

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

Hong Kong SAR:

Direct Investment Compilation Practices, Data Sources and Methodology

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Direct Investment in Hong Kong SAR

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

Direct Investment Abroad

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

DIRECT INVESTMENT IN HONG KONG SAR
BALANCE OF PAYMENTS (“TRANSACTIONS” DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Census and Statistics Department (C&SD) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity [dividends and distributed branch profits], (ii) reinvested earnings, (iii) and income on debt [interest]; and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 3 months after the end of the reference period in the quarterly publication *Balance of Payments Statistics of Hong Kong*, in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data are also reported to the IMF for publication.

Revision Practices

The data are preliminary when first released. Data for all four quarters of the previous calendar year are revised once a year to take account of additional survey data and are disseminated at the same time in December each year. For example, revised data for Q1-Q4 2001 were released at the same time in December 2002. The data are considered to be final at the time of the release of the revised data—that is, 9 to 18 months after their first release.

Although the general public are informed of the reasons for the revisions, the revised status of the data is not clearly identified in the disseminated data. The historical data are revised back as far as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis and reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investment enterprises resident in Hong Kong SAR, with an annual enterprise survey being used as a secondary data source. The company accounts of direct investment enterprises resident in Hong Kong SAR and press reports are used as additional data sources and for cross-checking purposes.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the C&SD and is updated on an ongoing basis using information from (i) other statistical collection forms, (ii) registers maintained by government licensing and regulatory authorities, corporate affairs authorities, the stock exchange authorities, industry associations, and other departments within the statistical agency, (iii) the financial press, and (iv) compulsory direct investment surveys.

The same business register is used to compile the inward direct investment transactions and position data and the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country are compiled by the C&SD for both the direct investment income data, and the direct investment financial flows data. These data are disseminated annually with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data cover 10 countries and bilateral data are used for cross-checking purposes.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment in Hong Kong SAR during 2002 (ranked in descending order) were: Mainland China, the British Virgin Islands, the Netherlands, the United Kingdom, and Singapore. The five countries with the largest amount of direct investment financial flows into Hong Kong SAR during 2002 (ranked in descending order) were: the British Virgin Islands, Mainland China, Japan, the Netherlands, and the United Kingdom.

In addition to the data showing country breakdowns, annual data are compiled by the C&SD showing breakdowns of both the direct investment income and direct investment financial flows for the following regions or economic zones: (i) the EU-15, and (ii) NAFTA. These data are not disseminated, but are available on request.

There are no differences in the data sources, coverage etc, between the inward transactions data showing geographic breakdowns published in the national publications and the aggregate inward data on direct investment income and direct investment financial flows reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the C&SD for both the direct investment income data and the direct investment financial flows data. The data on direct investment financial flows are disseminated once a year with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data for direct investment income are not disseminated, but are available on request. The data show a breakdown for 11 industrial activities, and the classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment income from investment in Hong Kong SAR during 2002 (in descending order) were: (i) investment holding, real estate and various business services, (ii) banks and deposit taking companies, (iii) wholesale, retail and import/export trades, (iv) insurance, and (v) transport and related services. The five industrial activities with the largest amount of direct investment financial flows into Hong Kong SAR during 2002 (in descending order) were: (i) investment holding, real estate and various business services, (ii) wholesale, retail and import/export trades, (iii) insurance, (iv) manufacturing, and (v) transport and related services.

Data showing breakdowns by (i) industrial activities and regional/economic zones, and (ii) industrial activities and partner countries, are not compiled.

There are no differences in the data sources, coverage etc, between the inward transactions data showing industrial activity breakdowns disseminated in the national publications and the aggregate inward data for direct investment income and direct investment financial flows reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in Hong Kong SAR

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Hong Kong SAR is 10 percent ownership by a nonresident investor, regardless of whether the investor has an

effective voice in management—that is, enterprises in which the direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, (i) the direct investment earnings data include the relevant share of indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, in line with the accounting practices in Hong Kong SAR, the definition of an associate is an enterprise in which a nonresident investor owns between 20 percent and 50 percent of the equity, rather than between 10 percent and 50 percent, as defined in the international standards.

Enterprises in Hong Kong SAR are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the survey order for enterprise surveys, respondents are required to report all transactions with their nonresident direct investors and direct investment enterprises.

