

# THE EXCHANGE FUND

- Report of the Director of Audit to the Financial Secretary
- Exchange Fund – Income and Expenditure Account
- Exchange Fund – Balance Sheet
- Exchange Fund – Statement of Changes in Equity
- Exchange Fund – Cash Flow Statement
- Exchange Fund – Notes on the Accounts

## REPORT OF THE DIRECTOR OF AUDIT TO THE FINANCIAL SECRETARY

I have audited the statement of the accounts on pages 94 to 121 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 2003 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  
25 March 2004

**(Benjamin Tang)**  
Director of Audit

**EXCHANGE FUND – INCOME AND EXPENDITURE ACCOUNT**

for the year ended 31 December 2003

(Expressed in millions of Hong Kong dollars)	Notes	2003	2002
<b>INCOME</b>			
Interest income			
Interest income on debt securities		<b>23,103</b>	29,662
Other interest income		<b>2,410</b>	3,608
Total interest income		<b>25,513</b>	33,270
Dividend income from listed equity securities		<b>3,751</b>	3,237
Dividend income from subsidiaries		<b>140</b>	-
Net realised and revaluation gains/(losses) on other investments in securities		<b>29,384</b>	(6,542)
Other net realised and revaluation gains/(losses)		<b>7,960</b>	(10,184)
Net exchange gains		<b>22,900</b>	27,241
Bank licence fees		<b>130</b>	134
Others		<b>49</b>	33
<b>TOTAL INCOME</b>		<b>89,827</b>	47,189
<b>EXPENDITURE</b>			
Interest expense	3(a)	<b>29,847</b>	21,169
Operating expenses	3(b)	<b>1,179</b>	1,162
Note and coin expenses	3(c)	<b>229</b>	273
<b>TOTAL EXPENDITURE</b>		<b>31,255</b>	22,604
<b>SURPLUS BEFORE DEFICIT ON REVALUATION OF PREMISES</b>			
Deficit on revaluation of premises	12(c)	<b>876</b>	-
<b>SURPLUS FOR THE YEAR</b>		<b>57,696</b>	24,585

The notes on pages 98 to 121 form part of these accounts.

**EXCHANGE FUND – BALANCE SHEET**

as at 31 December 2003

(Expressed in millions of Hong Kong dollars)	Notes	2003	2002
<b>ASSETS</b>			
Cash and money at call		<b>19,143</b>	15,956
Placements with banks and other financial institutions	4	<b>41,549</b>	35,475
Investment securities	5	<b>300</b>	300
Other investments in securities	6	<b>931,737</b>	878,838
Gold	7	<b>217</b>	179
Thailand financing package	8	<b>-</b>	1,058
Other assets	9	<b>13,503</b>	19,678
Investments in subsidiaries	10	<b>2,145</b>	2,145
Fixed assets	12	<b>3,051</b>	1,436
<b>TOTAL ASSETS</b>	13	<b>1,011,645</b>	955,065
<b>LIABILITIES AND FUND EQUITY</b>			
Certificates of Indebtedness	14	<b>134,215</b>	118,475
Government-issued currency notes and coins in circulation	14	<b>6,297</b>	5,891
Balance of the banking system	15	<b>28,277</b>	525
Exchange Fund Bills and Notes	16	<b>123,520</b>	122,925
Placements by banks and other financial institutions	17	<b>44,542</b>	36,270
Placements by other Hong Kong Special Administrative Region government funds	18	<b>252,296</b>	301,669
Placements by Hong Kong statutory bodies		<b>164</b>	4,279
Other liabilities	19	<b>37,455</b>	37,857
Total liabilities		<b>626,766</b>	627,891
Accumulated surplus	20	<b>384,870</b>	327,174
Premises revaluation reserve	20	<b>9</b>	-
Fund equity		<b>384,879</b>	327,174
<b>TOTAL LIABILITIES AND FUND EQUITY</b>		<b>1,011,645</b>	955,065

**Joseph Yam**

Monetary Authority

25 March 2004

**EXCHANGE FUND – STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2003

(Expressed in millions of Hong Kong dollars)

	Notes	2003	2002
<b>Total equity at 1 January</b>		<b>327,174</b>	302,589
<b>Surplus for the year</b>		<b>57,696</b>	24,585
<b>Surplus on revaluation of premises</b>	12(c)	<b>9</b>	-
<b>Total equity at 31 December</b>	20	<b>384,879</b>	327,174

