



AIDS Trust Fund

Financial statements for the year ended 31 March 2019

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 15, which comprise the statement of financial position as at 31 March 2019, 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 2019, 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.



Ms Hildy Chan
Assistant Director of Audit (Acting)
for Director of Audit

13 March 2020

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

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Note	2019 HK\$'000	2018 HK\$'000
ASSETS			
Cash at bank		1	1
Deposits with banks	3	151,589	183,657
Interest receivable	4	1,687	1,789
Placement with the Exchange Fund	5	88,327	84,442
Total assets		241,604	269,889
LIABILITIES			
Grants payable - due within one year	6	(22,630)	(18,925)
Grants payable - due after one year	6	(13,335)	(15,723)
Total liabilities		(35,965)	(34,648)
Net assets		205,639	235,241
Representing:			
FUND BALANCE			
Capital		700,000	700,000
Accumulated deficit		(494,361)	(464,759)
		205,639	235,241

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 2020

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019**

	Note	2019 HK\$'000	2018 HK\$'000
Income	7	8,563	6,564
Expenditure	8	(38,165)	(60,959)
Deficit for the year		(29,602)	(54,395)
Other comprehensive income		—	—
Total comprehensive loss for the year		(29,602)	(54,395)

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019**

	Capital HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
Balance at 1 April 2017	700,000	(410,364)	289,636
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>
Total comprehensive loss for the year 2018-19	—	(29,602)	(29,602)
Balance at 31 March 2019	<u>700,000</u>	<u>(494,361)</u>	<u>205,639</u>

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2019**

	Note	2019 HK\$'000	2018 HK\$'000
Net cash used in operating activities	9	(35,214)	(49,290)
Net cash from investing activities	10	28,714	36,790
Net decrease in cash and cash equivalents		(6,500)	(12,500)
Cash and cash equivalents at beginning of year		10,201	22,701
Cash and cash equivalents at end of year	11	3,701	10,201

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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(g) provides information on changes, if any, in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

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 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 reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Financial assets and financial liabilities

(i) Initial recognition and measurement

The Fund's financial assets comprise cash at bank, deposits with banks, interest receivable and placement with the Exchange Fund.

The Fund's financial liabilities comprise grants payable.

Financial assets and financial liabilities are recognised on the date the Fund becomes a party to the contractual provisions of the financial instruments. They are initially measured at fair value plus or minus transaction costs that are directly attributable to the acquisition of financial assets and the issue of financial liabilities.

(ii) Classification and subsequent measurement from 1 April 2018

Financial assets measured at amortised cost

After adoption of HKFRS 9 "Financial Instruments" (Note 2(g)), the Fund classifies all financial assets as subsequently measured at amortised cost using the effective interest method, on the basis that they are held within a business model whose objective is to hold them for collection of contractual cash flows which represent solely payments of principal and interest. The measurement of loss allowances for financial assets is based on the expected credit loss model as described in Note 2(c)(v).

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising 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 asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates the expected cash flows by considering all contractual terms of the financial instruments but does not consider the expected 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.

Financial liabilities measured at amortised cost

The Fund classifies all financial liabilities as subsequently measured at amortised cost using the effective interest method.

(iii) Classification and subsequent measurement prior to 1 April 2018

Loans and receivables

Under HKAS 39 "Financial Instruments: Recognition and Measurement", the Fund's financial assets, which were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and which the Fund had no intention of trading, were classified as loans and receivables and were subsequently carried at amortised cost using the effective interest method less impairment losses, if any (Note 2(c)(vi)).

Financial liabilities measured at amortised cost

The classification of the Fund's financial liabilities and their subsequent measurement prior to 1 April 2018 were the same as those from 1 April 2018 (Note 2(c)(ii)).

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, is cancelled or when it expires.

(v) Impairment of financial assets from 1 April 2018

For financial assets measured at amortised cost, the Fund measures the expected credit losses to determine the loss allowance required to be recognised.

Expected credit losses are a probability-weighted estimate of credit losses. They are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Fund expects to receive, discounted at the effective interest rate. They are measured on either of the following bases:

- 12-month expected credit losses (for financial instruments for which there has not been a significant increase in credit risk since initial recognition): these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime expected credit losses (for financial instruments for which there has been a significant increase in credit risk since initial recognition): these are losses that are expected to result from all possible default events over the expected life of the financial instrument.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Fund considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Fund in full; or (ii) the financial asset is 90 days past due. The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(vi) Impairment of financial assets prior to 1 April 2018

The carrying amounts of financial assets were reviewed at each reporting date to determine whether there was objective evidence of impairment. If any such evidence existed, an impairment loss was 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through the statement of comprehensive income. A reversal of impairment losses was limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(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 maturities of three months or less from the date of placement.

