

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 42 to 47, which comprise the statement of assets and liabilities as at 31 March 2008, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 as to 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 and proper presentation 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 properly present the assets and liabilities of the Capital Investment Fund as at 31 March 2008 and the receipts and payments for the year then ended in accordance with the cash basis of accounting as described in Note 2 to the financial statements and have been properly prepared in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

(Benjamin Tang)
Director of Audit

23 October 2008

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2008

	Note	2008 \$'000	2007 \$'000
Assets			
Investments	3		
Equity Holdings		112,964,815	111,939,698
Other Investments		390,370,946	386,213,924
		<u>503,335,761</u>	<u>498,153,622</u>
Loans	4	7,090,880	7,836,843
		510,426,641	505,990,465
Current Assets			
Investments with the Exchange Fund	5	562,305	55,570
Cash and bank balances	2	1	1
		<u>562,307</u>	<u>55,571</u>
		<u><u>510,988,948</u></u>	<u><u>506,046,036</u></u>
Representing:			
Total Fund Balance			
Applied Fund	6	510,426,641	505,990,465
Available Fund	7		
Balance at 1 April 2007		55,571	2,972,788
Surplus/(Deficit) for the year		506,736	(2,917,217)
Balance at 31 March 2008		562,307	55,571
	8	<u><u>510,988,948</u></u>	<u><u>506,046,036</u></u>

The accompanying Notes 1 to 11 form part of these accounts.

Mrs. Lucia LI
 Director of Accounting Services
 15 August 2008



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008 \$'000	2007 \$'000
Cash and bank balances at 1 April 2007		1	-
Revenue	9	2,206,776	2,307,080
Expenditure	10	(1,700,040)	(5,224,297)
Surplus/(Deficit) for the year		506,736	(2,917,217)
Other cash movements	11	(506,735)	2,917,218
Cash and bank balances at 31 March 2008		2	1

The accompanying Notes 1 to 11 form part of these accounts.

Mrs. Lucia LI
Director of Accounting Services
15 August 2008



Capital Investment Fund

NOTES ON THE ACCOUNTS

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, whether they relate to recurrent or capital transactions.
- (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 accounts, 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)

	2008			2007		
	Equity	Other	Total	Equity	Other	Total
	Holdings	Investments		Holdings	Investments	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Balance at 1 April 2007	111,939,698	386,213,924	498,153,622	109,825,368	383,515,215	493,340,583
Additions:						
Cash acquisitions	-	-	-	1,124,297	2,000,000	3,124,297
Non-cash acquisitions	1,025,117	4,157,022	5,182,139	990,033	698,709	1,688,742
	1,025,117	4,157,022	5,182,139	2,114,330	2,698,709	4,813,039
Balance at 31 March 2008	112,964,815	390,370,946	503,335,761	111,939,698	386,213,924	498,153,622

Further analysis of investments appears in the Supporting Statements.

Capital Investment Fund

4. Loans Outstanding

	2008 \$'000	2007 \$'000
Balance at 1 April 2007	7,836,843	8,931,696
Additions:		
Loan payments	100,040	-
Capitalized interest	368,979	83,934
	469,019	83,934
Deductions:		
Loan repayments	(1,214,982)	(1,178,787)
Balance at 31 March 2008	<u><u>7,090,880</u></u>	<u><u>7,836,843</u></u>

Further analysis of loans appears in the Supporting Statements.

5. Investments with the Exchange Fund

(i) These are investments and deposits held under paragraph 7 of the Resolution:

	2008 \$'000	2007 \$'000
Investments (see (ii) and (iii) below)	562,304	-
Deposits	1	55,570
	<u><u>562,305</u></u>	<u><u>55,570</u></u>

(ii) The investments represent the cost of investments together with interest of \$23 million received in the year ended 31 March 2008.

(iii) Effective from 1 April 2007, the return on the investments is calculated on the basis of the average rate of return of the Exchange Fund's investment portfolio over the past six years, subject to the annual investment return in any year being guaranteed to be not lower than the average yield of three-year Exchange Fund Notes for the previous year.

