



## Report of the Director of Audit to the Financial Secretary

I have audited the statement of the accounts on pages 80 to 103 which has been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of the Monetary Authority and the Director of Audit

The directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance (Cap. 66) requires the Monetary Authority to sign the statement of the accounts. In preparing the statement of the accounts, the Monetary Authority has to select appropriate accounting policies and to apply them consistently.

It is my responsibility to form an independent opinion, based on my audit, on that statement of the accounts and to report my opinion to you.

### Basis of opinion

I certify that I have audited the statement of the accounts referred to above in accordance with the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance and the Audit Commission auditing standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of the accounts. It also includes an assessment of the significant estimates and judgements made by the Monetary Authority in the preparation of the statement of the accounts, and of whether the accounting policies are appropriate to the Exchange Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance as to whether the statement of the accounts is free from material misstatement. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the statement of the accounts. I believe that my audit provides a reasonable basis for my opinion.

### Opinion

In my opinion the statement of the accounts gives a true and fair view of the state of affairs of the Exchange Fund as at 31 December 2000 and of its surplus and cash flows for the year then ended and has been properly prepared in accordance with the directive of the Chief Executive made under section 7 of the Exchange Fund Ordinance.

Audit Commission  
Hong Kong  
27 March 2001

**Dominic Y T Chan**  
Director of Audit

## Exchange Fund – Income and Expenditure Account

for the year ended 31 December 2000

(Expressed in millions of Hong Kong dollars)

NOTES

2000

1999

### INCOME

#### Interest income

Interest income on debt securities

29,710

26,837

Other interest income

6,643

5,207

Total interest income

36,353

32,044

Dividend income from listed equity securities

4,871

6,969

Net realised and revaluation gains/(losses)

on other investments in securities

10,695

78,840

Other net realised and revaluation gains/(losses)

4,370

(4,210)

Net exchange losses

(11,189)

(9,858)

Bank licence fees

151

158

Others

22

30

### TOTAL INCOME

45,273

103,973

### EXPENDITURE

Note and coin expenses

3(a)

172

454

Operating expenses

3(b)

983

905

Interest expense

3(c)

27,877

54,001

### TOTAL EXPENDITURE

29,032

55,360

### SURPLUS FOR THE YEAR

21

16,241

48,613

No separate statement of recognised gains and losses has been prepared as the surplus for the year would be the only component of this statement for both the current and the previous year.

The notes on pages 83 to 103 form part of these accounts.

## Exchange Fund – Balance Sheet

as at 31 December 2000

(Expressed in millions of Hong Kong dollars)

	NOTES	2000	1999
<b>ASSETS</b>			
Cash and money at call		16,953	16,494
Placements with banks and other financial institutions	4	56,093	102,469
Investment securities	5	300	300
Other investments in securities	6	923,360	863,921
Gold	7	142	151
Thailand financing package	8	6,724	6,701
Other assets	9	17,448	10,340
Investments in subsidiaries	10	2,145	2,145
Investment in associate	11	14	22
Fixed assets	12	184	213
<b>TOTAL ASSETS</b>	13	<b>1,023,363</b>	1,002,756
<b>LIABILITIES AND FUND RESOURCES</b>			
Certificates of Indebtedness	14	99,265	118,195
Coins in circulation	14	5,918	5,777
Balance of the banking system	15	669	7,960
Exchange Fund Bills and Notes	16	109,288	101,828
Placements by banks and other financial institutions	17	35,389	19,113
Placements by other Hong Kong Special Administrative Region government funds	18	417,162	392,206
Placements by Hong Kong statutory bodies		9,660	9,986
Other liabilities	19	38,913	56,833
Total liabilities		716,264	711,898
Accumulated surplus	21	307,099	290,858
<b>TOTAL LIABILITIES AND FUND RESOURCES</b>		<b>1,023,363</b>	1,002,756

**Joseph Yam**

Monetary Authority

27 March 2001

*The notes on pages 83 to 103 form part of these accounts.*

## Exchange Fund – Cash Flow Statement

for the year ended 31 December 2000

(Expressed in millions of Hong Kong dollars)	NOTES	2000	1999
<b>Net cash (outflow)/inflow from operating activities</b>	22(a)	<b>(58,738)</b>	30,898
<b>Returns on investments and servicing of finance</b>			
Interest received on loan to associate		<b>1</b>	2
Dividend received from subsidiaries		<b>27</b>	–
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>28</b>	2
<b>Investing activities</b>			
Purchase of fixed assets		<b>(39)</b>	(56)
Repayment of loan by associate		<b>8</b>	21
<b>Net cash outflow from investing activities</b>		<b>(31)</b>	(35)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(58,741)</b>	30,865
<b>Cash and cash equivalents at 1 January</b>		<b>144,082</b>	112,859
<b>Effect of foreign exchange movements</b>		<b>268</b>	358
<b>Cash and cash equivalents at 31 December</b>	22(b)	<b>85,609</b>	144,082

The notes on pages 83 to 103 form part of these accounts.

