

LAND FUND

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Memorandum Note

The Land Fund was established on 1 July 1997 by Resolution of the Provisional Legislative Council to receive and hold all of the assets, including all accounts receivable, net of expenses, transferred from the Hong Kong Special Administrative Region Government Land Fund.

2 The Resolution provides, *inter alia*, that—

- (a) the Fund be administered and managed by the Financial Secretary who may delegate his power of administration and management to other public officers;
- (b) there shall be credited to the Fund—
 - (i) all sums earned by way of interest, dividends or other investment revenue relating to the investment of the Hong Kong Special Administrative Region Government Land Fund and all sums earned from the sale or other disposal of all or part of any assets of the Hong Kong Special Administrative Region Government Land Fund, after the deduction of all of the expenses relating to the administration and management of the Hong Kong Special Administrative Region Government Land Fund; and
 - (ii) all accounts receivable and all sums earned by way of interest, dividends or other investment revenue relating to the investment of the Fund and all sums earned from the sale or other disposal of all or part of any assets of the Fund, after the deduction of all of the expenses relating to the administration and management of the Fund;
- (c) all expenses relating to the administration and management of the Fund, including expenses for meeting the management staff costs, and the costs incurred by the Trustees of the Hong Kong Special Administrative Region Government Land Fund Trust in the dissolution of the Trust in accordance with clause 29 of the Declaration of Trust of the Hong Kong Special Administrative Region Government Land Fund Trust, and any accounts payable in respect of the Hong Kong Special Administrative Region Government Land Fund after 30 June 1997, shall be met at the expense of the Fund;
- (d) the Fund shall assume—
 - (i) all the liabilities of the Trustees of the Hong Kong Special Administrative Region Government Land Fund Trust incurred before and outstanding upon the dissolution of the Trust, in accordance with clause 29 of the Declaration of Trust of the Hong Kong Special Administrative Region Government Land Fund Trust; and
 - (ii) all the obligations of the Financial Secretary to indemnify the Trustees and each of them and each of their personal representatives and estates from and against all actions, proceedings, claims and demands and all costs and expenses in respect of or arising out of the administration of the Hong Kong Special Administrative Region Government Land Fund Trust, in accordance with the covenant clause 9 of a Vesting Deed executed on 1 July 1997;
- (e) the Financial Secretary may, in his discretion, authorise and direct the investment of any assets of the Fund which are not immediately required to meet expenses in respect of the Fund at any time in such manner as he may determine.

3 The net value of assets received by the Fund from the Trustees of the Hong Kong Special Administrative Region Government Land Fund on 1 July 1997 was \$197,072 million. As at 31 March 2023, the Fund's balance stood at \$305,734 million.

4 The Hong Kong Monetary Authority has been directed by the Financial Secretary to manage the investment of the Fund's assets.

5 From 1 July 1997 to 31 October 1998, the assets of the Fund were managed by the Hong Kong Monetary Authority as a separate portfolio. The Fund had no receipts or payments since any investment earnings, net of the costs of managing the investments, were rolled up in the portfolio. Such net earnings were reflected as an increase in the net worth of the investments. Since 1 November 1998, the assets of the Fund had been merged with those of the Exchange Fund for investment purpose. Effective from 1 April 2007, the return on investments with the Exchange Fund has been calculated on the basis of the average annual investment return of the Exchange Fund's investment portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes (updated as three year government bonds as from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher.

6 The investment incomes for 2014–15 and 2015–16 on the balance of the Land Fund placed with the Exchange Fund, typically paid on 31 December each year, are \$7,910 million and \$12,085 million respectively. These, along with the investment income on other parts of the fiscal reserves, have been set aside and retained within the Exchange Fund for the Housing Reserve.

7 On 1 January 2016, the balance of the Land Fund of \$219,730 million was set aside for long term investment through the notional savings account called the Future Fund. Investment returns arising from the Future Fund during the course of the placement with the Exchange Fund shall be retained for reinvestment and shall be due for payment to Government upon completion of the placement period, initially for ten years, or a date as directed by the Financial Secretary. The arrangement was subsequently extended for a further five years.

LAND FUND

8 The Financial Secretary announced in the 2019–20 Budget Speech that the Housing Reserve would be brought back to the Government's accounts over four years from 2019–20 to 2022–23 as investment income. As announced in the 2021–22 Budget Speech, the investment return arising from the Future Fund would be brought back to the Land Fund starting from 2021–22. An investment income of \$59 billion and \$75 billion will be brought back from the Future Fund in 2023–24 and 2024–25 respectively.

