

This metadata describes the compilation practices, sources and methodology in use in 2001. 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”)**

[Glossary of Direct Investment Terms and Definitions](#)

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

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) direct investment income (income on equity, reinvested earnings, and income on debt [interest]), and (ii) direct investment financial flows (equity capital and other capital), are disseminated with a timeliness of 3 months after the end of the reference period.

Revision Policy: Starting from the reference year 2000, data for the four quarters of each calendar year are revised and disseminated at the same time in December of the subsequent year (for example, revised data for Q1-Q4, 2000 were released at the same time in December 2001.) In other words, the revised quarterly data for each calendar year are disseminated at the same time, 9-18 months after they are first disseminated. The revised data are considered final.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Data are collected on an aggregate basis, and reporting requirements are compulsory.

Data Sources: The data are compiled from quarterly and annual enterprise surveys of direct investment enterprises in Hong Kong SAR. Published sources, such as company accounts, press reports, and bilateral data for selected countries are used for cross-checking the data obtained from the surveys. A business register of enterprises involved in direct investment is maintained. This register 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 and stock exchange authorities, industry associations, and other surveys conducted by the Census and Statistics Department, and (iii) the financial press.

Geographic Classification: Quarterly data showing country breakdowns for direct investment income are disseminated with a timeliness of 3 months after the end of the reference period. Annual data showing geographic breakdowns for direct investment financial flows are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) In accordance with the international standards, the debtor/creditor principle is used as the basis for the geographic allocation of the data. Bilateral information is used in the compilation of the data. Data are disseminated showing breakdowns of both direct investment income and direct investment financial flows by regions or economic zones for: (i) the European Union, and (ii) NAFTA. The five countries with the largest amount of direct investment flows into Hong Kong during 1999 (ranked in descending order) were: the British Virgin Islands, Mainland China, Bermuda, the Netherlands, and the United States.

Industrial Classification: Annual data showing breakdowns by industrial sector for direct investment income and direct investment financial flows are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) The data are based on the industry of the resident direct investment enterprise. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC), specifically, (i) manufacturing, (ii) construction, (iii) wholesale, retail and import/export trade, (iv) restaurants and hotels, (v) communications, (vi) transport and related services, (vii) banks and deposit-taking companies, (viii) financial institutions other than banks and deposit-taking companies, (ix) investment holding, real estate and various business services, (x) insurance, and (xi) other activities. Data showing breakdowns by (i) industrial sector/partner country, and (ii) industrial sector/region or economic zone, are not compiled.

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. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. No value threshold is used to identify 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. In accordance with the FCS, (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 the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. 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 associates, either domestic or foreign, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the enterprise surveys, enterprises in Hong Kong SAR 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, and (ii) realized and unrealized capital gains and losses, write-offs, and exchange rate gains or losses are not included. In accordance with the international standards, when a direct investment enterprise makes a loss, the net loss is recorded as negative reinvested earnings.

Treatment of Income on Equity (Dividends and Distributed Branch Profits): The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, dividends and distributed branch profits are recorded (i) on the date they are payable, and (ii) gross of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, reinvested earnings and undistributed branch profits are recorded in the period in which they are earned.

Treatment of Income on Debt (Interest): The data cover interest income from: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, and (iv) trade credits. In accordance with the international standards, the data do not include interest from: (i) financial derivatives, and (ii) 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, the data are compiled on an accrual basis.

Treatment of Equity Capital: The data cover all types of financial flows affecting equity capital, namely, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks (including participating preference shares), and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, the data include equity transactions between affiliated banks and between affiliated financial intermediaries.

Treatment of Other Capital: The data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, and (v) trade credits. Data on financial derivatives are separately identified. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (iii) 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, the data include transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries.

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, (i) 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, equity and loan transactions are recorded as “Direct Investment Abroad: Increase in Claims on Affiliated Enterprises”; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan transactions are recorded as “Direct Investment in Hong Kong SAR: Increase in Claims on Direct Investors”.