## Exchange Fund – Notes on the Accounts

(Amounts expressed in millions of Hong Kong dollars, unless otherwise stated.)

### 1. PRINCIPAL ACTIVITIES

The Monetary Authority, under delegated authority from the Financial Secretary as Controller of the Exchange Fund (“the Fund”), manages the Fund in accordance with the provisions of the Exchange Fund Ordinance. The principal activities of the Fund are the safeguarding of the exchange value of the currency of Hong Kong and the maintaining of the stability and integrity of Hong Kong’s monetary and financial systems.

The principal activities of the subsidiaries are shown in Note 10.

### 2. PRINCIPAL ACCOUNTING POLICIES

#### (a) Basis of preparation

- (i) Group accounts are not prepared in view of the insignificant amounts involved in the subsidiaries and associate.
- (ii) These accounts have been prepared using the fair value measurement basis, as modified by the use of historical cost for investment securities, other assets, investments in subsidiaries and associate, fixed assets, placements by other Hong Kong Special Administrative Region (“HKSAR”) government funds for which interest is payable at rates determined by reference to the investment income of the Fund and other liabilities, and in accordance with accounting principles generally accepted in Hong Kong, and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. Fair value represents the market price of a financial instrument for which there is a published price quotation in an active securities market. Where such a market price is not available, fair value represents the valuation of a financial instrument according to a price matrix of discounted cash flows using applicable interest rates for discounting.

#### (b) Investments

- (i) Investments in securities

Investments in debt and equity securities, except those held as investments in subsidiaries and associate, are accounted for as follows.

Investments in securities are recognised as assets from the date on which the Fund is bound by the contract which gives rise to them. They are classified as investment securities and other investments in securities.

Investment securities

Investment securities are securities which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose.

Investment securities are included in the balance sheet at cost less provision for any diminution in value which is other than temporary.

## Exchange Fund – Notes on the Accounts (cont.)

Other investments in securities

Other investments in securities are those which are not classified as investment securities and are stated at fair value at the balance sheet date.

Changes in fair value of these investments are recognised in the income and expenditure account in “Net realised and revaluation gains/(losses) on other investments in securities” as they arise.

Gains and losses on sale of these investments are accounted for in the income and expenditure account in “Net realised and revaluation gains/(losses) on other investments in securities” in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the securities.

(ii) Investments in subsidiaries and associate

Investments in subsidiaries and associate are stated at cost less provision for any diminution in value which is other than temporary as determined by management.

The results of subsidiaries and associate are accounted for by the Fund on the basis of dividends received and receivable.

**(c) Placements with banks and other financial institutions**

Placements with banks and other financial institutions are valued in the balance sheet according to a price matrix of discounted cash flows using applicable interest rates for discounting. Changes in value of these placements are included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”.

**(d) Exchange Fund Bills and Notes**

Where Exchange Fund Bills and Notes have been issued at a premium or discount, those premiums and discounts are amortised over the period from the date of issue to the date of redemption and are included in the income and expenditure account in “Interest expense”. Exchange Fund Bills and Notes are stated in the balance sheet at market value. Changes in market value of Exchange Fund Bills and Notes are recognised in the income and expenditure account in “Other net realised and revaluation gains/(losses)” as they arise.

On redemption of the Exchange Fund Bills and Notes, the resulting gains and losses, being the difference between the redemption amount and the carrying amount, are recognised in the income and expenditure account in “Other net realised and revaluation gains/(losses)” in the period in which the redemption takes place.

**(e) Placements by other HKSAR government funds and other placements**

Placements by other HKSAR government funds for which interest is payable at market-based rates are valued according to a price matrix of discounted cash flows using applicable interest rates for discounting. Changes in value of these placements are included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”. In the balance sheet, these placements are stated at the principal amounts payable at the balance sheet date with the revaluation differences included in “Other liabilities”.

Placements by other HKSAR government funds for which interest is payable at rates determined by reference to the investment income of the Fund are stated at the principal amounts payable at the balance sheet date.

## Exchange Fund – Notes on the Accounts (cont.)

Placements by banks, other financial institutions and Hong Kong statutory bodies are valued in the balance sheet according to a price matrix of discounted cash flows using applicable interest rates for discounting. Changes in value of these placements are included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”.

### (f) Repurchase and resale agreements

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received in “Placements by banks and other financial institutions”. Conversely, securities purchased under analogous commitments to resell are not recognised on the balance sheet and the consideration paid is recorded in “Placements with banks and other financial institutions”. At the balance sheet date consideration received or paid under repurchase and resale agreements are valued according to a price matrix of discounted cash flows using applicable interest rates for discounting. Gains or losses arising from revaluation are included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”.

