



HONG KONG MONETARY AUTHORITY
香港金融管理局

CB(1)1947/09-10(01)

Eddie Yue
Deputy Chief Executive

余偉文
副總裁

Our Ref.: GEN15/1/2
Your Ref.: CB1/PL/FA

18 May 2010

Ms Anita Sit
Clerk to Panel
Panel on Financial Affairs
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Ms Sit,

**Panel on Financial Affairs
Special Meeting on 20 May 2010**

I refer to your letter of 3 May 2010 regarding the question from Hon Mrs Regina IP about the investment strategy of the Exchange Fund and a subsidiary company established under the Exchange Fund. Our response in respect of these two areas is at below.

Exchange Fund's investment strategy

The primary investment objectives of the Exchange Fund are to ensure capital preservation, adequate liquidity and full US dollar backing for the Hong Kong dollar. Subject to the fulfillment of these objectives, the HKMA also aims to preserve the long-term purchasing power of the Fund. To this end, the HKMA manages the Fund prudently and pursues, in a cautious manner, opportunities for diversification of investments for better risk management and yield-enhancement purposes.

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The HKMA has been exploring the feasibility of diversifying into other asset classes, including private equity, emerging-market bonds and equities, and investments in Mainland China. The HKMA has started investing a small portion of the Fund's assets in yield-enhancement assets and will proceed cautiously and incrementally.

As with all other investments of the Exchange Fund, investment in yield-enhancement assets is subject to elaborate and rigorous risk management policies and practices and is properly reflected in the financial statements in accordance with the Accounting Standards.

Eight Finance Investment Company Limited (EFIC)

EFIC is a wholly-owned subsidiary of the Exchange Fund. It was incorporated in February 2009 under the Companies Ordinance and is domiciled in Hong Kong. EFIC is an investment holding company for holding part of the investments of the Exchange Fund. The setting up of investment holding companies is a common practice in the investment community to provide additional safeguard to further limit potential liabilities arising from investment management activities. Currently, EFIC does not have any staff and is overseen and operated by the staff of the HKMA.

In accordance with the Accounting Standards, holdings and performance of EFIC have been consolidated in the 2009 Group Financial Statements of the Exchange Fund. As shown in the 2009 HKMA Annual Report, the Exchange Fund provided a loan of HK\$2.8 billion to EFIC to facilitate its investment activities. It is also shown in the Annual Report that as at 31 December 2009, EFIC has an investment commitment of HK\$9.35 billion.

Yours Sincerely,

A handwritten signature in black ink, appearing to be 'W. Lee', followed by a period.