

Capital Works Reserve 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 Works Reserve Fund set out on pages 32 to 39, which comprise the statement of assets and liabilities as at 31 March 2009, 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 Works Reserve Fund as at 31 March 2009 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

27 October 2009

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

Capital Works Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2009

	Note	2009 \$'000	2008 \$'000
Assets			
Investments with the Exchange Fund	3	38,260,819	65,944,129
Deposits with banks	4	62	59
Cash and bank balances		1,850	6,850
Advances	5	86,409	95,589
		38,349,140	66,046,627
Liabilities			
Deposits	6	(798,358)	(931,400)
		<u>37,550,782</u>	<u>65,115,227</u>
Representing:			
Fund Balance			
Balance at 1 April 2008		65,115,227	51,803,733
(Deficit)/Surplus for the year		(27,564,445)	13,311,494
Balance at 31 March 2009		<u>37,550,782</u>	<u>65,115,227</u>

The accompanying Notes 1 to 10 form part of these accounts.

LI Kwok-tso
Director of Accounting Services
14 August 2009



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2009

	Note	2009 \$'000	2008 \$'000
Cash and bank balances at 1 April 2008		6,850	31,266
Revenue	8	23,154,852	66,376,086
Expenditure	9	(50,719,297)	(53,064,592)
(Deficit)/Surplus for the year		(27,564,445)	13,311,494
Other cash movements	10	27,559,445	(13,335,910)
Cash and bank balances at 31 March 2009		1,850	6,850

The accompanying Notes 1 to 10 form part of these accounts.

LI Kwok-tso
Director of Accounting Services
14 August 2009



Capital Works Reserve Fund

NOTES ON THE ACCOUNTS

1. Purpose and Legislation

The Capital Works Reserve Fund was set up to finance public works programmes, acquisitions of land, capital subventions and major systems and equipment items. It was initially established on 1 April 1982 by a Resolution of the Legislative Council on 20 January 1982 and has been reconstituted since 1 January 1998 under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

2. Accounting Policies

(i) The accounts of the Capital Works Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions. The Statement of Assets and Liabilities of the Fund excludes fixed assets, loans, investments other than those made under paragraph (d)(iii) of the Resolution, and debtors and creditors other than those advances and deposits referred to in the Notes below.

(ii) Currency balances other than Hong Kong dollar are stated at weighted average cost.

3. Investments with the Exchange Fund

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

	2009	2008
	\$'000	\$'000
Investments (see (ii) and (iii) below)	38,159,559	65,817,184
Deposits	101,260	126,945
	<u>38,260,819</u>	<u>65,944,129</u>

(ii) The investments represent the cost of investments together with interest of \$6.08 billion received in the year ended 31 March 2009.

(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.

4. Deposits with Banks

These are foreign currency deposits placed with licensed banks in Hong Kong:

	2009	2008
	\$'000	\$'000
Foreign currency	<u>62</u>	<u>59</u>

Capital Works Reserve Fund

5. Advances

Advances are paid under the authority of warrants issued under section 20 of the Public Finance Ordinance for a variety of reasons and are either recoverable or chargeable to expenditure upon authority being given:

	2009	2008
	\$'000	\$'000
Advances for Tsing Ma Control Area non-scheduled maintenance works	9,047	18,227
Advances in respect of other capital works projects	77,362	77,362
	86,409	95,589

The advance account for the non-scheduled maintenance works of Tsing Ma Control Area (TMCA) was opened in July 2004 following the securitization of revenue receivable from the tolls on Government-owned tunnels and bridges. The balance on the advance account will be offset in each financial year by \$20 million collected upfront from the Lantau Link toll revenue and, starting from 2005-06, by another amount of up to \$10 million receivable from Hong Kong Link 2004 Limited pursuant to the arrangement set out in the prospectus for issuance of bonds relating to the securitization.

6. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable to revenue:

	2009	2008
	\$'000	\$'000
Contract retentions	472,539	525,497
Others	325,819	405,903
	798,358	931,400

7. Liabilities

The following outstanding liabilities under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities:

	2009	2008
	\$'000	\$'000
Outstanding government bonds and notes	14,688,125	17,426,750

Following a resolution passed under section 3(1) of the Loans Ordinance (Cap. 61), the Government issued in July 2004 bonds and notes totalling \$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollar. Of the outstanding amount, \$3.50 billion matured in July 2009 and the rest will mature within the period August 2014 to July 2019. During the financial year, interest payments of \$0.75 billion were made.

The institutional notes denominated in United States dollar are translated into Hong Kong dollar at the rate of exchange ruling on the last working day of the year.