Measurement of Direct Investment Earnings

In accordance with the international standards, the “Current Operating Performance Concept” (COPC) is used to calculate earnings of direct investment enterprises. Specifically, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are not included, (iii) interest receivable/payable is included, and (iv) debt repayments receivable/payable are excluded.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are payable, (ii) dividends and distributed branch profits are recorded gross of any withholding taxes, (iii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iv) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings.

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises. The data include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv)

trade credits, and (v) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data are recorded on an accrual basis.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

Treatment of Other Capital

The other capital transactions data cover (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being debt without a specific maturity date.)

Instances where a loan/debt guarantee provided by a direct investor or related direct investment enterprises has been invoked have not occurred to date.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as "Direct Investment in Hong Kong SAR: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Hong Kong SAR: Other Capital: Increase in Claims on Direct Investors", and are reported as such to the IMF. However, the data on equity capital claims on direct investors for 2000 onwards have been too small to be reported to the IMF (that is, less than HK\$ 10 million.)

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in Hong Kong SAR by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships and aircraft. Quasi-corporations arising from the operation of drilling rigs in Hong Kong SAR by nonresidents are not applicable as such activities have not occurred to date.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established in Hong Kong SAR by nonresidents are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Hong Kong SAR by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Hong Kong SAR by nonresidents that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Hong Kong SAR by nonresident enterprises and nonresident individuals. Land and buildings purchased on long-term leases are not included.

Treatment of Natural Resources Exploration

Not applicable. Expenditure related to natural resources exploration in Hong Kong SAR by nonresidents has not occurred to date.

Exchange Rate Conversion

All transactions except those involving income on debt (interest) are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Transactions involving income on debt (interest) are primarily converted at the exchange rate prevailing on the day of the transaction, but some are converted at the average exchange rate in the period in which the interest is recorded.

DIRECT INVESTMENT IN HONG KONG SAR
INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable annual (calendar year) data are compiled by the Census and Statistics Department (C&SD) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. These data are disseminated with a timeliness of 6 months after the end of the reference year in the quarterly publication *Balance of Payments Statistics of Hong Kong*, in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data are also reported to the IMF for publication.

Revision Practices

The data are preliminary when first released. The data are revised once to take account of additional survey data and are disseminated in December each year. The data are considered to be final at the time of the release of the revised data—that is, 6 months after their first release.

Although the general public are informed of the reasons for the revisions, the revised status of the data is not clearly identified in the disseminated data. The historical data are revised back as far as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis and reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from a quarterly enterprise survey of direct investment enterprises resident in Hong Kong SAR, with an annual enterprise survey being used as a secondary data source. The company accounts of direct investment enterprises resident in Hong Kong SAR and press reports are used as additional data sources and for cross-checking purposes. The perpetual inventory method (a method for deriving position data from transactions data) is not used.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the C&SD and is updated on an ongoing basis using information from (i) other statistical collection forms, (ii) registers maintained by government licensing and regulatory authorities, corporate affairs authorities, the stock exchange authorities, industry associations, and other departments within the statistical agency, (iii) the financial press, and (iv) compulsory direct investment surveys. The same business register is used to compile the inward direct investment transactions and position data and the outward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country compiled by the C&SD for the inward position data are disseminated once a year with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data cover 10 countries and bilateral data are used for cross-checking purposes.

In accordance with the international standards, the data are compiled on an “immediate country basis” The five countries with the largest amount of direct investment in Hong Kong SAR as at the end of 2002 (ranked in descending order) were: the British Virgin Islands, Mainland China, Bermuda, the Netherlands, and the United States.

In addition to the data showing country breakdowns, annual data are compiled by the C&SD showing breakdowns for the following regions or economic zones: (i) the EU15, and (ii) NAFTA. These data are not disseminated, but are available on request.

There are no differences in the data sources, coverage etc, between the inward position data showing geographic breakdowns disseminated in the national publications and the aggregate inward position data reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity compiled by the C&SD for the inward position data are disseminated once a year with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data show a breakdown for 11 industrial activities, and the classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in Hong Kong SAR as at the end of 2002 (in descending order) were: (i) investment holding, real estate and various business services, (ii) wholesale, retail and import/export trades, (iii) banks and deposit taking companies, (iv) financial institutions other than banks and deposit-taking companies, and (v) insurance.

