

# *Report of the Director of Audit*



**Audit Commission**

The Government of the Hong Kong Special Administrative Region

## **Capital Investment Fund**

### **Independent Audit Report**

#### **To the President of the Legislative Council**

I certify that I have examined and audited the financial statements of the Capital Investment Fund set out on pages 33 to 38, 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 Capital Investment 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

# Capital Investment Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
<b>Assets</b>			
<b>Investments</b>	<b>3</b>		
Equity Holdings		118,576,687	114,067,171
Other Investments		398,434,531	395,596,027
		<u>517,011,218</u>	<u>509,663,198</u>
<b>Loans</b>	<b>4</b>	3,951,458	7,056,961
		<u>520,962,676</u>	<u>516,720,159</u>
<b>Current Assets</b>			
Investments with the Exchange Fund	5	1,736,404	504,259
Cash and bank balances		1	1
		<u>1,736,405</u>	<u>504,260</u>
		<u><u>522,699,081</u></u>	<u><u>517,224,419</u></u>
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>520,962,676</b>	<b>516,720,159</b>
<b>Available Fund</b>	<b>7</b>		
Balance at 1 April 2009		504,260	562,307
Surplus/(Deficit) for the year		1,232,145	(58,047)
Balance at 31 March 2010		<u>1,736,405</u>	<u>504,260</u>
	<b>8</b>	<u><u>522,699,081</u></u>	<u><u>517,224,419</u></u>

Notes 1 to 11 form part of these financial statements.

**LI Kwok-tso**  
Director of Accounting Services  
25 August 2010



# Capital Investment Fund

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

	Note	2010 \$'000	2009 \$'000
<b>Cash and bank balances at 1 April 2009</b>		1	2
Revenue	9	1,232,145	1,917,224
Expenditure	10	-	(1,975,271)
<b>Surplus/(Deficit) for the year</b>		1,232,145	(58,047)
<b>Other cash movements</b>	11	(1,232,145)	58,046
<b>Cash and bank balances at 31 March 2010</b>		<u>1</u>	<u>1</u>

Notes 1 to 11 form part of these financial statements.

**LI Kwok-tso**  
Director of Accounting Services  
25 August 2010



# Capital Investment Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Purpose and Legislation

The Capital Investment Fund finances investments in and loans to public sector bodies which are not part of the Government structure and such other bodies as the Finance Committee may specify. It was established with effect from 1 April 1990 by a Resolution passed by the Legislative Council under section 29(1) of the Public Finance Ordinance (Cap. 2) on 14 March 1990. Amendments to this Resolution were passed by the Legislative Council on 6 November 1991. (The Resolution as amended is hereinafter referred to as the Resolution.)

### 2. Accounting Policies

- (i) Subject to (ii) below, the accounts of the Capital Investment Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions.
- (ii) The Statement of Assets and Liabilities is structured to include investments acquired and loans made by way of cash, waived land premium, donated works or other similar transactions.
- (iii) 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.

### 3. Investments (at cost/original valuation)

	2010			2009		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at 1 April 2009	114,067,171	395,596,027	509,663,198	112,964,815	390,370,946	503,335,761
<b>Additions:</b>						
Non-cash acquisitions	4,509,516	2,838,504	7,348,020	1,133,856	5,225,081	6,358,937
<b>Deductions:</b>						
Disposal	-	-	-	(31,500)	-	(31,500)
<b>Balance at 31 March 2010</b>	<b>118,576,687</b>	<b>398,434,531</b>	<b>517,011,218</b>	<b>114,067,171</b>	<b>395,596,027</b>	<b>509,663,198</b>

# Capital Investment Fund

## 4. Loans Outstanding

	2010 \$'000	2009 \$'000
Balance at 1 April 2009	7,056,961	7,090,880
<b>Additions:</b>		
Loan payments	-	175,271
Capitalised interest	249,206	433,042
	<b>249,206</b>	608,313
<b>Deductions:</b>		
Loan repayments	(16,815)	(642,232)
Loan conversion to equity	(3,337,894)	-
	<b>(3,354,709)</b>	(642,232)
<b>Balance at 31 March 2010</b>	<b><u>3,951,458</u></b>	<b><u>7,056,961</u></b>

## 5. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 7 of the Resolution:

	2010 \$'000	2009 \$'000
Investments (see (ii) and (iii) below)	1,736,403	504,258
Deposits	1	1
	<b><u>1,736,404</u></b>	<b><u>504,259</u></b>

(ii) The investments represent the cost of investments together with interest of \$55 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.

