

# 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 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 Works Reserve 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 Works Reserve Fund

## STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2011

	Note	2011 HK\$'000	2010 HK\$'000
<b>Assets</b>			
Investments with the Exchange Fund	3	43,479,467	28,555,803
Deposits with banks	4	68	64
Cash and bank balances		300	1,975
Advances	5	77,362	78,389
		<b>43,557,197</b>	<b>28,636,231</b>
<b>Liabilities</b>			
Deposits	6	(906,241)	(790,105)
		<b>42,650,956</b>	<b>27,846,126</b>
<b>Representing:</b>			
<b>Fund Balance</b>			
Balance at beginning of year		27,846,126	37,550,782
Surplus/(Deficit) for the year		14,804,830	(9,704,656)
Balance at end of year		<b>42,650,956</b>	<b>27,846,126</b>

Notes 1 to 11 form part of these financial statements.

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



# Capital Works Reserve 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		1,975	1,850
Revenue	8	68,342,221	41,876,919
Expenditure	9	(53,537,391)	(48,081,575)
<b>Surplus/(Deficit) for the year before repayment of government bonds and notes</b>		<b>14,804,830</b>	<b>(6,204,656)</b>
Repayment of government bonds and notes		-	(3,500,000)
<b>Surplus/(Deficit) for the year after repayment of government bonds and notes</b>		<b>14,804,830</b>	<b>(9,704,656)</b>
Other cash movements	10	(14,806,505)	9,704,781
<b>Cash and bank balances at end of year</b>		<b>300</b>	<b>1,975</b>

Notes 1 to 11 form part of these financial statements.

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



# 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. 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>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Investments (see (ii) and (iii) below)	<b>43,431,335</b>	28,482,767
Deposits	<b>48,132</b>	73,036
	<b><u>43,479,467</u></b>	<u>28,555,803</u>

(ii) The investments represent the cost of investments together with interest of HK\$2.71 billion 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.

### 4. Deposits with Banks

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Foreign currency	<b>68</b>	64

# 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>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Advances for Tsing Ma Control Area non-scheduled maintenance works	-	1,027
Advances in respect of other capital works projects	<u>77,362</u>	<u>77,362</u>
	<u><b>77,362</b></u>	<u><b>78,389</b></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>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Contract retentions	<b>611,016</b>	468,877
Others	<u>295,225</u>	<u>321,228</u>
	<u><b>906,241</b></u>	<u><b>790,105</b></u>

## 7. Liabilities

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Outstanding government bonds and notes	<u><b>11,230,313</b></u>	<u><b>11,204,688</b></u>

Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling HK\$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, there were payments of HK\$575 million interest on the notes but no principal repayments.

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

	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
<b>Land premium:</b>			
Sales by public auction and tender	-	<b>44,116,460</b>	14,465,941
Private treaty grants	-	<b>10,673,947</b>	1,323,072
Modification of existing leases, exchanges and extensions	-	<b>10,312,726</b>	23,445,497
Fees received in respect of short term waivers	-	<b>441,427</b>	397,570
	34,100,000	<b>65,544,560</b>	39,632,080
<b>Investment income</b>	1,596,000	<b>2,711,135</b>	2,216,750
<b>Transfer from General Revenue</b>	30,000,000	-	-
<b>Other revenue:</b>			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	2,000	-	9,500
Others	-	<b>86,526</b>	18,589
	133,000	<b>86,526</b>	28,089
	<b>65,829,000</b>	<b>68,342,221</b>	41,876,919