Data showing breakdowns by (i) industrial activities and regional/economic zones, and (ii) industrial activities and partner countries, are not compiled.

There are no differences in the data sources, coverage etc, between the inward position data showing industrial activity breakdowns disseminated in the national publications and the aggregate inward position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investment Enterprises in Hong Kong SAR

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Hong Kong SAR is 10 percent ownership by a nonresident investor, regardless of whether the investor has an effective voice in management—that is, enterprises in which the direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly owned direct investment enterprises, and (ii) equity and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, in line with the accounting practice in Hong Kong SAR, the definition of an associate is an enterprise in which a nonresident investor owns between 20 percent and 50 percent of the equity, rather than between 10 percent and 50 percent, as defined in the international standards.

Enterprises in Hong Kong SAR are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestics, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the survey order for enterprise surveys, respondents are required to report all transactions with their nonresident direct investors and direct investment enterprises.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in Hong Kong SAR).

Treatment of Other Capital

The other capital position data cover (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being debt without a specific maturity date.)

Instances where a loan/debt guarantee provided by a direct investor or related direct investment enterprises has been invoked have not occurred to date.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as "Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises" and loan positions are recorded as "Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as "Liabilities: Direct Investment in Hong Kong SAR: Equity Capital: Claims on Direct Investors", and loan positions are recorded as "Liabilities: Direct Investment in Hong Kong SAR: Other Capital: Claims on Direct Investors", and are reported as such to the IMF. However, the data on equity capital claims on direct investors for 2000 onwards have been too small to be reported to the IMF (that is, less than HK\$ 10 million.)

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation in Hong Kong SAR by nonresidents of (i) construction enterprises, and (ii) mobile equipment, such as ships and aircraft. Quasi-corporations arising from the operation of drilling rigs in Hong Kong SAR by nonresidents are not applicable as such activities have not occurred to date.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established in Hong Kong SAR by nonresidents are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established in Hong Kong SAR by nonresidents are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established in Hong Kong SAR by nonresidents that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings in Hong Kong SAR by nonresident enterprises and nonresident individuals. Land and buildings owned on long-term leases are not included.

Treatment of Natural Resources Exploration

Not applicable. Expenditure related to natural resources exploration in Hong Kong SAR by nonresidents has not occurred to date.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded primarily at market values, although some positions are recorded at book values, which is the value recorded in the balance sheets of the individual enterprises. The data on equity capital for unlisted enterprises are also recorded primarily at market values, which are mainly measured as being based either on a recent transaction price or on the net asset value (that is, total assets less nonequity liabilities), with directors' valuations being used as secondary method. However, some equity positions of unlisted enterprises are recorded at book values, which is the value recorded in the balance sheets of the individual enterprises.

The data on other capital are recorded primarily at market values, although some positions are recorded at book values, which is the value recorded in the balance sheets of the individual enterprises.

When book values are used, the values shown in the accounting records of the resident direct investment enterprises are used as the primary source, and values shown in the accounting records of the nonresident direct investors are used for cross-checking purposes.

Exchange Rate Conversion

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

DIRECT INVESTMENT ABROAD
BALANCE OF PAYMENTS (“TRANSACTIONS” DATA)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable quarterly data are compiled by the Census and Statistics Department (C&SD) within the balance of payments framework on (a) the components of direct investment income: (i) income on equity (dividends and distributed branch profits), (ii) reinvested earnings, (iii) and income on debt (interest); and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. These data are disseminated with a timeliness of 3 months after the end of the reference period in the quarterly publication *Balance of Payments Statistics of Hong Kong*, in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data are also reported to the IMF for publication.

Revision Practices

The data are preliminary when first released. Data for all four quarters of the previous calendar year are revised once a year to take account of additional survey data and are disseminated at the same time in December each year. For example, revised data for Q1-Q4 2001 were released at the same time in December 2002. The data are considered to be final at the time of the release of the revised data—that is, 9 to 18 months after their first release.

Although the general public are informed of the reasons for the revisions, the revised status of the data is not clearly identified in the disseminated data. The historical data are revised back as far as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis and reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in Hong Kong SAR, with an annual enterprise survey being used as a secondary data source. The company accounts of direct investors resident in Hong Kong SAR, bilateral sources, and press reports are used as additional data sources and for cross-checking purposes.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the C&SD and is updated on an ongoing basis using information from (i) other statistical collection forms, (ii) registers maintained by government licensing and regulatory authorities, corporate affairs authorities, the stock exchange authorities, industry associations, and other departments within the statistical agency, (iii) the financial press, and (iv) compulsory direct investment surveys.