### (g) Securities lending agreements

Where securities are loaned with the receipt of cash or securities collateral, they remain on the balance sheet. Where cash collateral is received, a liability is recorded in respect of the cash received in “Placements by banks and other financial institutions”. At the balance sheet date, this liability is valued according to a price matrix of discounted cash flows using applicable interest rates for discounting. Gains or losses arising from revaluation are included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”.

### (h) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are included in the income and expenditure account.

Certificates of Indebtedness and with effect from 1 April 1999 coins in circulation, both of which are denominated in Hong Kong dollars but are issued and redeemed in US dollars at the linked exchange rate of US\$1=HK\$7.80, are stated in the accounts at their Hong Kong dollar face value. At the balance sheet date the difference between their Hong Kong dollar face value and the market value of the US dollars required for their redemption is included in “Other assets”.

Foreign currency income and expenditure are translated into Hong Kong dollars at the exchange rates prevailing at the transaction dates.

### (i) Off-balance sheet financial instruments

Forward foreign exchange contracts are marked to market at the balance sheet date with the resultant revaluation gains and losses being included in the income and expenditure account in “Net exchange losses”.

Interest rate swap contracts are marked to market at the balance sheet date with the resultant revaluation gains and losses being included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”.

## Exchange Fund – Notes on the Accounts (cont.)

Revaluation gains or losses on forward foreign exchange contracts and interest rate swap contracts are included in the balance sheet as “Other assets” or “Other liabilities” as appropriate.

Stock index futures contracts and bond futures contracts are marked to market at the balance sheet date with their marked to market value being included in the balance sheet as “Other assets” or “Other liabilities” as appropriate. The resultant revaluation gains and losses are included in the income and expenditure account in “Other net realised and revaluation gains/(losses)”.

**(j) Fixed assets**

Fixed assets, including properties, furniture, fixtures and equipment, motor vehicles, personal computers and capitalised systems development costs, are stated at cost less accumulated depreciation and are depreciated on a straight-line basis over their respective estimated useful lives of between 3 and 39 years.

On disposal of fixed assets, the profit or loss is calculated as the difference between the net sales proceeds and the net carrying amount.

No periodic revaluation of properties and equipment has been carried out.

**(k) Revenue recognition**

Interest income is recognised on an accrual basis and dividend income is recognised when the share price goes ex-dividend.

Premiums and discounts on acquisition of debt securities are dealt with in the income and expenditure account in “Net realised and revaluation gains/(losses) on other investments in securities” in the process of marking to market of such securities at the balance sheet date.

Bank license fees are fees receivable from Authorised Institutions under the Banking Ordinance and are accounted for in the period when receivable.

Other income includes income from sale of withdrawn coins and Central Moneymarkets Unit fees. Other income is accounted for in the period when receivable.

**(l) Interest expense**

Interest expense is recognised on an accrual basis. Discounts and premiums relating to borrowings are amortised on a straight-line basis over the respective remaining lives of the instruments. For a majority portion of the placements by other HKSAR government funds, interest is payable at rates determined by reference to the investment income of the Fund. For the rest of such placements, interest is payable at market-based rates.

**(m) Related parties**

For the purposes of these accounts, parties are considered to be related to the Fund if the Fund has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

## Exchange Fund – Notes on the Accounts (cont.)

**(n) Cash and cash equivalents**

Cash and cash equivalents are cash, placements with banks and other financial institutions and short-term highly liquid investments which were within three months of maturity when placed or acquired, less placements by banks and other financial institutions repayable within three months from the date of the placement.

**(o) Staff retirement schemes**

The Hong Kong Monetary Authority ("HKMA") operates two defined contribution schemes, the Provident Fund Scheme and the Mandatory Provident Fund Scheme. Under the schemes, contributions applicable each year are charged to the income and expenditure account. The assets of the staff retirement schemes are held separate from the Fund.

**(p) Operating leases**

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income and expenditure account on a straight-line basis over the period of the relevant leases.

**3. EXPENDITURE**

**(a) Note and coin expenses** represent reimbursements to the note-issuing banks in respect of note-issuing expenses, and expenses incurred directly by the Fund in issuing coins.

