

**Press Release**

**Exchange Fund 2001 results announced**

The Hong Kong Monetary Authority (HKMA) announced today (17 January) the operating results\* of the Exchange Fund for the year 2001.

The Exchange Fund recorded a positive investment income of HK\$7.0 billion in 2001. The main components of this income were (Annex 1):

- a profit of HK\$50.4 billion from bonds and other investments;
- a loss of HK\$27.1 billion on the Hong Kong equities portfolio;
- a loss of HK\$3.2 billion on other equities; and
- an exchange loss of HK\$13.1 billion, as a result of the depreciation of the euro and the yen against the US dollar.

Commenting on the operating results of the year, Mr Joseph Yam, Chief Executive of the HKMA, said that 2001 had been an especially difficult and troubled year for the world's financial markets. "The events of 11 September and their aftermath added pressures and uncertainties to an already slowing global economy. The Exchange Fund continued to make very high gains in the bond markets. But these gains were to a great extent cancelled out by losses on the Hong Kong equities portfolio and exchange losses on the euro and the yen. Despite the volatility in the markets, the Exchange Fund produced a positive, albeit modest, investment return. This investment return achieved in 2001 was substantially higher than the return on the investment benchmark (0.4% return on the investment benchmark return vs. 0.7% actual return on the Exchange Fund)."

Although direct comparisons are not always easy or appropriate, generally speaking, the Exchange Fund achieved an investment return more favourable than those of other similar funds in the private sector, which range from -0.1% to -6.1% (Annex 2). The performance of the Exchange Fund should be viewed against a backdrop of a compounded 6.5% annual investment return achieved for the 8 year period from 1994 to 2001 (Chart 1).

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\* Unaudited figures for 2001

Owing mainly to the net drawdowns of the fiscal reserves amounting to HK\$36.6 billion, the Abridged Balance Sheet (Annex 3) shows that in the year 2001, the total assets of the Exchange Fund decreased by HK\$42.8 billion, from HK\$1,023.4 billion at the end of December 2000 to HK\$980.6 billion at the end of December 2001.

After deducting interest and other costs, and the sharing of investment income with the fiscal reserves placed with the Exchange Fund, the Accumulated Surplus registered a decline of HK\$4.4 billion (Annex 4).

“Despite this slight decline in 2001, the Accumulated Surplus had more than doubled in value over the past seven years. There are abundant resources in the Exchange Fund to meet its primary objectives of safeguarding the exchange value of the Hong Kong dollar and maintaining the stability and integrity of Hong Kong’s monetary and financial systems,” Mr Yam added.

Looking towards the year 2002, Mr Yam said that the investment outlook remained uncertain and difficult. “It is too early to forecast the likely path of the anticipated economic recovery. The actual timing, magnitude and sustainability of the recovery of the global economy may differ from what is currently expected by the financial markets. Understandably, the financial markets are very nervous and we expect volatile conditions to continue for some time to come,” he said. “The HKMA will maintain its vigilance of changing market conditions, and will continue, under the guidance of the Exchange Fund Advisory Committee, to manage the Exchange Fund in a prudent manner,” Mr Yam added.

An accompanying Statement of Valuation of the Hong Kong Equity Portfolio is published (Annex 5), showing that the market value of the equity investments of the Portfolio at the end of December 2001 amounted to HK\$85.9 billion.

## Attachments

Annex 1: Exchange Fund Performance

Annex 2: Supplementary Figures

Annex 3: Exchange Fund – Abridged Balance Sheet as at 31 December 2001

Annex 4: Exchange Fund – Change in Accumulated Surplus

Annex 5: Statement of Valuation of the Hong Kong Equity Portfolio

Chart 1: History of Investment Return of Exchange Fund (1994 to 2001)

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Hong Kong Monetary Authority

17 January 2002

**Exchange Fund Performance****(Expressed in billions of Hong Kong dollars)**

	2001	2000
Gain/(Loss) on Hong Kong equities *	(27.1)	(7.3)
Gain/(Loss) on other equities *	(3.2)	0.5
Exchange gain/(loss)	(13.1)	(11.2)
Total return from bonds, etc	<u>50.4</u>	<u>63.1</u>
Investment income	7.0	45.1

\* Including dividends

## Supplementary Figures

**Table 1: Major Components of the Investment Income  
(2000 to 2001)**

	Full year 2001 (HK\$ bn)	1H 2001 (HK\$ bn)	Full year 2000 (HK\$ bn)
Investment Income	+7.0	-16.6	+45.1
Loss on Hong Kong equities	-27.1	-20.0	-7.3
Gain/Loss on other equities	-3.2	-1.3	+0.5
Exchange loss	-13.1	-17.5	-11.2
Total return from bonds etc.	+50.4	+22.2	+63.1

**Table 2: Market Performance  
(2000 to 2001)**

	Full Year 2001	1H 2001	Full Year 2000
S&P 500 *	-13.0%	-7.3%	-10.1%
Hang Seng Index *	-24.5%	-13.6%	-11.0%
Merrill Lynch World Govt Bond Index 1-10 years	-0.8%	-4.1%	+0.5%
Euro vs USD	-5.6%	-9.8%	-6.3%
Yen vs USD	-13.1%	-8.4%	-10.4%

\* Market performance on equities is based on index price change during the year.