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 by nonresidents of (i) mobile

equipment, such as ships and aircraft, and (ii) construction enterprises. Quasi-corporations arising from the operation of drilling rigs are not applicable in Hong Kong SAR.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established in Hong Kong SAR by nonresidents are generally 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 generally included in the direct investment data, and (ii) in the case of SPEs established in Hong Kong SAR by nonresidents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries, except transactions in equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings in Hong Kong SAR by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration: Expenditure related to natural resources exploration is not applicable in Hong Kong SAR.

Exchange Rate Conversion: Most transactions are converted to the unit of account 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 transactions are recorded.

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

A. Compilation Practices and Data Sources

Data Availability: For reference year 2000, annual (calendar year) data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of 12 months after the end of the reference period. (The data prior to 2000 had a timeliness of 15 months.) It is planned to improve the timeliness to 6 months after the end of the reference year with effect from the data for 2001.

Revision Policy: Not applicable to the data for reference year 2000 and earlier, as the data were considered final when first released. However, it is planned that as from the data for the 2001 reference year, revised data will be disseminated 6 months after they are first released. The revised data will be considered final.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Reporting requirements are compulsory.

Data Sources: The data are compiled from quarterly and annual enterprise surveys of direct investment enterprises in Hong Kong SAR. Published sources, such as company accounts, press reports, and bilateral data for selected countries, are used for cross-checking the data obtained from the surveys. The perpetual inventory method (a method for deriving position data from transactions data) is not used. A business register of enterprises involved in direct investment is maintained. This register 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 and stock exchange authorities, industry associations, and other surveys conducted by the Census and Statistics Department, and (iii) the financial press.

Geographic Classification: Annual data showing country breakdowns are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) In accordance with the international standards, the data are compiled on an “immediate country” basis. Bilateral information is used in the compilation of the data. Data are disseminated showing breakdowns by regions or economic zones for: (i) the European Union, and (ii) NAFTA. The five countries with the largest amount of direct investment in Hong Kong SAR as at the end of 1999 (ranked in descending order) were: the British Virgin Islands, Mainland China, Bermuda, Netherlands, and the United Kingdom.

Industrial Classification: Annual data showing breakdowns by industrial sector are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) The data are based on the industry of the resident direct investment enterprise. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC), specifically, (i) manufacturing, (ii) construction, (iii) wholesale, retail and import/export trade, (iv) restaurants and hotels, (v) communications, (vi) transport and related services, (vii) banks and deposit-taking companies, (viii) financial institutions other than banks and taking-taking companies, (ix) investment holding, real estate and various business services, (x) insurance, and (xi) other activities. Data showing breakdowns by (i) industrial sector/partner country and (ii) industrial sector/region or economic zone, are not compiled.

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. Enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management are not included. No value threshold is used to identify 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. In accordance with the FCS, the relevant share of indirectly-owned direct investment enterprises is included in (i) the reinvested earnings data, and (ii) the equity and other capital position data. 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 associates, either domestic or foreign, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the enterprise surveys, enterprises in Hong Kong SAR are required to report all transactions with their nonresident direct investors and direct investment enterprises.

Treatment of Equity Capital and Reinvested Earnings: The data cover all types of position data affecting equity capital and reinvested earnings, namely, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks, including participating preference shares, (iv) noncash acquisitions of equity, such as through the provision of capital equipment, and (v) reinvested earnings. In accordance with the international standards, the data include equity positions between affiliated banks and between affiliated financial intermediaries. The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises, and, in accordance with the international standards, are recorded in the period in which they are earned. (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 data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (iii) 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, the data include positions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries.

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: (i) 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, equity and loan positions are recorded as "Assets: Direct Investment Abroad: Claims on Affiliated Enterprises"; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan positions are recorded as "Liabilities: Direct Investment in Hong Kong SAR: Claims on Direct Investors".