**(b) Operating expenses**

	2000	1999
Staff costs		
Salaries and other staff costs	414	409
Retirement benefit costs	22	21
Premises and equipment expenses		
Depreciation charges	68	60
Operating lease charges	78	83
Other premises and equipment expenses	41	43
Other operating expenses	360	289
<b>TOTAL</b>	<b>983</b>	<b>905</b>

## Exchange Fund – Notes on the Accounts (cont.)

The numbers of senior staff (Executive Directors and above) of the HKMA whose emoluments fell within the following bands were:

HK\$	2000	1999
1,000,000 or below	2	1
2,000,001 to 2,500,000	1	–
3,000,001 to 3,500,000	1	4
3,500,001 to 4,000,000	3	2
4,000,001 to 4,500,000	–	1
4,500,001 to 5,000,000	2	1
5,000,001 to 5,500,000	1	1
5,500,001 to 6,000,000	1	–
6,000,001 to 6,500,000	1	1
8,500,001 to 9,000,000	–	1
9,000,001 to 9,500,000	1	–
	<b>13</b>	<b>12</b>

## (c) Interest expense

	2000	1999
Interest on placements by other HKSAR government funds:		
With interest at market-based rates	<b>880</b>	484
With interest at rates determined by reference to the investment income of the Fund	<b>18,052</b>	45,407
Other interest expense	<b>8,945</b>	8,110
<b>TOTAL</b>	<b>27,877</b>	54,001

## 4. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2000	1999
Placements with banks and other financial institutions in respect of resale agreements	<b>21,379</b>	30,527
Other placements with banks and other financial institutions	<b>34,714</b>	71,942
<b>TOTAL</b>	<b>56,093</b>	102,469

## 5. INVESTMENT SECURITIES

Investment securities comprise 3,000 unlisted shares of the Bank for International Settlements with a nominal value of 2,500 Swiss gold francs each (25% paid).

## Exchange Fund – Notes on the Accounts (cont.)

## 6. OTHER INVESTMENTS IN SECURITIES

Other investments in securities comprise debt securities and equity securities:

At fair value	2000	1999
<b>Debt securities</b>		
<b>Treasury bills and commercial papers</b>		
Listed outside Hong Kong	1,505	10,735
Unlisted	138,672	109,291
<b>Certificates of deposit</b>		
Unlisted	53,898	4,982
<b>Other debt securities</b>		
Listed		
In Hong Kong	7,739	11,472
Outside Hong Kong	442,265	408,887
Unlisted	85,755	55,657
<b>Total debt securities</b>	<b>729,834</b>	<b>601,024</b>
<b>Equity securities</b>		
Listed		
In Hong Kong (a)	152,942	218,806
Outside Hong Kong	40,584	44,091
<b>Total equity securities</b>	<b>193,526</b>	<b>262,897</b>
<b>TOTAL</b>	<b>923,360</b>	<b>863,921</b>

## (a) Equity securities listed in Hong Kong

The investment benchmark of the Fund allocates 5% of its assets to the Hong Kong equity market as a long-term investment. The disposal of the Hong Kong equity portfolio, other than the long-term investment portfolio, is conducted in an orderly manner with minimum disruption to the market. In November 1999, a disposal program was implemented through the launching of The Tracker Fund of Hong Kong ("TraHK"), a collective investment fund designed to provide investment results that closely correspond to the performance of the Hang Seng Index. Proceeds from TraHK's initial offer were used to buy shares from the Fund. Further disposals were made through the Tap Facility which is a means for the Fund to continue passively selling more shares into TraHK in response to investor demand. Under the Tap Facility, TraHK units can be created for cash which is used to purchase Hong Kong equity shares from the Fund. In 2000, disposal of Hong Kong equity portfolio through the Tap Facility amounted to HK\$46.6 billion (1999 – HK\$3.3 billion).

## Exchange Fund – Notes on the Accounts (cont.)

## 7. GOLD

	2000	1999
Gold, at market value		
66,916 ounces (1999 – 66,915 ounces)	142	151

## 8. THAILAND FINANCING PACKAGE

On 21 September 1997, the HKMA participated in a financing package organised for Thailand by the International Monetary Fund ("IMF"). The financing package is in the form of a Currency Swap Agreement ("the Agreement") between the Bank of Thailand ("BOT") and a number of Asian central banks and multinational institutions, including the HKMA and the IMF. Under the Agreement, the HKMA, on behalf of the Fund, entered into swap transactions to exchange US dollars for Thai Baht up to a maximum of US\$1 billion for a maximum period of five years. At the end of the agreed period for each swap transaction, the exchange of currencies will be reversed and the US dollars to be received by the HKMA will be equivalent to the original principal swapped plus interest at market rate. The transaction is accounted for as a US dollar loan to reflect its economic substance. As at 31 December 2000, the outstanding principal and accrued interest due from BOT under the Agreement amounted to US\$862 million (1999 – US\$862 million) and US\$12 million (1999 – US\$11 million) respectively.

