

# *Report of the Director of Audit*



## **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 37 to 43, which comprise the statement of assets and liabilities as at 31 March 2015, 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 2015 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

27 October 2015

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

# Capital Investment Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
<b>Assets</b>			
<b>Investments</b>	<b>3</b>		
Equity holdings		123,077,992	123,066,450
Other investments		454,316,039	439,710,728
		577,394,031	562,777,178
<b>Loans Outstanding</b>	<b>4</b>	2,635,126	2,704,715
		580,029,157	565,481,893
<b>Current Assets</b>			
Investments with the Exchange Fund	5	1,443,087	1,994,185
Cash and bank balances		1	-
		1,443,088	1,994,185
		581,472,245	567,476,078
<b>Representing:</b>			
<b>Total Fund Balance</b>			
<b>Applied Fund</b>	<b>6</b>	580,029,157	565,481,893
<b>Available Fund</b>	<b>7</b>		
Balance at beginning of year		1,994,185	1,396,164
(Deficit)/Surplus for the year		(551,097)	598,021
Balance at end of year		1,443,088	1,994,185
	<b>8, 9</b>	581,472,245	567,476,078

Notes 1 to 12 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
20 August 2015



# Capital Investment Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
Cash and bank balances at beginning of year		-	2,925
Receipts	10	1,460,445	1,609,558
Payments	11	(2,011,542)	(1,011,537)
(Deficit)/Surplus for the year		(551,097)	598,021
Other cash movements	12	551,098	(600,946)
Cash and bank balances at end of year		1	-

Notes 1 to 12 form part of these financial statements.

**Martin SIU**  
Director of Accounting Services  
20 August 2015



# 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)

	2015			2014		
	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	123,066,450	439,710,728	562,777,178	123,054,913	419,792,297	542,847,210
<b>Additions</b>						
Cash acquisitions	11,542	-	11,542	11,537	-	11,537
Non-cash acquisitions	-	14,605,311	14,605,311	-	19,918,431	19,918,431
	11,542	14,605,311	14,616,853	11,537	19,918,431	19,929,968
<b>Balance at end of year</b>	<b>123,077,992</b>	<b>454,316,039</b>	<b>577,394,031</b>	<b>123,066,450</b>	<b>439,710,728</b>	<b>562,777,178</b>

# Capital Investment Fund

## 4. Loans Outstanding

	<b>2015</b>	2014
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of year	<b>2,704,715</b>	2,824,132
<b>Additions</b>		
Capitalised interest	<b>39,782</b>	47,828
<b>Deductions</b>		
Loan repayments	<b>(109,371)</b>	(167,245)
<b>Balance at end of year</b>	<b><u>2,635,126</u></b>	<u>2,704,715</u>

## 5. Investments with the Exchange Fund

- (i) These are investments made under paragraph 7 of the Resolution.
- (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 annual investment income is receivable on 31 December of each year.
- (iii) Pursuant to the Financial Secretary's directive in December 2014, the HK\$79 million investment income for the calendar year 2014 was set aside and retained within the Exchange Fund as provision for the Housing Reserve, and not received on 31 December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in (ii) above and shall be receivable on a date as determined by the Financial Secretary.

## 6. Applied Fund

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

## 7. Available Fund

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

## 8. Contingent Liabilities

As at 31 March 2015, the Government had the following contingent liabilities:

- (i) possible capital subscriptions to the Asian Development Bank amounting to HK\$5,892 million (2014: HK\$6,577 million); and
- (ii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to HK\$2,048 million (2014: Nil).

# Capital Investment Fund

## 9. Commitments

The approved investments and loans that were unpaid were as follows:

