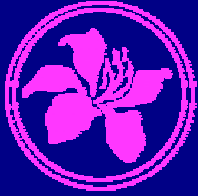


2001 Exchange Fund Results

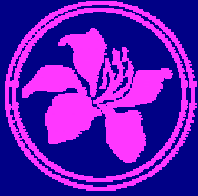
Press Conference

17 January 2002



The Markets in 2001

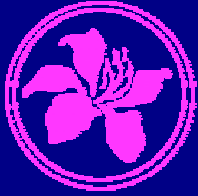
- General trends and influences:
 - Global downturn
 - Bursting of IT bubble
 - 11 September
 - Slowdown of the Hong Kong economy intensifying
- Effects on markets:
 - Strong performance by US bonds
 - Losses in equity markets, especially Hong Kong (25%)
 - Depreciation of yen and euro



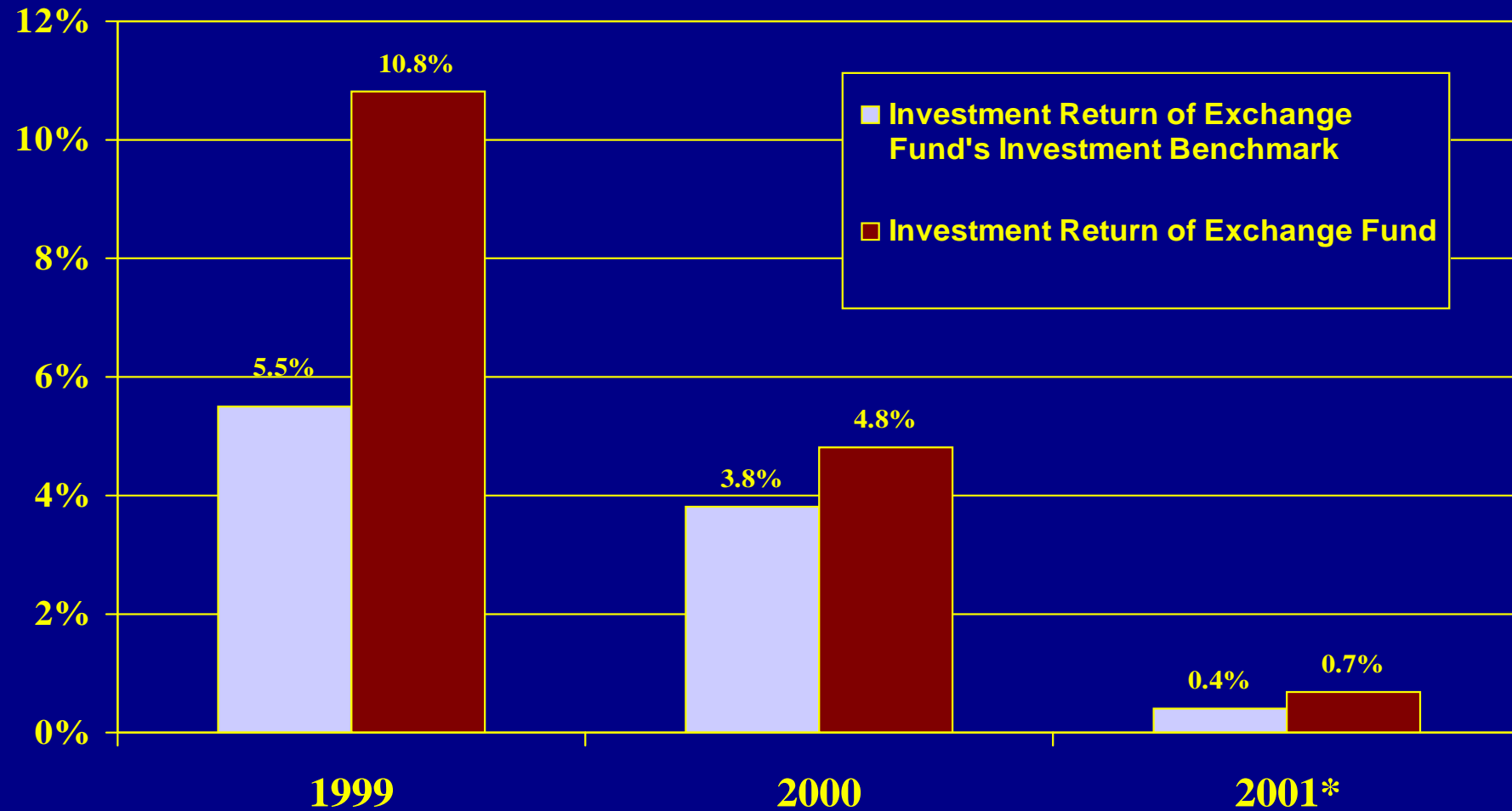
Exchange Fund Performance

(HK\$ billion)	2001	2000	1999
Gain / (Loss) on HK equities*	(27.1)	(7.3)	96.5
Gain / (Loss) on other equities*	(3.2)	0.5	3.8
Exchange gain / (loss)	(13.1)	(11.2)	(9.9)
Total return from bonds, etc	<u>50.4</u>	<u>63.1</u>	<u>13.4</u>
Investment income	7.0	45.1	103.8

