

# 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 2010, 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 2010 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

25 October 2010

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 2010

	Note	2010 \$'000	2009 \$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	28,555,803	38,260,819
Deposits with banks	4	64	62
Cash and bank balances		1,975	1,850
Advances	5	78,389	86,409
		28,636,231	38,349,140
<b>Liabilities</b>			
Deposits	6	(790,105)	(798,358)
		<u>27,846,126</u>	<u>37,550,782</u>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at 1 April 2009		37,550,782	65,115,227
Deficit for the year		(9,704,656)	(27,564,445)
Balance at 31 March 2010		<u>27,846,126</u>	<u>37,550,782</u>

Notes 1 to 10 form part of these financial statements.

**LI Kwok-tso**  
Director of Accounting Services  
25 August 2010



# Capital Works Reserve Fund

## STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 \$'000	2009 \$'000
<b>Cash and bank balances at 1 April 2009</b>		<b>1,850</b>	<b>6,850</b>
Revenue	8	41,876,919	23,154,852
Expenditure	9	(51,581,575)	(50,719,297)
<b>Deficit for the year</b>		<b>(9,704,656)</b>	<b>(27,564,445)</b>
<b>Other cash movements</b>	10	<b>9,704,781</b>	<b>27,559,445</b>
<b>Cash and bank balances at 31 March 2010</b>		<b>1,975</b>	<b>1,850</b>

Notes 1 to 10 form part of these financial statements.

**LI Kwok-tso**  
Director of Accounting Services  
25 August 2010



# Capital Works Reserve Fund

## NOTES TO THE FINANCIAL STATEMENTS

### 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:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Investments (see (ii) and (iii) below)	<b>28,482,767</b>	38,159,559
Deposits	<b>73,036</b>	101,260
	<b><u>28,555,803</u></b>	<u>38,260,819</u>

(ii) The investments represent the cost of investments together with interest of \$2.21 billion received in the year ended 31 March 2010.

(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.

### 4. Deposits with Banks

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

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Foreign currency	<b>64</b>	62

# 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:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Advances for Tsing Ma Control Area non-scheduled maintenance works	<b>1,027</b>	9,047
Advances in respect of other capital works projects	<b>77,362</b>	77,362
	<b><u>78,389</u></b>	<u>86,409</u>

The advance account for the non-scheduled maintenance works of Tsing Ma Control Area (TMCA) was opened in July 2004 following the securitisation of revenue receivable from the tolls of certain Government-owned tunnels and bridges. This account is for payment to the TMCA operator in respect of the non-scheduled maintenance works as long as the Toll Revenue Bonds remain outstanding. With the full repayment of the Toll Revenue Bonds in February 2010, the arrangement of payment to the TMCA operator through this account has ceased, and the balance of this account was cleared on 12 May 2010.

## 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:

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Contract retentions	<b>468,877</b>	472,539
Others	<b>321,228</b>	325,819
	<b><u>790,105</u></b>	<u>798,358</u>

## 7. Liabilities

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

	<b>2010</b>	2009
	<b>\$'000</b>	\$'000
Outstanding government bonds and notes	<b><u>11,204,688</u></b>	<u>14,688,125</u>

Following a resolution passed under section 3(1) of the Loans Ordinance, 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. The outstanding amount will mature within the period from August 2014 to July 2019. During the financial year, repayments of \$3.5 billion principal and payments of \$0.64 billion interest 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

	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
<b>Land premium:</b>			
Sales by public auction and tender	-	<b>14,465,941</b>	813,660
Private treaty grants	-	<b>1,323,072</b>	6,645,555
Modification of existing leases, exchanges and extensions	-	<b>23,445,497</b>	9,026,913
Fees received in respect of short term waivers	-	<b>397,570</b>	449,730
	16,500,000	<b>39,632,080</b>	16,935,858
<b>Investment income</b>	1,727,000	<b>2,216,750</b>	6,083,361
<b>Transfer from General Revenue</b>	15,000,000	-	-
<b>Other revenue:</b>			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	3,000	<b>9,500</b>	2,000
Others	-	<b>18,589</b>	133,633
	134,000	<b>28,089</b>	135,633
	<b>33,361,000</b>	<b>41,876,919</b>	23,154,852

