

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 100 to 106, which comprise the statement of assets and liabilities as at 31 March 2014, 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 2014 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

28 October 2014

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Assets			
Investments with the Exchange Fund	3	100,682,122	75,298,562
Liabilities			
Deposits	4	(3,880)	(5,073)
		<u>100,678,242</u>	<u>75,293,489</u>
Representing:			
Fund Balance			
Balance at beginning of year		75,293,489	52,019,013
Surplus for the year		25,384,753	23,274,476
Balance at end of year	5, 6	<u>100,678,242</u>	<u>75,293,489</u>

Notes 1 to 9 form part of these financial statements.

Martin SIU
Director of Accounting Services
15 August 2014



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	34,320,157	31,541,188
Payments	8	(8,935,404)	(8,266,712)
Surplus for the year		25,384,753	23,274,476
Other cash movements	9	(25,384,753)	(23,274,476)
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Martin SIU
Director of Accounting Services
15 August 2014



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 5 below, and debtors and creditors other than those deposits referred to in Note 4 below.

3. Investments with the Exchange Fund

- (i) These are investments made under paragraph (e)(ii) of the Resolution.
- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. The investment income 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. The investment income for the year ended 31 March 2014 was HK\$4.19 billion (2013: HK\$3.38 billion).

4. Deposits

This represents the accrued interest received from successful bidders on reopened government bonds and is to be paid as part of bond interest on the next interest payment date of the bonds:

	2014	2013
	HK\$'000	HK\$'000
Accrued interest received from successful bidders	3,880	5,073

5. 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 payments charged to the Fund under paragraph (e)(i) of the Resolution. The outstanding liabilities totalling HK\$94 billion as at 31 March 2014 are not included in the Statement of Assets and Liabilities (Note 6).

Bond Fund

6. Bonds Outstanding

In accordance with a resolution passed under section 3 of the Loans Ordinance in May 2013, the Government is authorized to borrow from any person from time to time for the purposes of the Bond Fund such sums not exceeding in total HK\$200 billion or equivalent, being the maximum amount of all borrowings made under paragraph (a) of this resolution that may be outstanding by way of principal at any time. The outstanding liabilities in respect of the sums borrowed are as follows:

	2014	2013
	HK\$'000	HK\$'000
Balance at beginning of year	70,500,000	49,500,000
Issuance of bonds under		
Tender or subscription (Note (i) below)	30,500,000	28,000,000
Bond swap facility (Note (ii) below)	42,200	-
	30,542,200	28,000,000
Repayment of bonds issued under		
Tender or subscription (Note (i) below)	(7,000,000)	(7,000,000)
Bond swap facility (Note (ii) below)	(42,200)	-
	(7,042,200)	(7,000,000)
Balance at end of year (Note (iii) below)	94,000,000	70,500,000

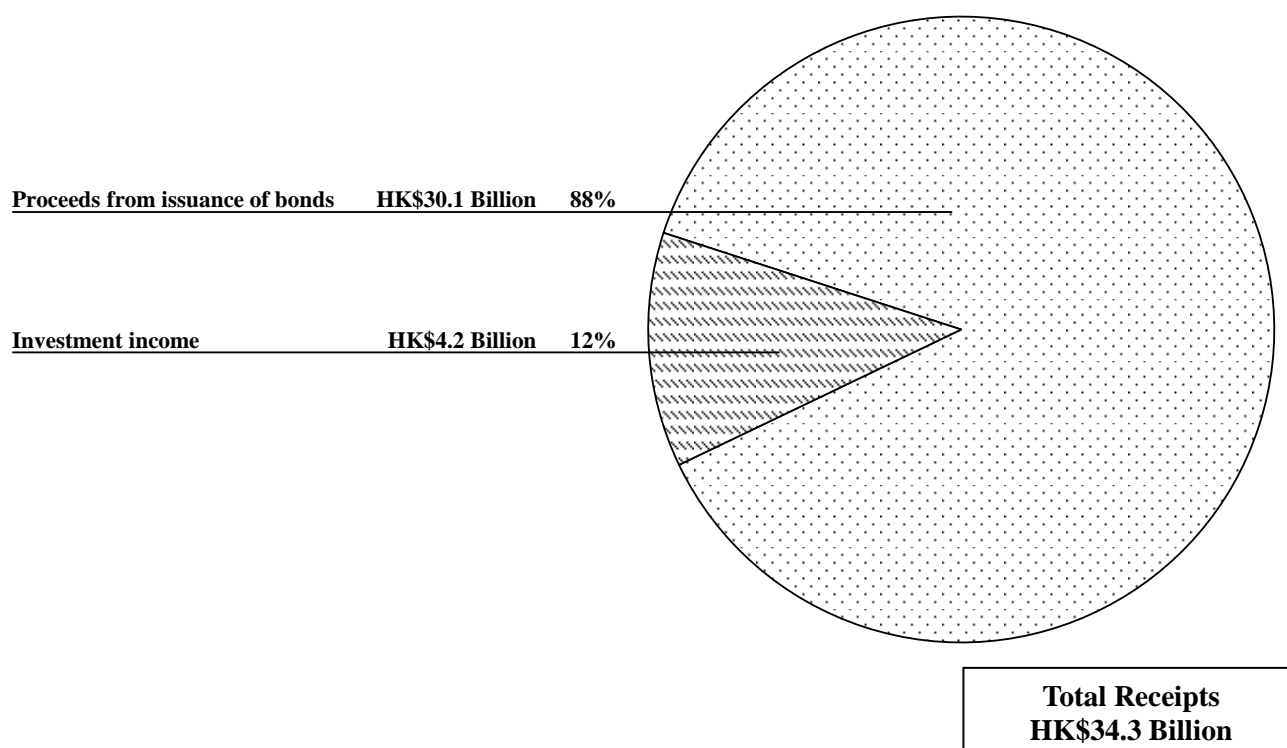
- (i) During the financial year, bonds with nominal value totalling HK\$20.5 billion were issued to institutional investors through tender, and bonds with nominal value totalling HK\$10 billion were issued to retail investors through subscription.
- (ii) Under the institutional part of the Government Bond Programme, the Government has introduced the bond swap facility to enhance the liquidity of relevant bonds. The bond swap facility was launched on 17 February 2014. It involves the early repayment of certain bonds for issuance of other bonds of the same monetary value, and the reversal of these transactions on a pre-agreed later date.
- (iii) The bond balance of HK\$94 billion as at 31 March 2014 comprised bonds issued under tender or subscription. Of which, HK\$0.8 billion was early repaid on 15 May 2014 for issuance of other bonds with the same nominal value under a switch tender, and HK\$10 billion was repaid upon maturity on 28 July 2014. For the rest, HK\$10 billion will mature within the period from August 2014 to March 2015 and HK\$73.2 billion within the period from April 2015 to January 2023.