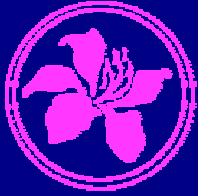
* including dividends



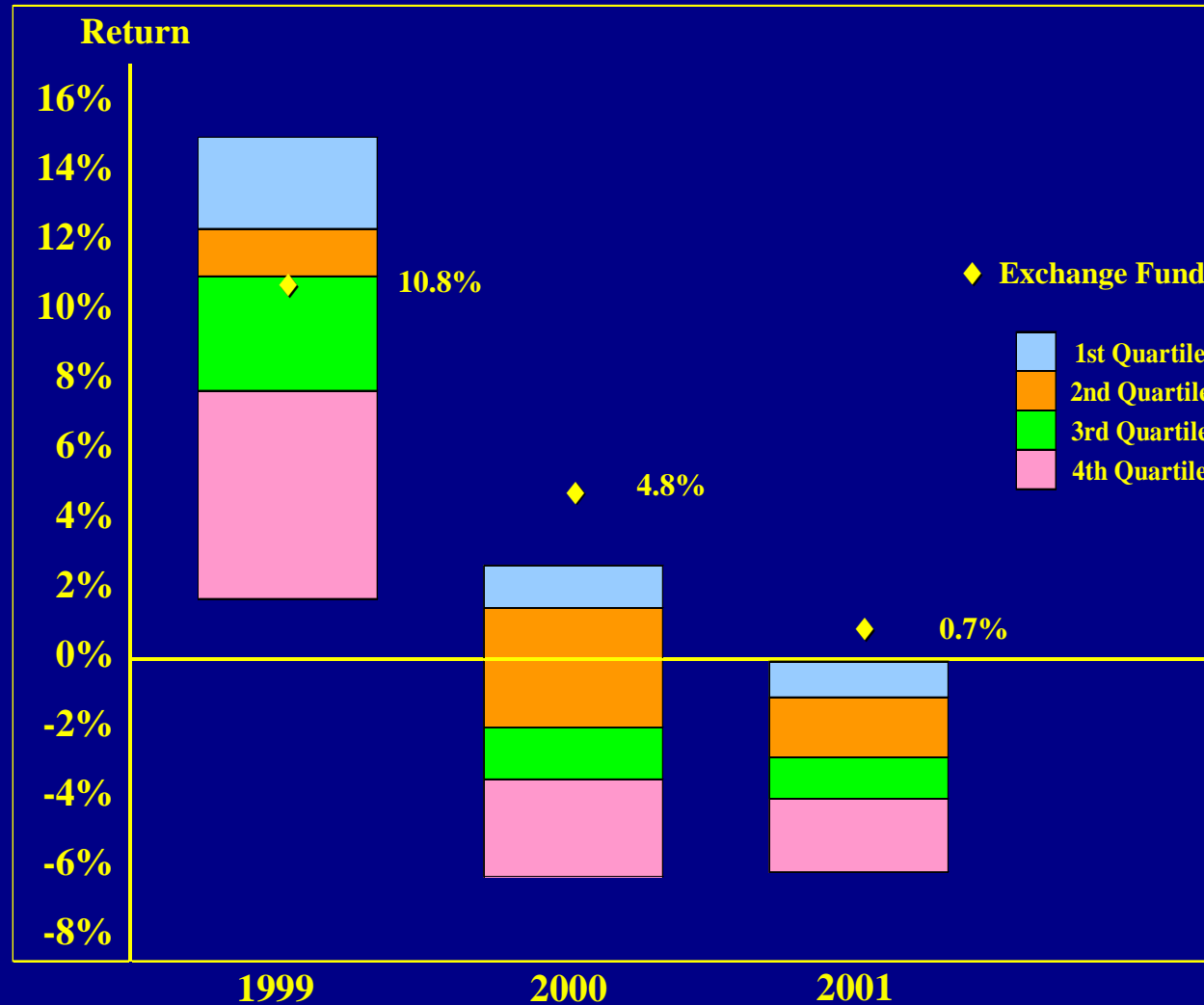
Exchange Fund Performance against PNP



* Preliminary, unaudited figures for 2001

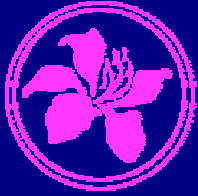


Investment Performance of Exchange Fund and a Universe of Comparable Balanced Funds

