

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 104 to 110, which comprise the statement of assets and liabilities as at 31 March 2015, 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 2015 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

27 October 2015

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

Bond Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
Assets			
Investments with the Exchange Fund	3	120,060,223	100,682,122
Liabilities			
Deposits	4	(2,574)	(3,880)
		<u>120,057,649</u>	<u>100,678,242</u>
Representing:			
Fund Balance			
Balance at beginning of year		100,678,242	75,293,489
Surplus for the year		19,379,407	25,384,753
Balance at end of year	5, 6	<u>120,057,649</u>	<u>100,678,242</u>

Notes 1 to 9 form part of these financial statements.

Martin SIU
Director of Accounting Services
20 August 2015



Bond Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
Cash and bank balances at beginning of year		-	-
Receipts	7	42,611,937	34,320,157
Payments	8	(23,232,530)	(8,935,404)
Surplus for the year		19,379,407	25,384,753
Other cash movements	9	(19,379,407)	(25,384,753)
Cash and bank balances at end of year		-	-

Notes 1 to 9 form part of these financial statements.

Martin SIU
Director of Accounting Services
20 August 2015



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 Policies

- (i) 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.
- (ii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates.

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 2015 was HK\$3.78 billion (2014: HK\$4.19 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:

	2015 HK\$'000	2014 HK\$'000
Accrued interest received from successful bidders	<u>2,574</u>	<u>3,880</u>

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 paragraphs (e)(i) and (ea)(i) of the Resolution. The liabilities totalling HK\$112.16 billion as at 31 March 2015 comprising the outstanding bonds with nominal value of HK\$104.4 billion and alternative bonds with nominal value of US\$1 billion (equivalent to HK\$7.76 billion as at 31 March 2015) 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 under the Government Bond Programme are as follows:

	2015 HK\$'000	2014 HK\$'000
Bonds with nominal value in Hong Kong Dollars		
(Note (i) below)		
Balance at beginning of year	94,000,000	70,500,000
Issuance of bonds under		
Tender to institutional investors	20,400,000	20,500,000
Subscription to retail investors	10,000,000	10,000,000
Switch tender	800,000	-
Bond swap facility	-	42,200
	31,200,000	30,542,200
Repayment of bonds issued under		
Tender to institutional investors	(10,000,000)	(7,000,000)
Subscription to retail investors	(10,000,000)	-
Switch tender	(800,000)	-
Bond swap facility	-	(42,200)
	(20,800,000)	(7,042,200)
Balance at end of year	104,400,000	94,000,000
Alternative bonds with nominal value in United States Dollars		
(Note (ii) below)		
Balance at beginning of year	-	-
Issuance of bonds	7,751,100	-
Foreign currency translation difference	3,900	-
Balance at end of year (Note (iii) below)	7,755,000	-
Total outstanding bonds	112,155,000	94,000,000

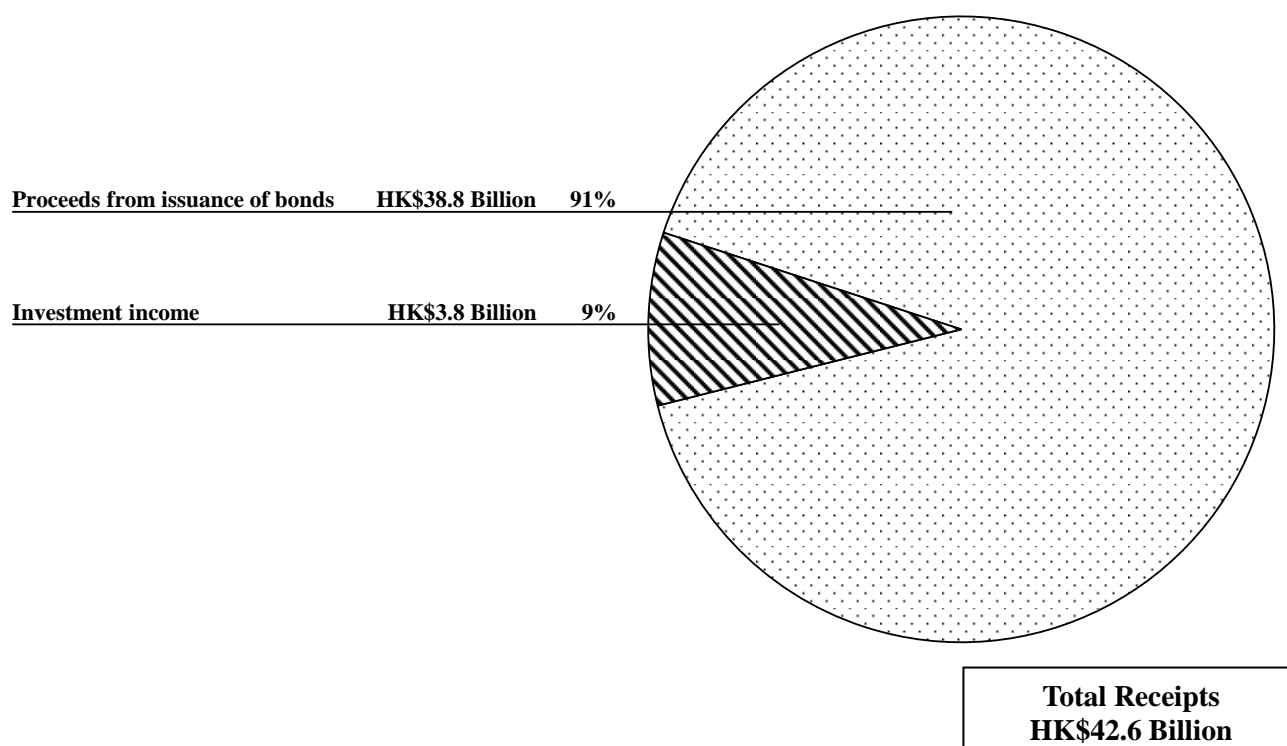
- (i) Under the institutional part of the Government Bond Programme, the Government has introduced the switch tender and the bond swap facility to enhance the liquidity of relevant bonds. Of the outstanding bond balance of HK\$104.4 billion, HK\$16.5 billion was repaid upon maturity during April 2015 to July 2015. For the rest, HK\$11.5 billion will mature within the period from August 2015 to March 2016 and HK\$76.4 billion within the period from April 2016 to August 2024.
- (ii) During the financial year, alternative bonds with nominal value of US\$1 billion were issued to institutional investors under section 2A of the Loans Ordinance.
- (iii) The outstanding alternative bonds are translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period. The outstanding balance of these bonds with nominal value of US\$1 billion (HK\$7.76 billion) will mature in September 2019.

