

Consolidated Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Assets			
Investments with the Exchange Fund	3	1,117,372,233	964,736,313
Deposits with banks	4	532,753	542,313
Cash and bank balances	5	4,258,004	4,357,692
Advances	6	2,901,276	2,996,632
	7	1,125,064,266	972,632,950
Liabilities			
Deposits	8	(22,075,213)	(18,622,203)
Suspense Accounts	9	(55,407)	(50,405)
	10	(22,130,620)	(18,672,608)
		<u>1,102,933,646</u>	<u>953,960,342</u>
Representing:			
Consolidated Fund Balance			
Balance at beginning of year		953,960,342	842,887,635
Surplus for the year		148,973,304	111,072,707
Balance at end of year	11, 12, 13	<u>1,102,933,646</u>	<u>953,960,342</u>

Notes 1 to 18 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Consolidated Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2018

(Expressed in Hong Kong dollars)

	Note	2018 \$'000	2017 \$'000
Cash and bank balances at beginning of year		4,357,692	3,295,918
Revenue	14, 15	619,836,415	573,124,704
Expenditure	14, 16	(470,863,111)	(462,051,997)
Surplus for the year before repayment of government bonds and notes	17	148,973,304	111,072,707
Repayment of government bonds and notes		-	-
Surplus for the year after repayment of government bonds and notes	17	148,973,304	111,072,707
Other cash movements	18	(149,072,992)	(110,010,933)
Cash and bank balances at end of year		4,258,004	4,357,692

Notes 1 to 18 form part of these financial statements.

Charlix WONG
Director of Accounting Services
29 August 2018



Consolidated Account

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose

The Consolidated Account gives an overview of the financial position and cash resources of the Government of the Hong Kong Special Administrative Region.

2. Accounting Policies

- (i) The Consolidated Account covers the General Revenue Account and the following eight Funds: Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. It excludes the Bond Fund, the balance of which is not part of the fiscal reserves.
- (ii) The Consolidated Account is prepared on a cash basis. Assets of capital investments acquired and loans made in the Capital Investment Fund and the Loan Fund, and liabilities of government bonds and notes in the Capital Works Reserve Fund are not included in the Statement of Assets and Liabilities of the Consolidated Account (Notes 7 and 10).
- (iii) Inter-fund transfers as set out in Note 14(i) are eliminated in full on consolidation.
- (iv) For the purposes of these financial statements, a contingent liability is defined as:
 - (a) a possible obligation that arises 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
 - (b) a present obligation that arises from past events but is not recognised because:
 - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.
- (v) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Foreign currency balances are translated into Hong Kong dollars at weighted average cost.

Consolidated Account

3. Investments with the Exchange Fund

(i) These are investments and deposits held:

	2018 \$'000	2017 \$'000
Investments (Notes (ii) to (iv) below)		
General Revenue Account	635,923,961	567,568,301
Capital Works Reserve Fund	184,651,906	102,604,328
Capital Investment Fund	2,917,526	3,078,306
Civil Service Pension Reserve Fund	35,129,267	31,899,385
Disaster Relief Fund	16,417	27,743
Innovation and Technology Fund	6,795,328	7,988,980
Loan Fund	4,103,778	4,190,965
Lotteries Fund	23,241,799	22,786,703
Future Fund (Note (iii) below)		
General Revenue Account	4,800,000	4,800,000
Land Fund	219,729,659	219,729,659
	224,529,659	224,529,659
	1,117,309,641	964,674,370
Deposits		
General Revenue Account	16,786	12,640
Capital Works Reserve Fund	44,235	48,342
Loan Fund	1,476	869
Lotteries Fund	95	92
	62,592	61,943
	1,117,372,233	964,736,313

(ii) The investments represent the cost of investments together with the investment income received in the year being reported.