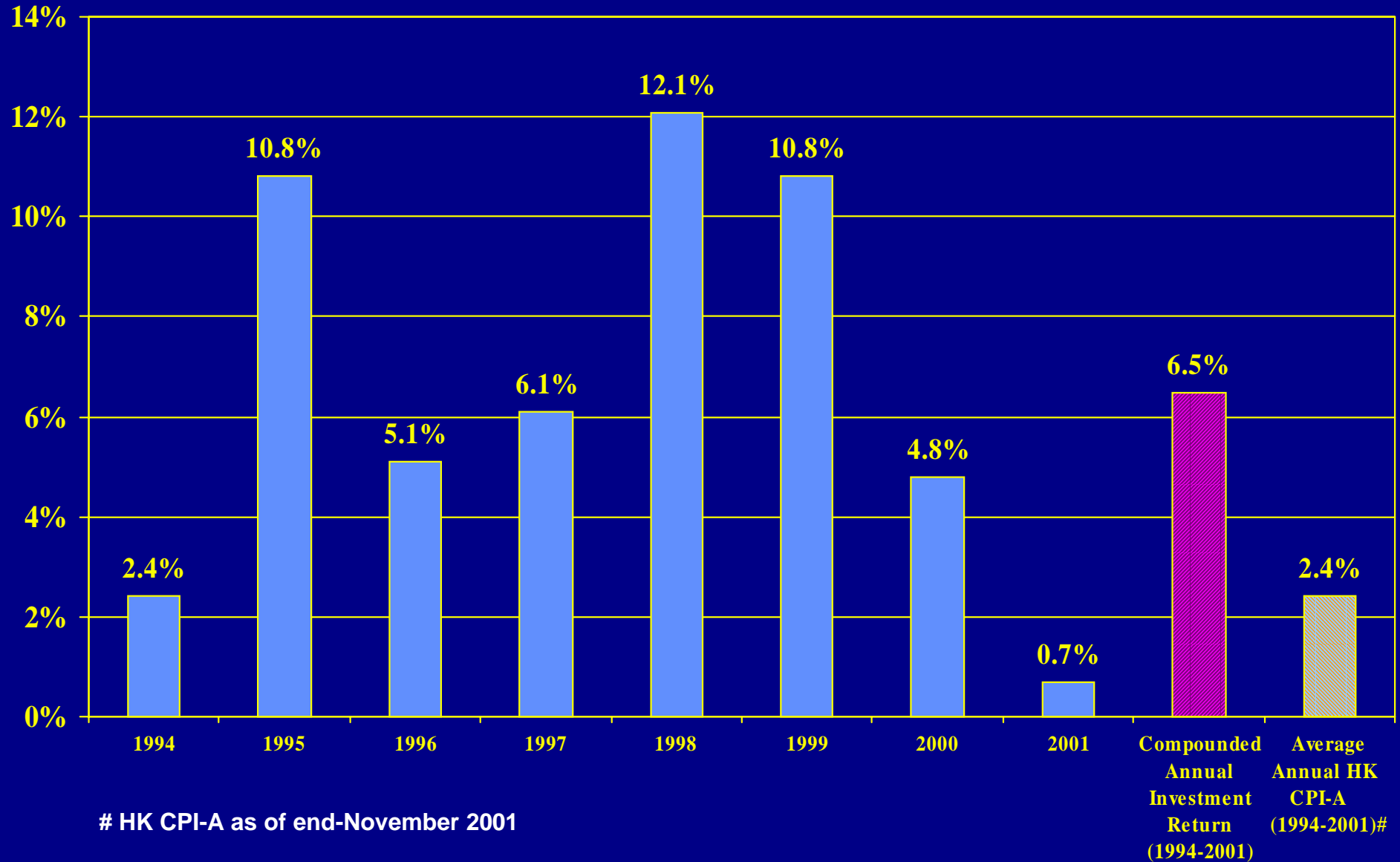


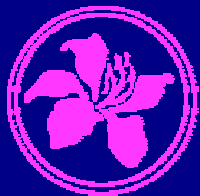
Balanced Funds with 20% - 30% Equity Component

Source: Watson Wyatt and Standard & Poor's



Exchange Fund Historical Return

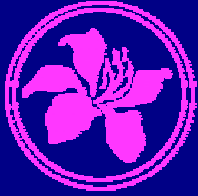




Exchange Fund

Abridged Balance Sheet

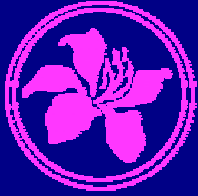
(HK\$ billion)	2001	2000	Change
ASSETS			
Deposits	98.6	73.1	25.5
Debt securities	733.3	729.8	3.5
Hong Kong equities	85.9	152.9	(67.0)
Other equities	35.3	40.6	(5.3)
Other assets	<u>27.5</u>	<u>27.0</u>	<u>0.5</u>
Total assets	980.6	1,023.4	(42.8)
LIABILITIES AND ACCUMULATED SURPLUS			
Certificates of Indebtedness	107.5	99.2	8.3
Coins in circulation	5.7	5.9	(0.2)
Balance of banking system	0.7	0.7	-
Exchange Fund Bills and Notes	118.2	109.3	8.9
Placements by other HKSAR government funds	380.6	417.2	(36.6)
Other liabilities	<u>65.2</u>	<u>84.0</u>	<u>(18.8)</u>
Total liabilities	677.9	716.3	(38.4)
Accumulated surplus	<u>302.7</u>	<u>307.1</u>	<u>(4.4)</u>
Total liabilities and accumulated surplus	980.6	1,023.4	(42.8)



Exchange Fund

Change in Accumulated Surplus

(HK\$ billion)	←————— 2001 —————→					2000