(g) Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Fund. Of these, the Fund has adopted the requirements of HKFRS 9 from 1 April 2018. HKFRS 9 replaces HKAS 39 and sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Fund has applied HKFRS 9 retrospectively to items that existed as at 1 April 2018 in accordance with the transition requirements without restating comparative information (i.e. the comparative information continues to be reported under HKAS 39). The carrying amounts of the items as at 1 April 2018 have not been impacted by the initial application of HKFRS 9. The nature and effect of the changes to previous accounting policies are set out below.

Classification of financial assets and financial liabilities

HKFRS 9 classifies financial assets into three principal categories: measured at (i) amortised cost; (ii) fair value through other comprehensive income; and (iii) fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Financial assets previously classified as loans and receivables under HKAS 39 have been reclassified to financial assets measured at amortised cost, while the measurement categories for all financial liabilities remain the same. The carrying amounts of all financial assets and financial liabilities of the Fund as at 31 March 2018 were the same as those as at 1 April 2018.

Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" model. The expected credit loss model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the "incurred loss" accounting model in HKAS 39. The Fund applies the new expected credit loss model to the financial assets measured at amortised cost (Note 2(c)(v)). The initial application of the new impairment requirements had no impact on the carrying amounts of the financial assets as at 1 April 2018.

The Fund has not applied any new standard or interpretation that is 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

	2019 HK\$'000	2018 HK\$'000
Interest accrued on deposits and bank balances	1,055	831
Interest accrued on placement with the Exchange Fund	632	958
	1,687	1,789

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 reporting date:

	2019 HK\$'000	2018 HK\$'000
Principal sum	80,000	80,000
Interest paid but not yet withdrawn	8,327	4,442
	88,327	84,442

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 2.9% per annum for the calendar year 2019 and at 4.6% per annum for the calendar year 2018.

6. GRANTS PAYABLE

	2019 HK\$'000	2018 HK\$'000
Publicity and public education	26,532	24,786
Medical and support services	9,433	9,862
	35,965	34,648
Amount due within one year	22,630	18,925
Amount due after one year	13,335	15,723
	35,965	34,648

7. INCOME

	2019 HK\$'000	2018 HK\$'000
Interest on deposits and bank balances	3,371	3,152
Interest on placement with the Exchange Fund	3,558	2,691
Refund of grants	353	504
Other income	1,281	217
	8,563	6,564

AIDS Trust Fund

8. EXPENDITURE

	2019 HK\$'000	2018 HK\$'000
Grants		
Publicity and public education	21,435	37,254
Medical and support services	7,550	14,797
Ex-gratia payment	9,180	8,908
	38,165	60,959

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

	2019 HK\$'000	2018 HK\$'000
Deficit for the year	(29,602)	(54,395)
Interest income	(6,929)	(5,843)
Increase in grants payable	1,317	10,948
Net cash used in operating activities	(35,214)	(49,290)

10. NET CASH FROM INVESTING ACTIVITIES

	2019 HK\$'000	2018 HK\$'000
Interest received	7,031	4,957
Decrease in deposits with banks with maturities beyond three months	25,568	34,133
Increase in placement with the Exchange Fund	(3,885)	(2,300)
Net cash from investing activities	28,714	36,790

11. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2019 HK\$'000	2018 HK\$'000
Cash at bank	1	1
Deposits with banks with maturities within three months	3,700	10,200
	3,701	10,201

AIDS Trust Fund

Reconciliation with the statement of financial position:

	2019 HK\$'000	2018 HK\$'000
Amounts in the statement of financial position:		
Cash at bank	1	1
Deposits with banks	151,589	183,657
	151,590	183,658
Less: Amounts with maturities beyond three months	(147,889)	(173,457)
Cash and cash equivalents in the statement of cash flows	3,701	10,201

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 one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund's credit risk is primarily attributable to cash at bank, deposits with banks, interest receivable and placement with the Exchange Fund. The Fund has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis. To minimise credit risks, all fixed deposits are placed with licensed banks in Hong Kong. These financial assets are considered to have a low credit risk. The loss allowances are measured at amounts equal to 12-month expected credit losses. The Fund has estimated that 12-month expected credit losses on these financial instruments are immaterial and considers that no loss allowance is required.

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

	2019 HK\$'000	2018 HK\$'000
Cash at bank and deposits with banks, by credit rating:		
Aa1 to Aa3	8,387	2,443
A1 to A3	143,203	181,215
	151,590	183,658

The maximum exposure to credit risk of the financial assets of the Fund is equal to their carrying amounts.

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not have sufficient funds available to meet its obligations associated with financial liabilities. 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 fair 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 fund balance 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 changes 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 year would have been increased/decreased by HK\$442,000 (2018: HK\$422,000).

(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 2019

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 2019 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 statements.