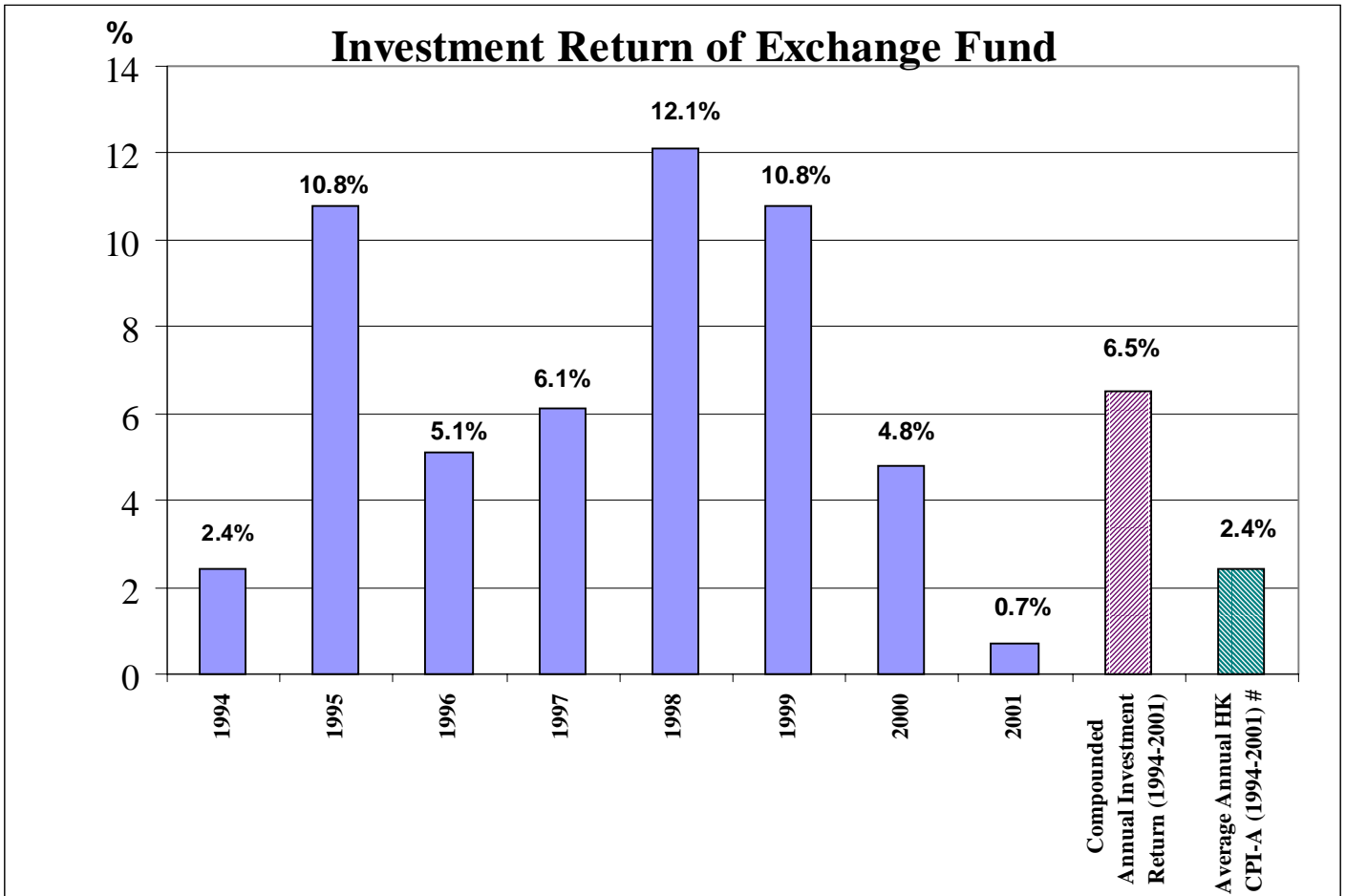
**Table 3: Investment Performance of the Exchange Fund and a Universe of  
Comparable Balanced Funds**

