

CHAIRMAN'S STATEMENT

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Economic Review

Based upon the Government's published economic reports, the local economy continued to improve steadily in the year 2000, showing confidence in growth prospects. For instance, local gross domestic product grew 10.5 percent, trade receipts increased 17.8 percent, visitor arrivals rose 15.3 percent, indicating a turnaround in the economy. However, reality checks on the performance of the various principal pillars of the Hong Kong economy reveal that there is still room for further improvement compared with their achievements in their heyday. For example, unemployment rate and underemployment rate still registered 4.4 percent and 2.7 percent, respectively. Composite consumer price index went down 3.7 percent – a sign of continual deflationary pressure and sagging consumer confidence. Indices reflecting the performance of the stock market roller-coasted following the cooling-off of the technology stocks frenzy last year. This has had an adverse impact on the market. To enhance management efficiency, facilitate economic growth, and promote long-term stability of the community, the Government introduced a number of initiatives last year including the implementation of the mandatory provident fund regime with the aim of providing the citizenry with retirement benefits. A contract system that emphasizes accountability was adopted to raise performance standards amongst the various government departments. Besides, a mandatory health care subscription system has recently been proposed to improve the current health care structure. Although such initiatives are commendable and well-intentioned, it appears that too many of them have been introduced at too fast a pace. Given that our economy has yet to recover fully, the Government should be urged to further reconsider whether the various businesses and the public at large are prepared to embrace such initiatives at this stage. The property market remained sluggish. Although competition was fierce in the new residential developments sector, transaction volumes in the secondary property market stayed at low levels. Furthermore, the Government has adjusted its housing policy lately. The flexible supply of land and housing units will help the property market stage a steady recovery. On the banking front, competition remained fierce within the banking industry. Mortgage business continued to be aggressively sought after by banks which have jumped in droves at business opportunities by offering preferential terms. Profit margins have thus been narrowed. It is a blessing, however, that the operation of the local cash-rich market is gradually back to normal with rekindled capital-raising activities. Hong Kong can therefore be expected to add momentum to the financial industry by remaining an important capital market for large enterprises.

Results Announcement

For the financial year 2000, the Bank's business has benefited from the Hong Kong economy which has become stabilized. Net interest margin still managed to reach 2.51 percent because interest rates for deposits and loans have remained stable. On an audited, consolidated basis, profit attributable to shareholders

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amounted to HK\$457 million, an increase of 27.95 percent over that of the previous year. Customers' deposits and certificates of deposit rose 9.81 percent to HK\$31.132 billion. Total loans to customers (after provisions for bad and doubtful debts) dropped 3.48 percent to HK\$18.152 billion. On 31 December 2000, the Bank's loan portfolios were made up as follows: property developments and investments (20.29 percent), financial and securities (9.60 percent), commercial and industrial (including wholesale and retail, manufacturing and transportation) (29.80 percent), personal real estate purchases (22.26 percent), import and export trade financing (6.48 percent), loans outside Hong Kong (6.53 percent), and others (5.04 percent). Furthermore, the Bank has always maintained ample liquidity. Adjusted capital adequacy ratio rose 2.27 percent to 21.60 percent at the end of 2000, while average liquidity ratio for 2000 decreased 7.19 percent to 54.35 percent. Loan-to-deposit ratio was a mere 50.49 percent. The heavy demand for funds by the capital market during the financial year concerned helped the Bank to channel its excess funds into short-term placements and the purchase of such instruments as Exchange Fund Notes and bonds issued by its peers to augment its income. These in turn contributed considerably to the Bank's earnings arising from interest margins. Total assets rose 8.87 percent to HK\$38.992 billion. Shareholders' funds (before final dividend) amounted to HK\$5.728 billion. In the light of these admittedly satisfactory results, your board has recommended paying the final dividend for the financial year 2000 of HK\$0.35 per share to shareholders whose names appear on the Register of Members at the close of business on Friday, 20 April 2001. Total dividends for the financial year 2000 (including the interim dividend of HK\$0.18 per share paid earlier) amounted to HK\$0.53 per share.

Profit Analysis

On an audited, consolidated basis, interest income jumped 15.08 percent from that of 1999 to HK\$2.609 billion in 2000. Interest expenses increased 14.23 percent to HK\$1.669 billion. Net interest income rose 16.62 percent to HK\$0.940 billion, translating into net interest margin of 2.51 percent. After taking other operating income into consideration (which netted HK\$0.177 billion), the Bank recorded total operating income at HK\$1.117 billion. Operating expenses (including staff costs, rentals, property management fees plus depreciation and other expenses) added up to HK\$0.405 billion. Cost-to-income ratio was 36.21 percent. As the Hong Kong economy is still undergoing a period of transformation and the various industrial and commercial businesses have yet to fully consolidate their positions, prospects are thus murky. The above results testify to the Bank's continual commitment to a prudent yet proactive approach towards seizing business opportunities without compromising the security of its funds. Provisions for bad and doubtful debts continued to decrease 7.43 percent to HK\$172 million. After accounting for the provisions for bad and doubtful debts as well as the charge for taxation, the Bank recorded an increase of 27.95 percent in the profit attributable to shareholders to HK\$457 million, translating into earnings of HK\$1.05 per share.

Mandatory Provident Fund Services

Following the implementation of the mandatory provident fund legislation in December 2000 and the subsidence of the flurry of marketing activities orchestrated by the various relevant companies to secure market share, the Bank started offering MPF services through Bank Consortium Trust Company Limited. Latest statistics show that the Bank has performed fairly well. Of Bank Consortium Trust's nine shareholder banks, the Bank has ranked among the top performers. This has in turned paved the way for a good source of non-interest income for the Bank.