# Capital Works Reserve Fund

## 9. Expenditure

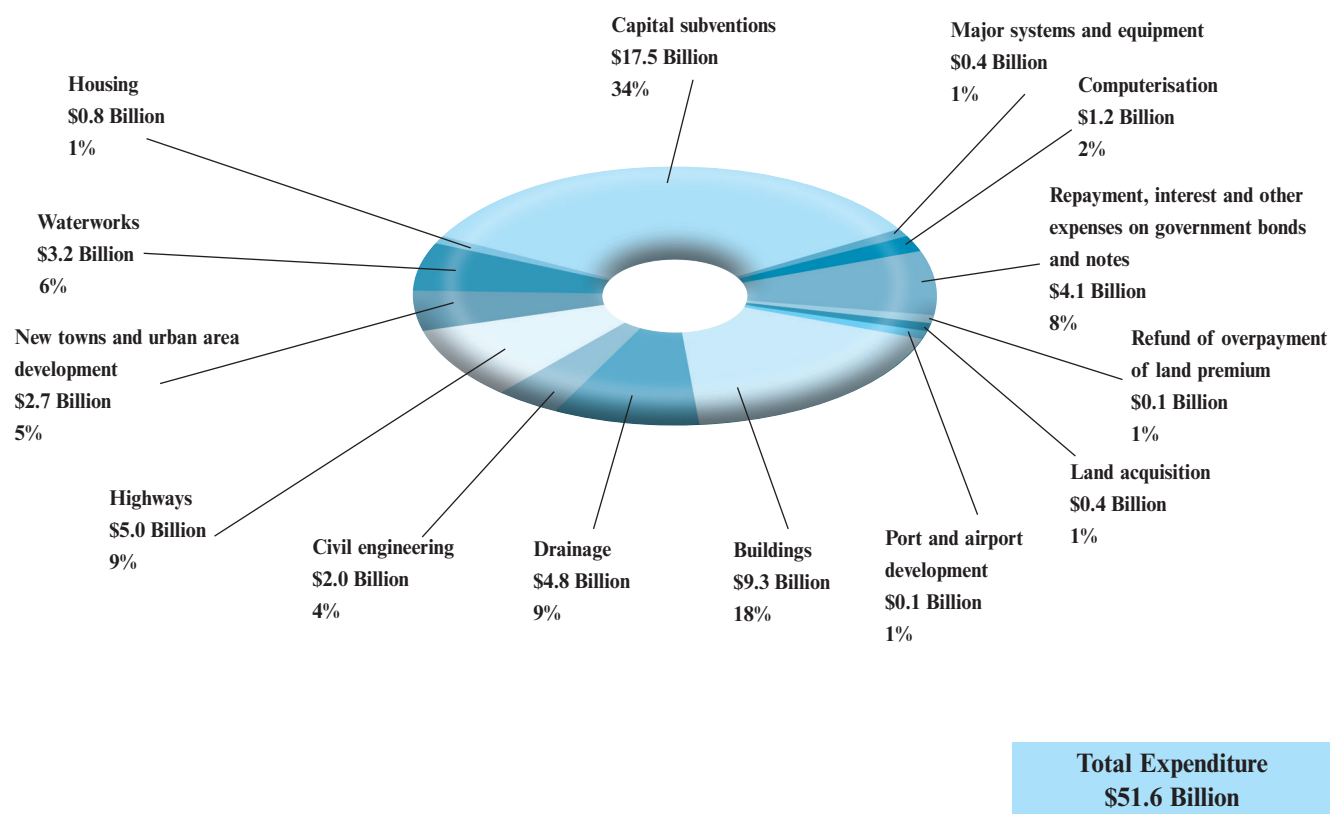
	2010		2009
	Original Estimate \$'000	Actual \$'000	Actual \$'000
<b>Land acquisition</b>	1,758,410	<b>394,075</b>	926,340
<b>Public Works Programme:</b>			
Port and airport development	1,167	<b>68,534</b>	2,556
Buildings	9,186,540	<b>9,297,893</b>	7,314,892
Drainage	3,350,022	<b>4,764,307</b>	2,651,799
Civil engineering	1,921,372	<b>2,018,659</b>	1,782,393
Highways	5,263,386	<b>4,995,220</b>	3,979,190
New towns and urban area development	1,828,783	<b>2,699,422</b>	1,823,176
Waterworks	2,965,614	<b>3,213,621</b>	2,152,895
Housing	557,726	<b>822,135</b>	547,924
	25,074,610	<b>27,879,791</b>	20,254,825
<b>Capital subventions and major systems and equipment:</b>			
Capital subventions	14,248,294	<b>17,447,700</b>	24,754,848
Major systems and equipment	1,048,680	<b>437,963</b>	359,625
	15,296,974	<b>17,885,663</b>	25,114,473
<b>Computerisation</b>	1,753,947	<b>1,156,086</b>	951,198
<b>Government bonds and notes:</b>			
Repayment	3,500,000	<b>3,500,000</b>	2,700,000
Interest and other expenses	642,089	<b>639,709</b>	752,638
	4,142,089	<b>4,139,709</b>	3,452,638
<b>Other payments:</b>			
Refund of overpayment of land premium	-	<b>126,251</b>	19,823
	48,026,030	<b>51,581,575</b>	50,719,297

Further analyses of expenditure appear in the Supporting Statements.



# Capital Works Reserve Fund

## Analysis of Expenditure for the year ended 31 March 2010



## 10. Other Cash Movements

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

	2010 \$'000	2009 \$'000
<b>Reduction/(Increase) in Assets:</b>		
Investments with the Exchange Fund	9,705,016	27,683,310
Deposits with banks	(2)	(3)
Advances	8,020	9,180
	<b>9,713,034</b>	<b>27,692,487</b>
<b>Reduction in Liabilities:</b>		
Deposits	(8,253)	(133,042)
	<b>9,704,781</b>	<b>27,559,445</b>

# Capital Works Reserve Fund

Revenue, Expenditure and Fund Balance for the years ended 31 March 2001 to 2010