Bond Fund

7. Receipts

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Proceeds from bonds issued under			
Tender or subscription	30,500,000	30,363,540	30,094,191
Switch tender	-	718,773	-
Bond swap facility	770,700,000	-	40,628
	801,200,000	31,082,313	30,134,819
Proceeds from issuance of alternative bonds	-	7,751,100	-
Investment income			
Investments with the Exchange Fund	-	3,778,332	4,185,069
Others	-	192	269
	3,345,000	3,778,524	4,185,338
	<u>804,545,000</u>	<u>42,611,937</u>	<u>34,320,157</u>

Analysis of Receipts for the year ended 31 March 2015

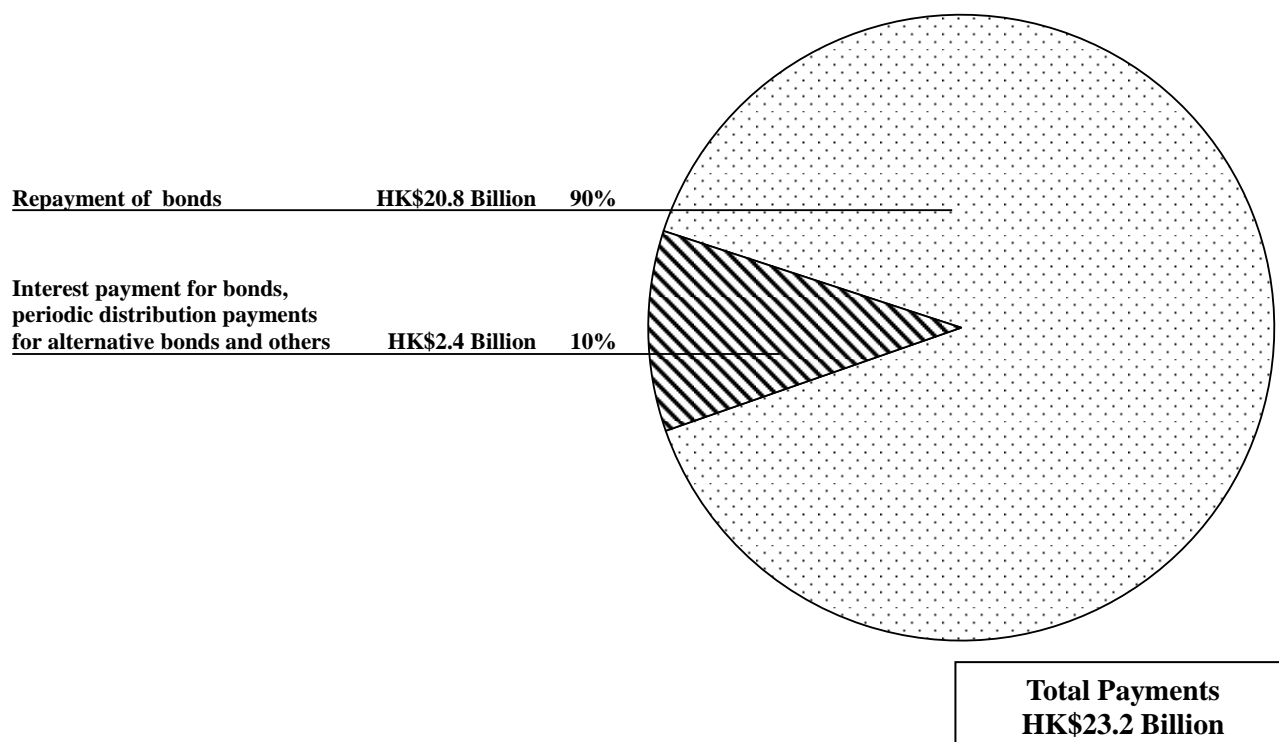


Bond Fund

8. Payments

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Repayment of bonds issued under			
Tender or subscription	20,000,000	20,000,000	7,000,000
Switch tender	-	846,960	-
Bond swap facility	770,700,000	-	40,628
	790,700,000	20,846,960	7,040,628
Interest payment for bonds	2,394,417	2,274,339	1,868,805
Periodic distribution payments for alternative bonds	-	77,840	-
Others	26,002	33,391	25,971
	<u>793,120,419</u>	<u>23,232,530</u>	<u>8,935,404</u>

Analysis of Payments for the year ended 31 March 2015



Bond Fund

9. Other Cash Movements

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

	2015 HK\$'000	2014 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	19,378,101	25,383,560
Reduction in Liabilities		
Deposits	1,306	1,193
	<u>19,379,407</u>	<u>25,384,753</u>

Receipts, Payments and Fund Balance for the years ended 31 March 2010 to 2015

HK\$Billion