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 by nonresidents of (i) mobile equipment, such as ships and aircraft, and (ii) construction enterprises. Quasi-corporations arising from the operation of drilling rigs are not applicable in Hong Kong SAR.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established in Hong Kong SAR by nonresidents are generally 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 generally included in the direct investment data, and (ii) in the case of SPEs established in Hong Kong SAR by nonresidents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries, except positions involving equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings in Hong Kong SAR by nonresident enterprises and individuals.

Treatment of Natural Resources Exploration: Expenditure related to natural resources exploration is not applicable in Hong Kong SAR.

Valuation: In accordance with the international standards, the data are reported primarily at market values. However, some survey respondents report their positions at book value, which is the accounting value shown in the accounting records of the reporting enterprises.

Exchange Rate Conversion: Both (i) the exchange rate prevailing on the day to which the position data relate, and (ii) the exchange rate prevailing on the day the stocks were acquired, are used to convert foreign currencies into the unit of account.

HONG KONG SAR: DIRECT INVESTMENT ABROAD

BALANCE OF PAYMENTS (“TRANSACTIONS DATA”)

A. Compilation Practices and Data Sources

Data Availability: Preliminary quarterly data on (i) direct investment income (income on equity, reinvested earnings, and income on debt [interest]), and (ii) direct investment financial flows (equity capital and other capital), are disseminated with a timeliness of 3 months after the end of the reference period.

Revision Policy: Starting from the reference year 2000, data for the four quarters of each calendar year are revised and disseminated at the same time in December of the subsequent year (for example, revised data for Q1-Q4, 2000 were released at the same time in December 2001.) In other words, the revised quarterly data for each calendar year are disseminated at the same time 9-18 months after they are first disseminated. The revised data will be considered final.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Data are collected on an aggregate basis, and reporting requirements are compulsory.

Data Sources: The data are compiled from quarterly and annual enterprise surveys of residents with direct investment enterprises abroad. Published sources, such as company accounts, press reports, and bilateral data for selected countries, are used for cross-checking the data obtained from the surveys. A business register of enterprises involved in direct investment is maintained. This register 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 and stock exchange authorities, industry associations, and other surveys conducted by the Census and Statistics Department, and (iii) the financial press.

Geographic Classification: Quarterly data showing country breakdowns are disseminated for direct investment income with a timeliness of 3 months after the end of the reference period. Annual data showing geographic breakdowns for direct investment financial flows are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) In accordance with the international standards, the debtor/creditor principle is used as the basis for the geographic allocation of the data. Bilateral information is used in the compilation of the data. Data are disseminated showing breakdowns of both direct investment income and direct investment financial flows by regions or economic zones for: (i) the European Union, and (ii) NAFTA. The five countries with the largest amount of direct investment flows from Hong Kong during 1999 (ranked in descending order) were: Mainland China, the British Virgin Islands, Germany, Bermuda, and Singapore.

Industrial Classification: Annual data showing breakdowns by industrial sector are disseminated for direct investment income and direct investment financial flows, with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) The data are based on the industry of the resident direct investor. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC), specifically, (i) manufacturing, (ii) construction, (iii) wholesale, retail and import/export trade, (iv) restaurants and hotels, (v) communications, (vi) transport and related services, (vii) banks and deposit-taking companies, (viii) financial institutions other than banks and deposit-taking companies, (ix) investment holding, real estate and various business services, (x) insurance, and (xi) other activities. Data showing breakdowns by (i) industrial sector/ partner country, and (ii) industrial sector/region or economic zone are not compiled.

B. Methodology

Definition of Direct Investors Abroad: In accordance with the international standards, the basic criterion for defining direct investors abroad is 10 percent ownership of a nonresident enterprise by a resident investor, regardless of whether the investor has an effective voice in management. Investors which own less than 10 percent of a direct investment enterprise but have an effective voice in management are not included. No value threshold is used to identify direct investors abroad, 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. In accordance with the FCS, (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 the equity and other capital transactions between resident enterprises and nonresident enterprises of the same group of related enterprises. 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 associates, either domestic or foreign, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the enterprise surveys, enterprises in Hong Kong SAR 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, and (ii) realized and unrealized capital gains and losses, write-offs, and exchange rate gains or losses are not included. In accordance with the international standards, when a direct investment enterprise makes a loss, the net loss is recorded as negative reinvested earnings.

