
Water Authority

OPERATING ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2006

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REVIEW OF THE YEAR 2006

ACTIVITIES

- Water consumption decreased by 0.9% to 611 million cubic metres

FINANCIAL PERFORMANCE

- Revenue increased by 3.8%
- Expenditure decreased by 1.3%
- Operating results improved from a deficit of \$824.8 million in 2004-05 to a deficit of \$530.8 million in 2005-06
- Return on Average Net Fixed Assets improved from -2.5% in 2004-05 to -1.6% in 2005-06

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OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

| | Note | 2006 \$M | 2005 \$M |
|-----------------------------------|------------------|-----------------------|-----------------------|
| Revenue | 2 | 5,726.0 | 5,515.4 |
| Expenditure | 3 | <u>6,256.8</u> | <u>6,340.2</u> |
| Operating deficit before taxation | | (530.8) | (824.8) |
| Taxation | 1(e) & (f) and 4 | <u>0.0</u> | <u>0.0</u> |
| Operating deficit after taxation | 1(j) | <u><u>(530.8)</u></u> | <u><u>(824.8)</u></u> |

FINANCIAL PERFORMANCE MEASURES

| | | | |
|---------------------------------|------------|----------|----------|
| Average net fixed assets (ANFA) | 1(i) and 5 | 33,542.1 | 32,597.3 |
| Actual return | | (530.8) | (824.8) |
| Target return | | 2,180.2 | 2,118.8 |
| Actual return as % of ANFA | 1(h) | (1.6%) | (2.5%) |
| Target return as % of ANFA | | 6.5% | 6.5% |

The annexed notes form part of these accounts.

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BALANCE SHEET AS AT 31 MARCH 2006

| | Note | 2006 \$M | 2005 \$M |
|----------------------------------|------------------|-----------------|-----------------|
| Net assets employed | | | |
| Fixed assets | 1(b) & (c) and 5 | 33,963.1 | 33,121.1 |
| Advance payment of water charges | 6 | 95.9 | 287.3 |
| Current assets | 1(d) and 7 | 1,708.3 | 1,697.0 |
| Current liabilities | 8 | (1,669.4) | (1,660.1) |
| Net current assets | | 38.9 | 36.9 |
| Government loan | 6 | (95.9) | (287.3) |
| | | <u>34,002.0</u> | <u>33,158.0</u> |
| Financed by | | | |
| Public capital account | 1(j) and 9 | <u>34,002.0</u> | <u>33,158.0</u> |

The annexed notes form part of these accounts.

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NOTES ON THE ACCOUNTS

1. Accounting Policies

- (a) Basis of Accounting
The accounts have been prepared on the historical cost basis of accounting modified to include notional receipts and payments.
- (b) Fixed Assets
- (i) No cost is included for land which is occupied by installations or sterilised by catchment areas except that, where it has been resumed, the cost of resumption has been included in the capital cost of the project concerned.
 - (ii) For capital projects, the costs include the actual direct expenditure and staff costs for design, planning and supervision during the construction period.
 - (iii) All other fixed assets are stated at cost less accumulated depreciation except assets under construction which are stated at cost.
- (c) Depreciation
- (i) Depreciation is provided on a straight-line basis calculated to write off the cost of assets less residual value over their estimated useful lives. The annual rates of depreciation used are :-

| | |
|---|-----------|
| Tunnels, dams, resumption and afforestation, etc. | 1% |
| Civil engineering works | 2% |
| Water mains - fresh | 2% |
| - salt | 5% |
| Mechanical/electrical works, plant and machinery | 4% |
| Meters | 6.66% |
| Computer hardware, software and system | 10% |
| Motor vehicles | 10% - 20% |
 - (ii) No depreciation is provided on assets under construction.
- (d) Stock
Stock is stated at the lower of cost and net realisable value, using the First-In-First-Out method.
- (e) Taxation
Notional profits tax is provided, where necessary, based on the expected taxable surplus for the year, using the tax rates prevailing at the balance sheet date, and any adjustments to tax payable in respect of previous years. No provision for notional profits tax has been made in the accounts as the Authority has no taxable surplus for the year.
- (f) Deferred Tax
Deferred tax is recognised, where appropriate, for all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that taxable surplus will be available against which the temporary differences can be utilised. No provision for deferred tax in respect of all material temporary differences has been made in the accounts as the Authority has no taxable surplus against which the temporary differences can be utilised.

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NOTES ON THE ACCOUNTS

- (g) Employee Benefits | Employee benefits including salaries, gratuities, pensions, housing benefits and annual leave are accrued and recognised as an expense in the year in which the associated services are rendered by employees.
- (h) Actual Return on ANFA | This is calculated as a percentage of operating surplus/deficit to average net fixed assets (ANFA).
- (i) Average Net Fixed Assets | The average net fixed assets (ANFA) represents the simple average of the opening and closing value of total fixed assets less aggregate depreciation.
- (j) Operating Deficit | Since the Water Authority does not have a separate legal identity, its financial resources form part of the General Revenue. All deficits are deemed to be financed by the General Revenue and adjusted to the Public Capital Account of the Authority.

| 2. Revenue | 2006 | <i>2005</i> |
|---|----------------|----------------|
| | \$M | <i>\$M</i> |
| Chargeable supplies | 2,479.6 | 2,523.6 |
| Contribution from rates | 2,120.7 | 1,897.9 |
| Contribution from Government on free allowance to consumers | 904.4 | 922.4 |
| Supplies to Government establishments | 146.1 | 144.0 |
| Fees, licences and reimbursable works | 24.4 | 20.5 |
| Interest from deposits | 50.8 | 7.0 |
| | <u>5,726.0</u> | <u>5,515.4</u> |
| | | |
| 3. Expenditure | 2006 | <i>2005</i> |
| | \$M | <i>\$M</i> |
| Staff costs | 1,290.2 | 1,326.2 |
| Operating and administration expenses | 1,434.3 | 1,514.5 |
| Bulk purchase of water from Guangdong | 2,524.1 | 2,526.5 |
| Depreciation | 990.1 | 937.5 |
| Interest on Government loan | 18.1 | 35.5 |
| | <u>6,256.8</u> | <u>6,340.2</u> |