(iii) 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 (Note 12). As from 1 July 2016, the Future Fund also includes a top-up allocation of \$4.8 billion from the General Revenue Account, representing about one-third of the actual consolidated surplus in 2015-16. The entire Future Fund balance 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. Investment return on the Future Fund placement is determined annually based on a composite rate (9.6% and 4.5% for the calendar years 2017 and 2016 respectively) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iv) below) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund, together with investment return not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier. Such accumulated investment return not received as revenue amounted to \$32.8 billion as at 31 December 2017 (2016: \$10.07 billion), including the investment return for the calendar year 2017 of \$22.73 billion (2016: \$10.07 billion).

Consolidated Account

3. Investments with the Exchange Fund *(Continued)*

(iv) The part of the fiscal reserves outside the Future Fund (Note (iii) above) is referred to as Operating and Capital Reserves (Note 12). 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. The rate of return for the calendar year 2017 was 2.8% (2016: 3.3%). The annual investment income is receivable on 31 December each year.

4. Deposits with Banks

These are Hong Kong dollar and foreign currency deposits placed with licensed banks in Hong Kong:

	2018 \$'000	2017 \$'000
General Revenue Account	<u>532,753</u>	<u>542,313</u>

5. Cash and Bank Balances

These balances cover cash in hand, in transit, with banks and agents, and with public officers for operating standing or special imprest accounts as provided under section 22 of the Public Finance Ordinance:

	2018 \$'000	2017 \$'000
General Revenue Account	4,226,983	4,341,392
Capital Works Reserve Fund	5,292	1
Capital Investment Fund	1	-
Innovation and Technology Fund	1,044	2,485
Loan Fund	12,489	13,814
Lotteries Fund	12,195	-
	<u>4,258,004</u>	<u>4,357,692</u>

6. Advances

These are moneys paid out from time to time to individuals or organisations for a variety of reasons and are either recoverable or chargeable to expenditure upon authority being given:

	2018 \$'000	2017 \$'000
General Revenue Account	<u>2,901,276</u>	<u>2,996,632</u>

Consolidated Account

7. Assets

The following capital investments acquired and loans made are not included in the Statement of Assets and Liabilities (Note 2(ii)):

	2018 \$'000	2017 \$'000
Investments		
Capital Investment Fund		
Equity holdings	138,381,137	134,288,685
Other investments	518,693,108	492,371,319
	657,074,245	626,660,004
Loans Outstanding		
Capital Investment Fund		
Loans to investees	2,085,028	1,545,829
Loan Fund		
Housing loans	3,030,699	3,070,889
Education loans	17,678,138	17,353,286
Other loans	8,639,340	6,427,960
	31,433,205	28,397,964
Total	688,507,450	655,057,968

8. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable to revenue:

	2018 \$'000	2017 \$'000
General Revenue Account	20,093,160	16,816,005
Capital Works Reserve Fund	1,947,802	1,779,334
Loan Fund	23,356	22,100
Lotteries Fund	10,895	4,764
	22,075,213	18,622,203

Consolidated Account

9. Suspense Accounts

These Suspense Accounts are established under Resolutions passed by the Legislative Council under section 30 of the Public Finance Ordinance:

	2018	2017
	\$'000	\$'000
Correctional Services Industries (Note (i) below)	28,627	31,470
Government Logistics Department — Unallocated Stores (Note (i) below)	7,837	7,755
The Special Coin (Note (ii) below)	(87,921)	(89,879)
The Financial Secretary Incorporated (Note (iii) below)	(3,950)	249
	<u>(55,407)</u>	<u>(50,405)</u>

- (i) The balances on the Correctional Services Industries Suspense Account and the Government Logistics Department — Unallocated Stores Suspense Account represent the cost of stocks in hand.
- (ii) The balance on The Special Coin Suspense Account represents the unutilised balance of net proceeds arising from issuing and dealing with special and commemorative coins.
- (iii) The balance on The Financial Secretary Incorporated Suspense Account represents the net amount arising from dealing with the regrant or renewal of Government Leases and managing the properties comprised therein.