## 9. OTHER ASSETS

	2000	1999
Staff housing loans	296	292
Revaluation gains on off-balance sheet items which are marked to market	3,768	678
Revaluation difference on Certificates of Indebtedness and coins in circulation	1	402
Prepayments, accruals and receivables	13,383	8,968
<b>TOTAL</b>	<b>17,448</b>	<b>10,340</b>

## Exchange Fund – Notes on the Accounts (cont.)

## 10. INVESTMENTS IN SUBSIDIARIES

	2000	1999
Unlisted shares, at cost	2,145	2,145

The following is a list of the subsidiaries as at 31 December 2000 and 31 December 1999:

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Exchange Fund's interest in equity capital
Hong Kong Note Printing Limited	Hong Kong	Banknotes printing	HK\$255,000,000	55%
The Hong Kong Mortgage Corporation Limited	Hong Kong	Investment in mortgages, mortgage securitisation and guarantee	HK\$2,000,000,000	100%
Exchange Fund Investment Limited	Hong Kong	Investment management	HK\$5,000,000	100%
Hong Kong Institute for Monetary Research	Hong Kong	Research	HK\$2	100%

## Exchange Fund – Notes on the Accounts (cont.)

Net aggregate amounts attributable to the Fund of profits less losses of the subsidiaries that are not dealt with in these accounts are as follows:

	2000	1999
For the current financial year:		
Hong Kong Note Printing Limited	10.4	65.8
The Hong Kong Mortgage Corporation Limited	233.1	271.2
Exchange Fund Investment Limited	–	–
Hong Kong Institute for Monetary Research	0.9	(1.9)
	<b>244.4</b>	335.1
For the previous financial years since acquisition:		
Hong Kong Note Printing Limited	167.0	101.2
The Hong Kong Mortgage Corporation Limited	357.4	86.2
Exchange Fund Investment Limited	–	–
Hong Kong Institute for Monetary Research	(1.9)	–
	<b>522.5</b>	187.4

Net aggregate amounts due from the subsidiaries are as follows:

	2000	1999
Hong Kong Note Printing Limited	0.4	0.4
The Hong Kong Mortgage Corporation Limited	388.3	588.1
Exchange Fund Investment Limited	(11.7)	(8.2)
Hong Kong Institute for Monetary Research	1.0	1.5
	<b>378.0</b>	581.8

As at 31 December 2000, HK\$388 million (1999 – HK\$588 million) of the total of HK\$9,000 million (1999 – HK\$8,000 million) fixed rate notes issued by The Hong Kong Mortgage Corporation Limited was held by the Fund. The amount of these fixed rate notes held by the Fund is included in the aggregate amount due from The Hong Kong Mortgage Corporation Limited shown above.

The Hong Kong Mortgage Corporation Limited has unissued authorised share capital of HK\$1 billion (1999 – HK\$1 billion) which is callable from the Fund.

## Exchange Fund – Notes on the Accounts (cont.)

## 11. INVESTMENT IN ASSOCIATE

Name of company	Place of incorporation and operation	Principal activities	Issued equity capital	Exchange Fund's interest in equity capital
Hong Kong Interbank Clearing Limited	Hong Kong	Interbank clearing	HK\$10,000	50%

The breakdown of the investment in associate is:

	2000	1999
Unlisted shares, at cost (HK\$5,000)	–	–
Loans to associate	14	22
<b>TOTAL</b>	<b>14</b>	<b>22</b>

The loans to Hong Kong Interbank Clearing Limited are unsecured and bear a fixed rate of interest at 1% over 3-month HIBOR per annum, repayable by 16 quarterly instalments starting from January 1999.

## 12. FIXED ASSETS

	2000	1999
<b>Costs</b>		
At 1 January	369	315
Additions	39	56
Disposals	(3)	(2)
At 31 December	405	369
<b>Accumulated depreciation</b>		
At 1 January	156	98
Charge for the year	68	60
Written back on disposal	(3)	(2)
At 31 December	221	156
<b>Net book value at 31 December</b>	<b>184</b>	<b>213</b>

## Exchange Fund – Notes on the Accounts (cont.)

## 13. TOTAL ASSETS

	2000	1999
Foreign currency assets	856,680	755,115
Hong Kong dollar assets	166,683	247,641
<b>TOTAL</b>	<b>1,023,363</b>	<b>1,002,756</b>

The Fund holds Hong Kong dollar and foreign currency assets. A large proportion of the Fund's foreign currency assets is held in US dollars. Apart from the US dollar assets, the Fund also holds assets denominated in fully convertible foreign currencies.

Total foreign currency assets and unsettled spot and forward foreign exchange transactions are as follows:

	2000	1999
Foreign currency assets excluding unsettled spot and forward transactions	856,680	755,115
Net unsettled spot and forward transactions	–	249
<b>TOTAL</b>	<b>856,680</b>	<b>755,364</b>
US\$ million equivalent	<b>109,832</b>	<b>97,172</b>

The Fund's assets are held in deposit, trustee and safe-keeping accounts with banks, central banks and custodial organisations situated in Hong Kong and other major financial centres.

Starting from 1 October 1998, specific US dollar assets of the Fund have been designated to back the monetary base, which comprises Certificates of Indebtedness, coins in circulation, the balance of the banking system and Exchange Fund Bills and Notes. While specific assets of the Fund have been earmarked for backing the monetary base, all the Fund assets have continued to be available for the purpose of supporting the Hong Kong dollar exchange rate under the linked exchange rate system.

