

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 44 to 50, which comprise the statement of assets and liabilities as at 31 March 2014, 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 2014 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

28 October 2014

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

Capital Investment Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Assets			
Investments	3		
Equity Holdings		123,066,450	123,054,913
Other Investments		439,710,728	419,792,297
		562,777,178	542,847,210
Loans Outstanding	4	2,704,715	2,824,132
		565,481,893	545,671,342
Current Assets			
Investments with the Exchange Fund	5	1,994,185	1,393,239
Cash and bank balances		-	2,925
		1,994,185	1,396,164
		567,476,078	547,067,506
Representing:			
Total Fund Balance			
Applied Fund	6	565,481,893	545,671,342
Available Fund	7		
Balance at beginning of year		1,396,164	1,193,351
Surplus for the year		598,021	202,813
Balance at end of year		1,994,185	1,396,164
	8	567,476,078	547,067,506

Notes 1 to 11 form part of these financial statements.

Martin SIU
Director of Accounting Services
15 August 2014



Capital Investment Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2014

	Note	2014 HK\$'000	2013 HK\$'000
Cash and bank balances at beginning of year		2,925	1
Receipts	9	1,609,558	1,482,036
Payments	10	(1,011,537)	(1,279,223)
Surplus for the year		598,021	202,813
Other cash movements	11	(600,946)	(199,889)
Cash and bank balances at end of year		-	2,925

Notes 1 to 11 form part of these financial statements.

Martin SIU
Director of Accounting Services
15 August 2014



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)

	2014			2013		
	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	123,054,913	419,792,297	542,847,210	122,879,572	416,364,974	539,244,546
Additions						
Cash acquisitions	11,537	-	11,537	11,534	-	11,534
Non-cash acquisitions	-	19,918,431	19,918,431	182,942	3,475,286	3,658,228
	11,537	19,918,431	19,929,968	194,476	3,475,286	3,669,762
Deductions						
Cash disposal/refund	-	-	-	(19,135)	(20,000)	(39,135)
Non-cash disposal/refund	-	-	-	-	(27,963)	(27,963)
	-	-	-	(19,135)	(47,963)	(67,098)
Balance at end of year	123,066,450	439,710,728	562,777,178	123,054,913	419,792,297	542,847,210

Further analysis of investments appears on pages 212 to 214 of the Supporting Statements.

Capital Investment Fund

4. Loans Outstanding

	2014 HK\$'000	2013 HK\$'000
Balance at beginning of year	2,824,132	2,275,177
Additions		
Loan payments	-	767,689
Capitalised interest	47,828	60,675
	47,828	828,364
Deductions		
Loan repayments	(167,245)	(96,467)
Loan conversion to equity	-	(182,942)
	(167,245)	(279,409)
Balance at end of year	2,704,715	2,824,132

Further analysis of loans appears on page 215 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 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 investment income for the year ended 31 March 2014 was HK\$76 million (2013: HK\$79 million).

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

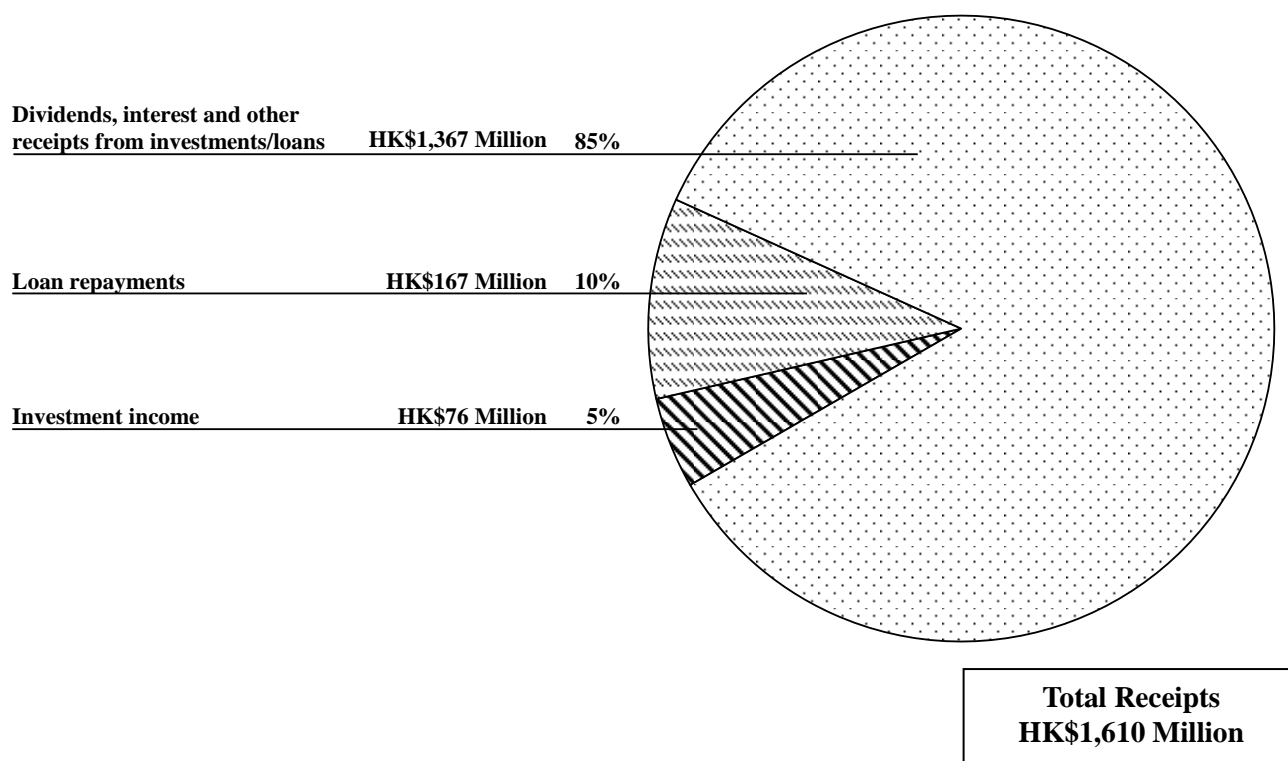
As at 31 March 2014, the amount of contingent liabilities arising from possible capital subscriptions to the Asian Development Bank was HK\$6,577 million (2013: HK\$6,391 million).