**EXCHANGE FUND – CASH FLOW STATEMENT**

for the year ended 31 December 2003

(Expressed in millions of Hong Kong dollars)

	Notes	2003	2002
<b>Net cash from operating activities</b>	22(a)	<b>60,037</b>	2,115
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		<b>(2,544)</b>	(771)
Repayment of loan by associate		-	7
Dividends received from subsidiaries		<b>140</b>	-
<b>Net cash used in investing activities</b>		<b>(2,404)</b>	(764)
<b>Net increase in cash and cash equivalents</b>		<b>57,633</b>	1,351
<b>Cash and cash equivalents at 1 January</b>		<b>120,339</b>	118,153
<b>Effect of foreign exchange rate changes</b>		<b>198</b>	835
<b>Cash and cash equivalents at 31 December</b>	22(b)	<b>178,170</b>	120,339

The notes on pages 98 to 121 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 other than premises, 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 of a financial instrument represents its market price where there is a published price quotation in an active securities market. Where such a market price is not available, fair value of a financial instrument represents its valuation according to a price matrix of discounted cash flows using applicable interest rates for discounting.
- (iii) The accounting policies used in the preparation of these accounts are consistent with those used in the previous year except for the accounting policy with respect to premises. In prior years, premises were stated at cost less accumulated depreciation. With effect from 1 January 2003, premises are stated at valuation less accumulated depreciation (see Note 2(j)). In accordance with Statement of Standard Accounting Practice (“SSAP”) 2 “Net profit or loss for the period, fundamental errors and changes in accounting policies”, this change in accounting policy is dealt with as a revaluation of the premises.

#### (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.

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

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

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.

The results of subsidiaries and associate are accounted for by the Fund on the basis of dividend income.

### (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”.



## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

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.

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 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)".

### (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

Monetary 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 in "Net exchange gains/(losses)".

Certificates of Indebtedness, government-issued currency notes and coins in circulation, all 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 gains/(losses)".

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

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)”.

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 the unsettled amounts of revaluation gains or losses 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

Premises are stated at valuation less accumulated depreciation, except for freehold land which is not depreciated. Valuations are carried out by independent professionally qualified valuers with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the balance sheet date. Surpluses arising on revaluation are credited firstly to the income and expenditure account to the extent of any deficits arising on revaluation previously charged to the income and expenditure account in respect of the same premises, and are thereafter taken to the “Premises revaluation reserve”. Deficits arising on revaluation are firstly set off against any previous revaluation surpluses included in the “Premises revaluation reserve” in respect of the same premises, and are thereafter taken to the income and expenditure account. Leasehold land is depreciated on a straight-line basis over the unexpired terms of the leases. Buildings are depreciated on a straight-line basis over their estimated useful lives or the unexpired terms of the leases, whichever the shorter.

Other fixed assets, including furniture, fixtures and equipment, motor vehicles, personal computers and capitalised systems development costs, are stated at cost less accumulated depreciation. These assets are depreciated on a straight-line basis over their respective estimated useful lives of between 3 and 5 years.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Fund. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gain or loss arising from the disposal of a fixed asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income and expenditure account. On disposal of premises, any related revaluation surplus included in the “Premises revaluation reserve” is transferred directly to “Accumulated surplus”.

### (k) Revenue recognition

Interest income is recognised on an accrual basis.

Dividend income from listed equity securities is recognised when the share price goes ex-dividend. Dividend income from unlisted equity securities is recognised when the shareholder’s right to receive payment is established.

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.

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

Bank licence 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.

### (n) Cash and cash equivalents

Cash and cash equivalents are cash and money at call, placements with banks and other financial institutions and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity when placed or acquired.

### (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 separately 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.

### (q) Segment reporting

The activities of the Fund managed by the HKMA comprise four business segments. These are management of funds under the Currency Board Account, management of funds representing the general reserve assets of the Fund, banking supervision and monetary management. As the assets, revenue and overall results of banking supervision and monetary management are not significant, these two segments are combined with the segment for management of funds representing the general reserve assets of the Fund. Details on this combined segment are disclosed in Note 23 together with the Currency Board Account segment. There is no disclosure of geographic segments as the HKMA operates predominantly in one location. In line with the normal practice of central banking institutions, further breakdown of the investments by currencies or geographic markets is not disclosed.