Bond Fund

7. Receipts

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Proceeds from bonds issued under			
Tender or subscription	29,000,000	30,094,191	28,160,543
Bond swap facility	-	40,628	-
	29,000,000	30,134,819	28,160,543
Investment income			
Investments with the Exchange Fund	-	4,185,069	3,380,357
Others	-	269	288
	4,156,000	4,185,338	3,380,645
	<u>33,156,000</u>	<u>34,320,157</u>	<u>31,541,188</u>

Analysis of Receipts for the year ended 31 March 2014

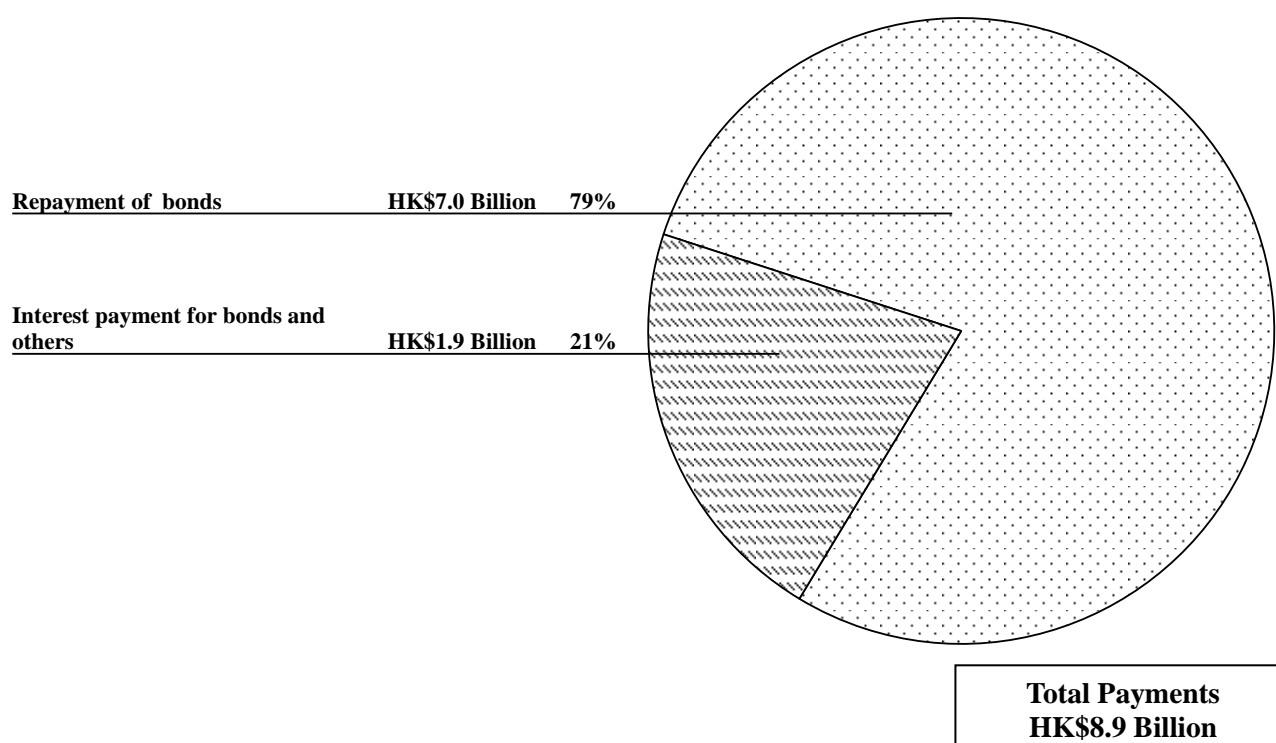


Bond Fund

8. Payments

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Repayment of bonds issued under			
Tender or subscription	7,000,000	7,000,000	7,000,000
Bond swap facility	-	40,628	-
	7,000,000	7,040,628	7,000,000
Interest payment for bonds	1,769,724	1,868,805	1,241,388
Others	26,002	25,971	25,324
	<u>8,795,726</u>	<u>8,935,404</u>	<u>8,266,712</u>

Analysis of Payments for the year ended 31 March 2014



Bond Fund

9. Other Cash Movements

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

	2014 HK\$'000	2013 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	(25,383,560)	(23,279,549)
(Reduction)/Increase in Liabilities		
Deposits	(1,193)	5,073
	<u>(25,384,753)</u>	<u>(23,274,476)</u>

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2014

HK\$Billion