## Exchange Fund – Notes on the Accounts (cont.)

The position of the Currency Board Account is as follows:

	2000	1999
<b>MONETARY BASE</b>		
Certificates of Indebtedness	99,265	118,195
Coins in circulation	5,918	5,777
Balance of the banking system	669	7,960
Exchange Fund Bills and Notes	109,288	101,828
Interest payable on Exchange Fund Notes	612	626
Net accounts receivable	(348)	–
<b>TOTAL (a)</b>	<b>215,404</b>	<b>234,386</b>
<b>BACKING ASSETS</b>		
Investment in designated US dollar assets	240,056	255,720
Interest receivable on designated US dollar assets	1,593	1,267
Net accounts payable	(27)	–
<b>TOTAL (b)</b>	<b>241,622</b>	<b>256,987</b>
<b>BACKING RATIO</b> [(b) / (a)] x 100%	<b>112.17%</b>	<b>109.64%</b>

## 14. CERTIFICATES OF INDEBTEDNESS AND COINS IN CIRCULATION

As backing for the banknote issues, each note-issuing bank is required to hold a non-interest bearing Certificate of Indebtedness issued by the Financial Secretary. Payments for the issuance and redemption of notes against these Certificates are made in US dollars at a fixed rate of US\$1=HK\$7.80. Consistent with the requirement for backing banknote issuance with US dollars, the issue and withdrawal of coins are conducted against US dollars at a fixed rate of US\$1=HK\$7.80.

## 15. BALANCE OF THE BANKING SYSTEM

Under the interbank payment system based on Real Time Gross Settlement principles, all licensed banks maintain a Hong Kong dollar clearing account with the HKMA for the account of the Fund. The aggregate balance in these accounts represents the total level of liquidity in the interbank market. Under the Convertibility Undertaking which came into effect from 7 September 1998, the HKMA undertook to convert Hong Kong dollars in the clearing accounts maintained by licensed banks with the HKMA into US dollars at the fixed exchange rate of HK\$7.75 to US\$1. In accordance with a scheme announced by the HKMA on 26 November 1998, starting from 1 April 1999 the exchange rate under the Convertibility Undertaking moved from HK\$7.75 by 1 pip a day over a 500-day period and reached HK\$7.8 on 12 August 2000. Since then, the exchange rate under the Convertibility Undertaking has remained at HK\$7.8 to US\$1.

## Exchange Fund – Notes on the Accounts (cont.)

## 16. EXCHANGE FUND BILLS AND NOTES

	2000	1999
Exchange Fund Bills	72,147	66,620
Exchange Fund Notes	37,141	35,208
<b>TOTAL</b>	<b>109,288</b>	<b>101,828</b>

Exchange Fund Bills are issued by the Fund for maturities not exceeding one year. Exchange Fund Notes are issued by the Fund with 2-year, 3-year, 5-year, 7-year and 10-year maturities.

## 17. PLACEMENTS BY BANKS AND OTHER FINANCIAL INSTITUTIONS

	2000	1999
Placements by banks and other financial institutions in respect of repurchase agreements	19,880	–
Other placements by banks and other financial institutions	15,509	19,113
<b>TOTAL</b>	<b>35,389</b>	<b>19,113</b>

## Exchange Fund – Notes on the Accounts (cont.)

## 18. PLACEMENTS BY OTHER HKSAR GOVERNMENT FUNDS

The breakdown of placements by other HKSAR government funds is:

	2000	1999
<b>Placements with interest payable at market-based rates</b>		
General Revenue Account	1,194	1,718
Capital Investment Fund	4,597	1,633
Loan Fund	7,650	6,488
Capital Works Reserve Fund	778	1,526
Innovation and Technology Fund	129	62
	14,348	11,427
<b>Placements with interest payable at rates determined by reference to the investment income of the Fund</b>		
General Revenue Account	113,144	116,397
Land Fund	234,546	213,159
Capital Works Reserve Fund	39,308	36,278
Civil Service Pension Reserve Fund	11,139	10,123
Disaster Relief Fund	21	25
Innovation and Technology Fund	4,656	4,797
	402,814	380,779
<b>TOTAL</b>	<b>417,162</b>	<b>392,206</b>

Placements by other HKSAR government funds are not permanently appropriated for the use of the Fund, but are repayable on demand when they are required to meet the obligations of the fiscal reserves.

