

EXECUTIVE CHAIRMAN'S STATEMENT

Fortifying Management

In order to gear up for future developments, the Bank has devoted itself to the enhancement and restructuring of its internal organisation. The Bank's new organisational structure was fully implemented in 2002. Satisfactory results have been achieved in such areas as the division of labour among the various departments, the effective use of resources and the promotion of work efficiency.

Redeveloping Headquarters

Our headquarters will be torn down for redevelopment towards the middle of this year and the relevant departments at our head office will have been relocated to work out of the New World Tower at 16-18 Queen's Road Central by then. A 27-storey modern commercial building, boasting a total floor area of 110,000 square feet, will be erected on the site in question. Construction work will take about three years to complete at a redevelopment cost of some HK\$200 million. The Bank will move its operations back to the new building after the completion of its construction in mid-2006.

Directorate Changes

I stepped down as your Managing Director immediately after the Bank's annual general meeting on 25 April 2002. I, however, stayed on as your Executive Chairman. Mr Liu Lit Chi was promoted at the same time from Deputy Managing Director to Managing Director and Chief Executive Officer. Mr Don Tit Shing Liu, Executive Director, was then appointed your Deputy Chief Executive Officer as well. Dr Liu Lit Chung resigned as a Non-executive Director on 11 July 2002, and Mr Christopher Kwun Shing Liu was appointed a Non-executive Director on that same day. Mr Shi Qin resigned as a Non-executive Director on 21 November 2002, and Mr Sun Jiakang was appointed a Non-executive Director on that same day. On 12 February 2003, Mr Alfred Cheuk Yu Chow, a solicitor, was appointed an Independent Non-executive Director. Mr Chang Ying Kuang, an Independent Non-executive Director, is due to retire in rotation at the upcoming annual general meeting of the Bank which has been scheduled for 23 April 2003. Although Mr Chang is eligible to be re-elected, he has decided not to offer himself for re-election in the light of his advancing years. I would like to take this opportunity to not only thank Dr Liu, Mr Shi and Mr Chang for their contributions to the Bank during their terms of office, but also welcome those who have assumed their new positions.

Economic Prospects

Hong Kong's neighbouring economies have outpaced our local economy in recent years. Even though Hong Kong is still regarded as one of Asia's four little dragons, it is beginning to lose its edge. One of the major reasons is Hong Kong's "city-type" economic structure, characterized by limited market size and insufficient internal demand, makes it relatively difficult to grasp the centripetal force for economic recovery. Moreover, our industries tend to be overmonotonous. When once-commanding industries falter, very often there are no successors. The real estate sector, for example, failed to bounce back ever since the start of the recessionary cycle for the global economy in 1997. Although our government has earnestly promoted the transformation of the economy, new pillar industries have yet to be successfully nurtured to act as the railway engine for the economy. Investment sentiments have thus been dampened, resulting in the outflow of capital. In the light of the mainland's surging reforms and thriving economy, the best way out for Hong Kong is to merge with the Pearl River Delta to form a much larger system (comprising the economies of Guangdong, Hong Kong and Macau) so as to vie for the leading role as the pivot on which the region's economic development revolves by capitalizing on the better geographical attributes and laissez-faire policies in question. Hong Kong would be able to bring its inherent advantages into play, namely, its stable and non-interventionist financial policies and well-developed international trading network, not to mention its advanced telecommunications capabilities and abundant strengths in the area of shipping. Besides, Pearl River Delta's renowned facilities for the manufacturing sectors and ample supplies of raw materials, coupled with Macau's existing travel and entertainment amenities, would make the tripartite alliance a winning

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proposition, enabling the parties involved to fill in for one another on the one hand and avoiding unnecessary vicious competition on the other. Our government should seize the opportunity to bring about the alliance as soon as possible in order for Hong Kong to stand a chance of maintaining its leading advantages when competing with its neighbours. As to Hong Kong's traditional industries, only tourism performs well and has the potential for development.

Visitors have been shuttling between Hong Kong and the mainland on the back of the hinterland's continuously prosperous economy. The number of people visiting Hong Kong can thus be expected to grow exponentially in the future. Recently, many hotels have been built and various shops selling merchandise bearing internationally famous brand names have been set up in prime business and commercial locations in Hong Kong. This does testify not only to the territory's continued leading role as a consumers market, but also to its sustained reputation as a shoppers paradise. Hong Kong will have an additional amusement attraction with the scheduled opening of the Disney Theme Park. If tourism can be developed to realize its full potential while attracting people from different walks of life to visit Hong Kong from different parts of the world, our consumers market as a whole may be given a boost and employment opportunities may also improve. We may thus be cautiously optimistic about the prospects for the economy.

The government, in order to alleviate this financial year's serious fiscal deficit problem that it faces, will soon resort to raising taxes. This would undoubtedly mean a further blow to those who are already troug-ridden. The government should therefore try even harder to implement cost-cutting measures to reduce public expenditure and streamline government structure with an eye to gradually improving Hong Kong's economic environment.

As to the financial sector which helps to prop up the local economy as a whole, the government should do its utmost to maintain Hong Kong's position as a major international financial center. There is limited room for the banking industry, which has always been properly regulated, to expand because of the smallness of our market. The government should help local banks to fight for preferential terms for the establishment of branches in the mainland to capitalize on the flourishing economic landscape ushered in by the relaxation of border-crossing regulations. This should help the banking industry to develop in the future. Besides, the government should step up its efforts to regulate the stock market in general and the listed companies in particular. Corporate governance practices should be made more transparent and sound accounting standards unified to allay investors' concern. Moreover, the current trading volumes of the bond, foreign exchange and bullion markets in Hong Kong still pale in comparison with those of the other developed markets in the international arena. The government should be more aggressive in helping to devise and develop financial products so as to maintain Hong Kong's leading role in the financial market.

The touch-and-go US-Iraq situation is threatening the development of the global economy. It is hoped that the confrontation can be resolved peacefully as soon as possible so that casualties and monetary wastage may be avoided and financial order restored to the international community with all due speed. It is also hoped that Hong Kong's economy will gradually turn around to the point of full recovery in the process.

Finally, I, on behalf of your board, would like to thank our customers, friends and shareholders for their trust in and support for the Bank. Heartfelt thanks also go out to all members of our staff for their dedication to the Bank.

By Order of the Board
Liu Lit Man
Executive Chairman

13 March 2003