

CHAIRMAN'S STATEMENT

BC Reinsurance Limited

BC Reinsurance Limited, whose shareholders comprise the Bank, Liu Chong Hing Insurance Company Limited (the Bank's affiliate), Asia Insurance Company Limited, Wing Lung Agency Limited, Shanghai Commercial Bank Limited, AR Consultant Services (HK) Limited and Edwin W P Chan & Company Limited, has opened for business lately, engaging in reinsurance activities involving general insurance.

Hong Kong Life Insurance Limited

The Bank has teamed up with Liu Chong Hing Insurance Company Limited (the Bank's affiliate), Asia Commercial Bank Limited, Asia Insurance Company Limited, Chekiang First Bank Limited, Shanghai Commercial Bank Limited, Wing Hang Bank Limited and Wing Lung Agency Limited to form Hong Kong Life Insurance Limited which is expected to open for life insurance business in mid-April 2001.

The Bank will capitalize both on its established customer network and on the other members' social connections to strive for the incubation of business opportunities for the two insurance companies concerned.

Card Alliance Company Limited

The Bank has joined forces with Asia Commercial Bank Limited and Chekiang First Bank Limited to form Card Alliance Company Limited to enhance and standardize performance benchmarks for credit card business, and to reduce operational costs. Card Alliance has been operating smoothly with admittedly satisfactory results since its establishment last year.

Net Alliance Co Limited

Net Alliance Co Limited, comprising Asia Commercial Bank Limited, Chekiang First Bank Limited, International Bank of Asia Limited, iMerchants Limited and the Bank as its shareholders, aims primarily to improve service quality and provide state-of-the-art internet banking facilities to the customers at large. Net Alliance is expected to become operational in May this year.

Prospects

In retrospect, the economies in the Asia-Pacific region (including those of Japan, Korea, Thailand and Taiwan), having undergone the process of restructuring last year, have gradually become stabilized. However, the pace of recovery was hampered by escalating oil prices in the second half of the year, while countries such as Indonesia, Malaysia and the Philippines had each encountered a slowdown (or even a contraction) in the development of their economies for political reasons. Economies in North America (led by that of the United States) have begun to experience slower growth in the aftermath of the easing up of the frenzy revolving around information technology. The US Federal Reserve has reduced interest rates a number of times recently in an effort to foster prosperity by bolstering the flagging economy. Since results of such interest rates reductions have yet to be seen, it is inevitable that those countries and regions that depend upon the United States as a major trading partner have been adversely affected. As to the Hong Kong economy, it is well-positioned to speed up its recovery after years of recuperation and the active implementation by the Government of numerous measures to provide the impetus for a robust market. In the light of China's imminent admission to the World Trade Organization, it is expected that Hong Kong can make use of and capitalize on its intermediary role to benefit the financial and trading industries, thereby helping to kick-start the vitality of the various businesses, lower unemployment rate and restore the economy of yesteryear.

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The banking industry will continue to experience fierce competition, especially in the face of the full deregulation of the time-honoured interest rates rules in July this year. New challenges will then have to be tackled. In order to be better prepared for competition, the Bank has changed from its traditional mode of operation which used to rely heavily on interest income as a prime source of revenue to one that promotes different kinds of business activities that generate more non-interest income. The Bank has proceeded steadily over the past few years to bring about the change by taking such measures as the provision of mandatory provident fund services, the participation in the investment funds launched by JP Morgan Asia Equity Partners, LP (formerly known as "Chase Asia Equity Partners, LP"), and the pursuit of investment projects through the taking of equity interests in Card Alliance Company Limited (for the provision of quality credit card services), Net Alliance Co Limited (for the provision of state-of-the-art internet banking facilities to the customers at large), and BC Reinsurance Limited and Hong Kong Life Insurance Limited (for the conduct of an array of insurance businesses). It is expected that such measures will help the Bank earn considerable non-interest income over time through the exertion of concerted efforts and the realization of potentials. In order to rein in operational costs, enhance service quality and be more competitive, the Bank has strictly enforced its retirement policy, recruited high-caliber staff, beefed up its training programs, and effected timely promotions. Following their implementation, these measures, which separate the wheat from the chaff, are beginning to bear fruit.

Although the Hong Kong economy is still consolidating, it has basically resumed a gradual yet normal course of development to date, and has started logging positive growth with a promising future. However, Hong Kong is susceptible to changes in external economic factors such as the US economy which is easing at the moment, the neighbouring region which has no growth in demand, and the Japanese economy which has nothing encouraging to report. The fact that the European economy and the economy of mainland China still manage to remain stable does help to relieve Hong Kong of its pressures somewhat.

In the light of the ever-increasing variables confronting the future of the economy, the Bank shall focus both on the development of business activities for non-interest income and on the ongoing studious pursuit of traditional business lines. This will be supplemented by improvement in service quality and reduction of management costs with an eye to developing additional sources of income on the one hand and reducing expenses on the other. With the trust and support of the Bank's customers, friends and shareholders, together with your directors' wise leadership and our staff's dedication, better results are surely attainable. I would therefore like to express my whole-hearted gratitude to them all on behalf of your board.

Liu Lit Man

Chairman & Managing Director

15 March 2000