

Capital Investment Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission

The Government of the Hong Kong Special Administrative Region

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 50 to 56, which comprise the statement of assets and liabilities as at 31 March 2016, 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 2016 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 2016

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Assets			
Investments	3		
Equity holdings		124,795,346	123,077,992
Other investments		465,913,116	454,316,039
		590,708,462	577,394,031
Loans Outstanding	4	917,454	2,635,126
		591,625,916	580,029,157
Current Assets			
Investments with the Exchange Fund	5	2,835,100	1,443,087
Cash and bank balances		1	1
		2,835,101	1,443,088
		594,461,017	581,472,245
Representing:			
Total Fund Balance			
Applied Fund	6	591,625,916	580,029,157
Available Fund	7		
Balance at beginning of year		1,443,088	1,994,185
Surplus/(Deficit) for the year		1,392,013	(551,097)
Balance at end of year		2,835,101	1,443,088
	8, 9	594,461,017	581,472,245

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 HK\$'000	2015 HK\$'000
Cash and bank balances at beginning of year		1	-
Receipts	10	1,409,367	1,460,445
Payments	11	(17,354)	(2,011,542)
Surplus/(Deficit) for the year		1,392,013	(551,097)
Other cash movements	12	(1,392,013)	551,098
Cash and bank balances at end of year		1	1

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
22 August 2016



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)

	2016			2015		
	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	123,077,992	454,316,039	577,394,031	123,066,450	439,710,728	562,777,178
Additions						
Cash acquisitions	17,354	-	17,354	11,542	-	11,542
Non-cash acquisitions	1,700,000	11,597,077	13,297,077	-	14,605,311	14,605,311
	1,717,354	11,597,077	13,314,431	11,542	14,605,311	14,616,853
Balance at end of year	124,795,346	465,913,116	590,708,462	123,077,992	454,316,039	577,394,031

Further analysis of investments appears on pages 220 to 222 of the Supporting Statements.

Capital Investment Fund

4. Loans Outstanding

	2016	2015
	HK\$'000	HK\$'000
Balance at beginning of year	2,635,126	2,704,715
Additions		
Capitalised interest	76,593	39,782
Deductions		
Loan repayments	(94,265)	(109,371)
Loan conversion to equity	(1,700,000)	-
	(1,794,265)	(109,371)
Balance at end of year	917,454	2,635,126

Further analysis of loans appears on page 223 of the Supporting Statements.

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, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, 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 (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2015 was 5.5% (2014: 3.6%). The annual investment income is receivable on 31 December of each year. The investment income of HK\$98 million for the calendar year 2015 was set aside and retained within the Exchange Fund, and not received (Note 10(i)).

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 2016, the Government had the following contingent liabilities:

- (i) possible capital subscriptions to the Asian Development Bank amounting to HK\$5,990 million (2015: HK\$5,892 million); and
- (ii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to HK\$2,002 million (2015: HK\$2,048 million).

Capital Investment Fund

9. Commitments

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

	2016	2015
	HK\$'000	HK\$'000
Investments	71,350	88,704
Loans	2,028,500	2,028,500
	2,099,850	2,117,204

