

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Works Reserve 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 Works Reserve Fund set out on pages 23 to 30, which comprise the statement of assets and liabilities as at 31 March 2013, 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 Works Reserve Fund for the year ended 31 March 2013 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

28 October 2013

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

Capital Works Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2013

	Note	2013 HK\$'000	2012 HK\$'000
Assets			
Investments with the Exchange Fund	3	79,033,643	71,198,004
Cash and bank balances		1,710	887
		79,035,353	71,198,891
Liabilities			
Deposits	4	(1,044,769)	(918,854)
		77,990,584	70,280,037
Representing:			
Fund Balance			
Balance at beginning of year		70,280,037	42,650,956
Surplus for the year		7,710,547	27,629,081
Balance at end of year	5, 6	77,990,584	70,280,037

Notes 1 to 9 form part of these financial statements.

Mrs Lesley Y C WONG
 Director of Accounting Services
 15 August 2013



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 HK\$'000	2012 HK\$'000
Cash and bank balances at beginning of year		887	300
Revenue	7	74,237,782	88,466,275
Expenditure	8	(66,527,235)	(60,837,194)
Surplus for the year before repayment of government bonds and notes		7,710,547	27,629,081
Repayment of government bonds and notes	5	-	-
Surplus for the year after repayment of government bonds and notes		7,710,547	27,629,081
Other cash movements	9	(7,709,724)	(27,628,494)
Cash and bank balances at end of year		1,710	887

Notes 1 to 9 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
15 August 2013



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Capital Works Reserve Fund was set up to finance public works programmes, acquisitions of land, capital subventions and major systems and equipment items. It was initially established on 1 April 1982 by a Resolution of the Legislative Council on 20 January 1982 and has been reconstituted since 1 January 1998 under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

2. Accounting Policies

- (i) The accounts of the Capital Works Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes fixed assets, loans, investments other than those made under paragraph (d)(iii) of the Resolution, and debtors and creditors other than those deposits referred to in the Note below.
- (ii) 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.
- (iii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Foreign currency balances are translated into Hong Kong dollars at weighted average cost.

3. Investments with the Exchange Fund

- (i) These are investments and deposits held under paragraph (d)(iii) of the Resolution:

	2013	2012
	HK\$'000	HK\$'000
Investments (Note (ii) below)	78,985,953	71,150,504
Deposits	47,690	47,500
	<u>79,033,643</u>	<u>71,198,004</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. Effective from 1 April 2007, the investment income 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. The investment income for the year ended 31 March 2013 was HK\$4.57 billion (2012: HK\$3.61 billion).

Capital Works Reserve Fund

4. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable to revenue:

	2013	2012
	HK\$'000	HK\$'000
Contract retention money	837,362	721,983
Others	207,407	196,871
	<u>1,044,769</u>	<u>918,854</u>

5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Capital Works Reserve Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (b)(v) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in expenditure charged to the Fund under paragraph (d)(ii) of the Resolution.

Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling HK\$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollar. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2013	2012
	HK\$'000	HK\$'000
Outstanding government bonds and notes	<u>11,203,688</u>	<u>11,207,500</u>

The outstanding amount will mature within the period from August 2014 to July 2019. During the financial year, there were payments of interest of HK\$573 million on the notes but no repayment of principal.

The institutional notes denominated in United States dollar are translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period.

6. Contingent Liabilities

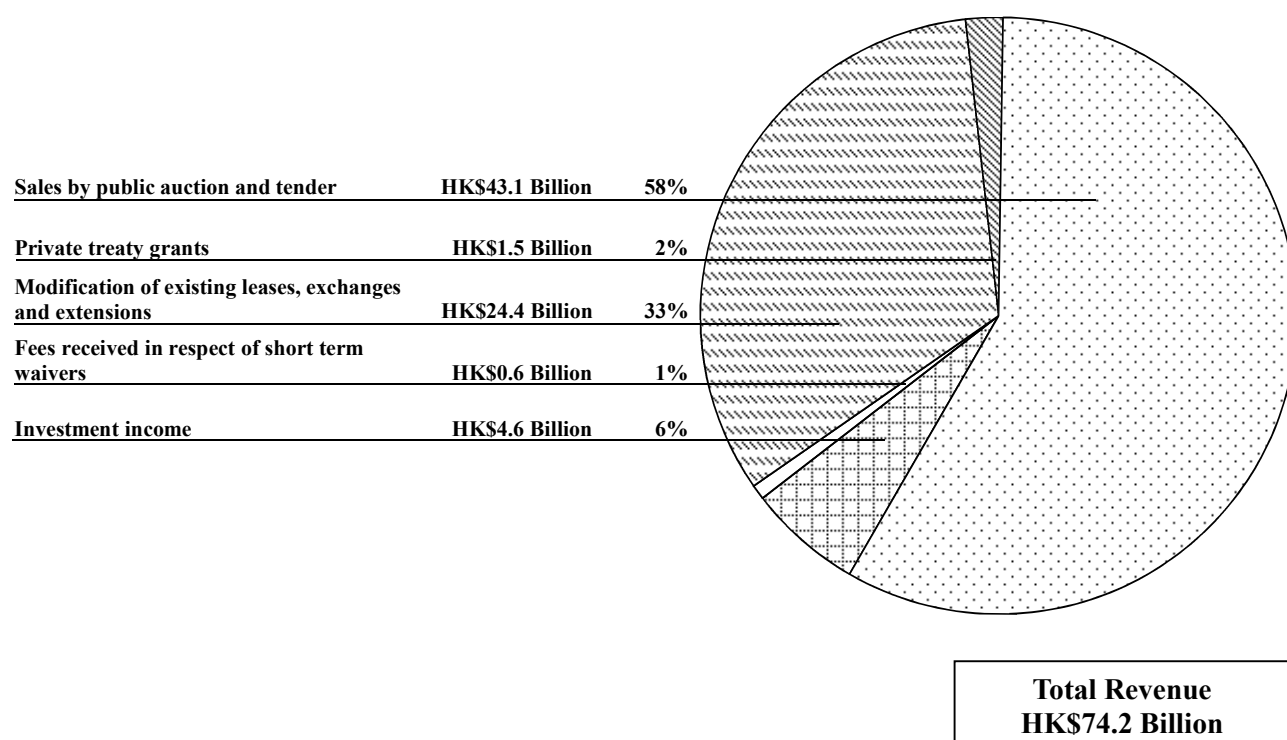
As at 31 March 2013, the amount of contingent liabilities arising from legal claims, disputes and proceedings was HK\$3,812 million (2012: Nil).