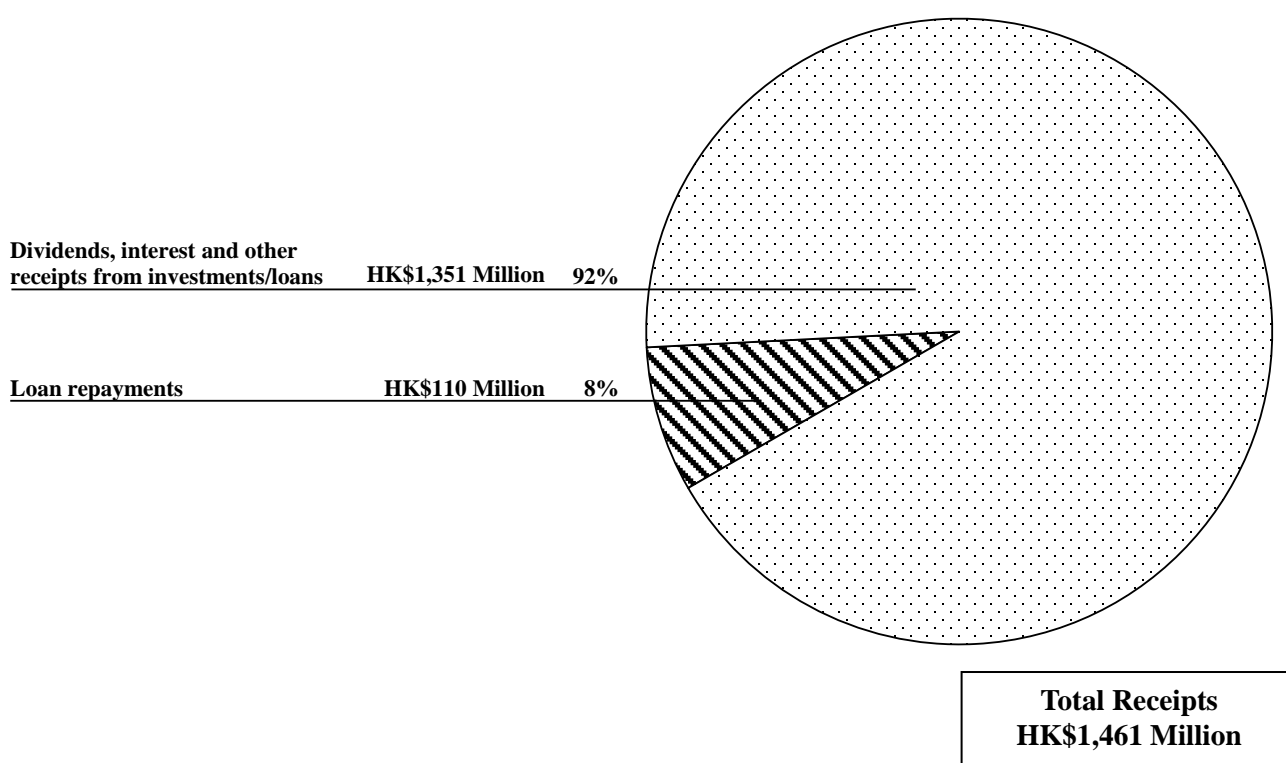
	2015 HK\$'000	2014 HK\$'000
Investments	88,704	100,246
Loans	2,028,500	1,220,000
	<u>2,117,204</u>	<u>1,320,246</u>

## 10. Receipts

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Dividends, interest and other receipts from investments/loans	1,181,875	1,351,074	1,366,539
Loan repayments	91,375	109,371	167,245
Investment income			
Investments with the Exchange Fund (Note (i) below)	88,000	-	75,774
	<u>1,361,250</u>	<u>1,460,445</u>	<u>1,609,558</u>

- (i) The HK\$79 million investment income for the calendar year 2014 was set aside and retained within the Exchange Fund as provision for the Housing Reserve, and not received on 31 December 2014.