The same business register is used to compile the outward direct investment transactions and position data and the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country are compiled by the C&SD for both the direct investment income data, and the direct investment financial flows data. These data are disseminated annually with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data cover 10 countries and bilateral data are used for cross-checking purposes.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by Hong Kong SAR residents during 2002 (ranked in descending order) were: Mainland China, the British Virgin Islands, the Cayman Islands, Panama, and the United States. The five countries with the largest amount of direct investment financial flows from Hong Kong SAR during 2002 (ranked in descending order) were: Mainland China, the British Virgin Islands, the United Kingdom, Malaysia, and Singapore .

In addition to the data showing country breakdowns, annual data are compiled by the C&SD showing breakdowns of both the direct investment income and direct investment financial flows for the following regions or economic zones: (i) the EU-15, and (ii) NAFTA. These data are not disseminated, but are available on request.

There are no differences in the data sources, coverage etc, between the outward transactions data showing geographic breakdowns disseminated in the national publications and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the C&SD for both the direct investment income data and the direct investment financial flows data. The data on direct investment financial flows are disseminated once a year with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data for direct investment income are not disseminated, but are available on request. The data show a breakdown for 11 industrial activities, and the classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment income from investment abroad by Hong Kong SAR residents during 2002 (in descending order) were: (i) investment holding, real estate and various business services, (ii) wholesale, retail and import/export trades, (iii) manufacturing, (iv) transport and related services, and (v) communications. The five industrial activities with the largest amount of direct investment financial flows from Hong Kong SAR during 2002 (in descending order) were: (i) investment holding, real estate and various business services, (ii) wholesale, retail and import/export trades, (iii) transport and related services, (iv) manufacturing, and (v) communications.

Data showing breakdowns by (i) industrial activities and regional/economic zones, and (ii) industrial activities and partner countries, are not compiled.

There are no differences in the data sources, coverage etc, between the outward transactions data showing industrial activity breakdowns disseminated in the national publications and the aggregate data for outward direct investment income and direct investment financial flows reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an

effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, (i) the direct investment earnings data include the relevant share of indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include equity and other capital transactions made directly between either resident direct investors or resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, in line with the accounting practice in Hong Kong SAR, the definition of an associate is an enterprise in which a resident investor owns between 20 percent and 50 percent of the equity, rather than between 10 percent and 50 percent, as defined in the international standards.

Enterprises in Hong Kong SAR are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the survey order for enterprise surveys, respondents are required to report all transactions with their nonresident direct investment enterprises.

Measurement of Direct Investment Earnings

In accordance with the international standards, the “Current Operating Performance Concept” (COPC) is used to calculate earnings of direct investment enterprises. Specifically, (i) deductions are made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses, write-offs, and realized and unrealized exchange rate gains and losses are not included, (iii) interest receivable/payable is included, and (iv) debt repayments receivable/payable are excluded.

Treatment of Income on Equity (Dividends and Distributed Branch Profits)

The data on dividends and distributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) dividends and distributed branch profits for both incorporated and unincorporated enterprises are recorded on the date they are payable, (ii) dividends and distributed branch profits are recorded gross of any withholding taxes, (iii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iv) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

Treatment of Reinvested Earnings and Undistributed Branch Profits

The data on reinvested earnings and undistributed branch profits cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings,

Treatment of Income on Debt (Interest)

The data on income on debt (interest) cover both incorporated enterprises and unincorporated enterprises. The data include interest on (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data are recorded on an accrual basis.

Treatment of Equity Capital

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

Treatment of Other Capital

The other capital transactions data cover (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being debt without a specific maturity date.)

Instances where a loan/debt guarantee provided by a direct investor has been invoked have not occurred to date.

Treatment of Reverse Investment

Transactions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as "Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises" and loan transactions are recorded as "Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises".