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)****3. Expenditure****(a) Interest expense**

	2003	2002
Interest on placements by other HKSAR government funds:		
With interest at market-based rates	92	228
With interest at rates determined by reference to the investment income of the Fund	25,700	15,648
Other interest expense	4,055	5,293
<b>TOTAL</b>	<b>29,847</b>	<b>21,169</b>

**(b) Operating expenses**

	2003	2002
Staff costs		
Salaries and other staff costs	437	523
Retirement benefit costs	25	24
Premises and equipment expenses		
Depreciation charges	62	52
Operating lease charges	55	63
Other premises and equipment expenses	48	43
Other operating expenses	552	457
<b>TOTAL</b>	<b>1,179</b>	<b>1,162</b>

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

HK\$	2003	2002
500,000 or below	1	-
1,500,001 to 2,000,000	1	-
2,500,001 to 3,000,000	1	1
3,000,001 to 3,500,000	5	3
3,500,001 to 4,000,000	1	4
4,000,001 to 4,500,000	2	1
5,000,001 to 5,500,000	1	-
5,500,001 to 6,000,000	1	1
6,000,001 to 6,500,000	-	1
6,500,001 to 7,000,000	-	1
8,500,001 to 9,000,000	1	1
	<b>14</b>	<b>13</b>

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

The aggregate emoluments of senior staff (Executive Directors and above) were as follows:

	2003	2002
Fixed pay	42.8	48.3
Variable pay	7.4	6.4
Other benefits	2.7	3.9
	<b>52.9</b>	58.6

Other benefits shown above include provident funds, medical and life insurance, and annual leave accrued during the year. There are no other allowances or benefits-in-kind.

- (c) **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 government-issued currency notes and coins.

### 4. Placements with Banks and other Financial Institutions

	2003	2002
Placements with banks and other financial institutions in respect of resale agreements	4,770	4,910
Other placements with banks and other financial institutions	36,779	30,565
<b>TOTAL</b>	<b>41,549</b>	35,475

### 5. Investment Securities

	2003	2002
Unlisted shares, at cost	300	300

Investment securities comprise 3,000 shares of the Bank for International Settlements with a nominal value of 5,000 Special Drawing Rights (SDRs) each (25% paid). During 2003, the Bank for International Settlements changed its unit of account from Swiss gold franc to SDR, which is an international unit of account based on a basket of major currencies. As a result, the nominal value of the shares changed from 2,500 Swiss gold francs to 5,000 SDRs each.

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)****6. Other Investments in Securities**

At fair value	2003	2002
<b>Debt securities</b>		
<b>Treasury bills and commercial papers</b>		
Listed outside Hong Kong	744	15,724
Unlisted	243,509	194,800
<b>Certificates of deposit</b>		
Unlisted	388	22,744
<b>Other debt securities</b>		
Listed		
In Hong Kong	2,630	4,540
Outside Hong Kong	369,051	436,103
Unlisted	144,744	90,907
<b>Total debt securities</b>	761,066	764,818
<b>Equity securities</b>		
Listed		
In Hong Kong	71,229	50,891
Outside Hong Kong	99,442	63,129
<b>Total equity securities</b>	170,671	114,020
<b>TOTAL</b>	931,737	878,838

**7. Gold**

	2003	2002
Gold, at market value		
66,916 ounces (2002 - 66,916 ounces)	217	179

**8. Thailand Financing Package**

The loan to Thailand in the form of outstanding currency swaps with the Bank of Thailand ("BOT") was fully repaid in July 2003. The repayment was completed a year earlier than the original repayment schedule specified in the Currency Swap Agreement ("the Agreement") between the BOT and a number of Asian central banks and multinational institutions, including the HKMA and the International Monetary Fund ("IMF").

On 21 September 1997, the HKMA participated in a financing package organised for Thailand by the IMF. Under the Agreement, the HKMA 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 was reversed and the US dollars received by the HKMA was equivalent to the original principal swapped plus interest at market rate. The transaction was accounted for as a US dollar loan to reflect its economic substance. Since the first drawdown made in October 1997, the HKMA had released a total of US\$862 million under the Agreement. In October 1999, the BOT gave notice that it would not draw down on the remaining US\$138 million. Since April 2001, the BOT had been repaying the loan by instalments according to the terms and conditions of the Agreement. In January 2003, the BOT approached the HKMA with an early repayment schedule starting from February 2003, resulting in full repayment of the loan in July 2003.

