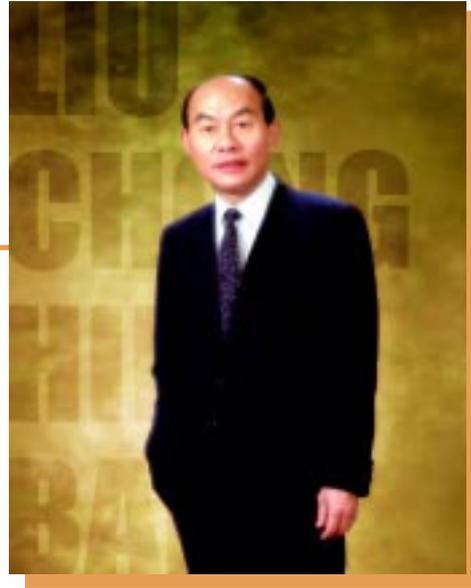


EXECUTIVE CHAIRMAN'S STATEMENT

Mr Liu Lit Man GBS, JP, FIBA
Executive Chairman



Economic Review

Looking back on the year of 2002, news about the economies, both local and overseas, was mostly negative: fights against acts of terrorism lingered on in the international community, military confrontations erupted here and there, and statistics on corporate liquidations and unemployment remained high, thereby greatly affecting the livelihoods of the people in general. Tensions in the Middle East, which have yet to loosen up, have been hampering the pace of development of the global economy. The road to recovery awaits the gradual easing of such tensions.

According to the statistics released by the government, the local economy, which has long been pestered by the Asian financial turmoil and the recession of the global economy, still managed to record a gross domestic product growth of 2.3 percent in real terms for 2002 as a whole - admittedly a piece of good news as the figure is an improvement over that of 2001. Thanks to the softening of the greenback in the last quarter of 2002, Hong Kong's export figures improved. This had in turn led to a slight rebound of the economy as a whole. The stepping up of preparations for war between the United States and Iraq has, however, reminded one not to be optimistic about the future. The local stock market remains sluggish because of unfavourable external factors coupled with the lack of desires for local investments. The Hang Seng Index started off at 11,397 points in early 2002 and meandered to a low of 9,321 points towards the end of the year, shedding 2,076 points. Market capitalizations totalled HK\$3,559.1 billion on the main board, a drop of HK\$326.2 billion over the total for 2001. Daily trading volumes averaged only a few billion dollars. Besides, the repercussions of the penny stocks incident, as well as the imminent abolition of minimum brokerages, have caused numerous securities houses to scale down their operations or simply shut down. Prospects for that industry still look bleak for want of a favourable environment. On the property front, the large supply of flats during the year led the developers to urgently introduce further sales incentives, thus exerting a constant downward pressure on prices. The government has introduced certain initiatives in an effort to restore property owners' confidence. They include the "nine measures" which have been designed to, among other things, stop the sale of Home Ownership Scheme flats, halt land auctions for now, stop the tendering for railway development projects for the time being, and relax the rules governing landlords' repossession rights. With the sole exception of active trading in the new properties market which has been boosted by the various incentives offered by the developers, trading activities are still sluggish in the secondary property market and property prices remain subdued. As to the tourism industry, it has benefited from the relaxation of the mainland's policy allowing its citizens to travel abroad, not to mention the various long holidays. Although the number of visitors to Hong Kong has increased considerably, there are limits to the seasonal nature, as well as the single source, of travellers. Overall consumption therefore has not been widely blessed. Besides, severe shrinkage in the industrial and commercial circles has time after time brought about record-breaking unemployment numbers. The economy is still stuck in a sluggish rut. The government, having estimated the fiscal deficit for this financial year to be up to HK\$70 billion, is in urgent need of adopting a series of measures to ease such a deficit. The society at large will still have to adapt to the belt-tightening climate so as to ride the storm out.

EXECUTIVE CHAIRMAN'S STATEMENT

On the banking front, the operating conditions remained difficult throughout 2002. Credit demand continued to fall and industry competition stayed fierce. Interest spreads narrowed to such a point where almost no profits could be made. It therefore came as no surprise when a certain major international bank announced its plan some months ago to leave the local property mortgage market - a testimony indeed to the difficult operating conditions. On the whole, the local banking industry has always been very solid. However, there has been a general decline in profitability in recent years. Factors that have most directly affected the profits of the banking industry include the sharp increase in personal bankruptcies and the continued surge in non-performing loans in recent months as well as the further increase in the number of people owning negative-equity properties. Such factors have in fact made the operating environment all the more difficult for the banking industry.

Results Announcement

In the light of the cloudy market, the Bank's results for 2002 fell in comparison with those for 2001. For the financial year of 2002, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$309.49 million, a drop of 10.52 percent against that of the previous year. Customers' deposits fell slightly by 0.59 percent to HK\$32.492 billion. Total loans to customers (after accounting for provisions for bad and doubtful debts as well as interest accrued and suspended) increased 3.54 percent to HK\$19.155 billion. On 31 December 2002, the Bank's loan portfolios were made up as follows: property developments and investments (23.98 percent), personal real estate purchases (20.86 percent), financial and securities concerns (10.05 percent), trade finance (3.86 percent), wholesale and retail trade (3.16 percent), manufacturing, transportation and other businesses (25.19 percent), loans outside Hong Kong (7.43 percent), and others (5.47 percent). Adjusted capital adequacy ratio decreased 3.83 percent to 20.07 percent at the end of 2002, while average liquidity ratio for 2002 fell 5.41 percent to 55.39 percent. Loan-to-deposit ratio rose 4.27 percent to 51.55 percent. Total assets fell slightly by 0.69 percent to HK\$39.189 billion. Shareholders' funds (after final dividend) amounted to HK\$5.726 billion, an increase of 1.06 percent. The local economy remained in the recessionary mode during the year under discussion: business activities of the various industries were sluggish, unemployment rate rising, consumption market dwindling, and capital investments virtually absent, thereby idling the funds of the financial institutions. With the concerted efforts of the Bank's staff, we managed to achieve the results in question. Your board has recommended paying the final dividend for the financial year of 2002 of HK\$0.35 per share to shareholders whose names appear on the Register of Members at the close of business on Thursday, 17 April 2003. Total dividends for the financial year of 2002 (including the interim dividend of HK\$0.15 per share paid earlier) amounted to HK\$0.5 per share.

Profit Analysis

On an audited, consolidated basis, interest income decreased 5.94 percent from that of 2001 to HK\$749.37 million in 2002. Interest spread was maintained at about 1.91 percent, a drop of 5.91 percent. Net fee income amounted to HK\$200.85 million. Total operating income was HK\$950.22 million and total operating expenditure was HK\$439.26 million. Cost-to-income ratio amounted to 46.23 percent. Operating profit before provisions and disposal of long-term assets decreased 3.5 percent to HK\$510.96 million. During the year under discussion, the Bank continued to steadfastly abide by its policy of prudent operation and maintenance of good credit quality. Provisions for bad and doubtful debts fell slightly from those of 2001 by 5.43 percent to HK\$129 million. After accounting for the provisions for bad and doubtful debts as well as the charge for taxation, the Bank recorded a decrease of 10.52 percent in the profit attributable to shareholders to HK\$309.49 million, translating into earnings of HK\$0.71 per share. Net asset value (after final dividend) amounted to HK\$13.16 per share, a slight increase of 1.06 percent.