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity transactions are recorded as "Direct Investment in Hong Kong SAR: Equity Capital: Increase in Claims on Direct Investors", and loan transactions are recorded as "Direct Investment in Hong Kong SAR: Other Capital: Increase in Claims on Direct Investors", and are reported as such

to the IMF. However, the data on equity capital claims on direct investors for 2000 onwards have been too small to be reported to the IMF (that is, less than HK\$ 10 million.)

Treatment of Quasi-Corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad by residents of Hong Kong SAR of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Hong Kong SAR are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established abroad by residents of Hong Kong SAR are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Hong Kong SAR that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises and individuals resident in Hong Kong SAR. Land and buildings purchased on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with international standards, (i) expenditure on exploration for natural resources abroad by residents of Hong Kong SAR is included in the equity capital data, (ii) expenditure on bonus payments made by residents of Hong Kong SAR to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise. Instances of the shutdown of a direct investment enterprise established abroad by direct investors resident in Hong Kong SAR for natural resource exploration have not occurred to date.

Exchange Rate Conversion

All transactions, except those involving income on debt (interest) are converted to the unit of account at the exchange rate prevailing on the day of the transaction. Most transactions involving income on debt (interest) are converted at the exchange rate prevailing on the day of the transaction, but some are converted at the average exchange rate in the period in which the interest is recorded.

DIRECT INVESTMENT ABROAD
INTERNATIONAL INVESTMENT POSITION (“POSITION DATA”)

A. Compilation Practices and Data Sources

Data Availability

Separately identifiable annual (calendar year) data are compiled by the Census and Statistics Department (C&SD) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital. These data are disseminated with a timeliness of 6 months after the end of the reference year in the quarterly publication *Balance of Payments Statistics of Hong Kong*, in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data are also reported to the IMF for publication.

Revision Practices

The data are preliminary when first released. The data are revised once to take account of additional survey data and are disseminated in December each year. The data are considered to be final at the time of the release of the revised data—that is, 6 months after their first release.

Although the general public are informed of the reasons for the revisions, the revised status of the data is not clearly identified in the disseminated data. The historical data are revised back as far as possible in instances of major changes in methodology or data collection systems.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF for publication.

Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in national publications and those reported to the IMF for publication.

Data Collection Method

The data are collected on an aggregate basis and reporting requirements are compulsory.

Data Sources

The data for all components are compiled primarily from quarterly enterprise surveys of direct investors resident in Hong Kong SAR, with an annual enterprise survey being used as a secondary data source. The company accounts of direct investors resident in Hong Kong SAR and press reports are used as additional data sources and for cross-checking purposes. The perpetual inventory method (a method for deriving position data from transactions data) is not used.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the C&SD and is updated on an ongoing basis using information from (i) other statistical collection forms, (ii) registers maintained by government licensing and regulatory authorities, corporate affairs authorities, the stock exchange authorities, industry associations, and other departments within the statistical agency, (iii) the financial press, and (iv) compulsory direct investment surveys. The same business register is used to compile the outward direct investment transactions and position data and the inward direct investment transactions and position data.

Geographic Classification

Annual data showing breakdowns by country are compiled by the C&SD for the outward position data and disseminated annually with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data cover 10 countries and bilateral data are used for cross-checking purposes.

In accordance with the international standards, the data are compiled on an “immediate country basis” The five countries with the largest amount of direct investment from Hong Kong SAR as at the end of 2002 (ranked in descending order) were: the British Virgin Islands, Mainland China, Bermuda, Panama, and the United States.

In addition to the data showing country breakdowns, annual data are compiled by the C&SD showing breakdowns for the following regions or economic zones: (i) the EU15, and (ii) NAFTA. These data are not disseminated, but are available on request.

There are no differences in the data sources, coverage etc, between the outward position data showing geographic breakdowns disseminated in the national publications and the aggregate outward position data reported to the IMF for publication .

Industrial Classification

Annual data showing breakdowns by industrial activity are compiled by the C&SD for the outward position data and disseminated once a year with a timeliness of 12 months in the annual publication *External Direct Investment Statistics of Hong Kong*, and on the C&SD website www.info.gov.hk/censtatd. The data show a breakdown for 11 industrial activities, and the classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

The data are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment from Hong Kong SAR as at the end of 2002 (in descending order) were: (i) investment holding, real estate and various business services, (ii) wholesale, retail and import/export trades, (iii) manufacturing, (iv) transport and related services, and (v) communications.

