

**Legislative Council Panel on Financial Affairs
Meeting of 20 May 2010**

The HKMA's responses to the follow-up requests

Eight Finance Investment Company Limited (EFIC)

- 1. In relation to Hon Regina IP's concern about the EFIC's investment, the Hong Kong Monetary Authority is requested to provide information about the investment strategy, investment portfolio and investment returns of the EFIC.**
- 1.1 EFIC is a wholly-owned subsidiary of the Exchange Fund. It is an investment holding company for holding certain 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 limit the Exchange Fund's potential liabilities arising from investment management activities.
- 1.2 EFIC does not have any staff and is overseen and operated by the staff of the HKMA. Its investment is managed by the HKMA with the objective to diversify investments of the Exchange Fund for better risk management and yield-enhancement purposes, provided that the primary investment objectives of the Fund in ensuring adequate liquidity and full US-dollar backing for the Hong Kong dollar are fulfilled.
- 1.3 In accordance with the Accounting Standards, holdings and performance of EFIC have been consolidated in the Group Financial Statements of the Exchange Fund and published in the HKMA's Annual Report. As at 31 December 2009, a loan provided by the Exchange Fund to EFIC to facilitate its investment activities amounted to HK\$2.8 billion and EFIC's investment commitment amounted to HK\$9.35 billion. The investment commitment reflects the obligation of the Exchange Fund to make investments through EFIC.

Exchange Fund

- 2. In relation to Hon Paul CHAN's concern about the investment income of the Exchange Fund, the HKMA is requested to provide information about the investment income of the Exchange Fund for the first quarter of the years from 2007 to 2010. The information should be itemized as per pages 50 and 60 of the HKMA's briefing paper for the meeting. HKMA is also requested to include, in its future briefings to the Panel, such itemized information about the investment income of the Exchange Fund for the same quarter of the previous three years.**
 - 2.1 Investment income and related figures of the Exchange Fund for the first quarter of 2007, 2008, 2009 and 2010 are shown in the Annex.
 - 2.2 Investment income of the Exchange Fund comprises mainly dividend and interest income, realised gain/loss from financial instruments when they are sold, and unrealised gain/loss from valuation change of the financial assets held by the Fund. The income of any period is significantly affected by the prevailing financial market conditions.
 - 2.3 Caution has to be taken when making comparison of the Fund's investment income on a quarterly or even yearly basis. As prices of financial instruments are highly volatile at times, short-term fluctuations in the Fund's investment income are unavoidable. As movements in financial asset prices normally do not demonstrate any seasonal pattern, comparison of the current quarter's investment income of the Fund with that of the same quarter last year may not be meaningful.
 - 2.4 The Fund's performance should best be reviewed over the medium to long-term to align with the long-term nature of the Fund's statutory purposes and investment objectives. In the HKMA's regular briefing to the Financial Affairs Panel, the Exchange Fund's investment income of the latest quarter is provided together with that of the previous years and quarters to illustrate the movements of our investment income over the relevant time horizons. In future briefings, the HKMA will continue to include such relevant figures in its presentation materials.

**Hong Kong Monetary Authority
14 June 2010**

Investment Income of the Exchange Fund

(HK\$ billion)	2010 Q1*	2009 Q1*	2008 Q1*	2007 Q1*
Gain/(Loss) on Hong Kong equities^	(3.1) [@]	(4.2) [@]	(30.0)	0.2
Gain/(Loss) on other equities^	11.2	(16.0)	(22.4)	2.2
Exchange gain/(loss)	(8.7)	(9.7)	12.2	6.0
Return from bonds [#]	11.4	(3.6)	25.6	12.3
Investment income/(loss)	10.8 [@]	(33.5) [@]	(14.6)	20.7

* Unaudited figures

^ Including dividends

Including interest

@ Excluding valuation changes in Strategic Portfolio

Changes in Investment Income, Payment to Treasury and Accumulated Surplus of the Exchange Fund

(HK\$ billion)	2010 Q1*	2009 Q1*	2008 Q1*	2007 Q1*
Investment income/(loss)	10.8	(33.5)	(14.6)	20.7
Other income	0.0	0.0	0.1	0.0
Interest and other expenses	(0.9)	(0.7)	(1.6)	(2.3)
Net investment income/(loss)	9.9	(34.2)	(16.1)	18.4
Payment to Fiscal Reserves [#]	(8.5)	(9.1)	(11.8)	(6.4)
Payment to HKSAR government funds and statutory bodies [#]	(0.8)	0.0	-	-
Valuation change of Strategic Portfolio^	(0.6)	(0.1)	(5.5)	-
Increase/(Decrease) in EF Accumulated Surplus	0.0	(43.4)	(33.4)	12.0

* Unaudited figures

The fixed rate of fee payment is 6.3% for 2010, 6.8% for 2009 and 9.4% for 2008.

^ Including dividends