	% of Global Equity in benchmark	Performance in Year 1999	Performance in Year 2000	Performance in Year 2001 (unaudited)
Fund A	20%	+9.7%	+2.3%	-0.9%
Fund B	25%	+1.7%	+1.2%	-0.1%
Fund C	25%	+7.7%	+1.5%	-3.4%
Fund D	30%	+15.2%	-2.0%	-4.7%
Fund E	30%	+10.9%	-3.7%	-3.2%
Fund F	30%	*	-6.2%	-6.1%
Fund G	30%	+12.2%	-3.2%	-1.7%
Fund H	30%	+11.2%	-4.0%	-4.1%
<b>Exchange Fund</b>	<b>20%</b>	<b>+10.8%</b>	<b>+4.8%</b>	<b>+0.7%</b>

\* Inception in May 1999

Source: Watson Wyatt and S&P

**Chart 1: History of Investment Return of Exchange Fund  
(1994 to 2001)**



# HK CPI-A as of end-November 2001

**Exchange Fund Abridged Balance Sheet**

(Expressed in billions of Hong Kong dollars)

	As At 31 December 2001	As At 31 December 2000	Change
<b>ASSETS</b>			
Deposits	98.6	73.1	25.5
Debt securities	733.3	729.8	3.5
Hong Kong equities	85.9	152.9	(67.0)
Other equities	35.3	40.6	(5.3)
Other assets	27.5	27.0	0.5
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<b>Total assets</b>	<b>980.6</b>	<b>1,023.4</b>	<b>(42.8)</b>
<b>LIABILITIES AND ACCUMULATED SURPLUS</b>			
Certificates of Indebtedness	107.5	99.2	8.3
Coins in circulation	5.7	5.9	(0.2)
Balance of banking system	0.7	0.7	-
Exchange Fund Bills and Notes	118.2	109.3	8.9
Placements by other Hong Kong Special Administrative Region government funds	380.6	417.2	(36.6)
Other liabilities	65.2	84.0	(18.8)
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<b>Total liabilities</b>	<b>677.9</b>	<b>716.3</b>	<b>(38.4)</b>
<b>Accumulated surplus</b>	<b>302.7</b>	<b>307.1</b>	<b>(4.4)</b>
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<b>Total liabilities and accumulated surplus</b>	<b>980.6</b>	<b>1,023.4</b>	<b>(42.8)</b>

**Exchange Fund**  
**Change in Accumulated Surplus**

(Expressed in billions of Hong Kong dollars)

	I ←	2001				→ I	2000
	Full year	Q1	Q2	Q3	Q4	Full year	
Investment income/(loss)	7.0	(14.6)	(2.0)	10.4	13.2	45.1	
Other income	0.2	0.1	0.0	0.1	0.0	0.2	
Interest and expenses	<u>(9.9)</u>	<u>(2.8)</u>	<u>(2.8)</u>	<u>(2.3)</u>	<u>(2.0)</u>	<u>(11.0)</u>	
Net investment income/(loss)	(2.7)	(17.3)	(4.8)	8.2	11.2	34.3	
Treasury's share	<u>(1.7)</u>	<u>6.1</u>	<u>1.0</u>	<u>(4.0)</u>	<u>(4.8)</u>	<u>(18.1)</u>	
Increase/(Decrease) in EF accumulated surplus	(4.4)	(11.2)	(3.8)	4.2	6.4	16.2	



**Statement of Valuation of the Hong Kong Equity Portfolio**

HONG KONG SPECIAL ADMINISTRATIVE REGION GOVERNMENT  
EXCHANGE FUND  
HONG KONG EQUITY PORTFOLIO (Note 1)  
STATEMENT OF VALUATION  
AS AT 31 DECEMBER 2001

A. EQUITY VALUATION

The market value of the equity investments of the Portfolio was HK\$85,864 million as at 31 December 2001 (HK\$152,942 million as at 31 December 2000)

B. EQUITY DISPOSAL (1 January – 31 December 2001)

During the period, a portion of the Portfolio's shares were sold, under the terms of the Tap Facility for the Tracker Fund of Hong Kong for a gross consideration of HK\$35,163 million.

C. SHAREHOLDINGS EQUAL TO OR IN EXCESS OF 10%

As at 31 December 2001, the Portfolio had no shareholdings in any companies equal to or in excess of 10% of their issued share capital.

Note 1:

This Portfolio includes two parts: around HK\$49 billion to be retained as a long-term investment of the Exchange Fund and the balance to be disposed of in an orderly manner without disruption to the market.

Exchange Fund Investment Limited  
17 January 2002