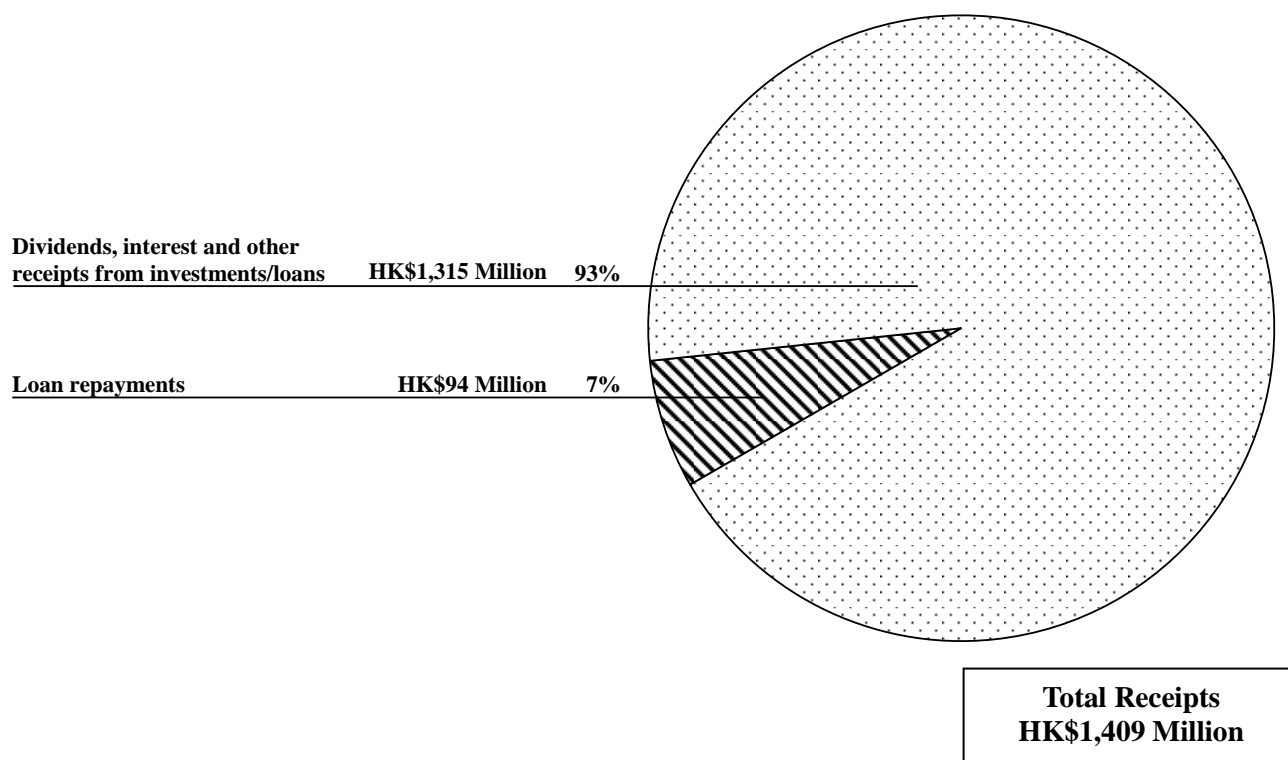
10. Receipts

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Dividends, interest and other receipts from investments/loans	952,278	1,315,102	1,351,074
Loan repayments	91,508	94,265	109,371
Investment income			
Investments with the Exchange Fund (Note (i) below)	111,000	-	-
	<u>1,154,786</u>	<u>1,409,367</u>	<u>1,460,445</u>

- (i) Pursuant to the Financial Secretary's directive in December 2015, the HK\$98 million investment income of the Fund along with the investment income on other parts of the fiscal reserves for the calendar year 2015 was set aside and retained within the Exchange Fund as further injection to the Housing Reserve, and not received on 31 December 2015. The Housing Reserve was established in 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 Note 5(ii) and shall be receivable on a date as determined by the Financial Secretary. Together with the investment return of HK\$4 million on the initial provision set aside from the HK\$79 million investment income of the Fund for the calendar year 2014, the total sums earmarked as Housing Reserve amounted to HK\$181 million.

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2016



11. Payments

	2016		2015
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Acquisition of investments			
Equity holdings	17,525	17,354	11,542
Transfer to General Revenue	1,000,000	-	2,000,000
	<u>1,017,525</u>	<u>17,354</u>	<u>2,011,542</u>

12. Other Cash Movements

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

	2016 HK\$'000	2015 HK\$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	<u>(1,392,013)</u>	<u>551,098</u>

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2007 to 2016

HK\$Million