## 19. OTHER LIABILITIES

	2000	1999
Interest payable on placements by other HKSAR government funds at rates determined by reference to the investment income of the Fund	22,366	45,407
Revaluation losses on off-balance sheet items which are marked to market	3,190	–
Provision for Tracker Fund Loyalty Bonus (a)	1,228	2,746
Accrued interest and other liabilities	12,129	8,680
<b>TOTAL</b>	<b>38,913</b>	<b>56,833</b>

## Exchange Fund – Notes on the Accounts (cont.)

## (a) Tracker Fund Loyalty Bonus Scheme

Under the terms of the issue of the Tracker Fund of Hong Kong (see Note 6(a)), qualified Tracker Fund Unitholders will be eligible to receive the second tranche of loyalty bonus on 12 November 2001, in the form of Tracker Fund Units ("Units"), based on a predetermined formula, the cost of which is to be borne by the Fund. The Fund has acquired a sufficient number of Units to meet its maximum liability under the Scheme. As at 31 December 2000, provision for the loyalty bonus amounted to HK\$1,228 million (1999 – HK\$2,746 million), which represented the market value of the Units required to satisfy entitlements to loyalty bonus Units, on the assumption that those Unitholders who currently hold Units will continue to hold those Units until the bonus vesting date.

## 20. MATURITY PROFILE

2000							
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
<b>Assets</b>							
Cash and money at call	16,953	–	–	–	–	–	16,953
Placements with banks and other financial institutions	–	56,093	–	–	–	–	56,093
Investment securities	–	–	–	–	–	300	300
Other investments in securities	–	140,199	180,009	150,464	259,162	193,526	923,360
Gold	–	–	–	–	–	142	142
Thailand financing package	–	–	2,574	4,150	–	–	6,724
	16,953	196,292	182,583	154,614	259,162	193,968	1,003,572
<b>Liabilities</b>							
Certificates of Indebtedness	99,265	–	–	–	–	–	99,265
Coins in circulation	5,918	–	–	–	–	–	5,918
Balance of the banking system	669	–	–	–	–	–	669
Exchange Fund Bills and Notes	–	57,508	21,895	22,455	7,430	–	109,288
Placements by banks and other financial institutions	–	30,381	5,008	–	–	–	35,389
Placements by other HKSAR government funds	405,276	7,922	3,964	–	–	–	417,162
Placements by Hong Kong statutory bodies	93	6,824	2,743	–	–	–	9,660
	511,221	102,635	33,610	22,455	7,430	–	677,351

## Exchange Fund – Notes on the Accounts (cont.)

1999							
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
<b>Assets</b>							
Cash and money at call	16,494	–	–	–	–	–	16,494
Placements with banks and other financial institutions	–	102,469	–	–	–	–	102,469
Investment securities	–	–	–	–	–	300	300
Other investments in securities	–	100,482	133,743	210,449	156,350	262,897	863,921
Gold	–	–	–	–	–	151	151
Thailand financing package	–	–	–	6,701	–	–	6,701
	16,494	202,951	133,743	217,150	156,350	263,348	990,036
<b>Liabilities</b>							
Certificates of Indebtedness	118,195	–	–	–	–	–	118,195
Coins in circulation	5,777	–	–	–	–	–	5,777
Balance of the banking system	7,960	–	–	–	–	–	7,960
Exchange Fund Bills and Notes	–	53,221	20,656	20,049	7,902	–	101,828
Placements by banks and other financial institutions	–	18,612	501	–	–	–	19,113
Placements by other HKSAR government funds	385,038	4,282	2,886	–	–	–	392,206
Placements by Hong Kong statutory bodies	103	1,568	8,315	–	–	–	9,986
	517,073	77,683	32,358	20,049	7,902	–	655,065

## 21. ACCUMULATED SURPLUS

	2000	1999
Accumulated surplus at 1 January	290,858	242,245
Surplus for the year	16,241	48,613
Accumulated surplus at 31 December	307,099	290,858

## Exchange Fund – Notes on the Accounts (cont.)

## 22. NOTES TO THE CASH FLOW STATEMENT

## (a) Reconciliation of surplus for the year to net cash (outflow)/inflow from operating activities

	2000	1999
<b>Surplus for the year</b>	<b>16,241</b>	<b>48,613</b>
Interest income on loan to associate	(1)	(2)
Dividend received from subsidiaries	(27)	–
Amortisation of premiums and discounts on Exchange Fund Bills and Notes	4,082	3,702
Depreciation	68	60
Change in placements with banks and other financial institutions	7,759	10,011
Change in other investments in securities	(77,705)	(75,489)
Change in gold	9	(2)
Change in Thailand financing package	(23)	(829)
Change in other assets	(7,108)	2,438
Change in Certificates of Indebtedness and coins in circulation	(18,789)	31,729
Change in balance of the banking system	(7,291)	5,433
Change in Exchange Fund Bills and Notes	3,378	(208)
Change in placements by banks and other financial institutions	14,227	11,129
Change in placements by other HKSAR government funds	24,956	(32,356)
Change in placements by Hong Kong statutory bodies	(326)	5,339
Change in other liabilities	(17,920)	21,688
Elimination of exchange differences	(268)	(358)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(58,738)</b>	<b>30,898</b>

