

# *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 2012, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **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 about 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 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 of the Capital Investment Fund for the year ended 31 March 2012 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun  
Director of Audit

26 October 2012

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

# Capital Investment Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Assets</b>			
<b>Investments</b>	<b>3</b>		
Equity Holdings		122,879,572	122,118,451
Other Investments		416,364,974	405,220,504
		<u>539,244,546</u>	<u>527,338,955</u>
<b>Loans Outstanding</b>	<b>4</b>	2,275,177	2,977,299
		<u>541,519,723</u>	<u>530,316,254</u>
<b>Current Assets</b>			
Investments with the Exchange Fund	5	1,193,350	1,618,937
Cash and bank balances		1	2
		<u>1,193,351</u>	<u>1,618,939</u>
		<u><u>542,713,074</u></u>	<u><u>531,935,193</u></u>
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	<b>541,519,723</b>	<b>530,316,254</b>
<b>Available Fund</b>	<b>7</b>		
Balance at beginning of year		1,618,939	1,736,405
Deficit for the year		(425,588)	(117,466)
Balance at end of year		<u>1,193,351</u>	<u>1,618,939</u>
	<b>8</b>	<u><u>542,713,074</u></u>	<u><u>531,935,193</u></u>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG  
Director of Accounting Services  
15 August 2012



# Capital Investment Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 HK\$'000	2011 HK\$'000
Cash and bank balances at beginning of year		2	1
Revenue	9	1,385,971	1,357,103
Expenditure	10	(1,811,559)	(1,474,569)
Deficit for the year		(425,588)	(117,466)
Other cash movements	11	425,587	117,467
Cash and bank balances at end of year		<u>1</u>	<u>2</u>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG  
Director of Accounting Services  
15 August 2012



# 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.
- (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)

	2012			2011		
	Equity Holdings HK\$'000	Other Investments HK\$'000	Total HK\$'000	Equity Holdings HK\$'000	Other Investments HK\$'000	Total HK\$'000
Balance at beginning of year	122,118,451	405,220,504	527,338,955	118,576,687	398,434,531	517,011,218
<b>Additions</b>						
Cash acquisitions	11,559	-	11,559	1,474,569	-	1,474,569
Non-cash acquisitions	749,562	11,144,470	11,894,032	2,067,195	6,785,973	8,853,168
	761,121	11,144,470	11,905,591	3,541,764	6,785,973	10,327,737
<b>Balance at end of year</b>	<b>122,879,572</b>	<b>416,364,974</b>	<b>539,244,546</b>	<b>122,118,451</b>	<b>405,220,504</b>	<b>527,338,955</b>

# Capital Investment Fund

## 4. Loans Outstanding

	2012 HK\$'000	2011 HK\$'000
Balance at beginning of year	2,977,299	3,951,458
<b>Additions</b>		
Capitalised interest	65,448	119,702
<b>Deductions</b>		
Loan repayments	(18,008)	(17,396)
Loan conversion to equity	(749,562)	(1,076,465)
	<u>(767,570)</u>	<u>(1,093,861)</u>
<b>Balance at end of year</b>	<u><u>2,275,177</u></u>	<u><u>2,977,299</u></u>

## 5. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution. They represent the cost of investments together with interest of HK\$99 million received in the year ended 31 March 2012.
- (ii) 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

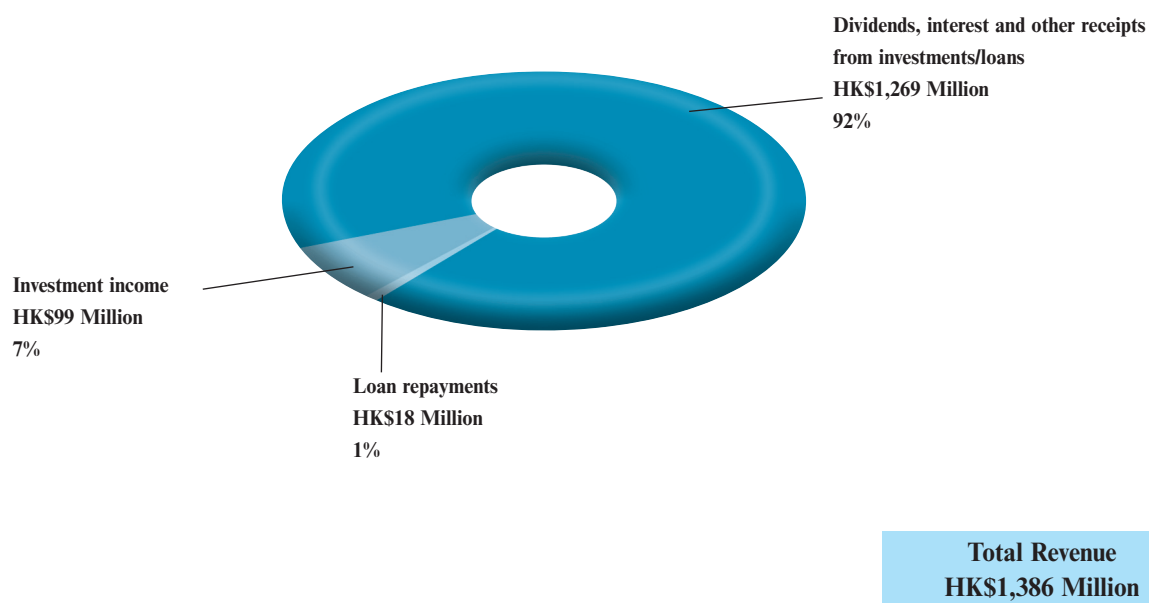
As at 31 March 2012, the amount of possible capital subscriptions to the Asian Development Bank was HK\$6,607 million (2011: HK\$6,753 million).

## 9. Revenue

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Dividends, interest and other receipts from investments/loans	1,103,308	1,269,441	1,235,533
Loan repayments	83,981	18,008	17,396
Investment income	109,000	98,522	104,174
	<u>1,296,289</u>	<u>1,385,971</u>	<u>1,357,103</u>

# Capital Investment Fund

Analysis of Revenue for the year ended 31 March 2012



## 10. Expenditure

	2012		2011
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
<b>Acquisition of investments</b>			
Equity holdings	11,684	<b>11,559</b>	1,474,569
<b>Loan payments</b>	658,000	-	-
<b>Transfer to General Revenue</b>	1,800,000	<b>1,800,000</b>	-
	<u>2,469,684</u>	<u><b>1,811,559</b></u>	<u>1,474,569</u>

## 11. Other Cash Movements

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

	2012 HK\$'000	2011 HK\$'000
<b>Reduction in Assets</b>		
Investments with the Exchange Fund	<u><b>425,587</b></u>	<u>117,467</u>

# Capital Investment Fund

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2003 to 2012

