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 HK\$2.12 billion received in the year ended 31 March 2012.
- (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. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Bond Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (c)(i) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in expenditure charged to the Fund under paragraph (e)(i) of the Resolution.

Following a resolution passed under section 3(1) of the Loans Ordinance in July 2009, the Government issued bonds totalling HK\$56.5 billion to institutional and retail investors as at 31 March 2012. These include a total of HK\$19 billion bonds issued to institutional investors and a total of HK\$10 billion bonds issued to retail investors during the year. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2012 HK\$'000	2011 HK\$'000
Outstanding government bonds	<u>49,500,000</u>	<u>27,500,000</u>

Of the outstanding bonds, HK\$7 billion will mature within the period from April 2012 to March 2013, and the rest within the period from April 2013 to August 2021. During the financial year, repayments of principal of HK\$7 billion and payments of interest of HK\$785 million were made.

# Bond Fund

## 5. Revenue

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Proceeds from issuance of bonds	16,000,000	29,260,991	16,156,658
Investment income	1,880,000	2,123,652	982,685
	<u>17,880,000</u>	<u>31,384,643</u>	<u>17,139,343</u>

## 6. Expenditure

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Repayment of principal for bonds	7,000,000	7,000,000	-
Interest payment for bonds	465,714	785,276	268,716
Others	3,166	32,429	975
	<u>7,468,880</u>	<u>7,817,705</u>	<u>269,691</u>

## 7. Other Cash Movements

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

	2012 HK\$'000	2011 HK\$'000
<b>Increase in Assets</b>		
Investments with the Exchange Fund	<u>23,566,938</u>	<u>16,869,652</u>

## Revenue, Expenditure and Fund Balance for the years ended 31 March 2010 to 2012

HK\$Billion