## (b) Analysis of the balances of cash and cash equivalents

	2000	1999
Cash and money at call	16,953	16,494
Treasury bills and commercial papers	20,671	39,717
Certificates of deposit	780	–
Placements with banks and other financial institutions	55,204	93,821
Placements by banks and other financial institutions	(7,999)	(5,950)
<b>TOTAL</b>	<b>85,609</b>	<b>144,082</b>

## Exchange Fund – Notes on the Accounts (cont.)

## 23. COMMITMENTS

## (a) Capital commitments

Capital expenditure authorised but not provided for in these accounts amounted to:

	2000	1999
Contracted	–	–
Not contracted	4,485	88
<b>TOTAL</b>	<b>4,485</b>	<b>88</b>

## (b) Loan to the International Monetary Fund

On 27 January 1997, the HKMA participated in the New Arrangements to Borrow (“NAB”), a standby credit facility to the IMF for coping with instability in the international monetary system. In respect of this, the HKMA undertakes to lend foreign currencies to the IMF up to HK\$3,455 million equivalent as at 31 December 2000 (1999 – HK\$3,623 million equivalent), in the form of a term loan of five year maturity bearing prevailing market interest rates. As at 31 December 2000, there was no outstanding balance due from the IMF under the NAB (1999 – Nil).

## (c) Lease commitments

At the balance sheet date, the Fund had commitments under non-cancellable operating leases to make payments in the next year as follows:

	2000	1999
<b>Premises</b>		
Leases expiring in one year or less	–	–
Leases expiring in five years or less but over one year	84	81
Lease expiring in over five years	–	–
<b>TOTAL</b>	<b>84</b>	<b>81</b>

## Exchange Fund – Notes on the Accounts (cont.)

## 24. OFF-BALANCE SHEET ITEMS

	2000	1999
Spot and forward foreign exchange contracts		
Outstanding contract amount	98,318	96,387
Gross replacement costs	1,820	1,008
Interest rate swap contracts		
Notional principal	31,900	21,700
Gross replacement costs	1,795	532
Stock index futures contracts		
Notional principal	21,059	30,843
Gross replacement costs	427	8
Bond futures contracts		
Notional principal	112	81
Gross replacement costs	1	–

## 25. CONTINGENT LIABILITIES

The Fund has a contingent liability up to 5.6 million Swiss gold francs or HK\$111.7 million equivalent as at 31 December 2000 (1999 – 5.6 million Swiss gold francs or HK\$118.7 million equivalent), in respect of the uncalled portion of its 3,000 shares held in the Bank for International Settlements.

## 26. MATERIAL RELATED PARTY TRANSACTIONS

The Fund takes placements from other HKSAR government funds and a number of Hong Kong statutory bodies, as shown on the balance sheet. During the year, interest expenses on placements from other HKSAR government funds and Hong Kong statutory bodies amounted to HK\$18,932 million (1999 – HK\$45,891 million) and HK\$593 million (1999 – HK\$549 million) respectively.

Transactions with related parties are conducted at rates determined by the Monetary Authority taking into account the nature of each transaction on a case-by-case basis.

## 27. COMPARATIVE FIGURES

The presentation and classification of items in the income and expenditure account and the balance sheet have been changed in the following aspects.

- (a) "Investment income" has been further broken down in the income and expenditure account into "Interest income on debt securities", "Other interest income", "Dividend income from listed equity securities", "Net realised and revaluation gains/(losses) on other investments in securities", "Other net realised and revaluation gains/(losses)" and "Net exchange losses";
- (b) Certain components of "Cash and short-term funds" on the balance sheet have been reclassified. "Placements with banks and other financial institutions in respect of resale agreements" have been grouped with "Fixed deposits" and shown on the face of the balance sheet as "Placements with banks and other financial institutions". "Treasury bills and commercial papers" have been reclassified under "Other investments in securities";

**Exchange Fund – Notes on the Accounts (cont.)**

- (c) Investment in the Bank for International Settlements has been reclassified from “Other assets” to “Investment securities”;
- (d) Together with “Treasury bills and commercial papers” (see Note 27(b) above), “Certificates of deposit” have been grouped with “Investments” to form “Other investments in securities” from which “Gold” has been removed and shown as a separate item on the balance sheet;
- (e) In addition to the investment in the Bank for International Settlements, “Thailand financing package”, “Investments in subsidiaries” and “Investment in associate” have also been removed from “Other assets” and shown as separate items on the balance sheet; and
- (f) “Placements by other institutions” has been split into “Placements by banks and other financial institutions” and “Placements by Hong Kong statutory bodies” on the balance sheet.

Comparative figures have also been reclassified to conform with the current year’s presentation.

**28. APPROVAL OF ACCOUNTS**

The accounts were approved by the Exchange Fund Advisory Committee on 27 March 2001.