9 In June 2020, in a bid to uphold Hong Kong's status as an international aviation hub, the Financial Secretary exercised his authority under a resolution made under the Public Finance Ordinance (Cap. 2) to allocate \$27,300 million of the Future Fund to invest in the Cathay Pacific Airways Limited (CX). On 12 August 2020, \$19,500 million was paid for the subscription of preference shares with detachable warrants. The fund required for the investment in the CX was drawn from the investments with the Exchange Fund, and remains as a part of the Future Fund. On 30 June 2023, CX settled all the deferred dividends on the preference shares and pledged to pay all future preference shares dividends as they fall due. On 4 December 2023, CX redeemed half of the preference shares (i.e. principal amount of \$9,750 million).

10 The Financial Secretary announced in the 2020–21 Budget Speech that part of the Future Fund would be used to establish the Hong Kong Growth Portfolio (HKGP) to make strategic investments in projects with a Hong Kong nexus. The objectives are to reinforce Hong Kong's status as a financial, commercial and innovation centre, and raise the productivity and competitiveness of Hong Kong in the long run.

11 The Chief Executive announced in the 2022 Policy Address that Hong Kong Investment Corporation Limited (HKIC) would be set up to consolidate the management of the investment activities of the HKGP and the Co-Investment Fund.

**LAND FUND
(Payments)**

	Actual expenditure 2022-23	Revised estimate 2023-24	Estimate 2024-25
	\$'000	\$'000	\$'000
Operating expenses	21,614*	5,963*	508*
Transfer to General Revenue	—	—	100,000,000
Total (Payments)	<u>21,614</u>	<u>5,963</u>	<u>100,000,508</u>

* The amount is mainly the expenses of engaging external service providers for managing the investment under Land Fund.

**LAND FUND
(Receipts)**

	Actual receipts 2022–23	Revised estimate 2023–24	Estimate 2024–25
	\$'000	\$'000	\$'000
Investment income	48,388,060 [@]	59,000,000 ^{^~}	75,000,000^{^~}
Dividends, Interest and other receipts from investments/loans.....	—	2,212,642 [†]	227,055[†]
Total (Receipts).....	48,388,060	61,212,642	75,227,055

[^] Investment returns arising from the Future Fund during the course of the placement with the Exchange Fund shall be retained for reinvestment and shall be due for payment to Government starting from 2021–22.

[@] The amount reflects the investment income brought back from the Housing Reserve and the Future Fund.

[~] The amount reflects the investment income brought back from the Future Fund.

[†] The amount reflects the dividend receipts from Cathay Pacific Airways Limited.

LAND FUND

Movement of the Account

	Actual				Revised Estimate	Estimate
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	\$m	\$m	\$m	\$m	\$m	\$m
Opening Balance#	219,730	219,730	219,691	257,367	305,734	366,940
Revenue	— [^]	— [^]	37,677 [@]	48,388 [@]	61,212 ^{~†}	75,227^{~†}
Expenditure	—	39 [*]	1 [*]	21 [*]	6 [*]	1[*]
Surplus/(Deficit) before Transfer	—	(39)	37,676	48,367	61,206	75,226
Transfer to General Revenue	—	—	—	—	—	(100,000)
Surplus/(Deficit)	—	(39)	37,676	48,367	61,206	(24,774)
Closing Balance	219,730	219,691	257,367	305,734	366,940	342,166

Revenue Analysis

	Actual				Revised Estimate	Estimate
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	\$m	\$m	\$m	\$m	\$m	\$m
Investment Income	— [^]	— [^]	37,677 [@]	48,388 [@]	59,000 [~]	75,000[~]
Dividends, Interest and Other Receipts from Investments/Loans	—	—	—	—	2,212 [†]	227[†]
Total Revenue	—	—	37,677	48,388	61,212	75,227

On 1 January 2016, the balance of the Land Fund of \$219,729,659,000 was set aside for long term investment through the notional savings account called the Future Fund.

[^] Investment returns arising from the Future Fund during the course of the placement with the Exchange Fund shall be retained for reinvestment and shall be due for payment to Government starting from 2021-22.

[@] The amount reflects the investment income brought back from the Housing Reserve and the Future Fund.

[~] The amount reflects the investment income brought back from the Future Fund.

^{*} The amount is mainly the expenses of engaging external service providers for managing the investment under Land Fund.

[†] The amount reflects the dividend receipts from Cathay Pacific Airways Limited.

LAND FUND

Expenditure Analysis

	Actual				Revised Estimate	Estimate
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	\$m	\$m	\$m	\$m	\$m	\$m
Operating Expenses	—	39*	1*	21*	6*	1*
Total Expenditure	—	39	1	21	6	1

* The amount is mainly the expenses of engaging external service providers for managing the investment under Land Fund.