10. Liabilities

The following outstanding liabilities under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities (Note 2(ii)):

	2018	2017
	\$'000	\$'000
Outstanding government bonds and notes (Note (i) below)	1,500,000	1,500,000

- (i) Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling \$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollars. The net proceeds were credited to the Capital Works Reserve Fund. The outstanding bonds and notes are denominated in Hong Kong dollars with maturity in July 2019. During the financial year, there were payments of interest of \$77 million on the notes but no repayment of principal.

Consolidated Account

11. Contingent Liabilities

As at 31 March 2018, the Government had the following contingent liabilities:

- (i) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$39,881 million (2017: \$36,799 million);
- (ii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$19,763 million (2017: \$20,811 million);
- (iii) legal claims, disputes and proceedings amounting to \$10,826 million (2017: \$29,324 million);
- (iv) guarantees provided under the SME Loan Guarantee Scheme amounting to \$4,234 million (2017: \$4,544 million);
- (v) guarantees provided under the Special Loan Guarantee Scheme amounting to \$654 million (2017: \$899 million);
- (vi) subscription to callable shares in the Asian Development Bank amounting to \$6,265 million (2017: \$5,804 million);
- (vii) subscription to callable shares in the Asian Infrastructure Investment Bank amounting to \$4,800 million (2017: Nil) with commitment approved; and
- (viii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,911 million (2017: \$1,957 million).

12. Consolidated Fund Balance

The consolidated fund balance comprises the following individual fund balances:

	2018 \$'000	2017 \$'000
Operating and Capital Reserves (Note 3(iv))		
General Revenue Account	623,453,192	558,594,868
Capital Works Reserve Fund	182,753,631	100,873,337
Capital Investment Fund	2,917,527	3,078,306
Civil Service Pension Reserve Fund	35,129,267	31,899,385
Disaster Relief Fund	16,417	27,743
Innovation and Technology Fund	6,796,372	7,991,465
Loan Fund	4,094,387	4,183,548
Lotteries Fund	23,243,194	22,782,031
	878,403,987	729,430,683
Future Fund (Note 3(iii))		
General Revenue Account	4,800,000	4,800,000
Land Fund	219,729,659	219,729,659
	224,529,659	224,529,659
Total	1,102,933,646	953,960,342

Consolidated Account

13. Commitments

Commitments comprise the outstanding balances of capital and non-recurrent funding approvals that may result in future cash outflows. The commitments were as follows:

	2018	2017
	\$'000	\$'000
Capital works	371,959,310	321,058,587
Land acquisition	5,649,880	5,245,069
Capital subventions	27,079,491	32,228,722
Plant, vehicles, systems and equipment	22,532,416	21,145,676
Non-recurrent expenditure	29,303,955	29,013,864
Investments (Note (i) below)	11,607,892	54,011
Loans and non-recurrent grants	29,859,204	31,321,127
	<u>497,992,148</u>	<u>440,067,056</u>

- (i) These included an approved commitment of \$4,800 million (2017: Nil) for the subscription to callable shares in the Asian Infrastructure Investment Bank (Note 11(vii)).

14. Revenue and Expenditure

- (i) Inter-fund transfers totalling \$4,350 million between the General Revenue Account and the eight Funds specified in Note 2(i) are eliminated in full on consolidation.

(ii) Revenue

Revenue comprises operating revenue and capital revenue.

Operating revenue comprises all revenue items of the General Revenue Account (except certain items such as disposal proceeds of government quarters and other assets, estate duty, loan repayments received and recovery from Housing Authority, etc. which are classified as capital revenue) and all receipts of the Land Fund.

Capital revenue comprises all receipts of the other seven Funds and capital revenue items of the General Revenue Account.

(iii) Expenditure

Expenditure comprises operating expenditure and capital expenditure.

Operating expenditure comprises all expenditure of the General Revenue Account, except equipment, works and capital subventions of a minor nature which are classified as capital expenditure.

Capital expenditure comprises all payments of the Capital Works Reserve Fund (excluding repayment of government bonds and notes), Capital Investment Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund and capital expenditure items of the General Revenue Account.