Capital Works Reserve Fund

8. Revenue

	2009		2008
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium:			
Sales by public auction and tender	-	813,660	33,373,780
Private treaty grants	-	6,645,555	10,804,691
Modification of existing leases, exchanges and extensions	-	9,026,913	17,741,737
Fees received in respect of short term waivers	-	449,730	397,672
	43,100,000	16,935,858	62,317,880
Investment income	2,470,737	6,083,361	4,003,170
Other revenue:			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	9,000	2,000	6,262
Others	-	133,633	48,774
	140,000	135,633	55,036
	<u>45,710,737</u>	<u>23,154,852</u>	<u>66,376,086</u>

Capital Works Reserve Fund

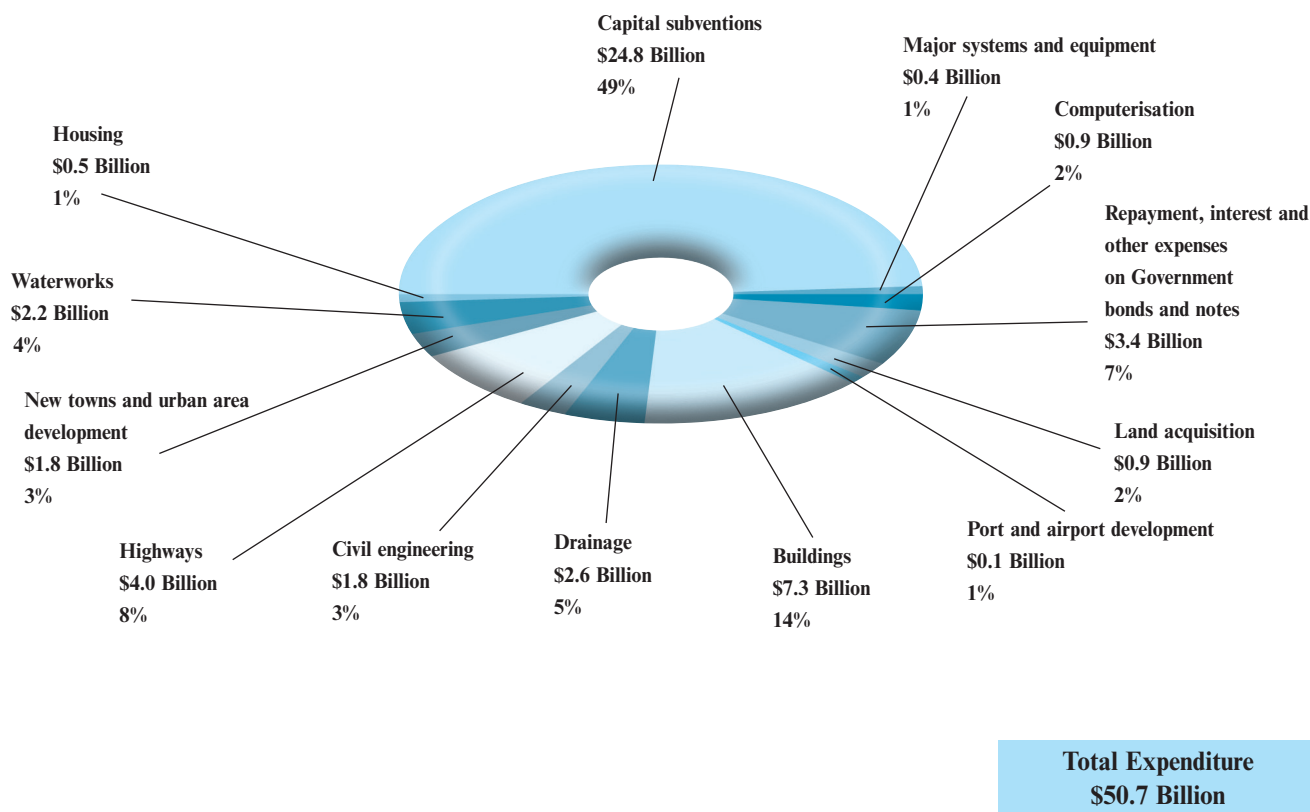
9. Expenditure

	2009		2008
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	2,141,715	926,340	371,978
Public Works Programme:			
Port and airport development	1,957	2,556	3,791
Buildings	6,867,686	7,314,892	6,593,077
Drainage	2,293,818	2,651,799	1,643,648
Civil engineering	1,586,440	1,782,393	1,724,937
Highways	3,188,799	3,979,190	3,918,447
New towns and urban area development	1,752,498	1,823,176	1,388,467
Waterworks	1,735,613	2,152,895	1,588,235
Housing	432,613	547,924	330,326
	17,859,424	20,254,825	17,190,928
Capital subventions and major systems and equipment:			
Capital subventions	25,540,867	24,754,848	3,334,326
Major systems and equipment	878,477	359,625	275,741
	26,419,344	25,114,473	3,610,067
Computerisation	1,829,705	951,198	1,085,673
Government bonds and notes:			
Repayment	2,700,000	2,700,000	-
Interest and other expenses	753,906	752,638	799,913
	3,453,906	3,452,638	799,913
Transfer to General Revenue	20,000,000	-	30,000,000
Other payments:			
Refund of overpayment of land premium	-	19,823	6,033
	<u>71,704,094</u>	<u>50,719,297</u>	<u>53,064,592</u>

Further analyses of expenditure appear in the Supporting Statements.

Capital Works Reserve Fund

Analysis of Expenditure for the year ended 31 March 2009



10. Other Cash Movements

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

	2009 \$'000	2008 \$'000
Reduction/(Increase) in Assets:		
Investments with the Exchange Fund	27,683,310	(13,273,189)
Deposits with banks	(3)	1,552
Advances	9,180	6,516
	27,692,487	(13,265,121)
Reduction in Liabilities:		
Deposits	(133,042)	(70,789)
	27,559,445	(13,335,910)

Capital Works Reserve Fund

Revenue, Expenditure and Fund Balance for the years ended 31 March 2000 to 2009