Capital Works Reserve Fund

7. Revenue

	2013		2012
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land premium			
Sales by public auction and tender	-	43,125,157	63,722,624
Private treaty grants	-	1,510,807	331,238
Modification of existing leases, exchanges and extensions	-	24,357,205	19,999,555
Fees received in respect of short term waivers	-	569,458	591,001
	60,000,000	69,562,627	84,644,418
Investment income			
Investments with the Exchange Fund	-	4,571,991	3,607,109
Others	-	2,032	2,275
	4,111,000	4,574,023	3,609,384
Other revenue			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	33,469	30,331	106,000
Others	-	70,801	106,473
	164,469	101,132	212,473
	64,275,469	74,237,782	88,466,275

Analysis of Revenue for the year ended 31 March 2013 *



* Actual revenue on "Donations and contributions" and "Others" is not shown as it is less than HK\$0.1 billion each.

Capital Works Reserve Fund

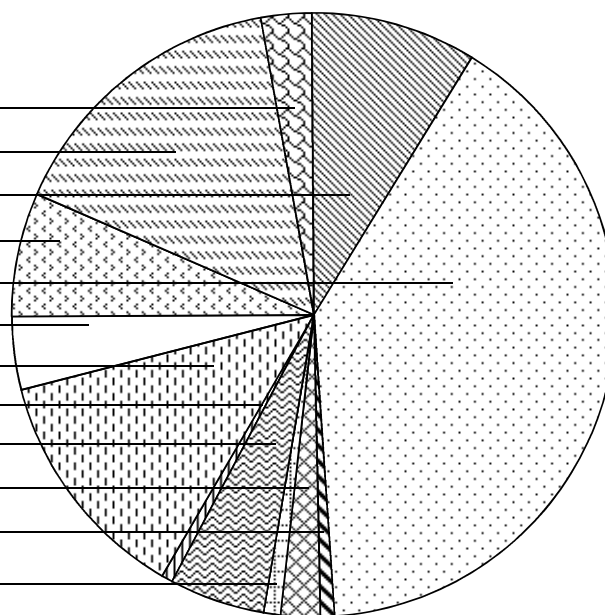
8. Expenditure

	2013		2012
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land acquisition	2,634,575	1,810,446	329,366
Public Works Programme			
Port and airport development	5,300	3,309	1,505
Buildings	10,586,214	10,416,968	11,990,125
Drainage	5,192,975	5,901,583	5,965,515
Civil engineering	4,368,506	4,439,937	3,545,999
Highways	27,356,216	26,682,392	20,358,764
New towns and urban area development	2,276,950	2,597,050	2,833,517
Waterworks	3,315,829	3,354,633	3,368,184
Housing	544,912	529,160	475,269
	53,646,902	53,925,032	48,538,878
Capital subventions and major systems and equipment			
Capital subventions	8,679,553	8,447,221	9,816,678
Major systems and equipment	1,207,986	393,323	390,022
	9,887,539	8,840,544	10,206,700
Computerisation	1,802,839	1,374,343	1,183,199
Interest and other expenses on government bonds and notes	576,159	573,455	575,348
Other payments			
Refund of overpayment of land premium	-	3,415	3,703
	68,548,014	66,527,235	60,837,194

Capital Works Reserve Fund

Analysis of Expenditure for the year ended 31 March 2013 *

Land acquisition	HK\$1.8 Billion	3%
Buildings	HK\$10.4 Billion	16%
Drainage	HK\$5.9 Billion	9%
Civil engineering	HK\$4.4 Billion	6%
Highways	HK\$26.7 Billion	40%
New towns and urban area development	HK\$2.6 Billion	4%
Capital subventions	HK\$8.4 Billion	12%
Major systems and equipment	HK\$0.4 Billion	1%
Waterworks	HK\$3.4 Billion	5%
Computerisation	HK\$1.4 Billion	2%
Housing	HK\$0.5 Billion	1%
Interest and other expenses on government bonds and notes	HK\$0.6 Billion	1%



**Total Expenditure
HK\$66.5 Billion**

* Actual expenditure on "Port and airport development" and "Refund of overpayment of land premium" is not shown as it is less than HK\$0.1 billion each.

9. Other Cash Movements

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

	2013 HK\$'000	2012 HK\$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	(7,835,639)	(27,718,537)
Deposits with banks	-	68
Advances	-	77,362
	(7,835,639)	(27,641,107)
Increase in Liabilities		
Deposits	125,915	12,613
	(7,709,724)	(27,628,494)

Capital Works Reserve Fund

Revenue, Expenditure plus Repayment of Government Bonds and Notes, and Fund Balance for the years ended 31 March 2004 to 2013

HK\$Billion