Data showing breakdowns by (i) industrial activities and regional/economic zones, and (ii) industrial activities and partner countries, are not compiled.

There are no differences in the data sources, coverage etc, between the outward position data showing industrial activity breakdowns disseminated in the national publications the aggregate outward direct investment position data reported to the IMF for publication.

B. Methodology

Definition of Direct Investors

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors, and unincorporated enterprises are not treated differently from incorporated enterprises.

Treatment of Indirectly Owned Direct Investment Enterprises

The “Fully Consolidated System” (FCS) recommended in the international standards is partially applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct

investment enterprise and (ii) equity and other capital positions held directly by either resident direct investors or resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. However, in line with the accounting practice in Hong Kong SAR, the definition of an associate is an enterprise in which a resident investor owns between 20 percent and 50 percent of the equity, rather than between 10 percent and 50 percent, as defined in the international standards.

Enterprises in Hong Kong SAR are not required by law to (i) produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestics, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the survey order for enterprise surveys, respondents are required to report all transactions with their nonresident direct investment enterprises.

Treatment of Equity Capital and Reinvested Earnings

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, (i) reinvested earnings are recorded in the period in which they are earned, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment abroad).

Treatment of Other Capital

The other capital position data cover (i) long-term loans, (ii) short-term loans, (iii) bonds and money market instruments, (iv) trade credits, and (v) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference [preferred] shares, (ii) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iv) the data include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries. (Permanent debt is defined as being debt without a specific maturity date.)

Instances where a loan/debt guarantee provided by a direct investor has been invoked have not occurred to date.

Treatment of Reverse Investment

Positions involving reverse investment are treated in accordance with the international standards.

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the

international standards, equity positions are recorded as “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” and loan positions are recorded as “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises”.

Assuming that the direct investment enterprise is a resident of Hong Kong SAR and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, in accordance with the international standards, equity positions are recorded as “Liabilities: Direct Investment in Hong Kong SAR: Equity Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Hong Kong SAR: Other Capital: Claims on Direct Investors”, and are reported as such to the IMF. However, the data on equity capital claims on direct investors for 2000 onwards have been too small to be reported to the IMF (that is, less than HK\$ 10 million.)

Treatment of Quasi-corporations

In accordance with the international standards, the direct investment data include the activities of quasi-corporations involving the operation abroad by residents of Hong Kong SAR of (i) construction enterprises, and (ii) mobile equipment, such as ships, aircraft, and drilling rigs.

Treatment of Offshore Enterprises

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Hong Kong SAR are included in the direct investment data.

Treatment of Special Purpose Entities (SPEs)

In accordance with the international standards, (i) activities of SPEs established abroad by residents of Hong Kong SAR are included in the direct investment data, with no exceptions, and (ii) in the case of SPEs established abroad by residents of Hong Kong SAR that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are excluded from the data, except those involving equity capital and permanent debt.

Treatment of Land and Buildings

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in Hong Kong SAR. Land and buildings owned on long-term leases are not included.

Treatment of Natural Resources Exploration

In accordance with international standards, (i) expenditure on exploration for natural resources abroad by residents of Hong Kong SAR is included in the equity capital data, and (ii) expenditure on bonus payments made by residents of Hong Kong SAR to the host country for the right to undertake exploration for natural resources is included in the equity capital data when there is a clear intention to establish a direct investment enterprise. Instances of the shutdown of a direct investment enterprise established abroad by residents Hong Kong SAR for natural resource exploration have not occurred to date.

Valuation of Assets and Liabilities

The data on equity capital for listed enterprises are recorded primarily at market values, although some positions are recorded at book values, which is the value recorded in the balance sheets of the individual enterprises. The data on equity capital for unlisted enterprises are also recorded primarily at market values, which are mainly measured as being based either on a recent transaction price or on the net asset value (that is, total assets less nonequity liabilities), with directors' valuations being used as secondary method. However, some equity positions of unlisted enterprises are recorded at book values, which is the value recorded in the balance sheets of the individual enterprises.

The data on other capital are recorded primarily at market values, although some positions are recorded at book values, which is the value recorded in the balance sheets of the individual enterprises.

When book values are used, the values shown in the accounting records of the resident direct investors are used as the primary source, and the accounting records of the nonresident direct investment enterprises are used for cross-checking purposes.

Exchange Rate Conversion

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.