

AIDS Trust Fund

Financial statements for the year ended 31 March 2018

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the Legislative Council

Opinion

I have audited the financial statements of the AIDS Trust Fund set out on pages 4 to 14, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the financial position of the AIDS Trust Fund as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in accordance with Clause 12 of the Declaration of Trust made by the Financial Secretary Incorporated on 30 April 1993.

Basis for opinion

I conducted my audit in accordance with Clause 12 of the Declaration of Trust and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the AIDS Trust Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Financial Secretary Incorporated's responsibilities for the financial statements

The Financial Secretary Incorporated, as the Trustee of the AIDS Trust Fund, is responsible for the preparation of the financial statements that give a true and fair view in accordance with Clause 12 of the Declaration of Trust and HKFRSs issued by the HKICPA, and for such internal control as the Financial Secretary Incorporated determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Financial Secretary Incorporated is responsible for assessing the AIDS Trust Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

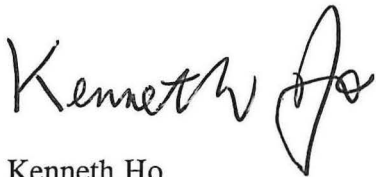
Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 AIDS Trust Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Financial Secretary Incorporated;

- conclude on the appropriateness of the Financial Secretary Incorporated's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the AIDS Trust Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the AIDS Trust Fund to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



Kenneth Ho
Assistant Director of Audit
for Director of Audit

13 March 2019

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

**STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018**

	Note	2018 HK\$'000	2017 HK\$'000
ASSETS			
Cash at bank		1	1
Deposits with banks	3	183,657	230,290
Interest receivable	4	1,789	903
Placement with the Exchange Fund	5	84,442	82,142
Total assets		269,889	313,336
LIABILITIES			
Grants payable - due within one year	6	(18,925)	(18,775)
Grants payable - due after one year	6	(15,723)	(4,925)
Total liabilities		(34,648)	(23,700)
Net assets		235,241	289,636
Representing:			
FUND BALANCE			
Capital		700,000	700,000
Accumulated deficit		(464,759)	(410,364)
		235,241	289,636

The accompanying Notes 1 to 14 form part of these financial statements.

The Financial Secretary Incorporated
The Trustee of the AIDS Trust Fund



Paul MP CHAN
Financial Secretary

13 March 2019

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 HK\$'000	2017 HK\$'000
Income	7	6,564	9,516
Expenditure	8	(60,959)	(30,132)
Deficit for the year		<u>(54,395)</u>	<u>(20,616)</u>
Other comprehensive income		—	—
Total comprehensive loss for the year		<u><u>(54,395)</u></u>	<u><u>(20,616)</u></u>

The accompanying Notes 1 to 14 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018**

	Capital HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
Balance at 1 April 2016	700,000	(389,748)	310,252
Total comprehensive loss for the year 2016-17	—	(20,616)	(20,616)
Balance at 31 March 2017	<u>700,000</u>	<u>(410,364)</u>	<u>289,636</u>
Total comprehensive loss for the year 2017-18	—	(54,395)	(54,395)
Balance at 31 March 2018	<u>700,000</u>	<u>(464,759)</u>	<u>235,241</u>

The accompanying Notes 1 to 14 form part of these financial statements.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 HK\$'000	2017 HK\$'000
Net cash used in operating activities	9	(49,290)	(47,977)
Net cash from investing activities	10	36,790	21,256
Net decrease in cash and cash equivalents		<u>(12,500)</u>	<u>(26,721)</u>
Cash and cash equivalents at beginning of year		22,701	49,422
Cash and cash equivalents at end of year	11	<u>10,201</u>	<u>22,701</u>