Consolidated Account

15. Revenue

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating revenue			
Internal revenue	286,127,263	328,598,030	292,523,117
Duties	10,933,456	10,700,965	10,254,359
General rates	21,427,000	22,203,177	21,250,102
Motor vehicle taxes	7,705,656	8,594,290	7,813,679
Royalties and concessions	3,195,186	3,241,957	10,545,324
Other operating revenue	50,744,003	53,794,415	52,578,682
Operating revenue before investment income	380,132,564	427,132,834	394,965,263
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	15,524,061	16,629,501
Others	-	101,468	133,083
	15,124,000	15,625,529	16,762,584
Operating revenue after investment income	395,256,564	442,758,363	411,727,847
Capital revenue			
Land premium	101,000,000	164,811,296	127,969,534
Asset sales	280,966	292,813	169,586
Other capital revenue	6,479,858	6,156,998	29,294,847
Capital revenue before investment income	107,760,824	171,261,107	157,433,967
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	5,812,786	3,958,967
Others	-	4,159	3,923
	4,682,000	5,816,945	3,962,890
Capital revenue after investment income	112,442,824	177,078,052	161,396,857
Total revenue	507,699,388	619,836,415	573,124,704

- (i) 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 3(iv) and shall be received on a date as determined by the Financial Secretary. The accumulated investment return not received was \$6.11 billion up to 31 December 2017 (2016: \$3.97 billion), including the investment return for the calendar year 2017 amounting to \$2.14 billion (2016: \$2.46 billion). Together with the accumulated investment return, the sums not received as revenue and earmarked as Housing Reserve totalled \$78.75 billion (2016: \$76.61 billion).

Consolidated Account

16. Expenditure

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating expenditure			
Recurrent expenditure			
Personal emoluments	74,587,866	74,567,246	71,775,118
Personnel related expenses	43,431,104	41,854,983	38,672,897
Departmental expenses	31,753,025	31,365,347	30,162,610
Other charges	78,830,866	69,307,339	69,052,144
Subventions	142,262,158	144,716,969	134,975,611
Additional commitments	100,000	-	-
Total recurrent expenditure	370,965,019	361,811,884	344,638,380
Non-recurrent expenditure	10,183,266	9,084,961	8,617,856
Additional commitments	3,052,000	-	-
Total non-recurrent expenditure	13,235,266	9,084,961	8,617,856
Operating expenditure	384,200,285	370,896,845	353,256,236
Capital expenditure			
Capital expenditure other than interest and other expenses on government bonds and notes	107,133,989	99,889,386	108,719,092
Interest and other expenses on government bonds and notes	76,881	76,880	76,669
Capital expenditure	107,210,870	99,966,266	108,795,761
Total expenditure	491,411,155	470,863,111	462,051,997

Consolidated Account

17. Surplus/(Deficit)

	2018		2017
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating Account			
Operating revenue	395,256,564	442,758,363	411,727,847
Operating expenditure	(384,200,285)	(370,896,845)	(353,256,236)
Operating surplus	11,056,279	71,861,518	58,471,611
Capital Account			
Capital revenue	112,442,824	177,078,052	161,396,857
Capital expenditure	(107,210,870)	(99,966,266)	(108,795,761)
Capital surplus	5,231,954	77,111,786	52,601,096
Surplus for the year before repayment of government bonds and notes	16,288,233	148,973,304	111,072,707
Repayment of government bonds and notes	-	-	-
Surplus for the year after repayment of government bonds and notes	16,288,233	148,973,304	111,072,707

18. Other Cash Movements

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

	2018 \$'000	2017 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(152,635,920)	(111,581,079)
Deposits with banks	9,560	716,671
Advances	95,356	45,358
	(152,531,004)	(110,819,050)
Increase/(Reduction) in Liabilities		
Deposits	3,453,010	811,928
Suspense Accounts	5,002	(3,811)
	3,458,012	808,117
	(149,072,992)	(110,010,933)

Consolidated Account

Consolidated Revenue, Expenditure plus Repayment of Government Bonds and Notes, and Fund Balance for the years ended 31 March 2009 to 2018