# Capital Works Reserve Fund

## 9. Expenditure

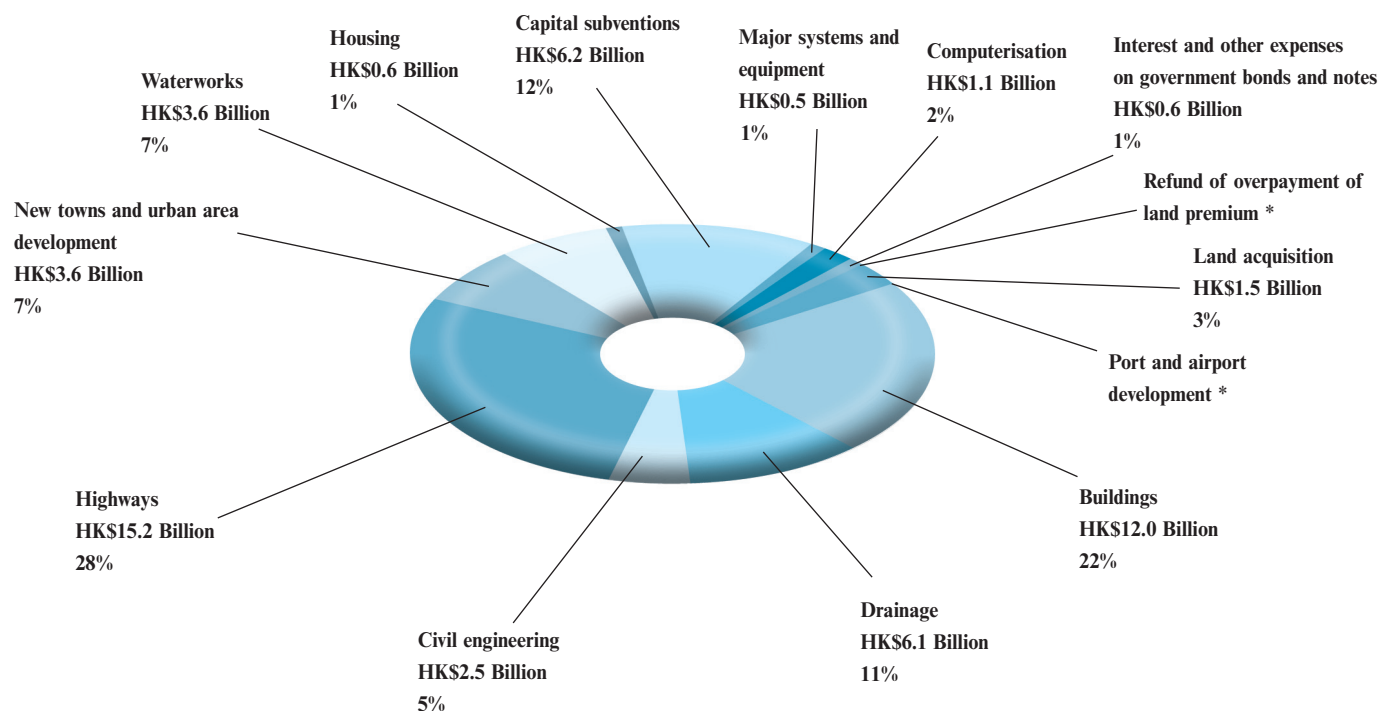
	2011		2010
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
<b>Land acquisition</b>	2,635,210	<b>1,533,533</b>	394,075
<b>Public Works Programme:</b>			
Port and airport development	3,758	<b>1,056</b>	68,534
Buildings	11,895,091	<b>12,001,574</b>	9,297,893
Drainage	6,348,837	<b>6,089,283</b>	4,764,307
Civil engineering	2,884,927	<b>2,456,300</b>	2,018,659
Highways	14,281,064	<b>15,201,075</b>	4,995,220
New towns and urban area development	3,134,688	<b>3,590,102</b>	2,699,422
Waterworks	3,646,343	<b>3,653,378</b>	3,213,621
Housing	671,584	<b>562,106</b>	822,135
	42,866,292	<b>43,554,874</b>	27,879,791
<b>Capital subventions and major systems and equipment:</b>			
Capital subventions	6,760,631	<b>6,225,477</b>	17,447,700
Major systems and equipment	1,234,720	<b>527,891</b>	437,963
	7,995,351	<b>6,753,368</b>	17,885,663
<b>Computerisation</b>	1,446,108	<b>1,120,341</b>	1,156,086
<b>Interest and other expenses on government bonds and notes</b>	576,370	<b>574,844</b>	639,709
<b>Other payments:</b>			
Refund of overpayment of land premium	-	<b>431</b>	126,251
	<u>55,519,331</u>	<u><b>53,537,391</b></u>	<u>48,081,575</u>

Further analyses of expenditure appear on pages 136 to 207 of the Supporting Statements.



# Capital Works Reserve Fund

## Analysis of Expenditure for the year ended 31 March 2011



\* The actual value for the expenditure of "Port and airport development" and "Refund of overpayment of land premium" are not shown as they are less than HK\$0.1 billion.

**Total Expenditure  
HK\$53.5 Billion**

## 10. Other Cash Movements

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

	2011 HK\$'000	2010 HK\$'000
<b>Reduction/(Increase) in Assets:</b>		
Investments with the Exchange Fund	(14,923,664)	9,705,016
Deposits with banks	(4)	(2)
Advances	1,027	8,020
	(14,922,641)	9,713,034
<b>Increase/(Reduction) in Liabilities:</b>		
Deposits	116,136	(8,253)
	<u>(14,806,505)</u>	<u>9,704,781</u>

## 11. Comparative Figures

Certain comparative figures have been re-classified to conform with the presentation of the current year.

# Capital Works Reserve Fund

Revenue, Expenditure plus Repayment of Government Bonds and Notes, and Fund Balance for the years ended 31 March 2002 to 2011

