

Capital Investment Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Capital Investment Fund set out on pages 50 to 57, which comprise the statement of assets and liabilities as at 31 March 2017, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Capital Investment Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2017 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, 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 responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Capital Investment Fund's internal control; and
- evaluate the appropriateness of accounting policies used by the Director of Accounting Services and the reasonableness of accounting estimates and related disclosures.

David Sun
Director of Audit

27 October 2017

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Assets			
Investments	3		
Equity holdings		134,288,685	124,795,346
Other investments		492,371,319	465,913,116
		626,660,004	590,708,462
Loans Outstanding	4	1,545,829	917,454
		628,205,833	591,625,916
Current Assets			
Investments with the Exchange Fund	5	3,078,306	2,835,100
Cash and bank balances		-	1
		3,078,306	2,835,101
		631,284,139	594,461,017
Representing:			
Total Fund Balance			
Applied Fund	6	628,205,833	591,625,916
Available Fund	7		
Balance at beginning of year		2,835,101	1,443,088
Surplus for the year		243,205	1,392,013
Balance at end of year		3,078,306	2,835,101
	8, 9	631,284,139	594,461,017

Notes 1 to 12 form part of these financial statements.

Martin SIU
Director of Accounting Services
28 August 2017



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Cash and bank balances at beginning of year		1	1
Receipts	10	10,436,544	1,409,367
Payments	11	(10,193,339)	(17,354)
Surplus for the year		243,205	1,392,013
Other cash movements	12	(243,206)	(1,392,013)
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
28 August 2017



Capital Investment Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

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)

	2017			2016		
	Equity Holdings \$'000	Other Investments \$'000	Total \$'000	Equity Holdings \$'000	Other Investments \$'000	Total \$'000
Balance at beginning of year	124,795,346	465,913,116	590,708,462	123,077,992	454,316,039	577,394,031
Additions						
Cash acquisitions	9,493,339	-	9,493,339	17,354	-	17,354
Non-cash acquisitions	-	26,458,203	26,458,203	1,700,000	11,597,077	13,297,077
	9,493,339	26,458,203	35,951,542	1,717,354	11,597,077	13,314,431
Balance at end of year	134,288,685	492,371,319	626,660,004	124,795,346	465,913,116	590,708,462

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

Capital Investment Fund

4. Loans Outstanding

	2017 \$'000	2016 \$'000
Balance at beginning of year	917,454	2,635,126
Additions		
Loan payments	700,000	-
Capitalised interest	23,979	76,593
	723,979	76,593
Deductions		
Loan repayments	(95,604)	(94,265)
Loan conversion to equity	-	(1,700,000)
	(95,604)	(1,794,265)
Balance at end of year	1,545,829	917,454

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.
- (iii) 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 2016 was 3.3% (2015: 5.5%). The annual investment income is receivable on 31 December each year.

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 2017, the Government had the following contingent liabilities:

- (i) possible capital subscriptions to the Asian Development Bank amounting to \$5,804 million (2016: \$5,990 million); and
- (ii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,957 million (2016: \$2,002 million).

Capital Investment Fund

9. Commitments

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

	2017	2016
	\$'000	\$'000
Investments	54,011	71,350
Loans	2,978,500	2,028,500
	3,032,511	2,099,850