The accompanying Notes 1 to 14 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The AIDS Trust Fund (the Fund) was established on 30 April 1993 by a Declaration of Trust (the Trust) made by The Financial Secretary Incorporated (the Trustee) following the Finance Committee of the Legislative Council (the Finance Committee)'s approval of a grant of HK\$350 million on 16 April 1993 to set up the Fund. The principal activities of the Fund are the financing of ex-gratia payments for persons infected with the HIV through the transfusion in Hong Kong of blood products prior to August 1985, medical and support services for HIV-infected patients and publicity and public education on AIDS. In 1993, the Council for the AIDS Trust Fund (the Council) started providing one-off payments to eligible HIV-infected persons in line with the ex-gratia payment scheme approved by the Finance Committee. The Council also endorsed in April 2005 the payment of additional recurrent supplements within the ambit and funding approved for the Fund. On 6 December 2013, the Finance Committee approved an injection of HK\$350 million into the Fund. The financial statements of the Fund are prepared in accordance with Clause 12 of the Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards (HKASs) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Fund is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. There are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next reporting period.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which the Fund has no intention of trading. This category includes cash at bank, deposits with banks, placement with the Exchange Fund and interest receivable. Loans and receivables are initially recognised at fair value. They are subsequently carried at amortised cost using the effective interest method less impairment losses, if any (Note 2(g)).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(d) Interest income recognition

Interest income is recognised on an accrual basis using the effective interest method. The interest rates on deposits with banks and placement with the Exchange Fund represent the effective interest rates on such interest-bearing assets.

(e) Grants recognition

Grants, including multi-year grants, are recognised as expenses and payables when they are approved.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash at bank and deposits with banks with a maturity of three months or less from the date of placement.

(g) Impairment of financial assets

The carrying amounts of loans and receivables are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. If in a subsequent period the amount of such impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of comprehensive income. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior reporting periods.

(h) Impact of new and revised HKFRSs

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period. There have been no changes to the accounting policies applied in the financial statements for the years presented as a result of these developments. The Fund has not applied any new HKFRSs that are not yet effective for the current accounting period (Note 14).

3. DEPOSITS WITH BANKS

These are Hong Kong dollar deposits placed with licensed banks in Hong Kong for investment under Clause 5 of the Trust.

4. INTEREST RECEIVABLE

	2018 HK\$'000	2017 HK\$'000
Interest accrued on deposits and bank balances	831	336
Interest accrued on placement with the Exchange Fund	958	567
	1,789	903

5. PLACEMENT WITH THE EXCHANGE FUND

These represent the principal sum placed with the Exchange Fund and interest paid but not yet withdrawn at the end of the reporting period:

	2018	2017
	HK\$'000	HK\$'000
Principal sum	80,000	80,000
Interest paid but not yet withdrawn	4,442	2,142
	<u>84,442</u>	<u>82,142</u>

The term of the placement is six years from the date of placement, during which the principal sum cannot be withdrawn.

Interest on the placement is payable at a fixed rate determined every January. The rate is 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 for the previous year subject to a minimum of zero percent, whichever is the higher. The interest rate has been fixed at 4.6% for the calendar year 2018 and at 2.8% for the calendar year 2017.

6. GRANTS PAYABLE

	2018	2017
	HK\$'000	HK\$'000
Publicity and public education	24,786	15,588
Medical and support services	9,862	8,112
	<u>34,648</u>	<u>23,700</u>
Amount due within one year	18,925	18,775
Amount due after one year	15,723	4,925
	<u>34,648</u>	<u>23,700</u>

7. INCOME

	2018	2017
	HK\$'000	HK\$'000
Interest on deposits and bank balances	3,152	2,611
Interest on placement with the Exchange Fund	2,691	2,550
Refund of grants	504	1,661
Other income	217	2,694
	<u>6,564</u>	<u>9,516</u>

8. EXPENDITURE

	2018 HK\$'000	2017 HK\$'000
Grants		
Publicity and public education	37,254	17,589
Medical and support services	14,797	3,873
Ex-gratia payment	8,908	8,670
	60,959	30,132

9. RECONCILIATION OF DEFICIT TO NET CASH USED IN OPERATING ACTIVITIES

	2018 HK\$'000	2017 HK\$'000
Deficit for the year	(54,395)	(20,616)
Interest income	(5,843)	(5,161)
Increase/(Decrease) in grants payable	10,948	(22,200)
Net cash used in operating activities	(49,290)	(47,977)