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

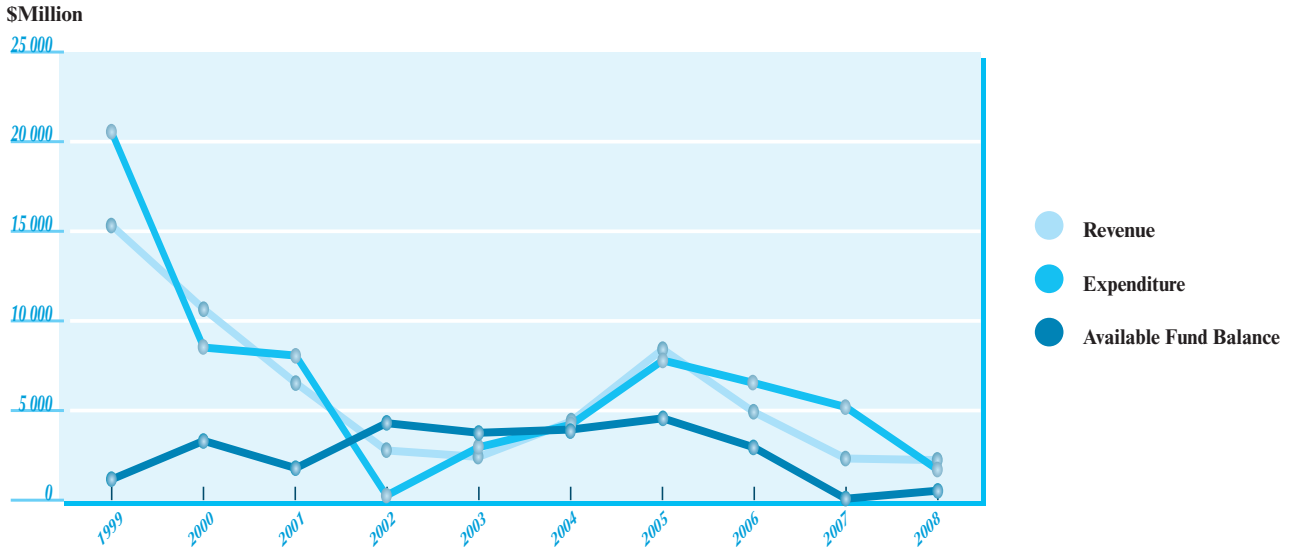
This represents funds available for acquiring investments or making loans for the purposes of the Fund under paragraph 5 of the Resolution.

8. Contingent Liabilities

As at 31 March 2008, the amount of possible capital subscriptions to the Asian Development Bank was \$2,295 million.

Capital Investment Fund

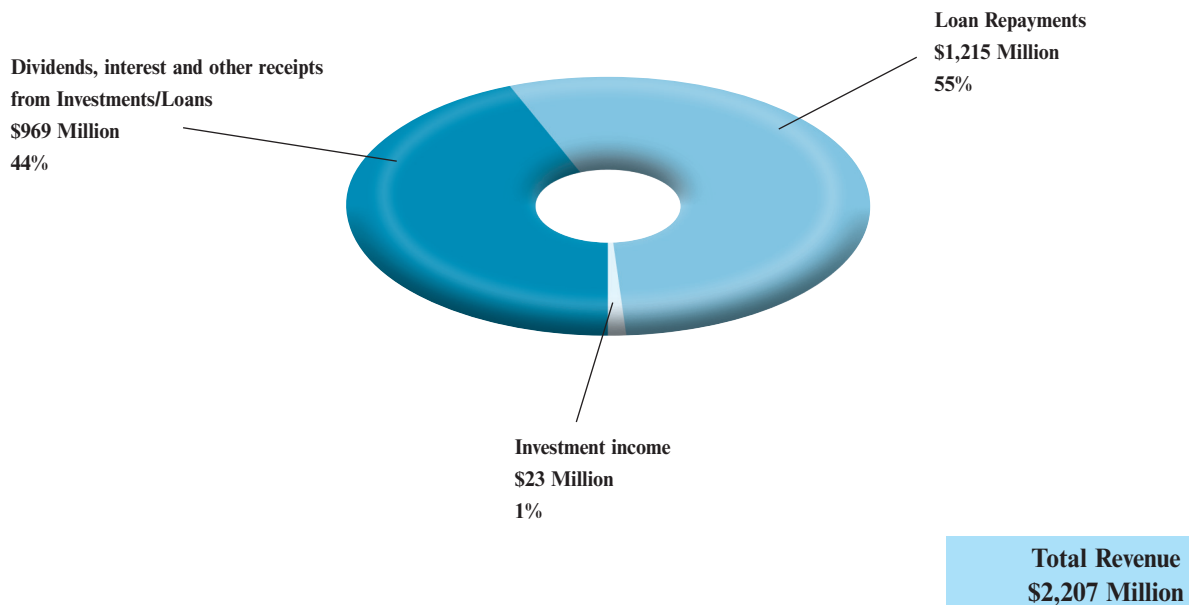
Revenue, Expenditure and Available Fund Balance for the years ended 31 March 1999 to 2008



9. Revenue

	2008		2007
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Dividends, interest and other receipts from investments/loans	903,023	969,218	1,090,579
Loan repayments	1,206,922	1,214,982	1,178,787
Investment income	48,432	22,576	37,714
	<u>2,158,377</u>	<u>2,206,776</u>	<u>2,307,080</u>

Analysis of Revenue for the year ended 31 March 2008



Capital Investment Fund

10. Expenditure

	2008		2007
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Acquisition of investments:			
Equity holdings	-	-	1,124,297
Other investments	-	-	2,000,000
	-	-	3,124,297
Loan payments	-	100,040	-
Transfer to General Revenue	1,800,000	1,600,000	2,100,000
	1,800,000	1,700,040	5,224,297
	1,800,000	1,700,040	5,224,297

11. Other Cash Movements

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

	2008 \$'000	2007 \$'000
(Increase)/Reduction in Assets:		
Investments with the Exchange Fund	(506,735)	2,917,218
	(506,735)	2,917,218