### Analysis of Receipts for the year ended 31 March 2015

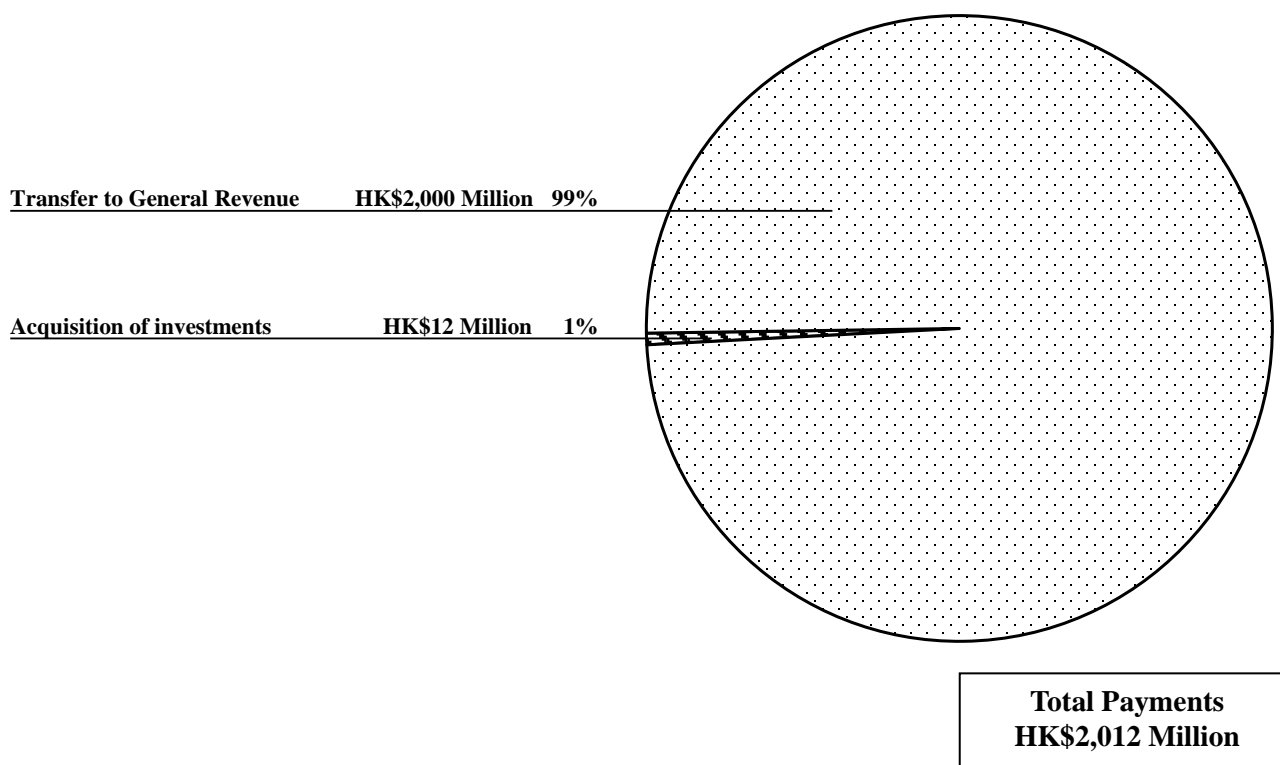


# Capital Investment Fund

## 11. Payments

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Acquisition of investments			
Equity holdings	11,684	11,542	11,537
Transfer to General Revenue	2,000,000	2,000,000	1,000,000
	<u>2,011,684</u>	<u>2,011,542</u>	<u>1,011,537</u>

### Analysis of Payments for the year ended 31 March 2015



## 12. Other Cash Movements

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

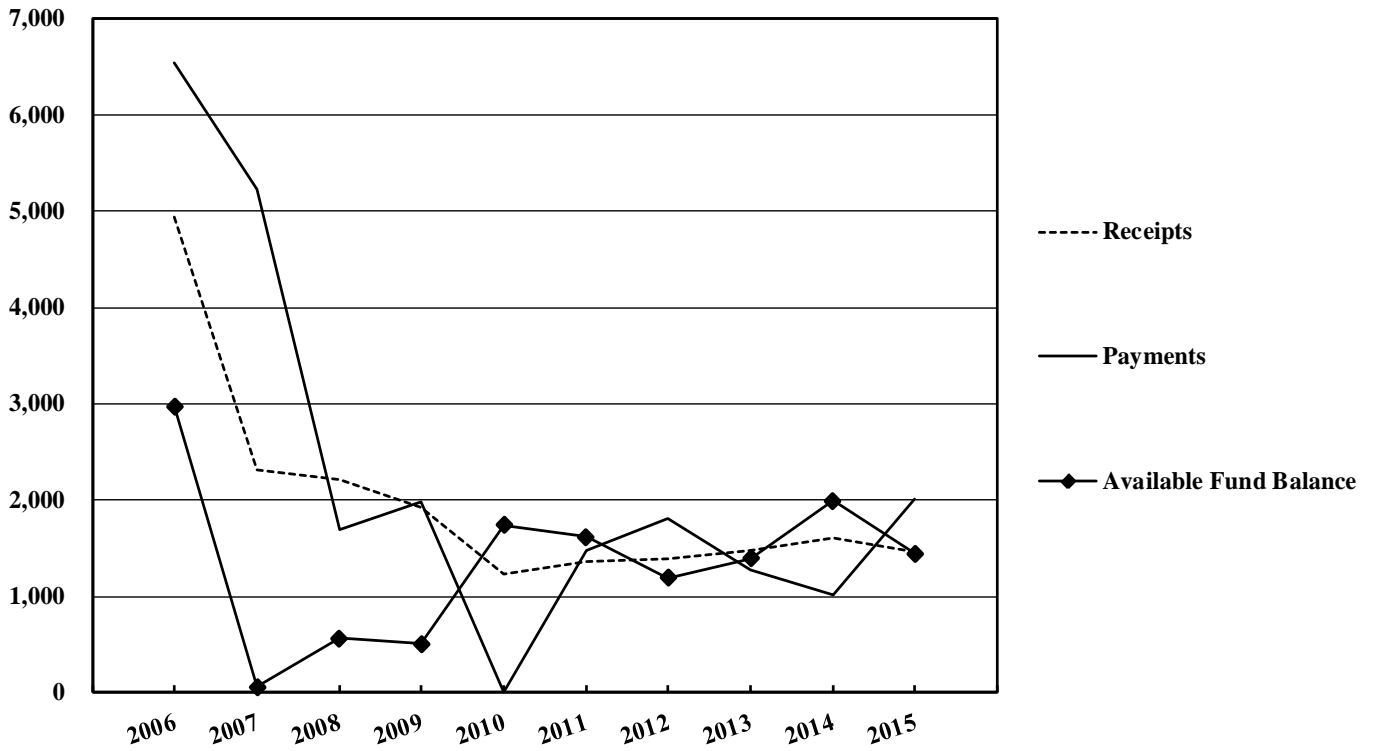
	2015 HK\$'000	2014 HK\$'000
<b>Reduction/(Increase) in Assets</b>		
Investments with the Exchange Fund	<u>551,098</u>	<u>(600,946)</u>



# Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2006 to 2015

HK\$Million



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