

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 2011, 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 2011 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

Benjamin Tang
Director of Audit

25 October 2011

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
Assets			
Investments	3		
Equity Holdings		122,118,451	118,576,687
Other Investments		405,220,504	398,434,531
		<u>527,338,955</u>	<u>517,011,218</u>
Loans Outstanding	4	2,977,299	3,951,458
		<u>530,316,254</u>	<u>520,962,676</u>
Current Assets			
Investments with the Exchange Fund	5	1,618,937	1,736,404
Cash and bank balances	2	1	1
		<u>1,618,939</u>	<u>1,736,405</u>
		<u><u>531,935,193</u></u>	<u><u>522,699,081</u></u>
Representing:			
Total Fund Balance			
Applied Fund	6	530,316,254	520,962,676
Available Fund	7		
Balance at beginning of year		1,736,405	504,260
(Deficit)/Surplus for the year		(117,466)	1,232,145
Balance at end of year		<u>1,618,939</u>	<u>1,736,405</u>
	8	<u><u>531,935,193</u></u>	<u><u>522,699,081</u></u>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
25 August 2011



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
Cash and bank balances at beginning of year		1	1
Revenue	9	1,357,103	1,232,145
Expenditure	10	(1,474,569)	-
(Deficit)/Surplus for the year		(117,466)	1,232,145
Other cash movements	11	117,467	(1,232,145)
Cash and bank balances at end of year		<u>2</u>	<u>1</u>

Notes 1 to 11 form part of these financial statements.

Mrs Lesley Y C WONG
Director of Accounting Services
25 August 2011



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)

	2011			2010		
	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	118,576,687	398,434,531	517,011,218	114,067,171	395,596,027	509,663,198
Additions:						
Cash acquisitions	1,474,569	-	1,474,569	-	-	-
Non-cash acquisitions	2,067,195	6,785,973	8,853,168	4,509,516	2,838,504	7,348,020
	3,541,764	6,785,973	10,327,737	4,509,516	2,838,504	7,348,020
Balance at end of year	122,118,451	405,220,504	527,338,955	118,576,687	398,434,531	517,011,218

Further analysis of investments appears on pages 208 to 210 of the Supporting Statements.

Capital Investment Fund

4. Loans Outstanding

	2011 HK\$'000	2010 HK\$'000
Balance at beginning of year	3,951,458	7,056,961
Additions:		
Capitalised interest	119,702	249,206
Deductions:		
Loan repayments	(17,396)	(16,815)
Loan conversion to equity	(1,076,465)	(3,337,894)
	<u>(1,093,861)</u>	<u>(3,354,709)</u>
Balance at end of year	<u><u>2,977,299</u></u>	<u><u>3,951,458</u></u>

Further analysis of loans appears on page 211 of the Supporting Statements.

5. Investments with the Exchange Fund

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

	2011 HK\$'000	2010 HK\$'000
Investments (see (ii) and (iii) below)	1,618,937	1,736,403
Deposits	-	1
	<u><u>1,618,937</u></u>	<u><u>1,736,404</u></u>

(ii) The investments represent the cost of investments together with interest of HK\$104 million received in the year ended 31 March 2011.

(iii) Effective from 1 April 2007, the return on the investments 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.

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

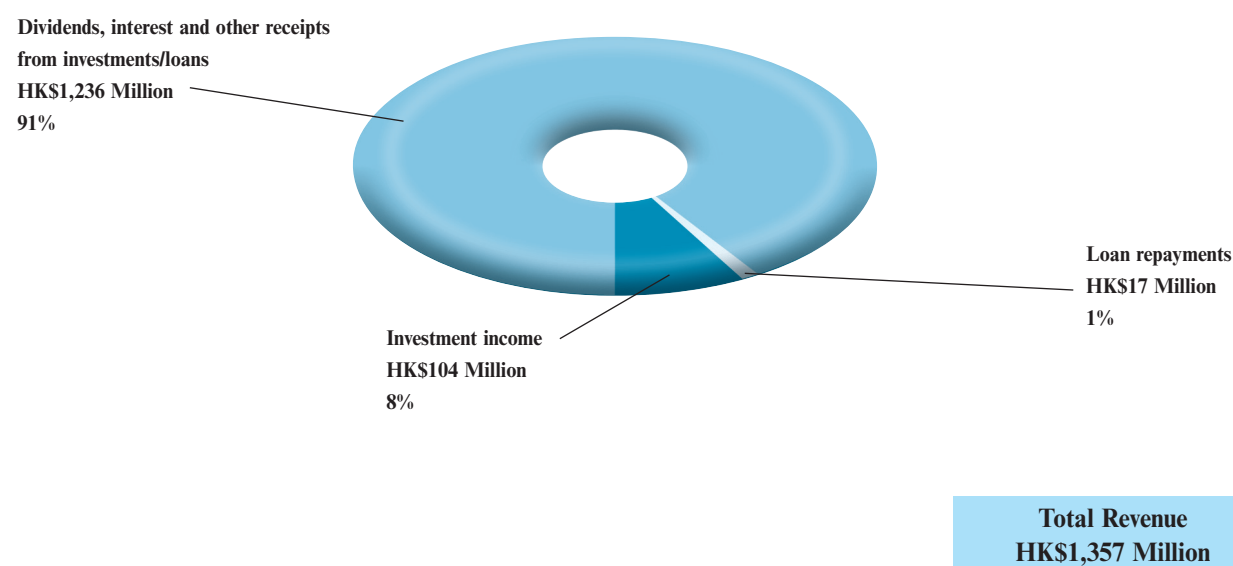
As at 31 March 2011, the amount of possible capital subscriptions to the Asian Development Bank was HK\$6,753 million.

Capital Investment Fund

9. Revenue

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Dividends, interest and other receipts from investments/loans	1,059,382	1,235,533	1,160,794
Loan repayments	60,389	17,396	16,815
Investment income	101,000	104,174	54,536
	<u>1,220,771</u>	<u>1,357,103</u>	<u>1,232,145</u>

Analysis of Revenue for the year ended 31 March 2011



10. Expenditure

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Acquisition of investments:			
Equity holdings	-	1,474,569	-
Loan payments	358,894	-	-
Additional commitments	1,464,000	-	-
	<u>1,822,894</u>	<u>1,474,569</u>	<u>-</u>

Capital Investment Fund

11. Other Cash Movements

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

	2011 HK\$'000	2010 HK\$'000
Reduction/(Increase) in Assets:		
Investments with the Exchange Fund	<u>117,467</u>	<u>(1,232,145)</u>

Revenue, Expenditure and Available Fund Balance for the years ended 31 March 2002 to 2011