Treatment of Income on Equity (Dividends and Distributed Branch Profits): The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, dividends and distributed branch profits are recorded (i) on the date they are payable, and (ii) gross of any withholding taxes.

Treatment of Reinvested Earnings and Undistributed Branch Profits: The data cover both incorporated enterprises and unincorporated enterprises. In accordance with the international standards, reinvested earnings and undistributed branch profits are recorded in the period in which they are earned.

Treatment of Income on Debt (Interest): The data cover interest income from: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, and (iv) trade credits. In accordance with the international standards, the data do not include interest from: (i) financial derivatives, and (ii) 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, the data are compiled on an accrual basis.

Treatment of Equity Capital: The data cover all types of financial flows affecting equity capital: (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks (including participating preference shares), and (iv) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, the data include equity transactions between affiliated banks and between affiliated financial intermediaries.

Treatment of Other Capital: The data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, and (v) trade credits. Financial derivatives are separately identified. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (iii) 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, the data include transactions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries.

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, (i) 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, equity and loan transactions are recorded as “Direct Investment Abroad: Increase in Claims on Affiliated Enterprises”; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan transactions are recorded as “Direct Investment in Hong Kong SAR: Increase in Claims on Direct Investors”.

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 Hong Kong residents of (i) mobile equipment, such as ships, aircraft, and drilling rigs, and (ii) construction enterprises.

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established abroad by Hong Kong residents are generally 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 Hong Kong residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Hong Kong residents that have the sole purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries, except transactions in equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include purchases and sales of land and buildings abroad by Hong Kong resident enterprises and individuals.

Treatment of Natural Resources Exploration: In accordance with the international standards, the data include expenditure related to natural resources exploration abroad by Hong Kong residents.

Exchange Rate Conversion: Most transactions are converted to the unit of account at the exchange rate prevailing on the day of transaction, but some are converted at the average exchange rate in the period in which the transactions are recorded.

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

A. Compilation Practices and Data Sources

Data Availability: For reference year 2000, annual (calendar year) data on (i) equity capital and reinvested earnings, and (ii) other capital, are disseminated with a timeliness of 12 months after the end of the reference period. (The data prior to 2000 had a timeliness of 15 months.) It is planned to improve the timeliness to 6 months after the end of the reference year with effect from the data for 2001.

Revision Policy: Not applicable to the data for reference year 2000 and earlier, as the data were considered final when first released. However, it is planned that as from the data for the 2001 reference year, revised data will be disseminated 6 months after they are first released. The revised data will be considered final.

Data Coverage: No major industrial sectors are excluded from the data.

Data Collection Methods: Reporting requirements are compulsory.

Data Sources: The data are compiled from quarterly and annual enterprise surveys of residents with direct investment enterprises abroad. Published sources, such as company accounts, press reports, and bilateral data for selected countries, are used for cross-checking the data obtained from the surveys. The perpetual inventory method (a method for deriving position data from transactions data) is not used. A business register of enterprises involved in direct investment is maintained. This register 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 and stock exchange authorities, industry associations, and other surveys conducted by the Census and Statistics Department, and (iii) the financial press.

Geographic Classification: Annual data showing country breakdowns are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) In accordance with the international standards, the data are compiled on an “immediate country” basis. Bilateral information is used in the compilation of the data. Data are disseminated showing breakdowns by regions or economic zones for: (i) the European Union, and (ii) NAFTA. The five countries with the largest amount of direct investment from Hong Kong as at the end of 1999 (ranked in descending order) were: the British Virgin Islands, Mainland China, Bermuda, the Cayman Islands, and New Zealand.