Capital Investment Fund

9. Receipts

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Dividends, interest and other receipts from investments/loans	1,121,388	1,366,539	1,167,596
Loan repayments	89,828	167,245	96,467
Investment income			
Investments with the Exchange Fund	76,000	75,774	78,860
Proceeds from disposal/refund of capital investments	-	-	139,113
	<u>1,287,216</u>	<u>1,609,558</u>	<u>1,482,036</u>

Analysis of Receipts for the year ended 31 March 2014

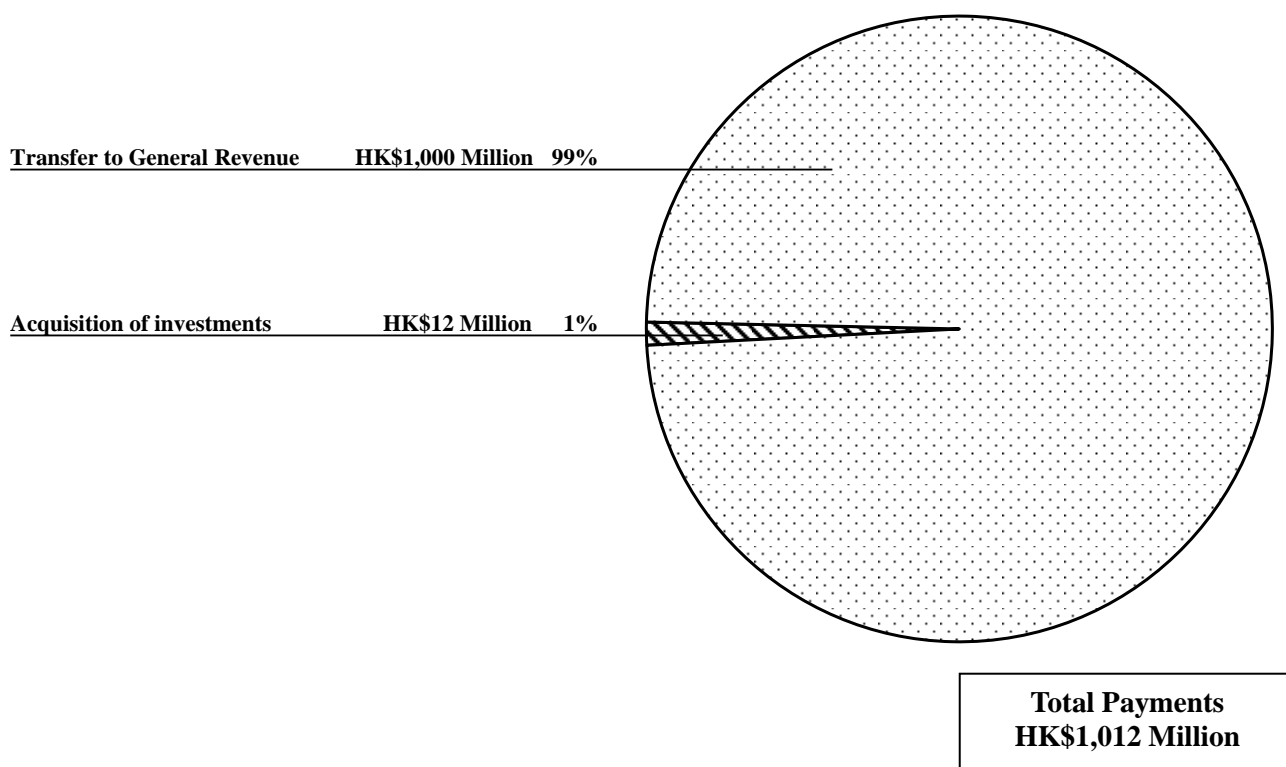


Capital Investment Fund

10. Payments

	2014		2013
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Acquisition of investments			
Equity holdings	11,684	11,537	11,534
Loan payments	854,000	-	767,689
Transfer to General Revenue	1,000,000	1,000,000	500,000
	<u>1,865,684</u>	<u>1,011,537</u>	<u>1,279,223</u>

Analysis of Payments for the year ended 31 March 2014



Capital Investment Fund

11. Other Cash Movements

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

	2014 HK\$'000	2013 HK\$'000
Increase in Assets		
Investments with the Exchange Fund	<u>600,946</u>	<u>199,889</u>

Receipts, Payments and Available Fund Balance for the years ended 31 March 2005 to 2014

HK\$Million