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

## 9. Other Assets

	2003	2002
Staff housing loans	324	331
Revaluation gains on off-balance sheet items which are marked to market	1,471	6,798
Revaluation difference on Certificates of Indebtedness, government-issued currency notes and coins in circulation	656	26
Prepayments, receivables and other assets	11,052	12,523
<b>TOTAL</b>	<b>13,503</b>	<b>19,678</b>

## 10. Investments in Subsidiaries

	2003	2002
Unlisted shares, at cost	2,145	2,145

The following is a list of the subsidiaries as at 31 December 2003 and 2002:

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	Dormant	HK\$5,000,000	100%
Hong Kong Institute for Monetary Research	Hong Kong	Research	HK\$2	100%

With effect from January 2003, the management of the Fund's long-term Hong Kong equity portfolio was transferred to the HKMA from the Exchange Fund Investment Limited, which became inactive.

**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:

	<b>2003</b>	2002
Profit/(Loss) for the year:		
Hong Kong Note Printing Limited	<b>23.7</b>	33.5
The Hong Kong Mortgage Corporation Limited	<b>403.1</b>	267.3
Exchange Fund Investment Limited	-	-
Hong Kong Institute for Monetary Research	<b>0.1</b>	(0.2)
	<b>426.9</b>	300.6
Retained Earnings/(Accumulated Losses) at 1 January:		
Hong Kong Note Printing Limited	<b>236.0</b>	202.5
Less: Dividends declared and paid during the year	<b>(139.7)</b>	-
	<b>96.3</b>	202.5
The Hong Kong Mortgage Corporation Limited	<b>1,118.8</b>	851.5
Exchange Fund Investment Limited	-	-
Hong Kong Institute for Monetary Research	<b>(1.9)</b>	(1.7)
	<b>1,213.2</b>	1,052.3
<b>TOTAL</b>	<b>1,640.1</b>	1,352.9

Net aggregate amounts due from/(to) the subsidiaries are as follows:

	<b>2003</b>	2002
Hong Kong Note Printing Limited	<b>0.4</b>	0.3
The Hong Kong Mortgage Corporation Limited	<b>0.3</b>	0.3
Exchange Fund Investment Limited	<b>(4.9)</b>	(12.6)
Hong Kong Institute for Monetary Research	<b>4.0</b>	1.9
<b>TOTAL</b>	<b>(0.2)</b>	(10.1)

- (a) The Hong Kong Mortgage Corporation Limited ("HKMC") has unissued authorised share capital of HK\$1 billion (2002 - HK\$1 billion) which is callable from the Fund.
- (b) Under the Mortgage Insurance Programme, the HKMC offers mortgage insurance that covers approved sellers for credit loss up to 20% of the property value of a mortgage loan when the loan amount has exceeded 70% of the property value at origination. Under the Home Owner Mortgage Enhancement Programme, the HKMC provides mortgage insurance to cover credit loss in excess of 90% and up to 140% of the property value at the time of refinancing. Under these programmes, the HKMC reinsures the risk exposure with the approved reinsurers. As at 31 December 2003, the total risk-in-force assumed by the HKMC was HK\$1.09 billion (2002: HK\$0.78 billion).



## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

- (c) Under the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme and the Bauhinia Mortgage-Backed Securitisation Programme, the HKMC sells mortgages to two Special Purpose Companies which issue mortgage-backed securities (“MBS”) to investors. The HKMC provides guarantee on the timely payment of principal and interest in respect of the MBS. As at 31 December 2003, the aggregate security principal balance guaranteed by the HKMC under the two programmes was HK\$5.26 billion (2002: HK\$2.32 billion).
- (d) A summarised balance sheet of the HKMC is shown below:

	2003	2002
Assets:		
Mortgage portfolio, net	<b>34,581.7</b>	28,257.7
Other assets	<b>6,342.6</b>	3,933.3
	<b>40,924.3</b>	32,191.0
Liabilities:		
Debt securities	<b>36,630.3</b>	28,615.0
Other liabilities	<b>772.1</b>	457.2
	<b>37,402.4</b>	29,072.2
Shareholder's Equity:		
Share capital	<b>2,000.0</b>	2,000.0
Retained earnings	<b>1,521.9</b>	1,118.8
	<b>3,521.9</b>	3,118.8
	<b>40,924.3</b>	32,191.0

## 11. Investment in Associate

Investment in associate comprises unlisted shares of Hong Kong Interbank Clearing Limited at a cost of HK\$5,000 (2002 - HK\$5,000). Details of the associate are as follows:

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%

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

## 12. Fixed Assets

(a)	Premises	Other Fixed Assets	Total
<b>Cost or valuation</b>			
At 1 January 2003	1,311	443	1,754
Additions	2,517	27	2,544
Elimination of accumulated depreciation on revalued premises	(16)	-	(16)
Net deficit on revaluation	(867)	-	(867)
Reclassifications	18	(18)	-
Disposals	-	(67)	(67)
At 31 December 2003	<b>2,963</b>	<b>385</b>	<b>3,348</b>
<b>Accumulated depreciation</b>			
At 1 January 2003	1	317	318
Charge for the year	15	47	62
Elimination of accumulated depreciation on revalued premises	(16)	-	(16)
Written back on disposal	-	(67)	(67)
At 31 December 2003	<b>-</b>	<b>297</b>	<b>297</b>
<b>Net book value</b>			
<b>At 31 December 2003</b>	<b>2,963</b>	<b>88</b>	<b>3,051</b>
At 31 December 2002	1,310	126	1,436

Additions include payments for the new office premises in Hong Kong amounting to HK\$2,517 million (2002 - HK\$746 million). Depreciation charges have been made after completion of relocation to the new office premises during 2003.

(b) The net book value of premises comprises:

	2003	2002
Held in Hong Kong		
Medium-term leasehold (between 10 and 50 years)	2,930	1,304
Held outside Hong Kong		
Freehold	33	6
<b>TOTAL</b>	<b>2,963</b>	<b>1,310</b>

Premises were revalued by DTZ Debenham Tie Leung Limited, an independent professional valuer, on open market value basis at 31 December 2003. The valuations were carried out by qualified valuers who are members of the Hong Kong Institute of Surveyors.

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)**

- (c) The net deficit on revaluation of premises was HK\$867 million, comprising a deficit of HK\$876 million charged to the income and expenditure account and a surplus of HK\$9 million credited to the premises revaluation reserve.
- (d) The net book value of premises at 31 December 2003 would have been HK\$3,830 million had they been stated at cost less accumulated depreciation.

**13. Total Assets**

	<b>2003</b>	2002
Foreign currency assets	<b>929,625</b>	891,632
Hong Kong dollar assets	<b>82,020</b>	63,433
<b>TOTAL</b>	<b>1,011,645</b>	955,065

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.

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.

**14. Certificates of Indebtedness, Government-Issued Currency Notes 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 the fixed exchange rate of US\$1=HK\$7.80. Consistent with the requirement for backing banknote issuance with US dollars, the issuance and the withdrawal of government-issued currency notes and coins are conducted against US dollars at the fixed exchange rate of US\$1=HK\$7.80.

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)****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, the HKMA undertakes 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 US\$1=HK\$7.80.

**16. Exchange Fund Bills and Notes**

	<b>2003</b>	2002
Exchange Fund Bills	<b>68,350</b>	72,152
Exchange Fund Notes	<b>55,170</b>	50,773
<b>TOTAL</b>	<b>123,520</b>	122,925

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**

	<b>2003</b>	2002
Placements by banks and other financial institutions in respect of securities lending	<b>893</b>	1,551
Other placements by banks and other financial institutions	<b>43,649</b>	34,719
<b>TOTAL</b>	<b>44,542</b>	36,270

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

## 18. Placements by other HKSAR Government Funds

	2003	2002
<b>Placements with interest payable at market-based rates</b>		
General Revenue Account	362	1,007
Capital Investment Fund	2,093	3,305
Loan Fund	4,976	5,937
Capital Works Reserve Fund	498	263
Innovation and Technology Fund	68	93
Lotteries Fund	170	-
	<b>8,167</b>	10,605
<b>Placements with interest payable at rates determined by reference to the investment income of the Fund</b>		
General Revenue Account	66,447	22,747
Land Fund	140,615	247,334
Capital Works Reserve Fund	16,569	4,766
Civil Service Pension Reserve Fund	12,376	11,746
Disaster Relief Fund	35	35
Innovation and Technology Fund	4,250	4,436
Lotteries Fund	3,837	-
	<b>244,129</b>	291,064
<b>TOTAL</b>	<b>252,296</b>	301,669

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

Prior to 1 April 2003, placements by the Lotteries Fund were included in placements by Hong Kong statutory bodies. With effect from 1 April 2003, placements by the Lotteries Fund are included in placements by other HKSAR government funds.