## 6. Applied Fund

This represents the sum of investments acquired and loans made for the purposes of the Fund under paragraph 5 of the Resolution.

## 7. Available Fund

This represents funds available for acquiring investments or making loans for the purposes of the Fund under paragraph 5 of the Resolution.

## 8. Contingent Liabilities

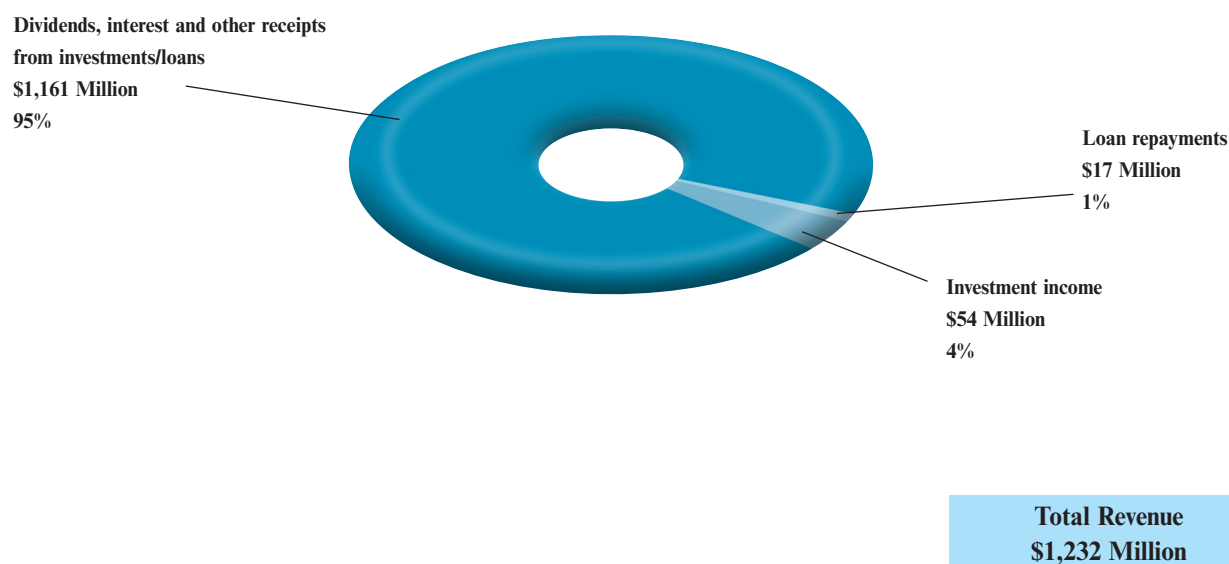
As at 31 March 2010, the amount of possible capital subscriptions to the Asian Development Bank was \$2,114 million.

# Capital Investment Fund

## 9. Revenue

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	825,315	<b>1,160,794</b>	1,177,096
Loan repayments	47,134	<b>16,815</b>	642,232
Investment income	56,000	<b>54,536</b>	85,674
Proceeds from sale of equity holdings	-	-	12,222
	<u>928,449</u>	<u><b>1,232,145</b></u>	<u>1,917,224</u>

### Analysis of Revenue for the year ended 31 March 2010



## 10. Expenditure

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Loan payments	380,503	-	175,271
Transfer to General Revenue	600,000	-	1,800,000
	<u>980,503</u>	<u>-</u>	<u>1,975,271</u>

# Capital Investment Fund

## 11. Other Cash Movements

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

	2010 \$'000	2009 \$'000
<b>(Increase)/Reduction in Assets:</b>		
Investments with the Exchange Fund	<u>(1,232,145)</u>	<u>58,046</u>

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