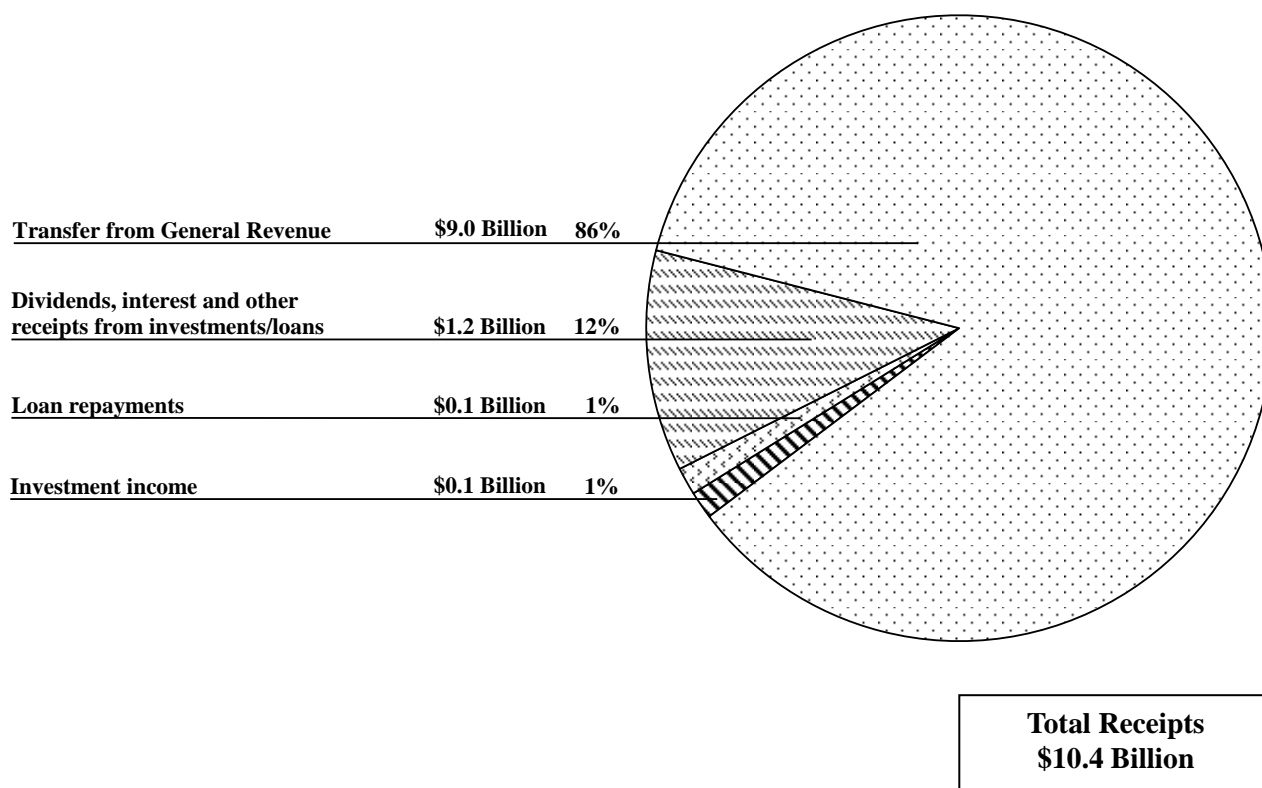
10. Receipts

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	1,229,302	1,251,359	1,315,102
Loan repayments	94,327	95,604	94,265
Investment income			
Investments with the Exchange Fund (Note (i) below)	82,000	89,581	-
Transfer from General Revenue	9,000,000	9,000,000	-
	<u>10,405,629</u>	<u>10,436,544</u>	<u>1,409,367</u>

- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$177 million (comprising \$79 million for 2014 and \$98 million for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. 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(iii) and shall be received on a date as determined by the Financial Secretary. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$6 million (2015: \$4 million), the sums set aside from the Fund and earmarked as Housing Reserve totalled \$187 million (2015: \$181 million).

Capital Investment Fund

Analysis of Receipts for the year ended 31 March 2017

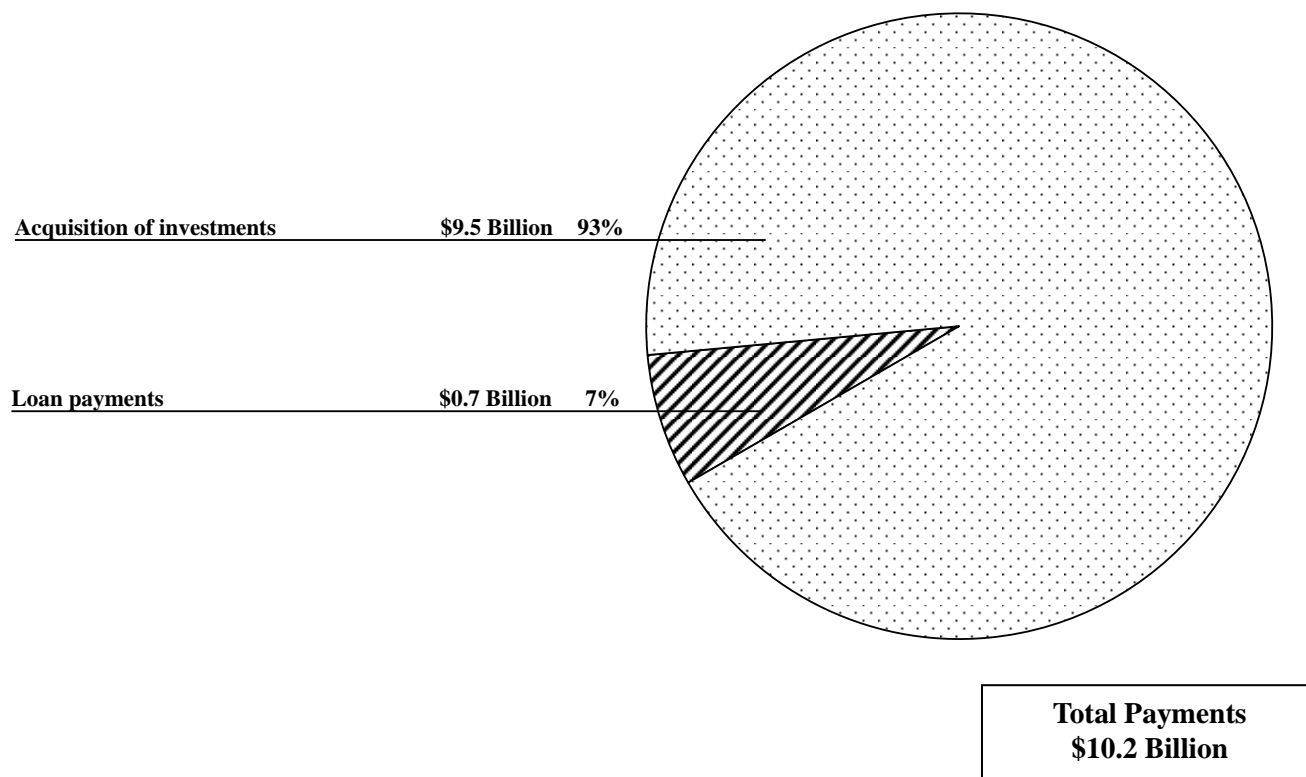


11. Payments

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments			
Equity holdings	17,525	9,493,339	17,354
Loan payments	1,662,118	700,000	-
Additional commitments	9,476,000	-	-
	<u>11,155,643</u>	<u>10,193,339</u>	<u>17,354</u>

Capital Investment Fund

Analysis of Payments for the year ended 31 March 2017



12. Other Cash Movements

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

	2017 \$'000	2016 \$'000
Increase in Assets		
Investments with the Exchange Fund	<u>243,206</u>	<u>1,392,013</u>

Capital Investment Fund

Receipts, Payments and Available Fund Balance for the years ended 31 March 2008 to 2017

\$Billion

