

Innovation and Technology 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 Innovation and Technology Fund set out on pages 64 to 67, which comprise the statement of assets and liabilities as at 31 March 2010, and the statement of receipts and payments for the year then ended, 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 Innovation and Technology Fund as at 31 March 2010 and the receipts and payments for the year then ended 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

Innovation and Technology Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Assets			
Investments with the Exchange Fund	3	3,749,017	4,147,359
Cash and bank balances		-	1
		<u>3,749,017</u>	<u>4,147,360</u>
Representing:			
Fund Balance			
Balance at 1 April 2009		4,147,360	4,317,444
Deficit for the year		(398,343)	(170,084)
Balance at 31 March 2010	4	<u>3,749,017</u>	<u>4,147,360</u>

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



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STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
Cash and bank balances at 1 April 2009		1	1
Revenue	5	323,259	416,781
Expenditure	6	(721,602)	(586,865)
Deficit for the year		(398,343)	(170,084)
Other cash movements	7	398,342	170,084
Cash and bank balances at 31 March 2010		-	1

Notes 1 to 7 form part of these financial statements.

LI Kwok-tso
Director of Accounting Services
25 August 2010



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NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Innovation and Technology Fund finances projects that contribute to innovation and technology upgrading in the manufacturing and service industries, as well as those that contribute to the upgrading and development of the manufacturing and service industries. It was established with effect from 30 June 1999 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 the same date.

2. Accounting Policy

The accounts of the Innovation and Technology Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid.

3. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 6 of the Resolution:

	2010	2009
	\$'000	\$'000
Investments (see (ii) and (iii) below)	3,749,016	4,147,358
Deposits	1	1
	3,749,017	4,147,359

(ii) The investments represent the cost of investments together with interest of \$272 million received in the year ended 31 March 2010.

(iii) Effective from 1 April 2007, 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. Commitments

The approved grants that were unpaid as at 31 March 2010 amounted to \$994 million.

5. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Investment income	251,000	276,624	398,529
Net income from projects	6	-	12
Refund of grants	-	46,635	18,240
	251,006	323,259	416,781

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6. Expenditure

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Grants	1,277,861	721,602	586,865

Further analysis of grants appears in the Supporting Statements.

7. Other Cash Movements

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

	2010 \$'000	2009 \$'000
Reduction in Assets:		
Investments with the Exchange Fund	398,342	170,084

Revenue, Expenditure and Fund Balance for the years ended 31 March 2001 to 2010