Industrial Classification: Annual data showing breakdowns by industrial sector are disseminated with a timeliness of 12 months after the end of the reference period with effect from the 2000 data. (The annual data prior to those for the year 2000 had a timeliness of 15 months.) The data are based on the industry of the resident direct investor. The classification broadly corresponds to the nine major divisions of the United Nations International Standard Industrial Classification of All Economic Activities (ISIC), specifically, (i) manufacturing, (ii) construction, (iii) wholesale, retail and import/export trade, (iv) restaurants and hotels, (v) communications, (vi) transport and related services, (vii) banks and deposit-taking companies, (viii) financial institutions other than banks and taking-taking companies, (ix) investment holding, real estate and various business services, (x) insurance, and (xi) other activities. Data showing breakdowns by (i) industrial sector/partner country and (ii) industrial sector/region or economic zone, are not compiled.

B. Methodology

Definition of Direct Investors Abroad: In accordance with the international standards, the basic criterion for defining direct investors abroad is 10 percent ownership of a nonresident enterprise by a resident investor, regardless of whether the investor has an effective voice in management. Investors which own less than 10 percent of a direct investment enterprise but have an effective voice in management are not included. No value threshold is used to identify direct investors abroad, 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. In accordance with the FCS, the relevant share of indirectly-owned direct investment enterprises is included in (i) the reinvested earnings data, and (ii) the equity and other capital position data. 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 associates, either domestic or foreign, or (ii) identify all transactions with the parent company. However, under the mandatory requirements of the enterprise surveys, enterprises in Hong Kong SAR are required to report all transactions with their nonresident direct investors and direct investment enterprises.

Treatment of Equity Capital and Reinvested Earnings: The data cover all types of position data affecting equity capital and reinvested earnings, namely, (i) listed voting stocks (shares), (ii) unlisted voting stocks, (iii) other non-voting stocks, including participating preference shares, (iv) noncash acquisitions of equity, such as through the provision of capital equipment, and (v) reinvested earnings. In accordance with the international standards, the data include equity positions between affiliated banks and between affiliated financial intermediaries. The reinvested earnings data cover both incorporated enterprises and unincorporated enterprises, and, in accordance with the international standards, are recorded in the period in which they are earned. (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 data cover: (i) bonds and money market instruments, (ii) long-term loans, (iii) short-term loans, (iv) financial leases, (v) trade credits, and (vi) financial derivatives. In accordance with the international standards, the data exclude (i) loans merely guaranteed by direct investors or related direct investment enterprises, (ii) changes in insurance company technical reserves, and (iii) 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, the data include positions associated with permanent debt (that is, loan capital representing a permanent interest) between affiliated banks and between affiliated financial intermediaries.

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: (i) 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, equity and loan positions are recorded as "Assets: Direct Investment Abroad: Claims on Affiliated Enterprises"; and (ii) when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, equity and loan positions are recorded as "Liabilities: Direct Investment in Hong Kong SAR: Claims on Direct Investors".

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

Treatment of Offshore Enterprises: In accordance with the international standards, activities of offshore enterprises established abroad by Hong Kong residents are generally 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 Hong Kong residents are generally included in the direct investment data, and (ii) in the case of SPEs established abroad by Hong Kong residents that have the sole purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries, except positions involving equity capital and permanent debt, are excluded from the data.

Treatment of Land and Buildings: In accordance with the international standards, the data include ownership of land and buildings abroad by Hong Kong resident enterprises and individuals.

Treatment of Natural Resources Exploration: In accordance with the international standards, the data include expenditure related to natural resources exploration abroad by Hong Kong residents.

Valuation: In accordance with the international standards, the data are reported primarily at market values. However, some survey respondents report their positions at book value, which is the accounting value shown in the accounting records of the reporting enterprises.

Exchange Rate Conversion: Both (i) the exchange rate prevailing on the day to which the position data relate, and (ii) the exchange rate prevailing on the day the stocks were acquired, are used to convert foreign currencies into the unit of account.