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)****19. Other Liabilities**

	<b>2003</b>	2002
Interest payable on placements by other HKSAR government funds at rates determined by reference to the investment income of the Fund	<b>25,700</b>	17,109
Revaluation losses on off-balance sheet items which are marked to market	<b>3,724</b>	1,962
Accrued interest and other liabilities	<b>8,031</b>	18,786
<b>TOTAL</b>	<b>37,455</b>	37,857

**20. Fund Equity**

	<b>2003</b>	2002
<b>Accumulated surplus</b>		
At 1 January	<b>327,174</b>	302,589
Surplus for the year	<b>57,696</b>	24,585
At 31 December	<b>384,870</b>	327,174
<b>Premises revaluation reserve</b>		
At 1 January	-	-
Surplus on revaluation of premises (Note 12(c))	<b>9</b>	-
At 31 December	<b>9</b>	-
<b>TOTAL</b>	<b>384,879</b>	327,174

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

## 21. Maturity Profile

	2003						Total
	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	
<b>Assets</b>							
Cash and money at call	19,143	-	-	-	-	-	19,143
Placements with banks and other financial institutions	-	41,549	-	-	-	-	41,549
Investment securities	-	-	-	-	-	300	300
Other investments in securities	-	247,486	72,986	264,487	176,107	170,671	931,737
Gold	-	-	-	-	-	217	217
	19,143	289,035	72,986	264,487	176,107	171,188	992,946
<b>Liabilities</b>							
Certificates of Indebtedness	134,215	-	-	-	-	-	134,215
Government-issued currency notes and coins in circulation	6,297	-	-	-	-	-	6,297
Balance of the banking system	28,277	-	-	-	-	-	28,277
Exchange Fund Bills and Notes	-	50,569	31,277	33,024	8,650	-	123,520
Placements by banks and other financial institutions	-	33,271	11,271	-	-	-	44,542
Placements by other HKSAR government funds	246,399	5,897	-	-	-	-	252,296
Placements by Hong Kong statutory bodies	-	164	-	-	-	-	164
	415,188	89,901	42,548	33,024	8,650	-	589,311

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)**

	2002						
	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	15,956	-	-	-	-	-	15,956
Placements with banks and other financial institutions	-	35,475	-	-	-	-	35,475
Investment securities	-	-	-	-	-	300	300
Other investments in securities	-	193,412	133,557	245,624	192,225	114,020	878,838
Gold	-	-	-	-	-	179	179
Thailand financing package	-	366	421	271	-	-	1,058
	15,956	229,253	133,978	245,895	192,225	114,499	931,806
<b>Liabilities</b>							
Certificates of Indebtedness	118,475	-	-	-	-	-	118,475
Government-issued currency notes and coins in circulation	5,891	-	-	-	-	-	5,891
Balance of the banking system	525	-	-	-	-	-	525
Exchange Fund Bills and Notes	-	51,116	32,038	32,221	7,550	-	122,925
Placements by banks and other financial institutions	-	33,870	2,400	-	-	-	36,270
Placements by other HKSAR government funds	292,921	8,166	582	-	-	-	301,669
Placements by Hong Kong statutory bodies	3,269	1,010	-	-	-	-	4,279
	421,081	94,162	35,020	32,221	7,550	-	590,034



## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

## 22. Notes to the Cash Flow Statement

## (a) Reconciliation of surplus before deficit on revaluation of premises to net cash from operating activities

	2003	2002
<b>Surplus before deficit on revaluation of premises</b>	<b>58,572</b>	24,585
Interest income	<b>(25,513)</b>	(33,270)
Interest expense	<b>29,847</b>	21,169
Dividend income	<b>(3,891)</b>	(3,237)
Amortisation of premiums and discounts on Exchange Fund Bills and Notes	<b>661</b>	1,339
Depreciation	<b>62</b>	52
Change in placements with banks and other financial institutions	<b>(4,015)</b>	-
Change in other investments in securities	<b>(314)</b>	25,066
Change in gold	<b>(38)</b>	(34)
Change in Thailand financing package	<b>1,058</b>	3,091
Change in other assets	<b>5,713</b>	(3,502)
Change in Certificates of Indebtedness, government-issued currency notes and coins in circulation	<b>16,146</b>	11,130
Change in balance of the banking system	<b>27,752</b>	(146)
Change in Exchange Fund Bills and Notes	<b>(66)</b>	3,429
Change in placements by banks and other financial institutions	<b>8,272</b>	(10,852)
Change in placements by other HKSAR government funds	<b>(49,373)</b>	(78,933)
Change in placements by Hong Kong statutory bodies	<b>(4,115)</b>	(845)
Change in other liabilities	<b>(8,910)</b>	10,801
Elimination of exchange differences	<b>(198)</b>	(835)
Interest received	<b>26,218</b>	35,669
Interest paid	<b>(21,338)</b>	(5,760)
Dividend received	<b>3,507</b>	3,198
<b>Net cash from operating activities</b>	<b>60,037</b>	2,115