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NOTES ON THE ACCOUNTS

| 4. Taxation | 2006 | 2005 |
|--|-------------------|------------------|
| | \$M | \$M |
| Notional profits tax charge for the year | <u>0.0</u> | <u>0.0</u> |
| Deferred tax assets/(liabilities) not recognized in respect of :- | | |
| Unused tax loss | <u>13,226.6</u> | <u>12,037.7</u> |
| Material temporary difference arising from depreciation allowances | <u>(10,083.1)</u> | <u>(9,419.4)</u> |

5. Fixed Assets

| | Buildings, Filters, Mains, etc. | Plant and Machinery | Computer Hardware, Software & System | Salt Water Flushing | Plover Cove | High Island | Meters | Motor Vehicles | Assets Under Con- struction | Total |
|--|--|--------------------------------|---|------------------------------------|------------------------|------------------------|---------------|---------------------------|--|-----------------|
| | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M | \$M |
| Cost | | | | | | | | | | |
| At 1 April 2005 | 30,949.3 | 147.3 | 209.6 | 4,651.7 | 702.0 | 1,661.2 | 318.8 | 50.5 | 3,413.6 | 42,104.0 |
| Additions | 4.4 | 3.6 | - | - | - | - | 16.1 | 2.1 | 1,816.5 | 1,842.7 |
| Transfers | 1,401.8 | - | 44.9 | 404.9 | - | - | - | - | (1,851.6) | - |
| Disposals/Write off | (29.5) | (0.5) | - | (11.2) | - | - | (11.5) | (3.3) | - | (56.0) |
| At 31 March 2006 | 32,326.0 | 150.4 | 254.5 | 5,045.4 | 702.0 | 1,661.2 | 323.4 | 49.3 | 3,378.5 | 43,890.7 |
| Aggregate Depreciation | | | | | | | | | | |
| At 1 April 2005 | 6,117.2 | 47.9 | 23.8 | 1,462.3 | 337.0 | 807.7 | 159.2 | 27.8 | - | 8,982.9 |
| Charge for the year | 697.7 | 5.8 | 23.0 | 198.0 | 9.3 | 29.3 | 22.3 | 4.7 | - | 990.1 |
| Written back on Disposals/Write off | (20.0) | (0.3) | - | (10.8) | - | - | (11.5) | (2.8) | - | (45.4) |
| At 31 March 2006 | 6,794.9 | 53.4 | 46.8 | 1,649.5 | 346.3 | 837.0 | 170.0 | 29.7 | - | 9,927.6 |
| Net Book Value | | | | | | | | | | |
| At 31 March 2006 | 25,531.1 | 97.0 | 207.7 | 3,395.9 | 355.7 | 824.2 | 153.4 | 19.6 | 3,378.5 | 33,963.1 |
| <i>At 31 March 2005</i> | <i>24,832.1</i> | <i>99.4</i> | <i>185.8</i> | <i>3,189.4</i> | <i>365.0</i> | <i>853.5</i> | <i>159.6</i> | <i>22.7</i> | <i>3,413.6</i> | <i>33,121.1</i> |

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NOTES ON THE ACCOUNTS

6. Advance Payment of Water Charges/ Government Loan

An advance payment of water charges of \$1,580M has been made to the Guangdong authorities by instalments with the last instalment of \$368M being paid in 1992-93. This advance is financed by a corresponding loan provided by the Government. Set off of the advance and repayment of the loan started in January 1995.

7. Current Assets

| | 2006 | <i>2005</i> |
|-------------------------------|----------------|----------------|
| | \$M | <i>\$M</i> |
| Stock | 9.8 | 9.5 |
| Debtors | 577.1 | 563.3 |
| Current account with Treasury | 1,121.4 | 1,124.2 |
| | <u>1,708.3</u> | <u>1,697.0</u> |

8. Current Liabilities

| | 2006 | <i>2005</i> |
|--------------------------------------|----------------|----------------|
| | \$M | <i>\$M</i> |
| Consumers' and contractors' deposits | 1,452.1 | 1,433.1 |
| Creditors | 217.3 | 227.0 |
| | <u>1,669.4</u> | <u>1,660.1</u> |

9. Public Capital Account

The Public Capital Account represents Government's investment in this utility.

| | 2006 | <i>2005</i> |
|--|-----------------|-----------------|
| | \$M | <i>\$M</i> |
| Balance as at 1 April | 33,158.0 | 32,114.0 |
| Operating deficit for the year | (530.8) | (824.8) |
| Additional cash investment by the Government | 1,374.8 | 1,868.8 |
| | <u>34,002.0</u> | <u>33,158.0</u> |

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NOTES ON THE ACCOUNTS

10. Capital Commitments

As at 31 March 2006, the Authority had capital commitments, so far as not provided for in the Operating Accounts, as follows:

| | 2006 \$M | <i>2005</i> <i>\$M</i> |
|-----------------------------------|---------------------------|---------------------------|
| Contracted for | 1,299.1 | 1,947.5 |
| Authorised but not contracted for | <u>5,750.2</u> | <u>5,790.9</u> |
| | <u>7,049.3</u> | <u>7,738.4</u> |