	Full year	Q1	Q2	Q3	Q4	Full year
Investment income/(loss)	7.0	(14.6)	(2.0)	10.4	13.2	45.1
Other income	0.2	0.1	0.0	0.1	0.0	0.2
Interest and expenses	<u>(9.9)</u>	<u>(2.8)</u>	<u>(2.8)</u>	<u>(2.3)</u>	<u>(2.0)</u>	<u>(11.0)</u>
Net investment income/(loss)	(2.7)	(17.3)	(4.8)	8.2	11.2	34.3
Treasury's share	<u>(1.7)</u>	<u>6.1</u>	<u>1.0</u>	<u>(4.0)</u>	<u>(4.8)</u>	<u>(18.1)</u>
Increase/(Decrease) in EF accumulated surplus	(4.4)	(11.2)	(3.8)	4.2	6.4	16.2

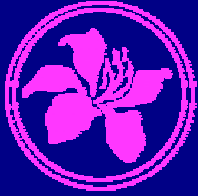


Exchange Fund HK Equity Portfolio

(HK\$ billion)

Investment in August 1998		118.1
Income from Disposal and Dividends (end-Dec 2001)		139.9
Size of remaining portfolio (end-Dec 2001)		85.9
Disposal	36.9	
Long Term Investment*	<u>49.0</u>	

* Including HK equities transferred from the Land Fund in 1998 (valued at HK\$9 billion in 1998).



Prospects for 2002

- **Timing of recovery uncertain**
- **Markets likely to remain volatile**
- **Concerns about the depreciation of yen**
- **Concerns about the crisis in Argentina**
- **Slowdown of the Hong Kong economy likely to continue, at least for the first half**