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

	2003	2002
Cash and money at call	<b>19,143</b>	15,956
Placements with banks and other financial institutions	<b>37,534</b>	35,475
Treasury bills and commercial papers	<b>121,105</b>	62,555
Certificates of deposit	<b>388</b>	6,353
<b>TOTAL</b>	<b>178,170</b>	120,339

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)****23. Segment Reporting**

The business activities of the Fund managed by the HKMA comprise:

- Management of funds under the Currency Board Account (a)
- Management of funds representing the general reserve assets of the Fund
- Banking supervision
- Monetary management

As the assets, revenue and overall results of the latter two activities are not significant, they are presented as part of the assets, revenue and results of management of funds representing the general reserve assets of the Fund.

	Currency Board Account		Reserve Management and Other Activities		Re-allocation(c)		Total of the Fund	
	2003	2002	2003	2002	2003	2002	2003	2002
<b>Income</b>	<b>2,924</b>	6,888	<b>86,903</b>	40,301	-	-	<b>89,827</b>	47,189
<b>Expenditure</b>								
Interest expense	<b>3,218</b>	3,985	<b>26,629</b>	17,184	-	-	<b>29,847</b>	21,169
Other expenses(b)	-	-	<b>1,408</b>	1,435	-	-	<b>1,408</b>	1,435
	<b>3,218</b>	3,985	<b>28,037</b>	18,619	-	-	<b>31,255</b>	22,604
<b>Surplus/(Deficit) before deficit on revaluation of premises</b>	<b>(294)</b>	2,903	<b>58,866</b>	21,682	-	-	<b>58,572</b>	24,585
Deficit on revaluation of premises	-	-	<b>876</b>	-	-	-	<b>876</b>	-
<b>Surplus/(Deficit) for the year</b>	<b>(294)</b>	2,903	<b>57,990</b>	21,682	-	-	<b>57,696</b>	24,585

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

	Currency Board Account		Reserve Management and Other Activities		Re-allocation (c)		Total of the Fund	
	2003	2002	2003	2002	2003	2002	2003	2002
<b>Assets</b>								
Backing Assets								
Investment in designated US dollar assets	321,467	283,936	-	-	-	-	321,467	283,936
Interest receivable on designated US dollar assets	620	922	-	-	-	-	620	922
Net accounts payable	-	(9,067)(c)(i)	-	-	-	9,067	-	-
Other investments	-	-	673,624	648,957	-	-	673,624	648,957
Other assets	-	- (c)(ii)	15,749	18,931	185	2,319	15,934	21,250
<b>TOTAL ASSETS</b>	<b>322,087</b>	<b>275,791 (A)</b>	<b>689,373</b>	<b>667,888</b>	<b>185</b>	<b>11,386</b>	<b>1,011,645</b>	<b>955,065</b>
<b>Liabilities</b>								
Monetary Base								
Certificates of Indebtedness	134,215	118,475	-	-	-	-	134,215	118,475
Government-issued currency notes and coins in circulation	6,297	5,891	-	-	-	-	6,297	5,891
Balance of the banking system	28,277	525	-	-	-	-	28,277	525
Exchange Fund Bills and Notes	123,520	122,925	-	-	-	-	123,520	122,925
Interest payable on Exchange Fund Notes	548	609	-	-	-	-	548	609
Net accounts receivable	(185)	(2,319)(c)(ii)	-	-	185	2,319	-	-
Placements by banks and other financial institutions	-	-	44,542	36,270	-	-	44,542	36,270
Placements by other HKSAR government funds	-	-	252,296	301,669	-	-	252,296	301,669
Placements by Hong Kong statutory bodies	-	-	164	4,279	-	-	164	4,279
Other liabilities	-	- (c)(i)	36,907	28,181	-	9,067	36,907	37,248
	<b>292,672</b>	<b>246,106 (B)</b>	<b>333,909</b>	<b>370,399</b>	<b>185</b>	<b>11,386</b>	<b>626,766</b>	<b>627,891</b>
<b>Accumulated surplus</b>								
Balance brought forward	29,685	26,829	297,489	275,760	-	-	327,174	302,589
Surplus/(Deficit) for the year	(294)	2,903	57,990	21,682	-	-	57,696	24,585
Transfer between Currency Board Account and general reserves(d)	24	(47)	(24)	47	-	-	-	-
	<b>29,415</b>	<b>29,685</b>	<b>355,455</b>	<b>297,489</b>	<b>-</b>	<b>-</b>	<b>384,870</b>	<b>327,174</b>
<b>Premises revaluation reserve</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>322,087</b>	<b>275,791</b>	<b>689,373</b>	<b>667,888</b>	<b>185</b>	<b>11,386</b>	<b>1,011,645</b>	<b>955,065</b>
Backing Ratio [(A)/(B)] x 100%	<b>110.05%</b>	112.06%						