10. NET CASH FROM INVESTING ACTIVITIES

	2018 HK\$'000	2017 HK\$'000
Interest received	4,957	4,640
Decrease in deposits with banks with original maturity over three months	34,133	18,758
Increase in placement with the Exchange Fund	(2,300)	(2,142)
Net cash from investing activities	36,790	21,256

11. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2018 HK\$'000	2017 HK\$'000
Cash at bank	1	1
Deposits with banks with original maturity within three months	10,200	22,700
	10,201	22,701

AIDS Trust Fund

Reconciliation with the statement of financial position:

	2018	2017
	HK\$'000	HK\$'000
Amounts in the statement of financial position:		
Cash at bank	1	1
Deposits with banks	183,657	230,290
	183,658	230,291
Less: Amounts with original maturity over three months	(173,457)	(207,590)
Cash and cash equivalents in the statement of cash flows	10,201	22,701

12. CAPITAL RISK MANAGEMENT

The capital of the Fund, which may be expended specifically for the purposes of the Fund, is managed prudently to generate income for the purposes of the Fund. The financial risks in the Fund's investment portfolios are monitored on a continuous basis to ensure that such risks are covered before funding is considered for the purposes of the Fund.

13. FINANCIAL RISK MANAGEMENT

(a) Investment management and control

The Director of Accounting Services has been appointed as the agent for the Trustee to implement decisions concerning investments of the Fund and to generally manage such investments.

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due. The Fund's financial assets which are potentially subject to credit risk consist principally of bank balances and placement with the Exchange Fund. The Fund selects counterparty with good credit standing, strong financial strength and sizeable capital. The exposure to the credit risk of bank balances, interest receivable and placement with the Exchange Fund is considered to be low. Hence the Fund does not have significant exposure to credit risk.

The Fund's maximum exposure to credit risk at the end of the reporting period without taking account of collateral held or other credit enhancements, if any, is shown below:

	2018	2017
	HK\$'000	HK\$'000
Cash at bank	1	1
Deposits with banks	183,657	230,290
Interest receivable	1,789	903
Placement with the Exchange Fund	84,442	82,142
	269,889	313,336

The credit quality of cash at bank and deposits with banks, analysed by the ratings designated by Moody's or their equivalents, at the end of the reporting period is shown below:

	2018 HK\$'000	2017 HK\$'000
Cash at bank and deposits with banks, by credit rating:		
Aa1 to Aa3	2,443	13,443
A1 to A3	181,215	216,848
	183,658	230,291

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not have sufficient funds available to meet its obligations as they fall due. The Fund monitors the liquidity requirements on a continuous basis and maintains a level of short term deposits and cash to pay grants as necessary. Hence, the Fund does not have significant exposure to liquidity risk.

(d) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in market interest rates. This can be further classified into fair value interest rate risk and cash flow interest rate risk.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Since all the Fund's deposits with banks bear interest at fixed rates and are all stated at amortised cost, their carrying amounts and the Fund's income and accumulated funds will not be affected by changes in market interest rates.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund has no exposure to cash flow interest rate risk because it has no holding of financial instruments bearing interest at rates determined by reference to market interest rates.

(e) Other financial risk

The Fund is exposed to financial risk arising from change in the interest rate on the placement with the Exchange Fund which is determined every January (Note 5). If the interest rate had increased/decreased by 50 basis points with all other variables held constant, the interest income on the placement for the reporting period would have been increased/decreased by HK\$422,000 (2017: HK\$411,000).

(f) Fair values

All financial assets and liabilities are stated in the statement of financial position at amounts equal to or not materially different from their fair values.

14. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2018

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2018 and which have not been early adopted in the financial statements. The Fund is in the process of making an assessment of the impact expected of these amendments, new standards and interpretations in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's financial performance and financial position.

The following development may result in new or amended disclosures in future financial statements:

**Effective for accounting
periods beginning on or after**

HKFRS 9, Financial Instruments

1 January 2018