I am pleased to report that Asia Financial Group (the "Group") enjoyed a healthy improvement in its performance in 2000 compared with the previous year. Profit from many activities showed welcome increases, providing a net group profit of HK$175.1 million, a 18.3% increase on the figure for 2000. At the same time, we continued to expand our products and services and our network of alliances in order to position the Group for further growth in 2001 and beyond.

All three of the Group's divisions performed well, given the particular challenges they faced during the year. After consolidating bad loans in the first half, Asia Commercial Bank saw 63% profit growth for the year, despite fierce competition in the mortgage market and pressure on yields. Loans and advances rose 10%, and consumer loans, share broking and treasury products all produced good results. Asia Insurance returned a good result by the standards of the intensely competitive insurance industry. Although its profit fell 39.7%, its peers on average failed to make an underwriting profit. Asia Investment Services had a leap of 237.3% in profit when proceeds from the sale of shares in Hong Kong Exchanges and Clearing Limited are included.

The relative performances of the three divisions reflect the volatility of their respective markets in the last two years. While we are hopeful that the years ahead will be calmer, we are confident that the diversified nature of the Group will continue to protect shareholders' interests in the event of volatility.

More details of the subsidiaries' financial performances, activities and future prospects can be seen in the Management Discussion and Analysis.

Broadly speaking, there are two main reasons for last year's success.

An improved economic environment

The Hong Kong economy returned to positive growth in 2000, although not all sectors benefited equally. Export-related sectors experienced renewed strength, while continued deflation and high real interest rates depressed the property and retail markets. In many of our areas of business, competition and pressure on margins were constant challenges throughout the year. In comparison with 1999, however, the economy was clearly recovering, and sentiment showed signs of improvement, especially in the second half of the year.

Focused management efforts to maximise profit

All parts of the Group took appropriate steps to achieve optimal returns for shareholders in their respective markets. In markets where margins were under fierce pressure, notably insurance, we took prudent measures to protect profits above all else. Where markets showed potential for growth, we took bolder action to increase our share of attractive new business, such as consumer lending. As a result of these measures, I believe the Group produced very creditable results in all of its activities, even those for which the operating environment remained poor.

Where portfolio investment was concerned, the Group pursued a prudent strategy during a year of market volatility by realising profits when opportunities arose and to increase exposure to quality blue-chip stocks and fixed income instruments in order to maintain a diversified portfolio with acceptable risks.

The Group's liquidity and financial resources remained in a healthy state during the year. There were no significant developments affecting the capital structure of the Group.

Outlook

The outlook for the Hong Kong economy in the coming year is reasonably positive, with most analysts forecasting a steady growth rate of around 4%. Deflation is likely to come to an end, while real interest rates should be significantly lower than in 2000. This should help to stimulate private consumption and investment.

It is true that the external environment may not be particularly encouraging, particularly with the US economy showing signs of a sharp slowdown at the beginning of 2001. This may dampen the outlook for those clients of the Group who are exposed to regional and international markets. However, we believe a US slowdown is likely to take the form of a soft landing, after a reasonably short-term period of economic consolidation. This could in some ways be a blessing in disguise for Hong Kong. It will lead to lower interest rates, which will provide a welcome stimulus for the domestic economy after a period in which growth has been concentrated in the export sector and consumption and investment have been depressed by very high real interest rates. On the whole, we believe there will be more opportunities than threats for the Group this year, owing to steady expansion in the local economy and that of the Mainland.

All parts of the Group will maintain a prudent strategy if and when demand proves to be weak or margins thin. At the same time, we will take a more aggressive stance towards expanding market share in areas with growth potential. We will also actively explore new opportunities to develop alliances with new and existing partners.

I look forward to reporting positive interim results later in the year.

Robin Y.H. Chan
Chairman and Managing Director

Hong Kong
22nd March 2001