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)**

- (a) 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, government-issued currency notes and 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.
- (b) Other expenses have not been allocated to the Currency Board Account as the amounts involved are not material.
- (c) For the purposes of the Currency Board Account, certain assets and liabilities of the Fund's accounts need to be included in the Monetary Base and Backing Assets respectively but as negative amounts. Such presentation is necessary to allow proper computation of the backing ratio. As at 31 December 2003, these negative amounts comprised:
- (i) "Other liabilities", Nil (2002 - HK\$9,067 million) representing accounts payable included in the Backing Assets to offset the corresponding investments purchased but not yet settled;
  - (ii) "Other assets" of HK\$185 million (2002 - HK\$2,319 million) included in the Monetary Base, which consisted of three components:
    - Nil (2002 - HK\$2,110 million) representing accounts receivable to offset the corresponding Exchange Fund Bills and Notes issued on tender date but not yet settled;
    - HK\$9 million (2002 - HK\$5 million) representing interests receivable on Hong Kong dollar interest rate swaps used as a means to manage the cost of issuing Exchange Fund Notes; and
    - HK\$176 million (2002 - HK\$204 million) representing receivables pertaining to revaluation gains on Hong Kong dollar interest rate swaps used as a means to manage the cost of issuing Exchange Fund Notes.
- (d) In accordance with an arrangement approved by the Financial Secretary in January 2000, assets can be transferred between the backing and general reserve portfolios when the backing ratio reaches either the upper trigger point (112.5%) or the lower trigger point (105%). This arrangement allows transfer of excess assets out of the backing portfolio to maximise their earning potential while ensuring that there are sufficient liquid assets in the backing portfolio.

## EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)

### 24. Commitments

#### (a) Capital commitments

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

	2003	2002
Contracted	73	2,455
Not contracted	27	183
<b>TOTAL</b>	<b>100</b>	<b>2,638</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\$3,922 million equivalent as at 31 December 2003 (2002 - HK\$3,605 million equivalent), in the form of a term loan of five year maturity bearing prevailing market interest rates. As at 31 December 2003, there was no outstanding balance due from the IMF under the NAB (2002 - Nil).

#### (c) Lease commitments

Total future minimum lease payments under non-cancellable operating leases at the balance sheet date are analysed as follows:

	2003	2002
<b>Premises</b>		
Not later than one year	8	56
Later than one year and not later than five years	2	19
<b>TOTAL</b>	<b>10</b>	<b>75</b>

**EXCHANGE FUND – NOTES ON THE ACCOUNTS (cont.)****25. Off-Balance Sheet Items**

	<b>2003</b>	2002
Spot and forward foreign exchange contracts		
Outstanding contract amount	<b>106,736</b>	115,761
Gross replacement costs	<b>159</b>	2,199
Interest rate swap contracts		
Notional principal	<b>10,400</b>	27,997
Gross replacement costs	<b>1,290</b>	4,638
Stock index futures contracts		
Notional principal	<b>30,298</b>	38,209
Gross replacement costs	<b>915</b>	56
Bond futures contracts		
Notional principal	<b>1,005</b>	494
Gross replacement costs	<b>-</b>	3

**26. Contingent Liabilities**

The Fund has a contingent liability up to 11.25 million SDRs or HK\$130 million equivalent as at 31 December 2003 (2002 - 5.6 million Swiss gold francs or HK\$140.3 million equivalent), in respect of the uncalled portion of its 3,000 shares held in the Bank for International Settlements.

**27. Material Related Party Transactions**

The Fund takes placements from other HKSAR government funds and 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\$25,792 million (2002 - HK\$15,876 million) and HK\$15 million (2002 - HK\$77 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.

**28. Approval of Accounts**

The accounts were approved by the Exchange Fund Advisory Committee on 25 March 2004.