

Banking

Net profit attributable to shareholders:	HK\$52.9mn	+63%
Total operating income:	HK\$344.2mn	+13%
Net interest income:	HK\$288.8mn	+11%
Other operating income:	HK\$55.4mn	+25%
Charge for bad and doubtful loans:	HK\$94.0mn	-14%
Total loans and advances:	HK\$7,686.6mn	+10%
Customer deposits:	HK\$11,232.2mn	+5%
Overall net interest margin:	2.31% (10 basis points higher than in 1999)	
Cost-to-income ratio:	50% (same as 1999)	
Liquidity ratio:	53.02% (Average 1999: 54.58%)	
Capital adequacy ratio:	19.25% (end-2000)	

After consolidating bad loans in the first half, Asia Commercial Bank (the "Bank") achieved a very satisfactory increase in net profit in 2000. This reflects not only the decline in the amount of bad and doubtful loans but also our success during the year in managing funding costs and increasing fee income from new personal loan products and share broking activities.

Despite intense competition among banks for mortgage loan business, the Bank managed to increase residential mortgage loans at a satisfactory rate. Syndicated loans increased strongly, and yields on treasury products were reasonable.

The non-performing loans ratio declined from 5.15% to 3.31% during 2000; the industry average was 5.37% at the end of the year.

We expect to see continued growth in 2001. We are planning for strong loan growth in all areas, with special emphasis on the marketing of consumer financing products such as credit cards, hire purchase and personal loans. In particular, we are confident that our new credit card products, launched in February 2001, will make a valuable contribution to the business. We are planning to sign up credit card users from its existing customer base and through co-branding and joint promotion schemes. We also expect continued growth in the field of treasury operations as we gradually expanding our range of treasury products.

The Bank has been investing in information technology in order to introduce Internet banking in the second quarter of this year. Internet banking will make our services significantly more convenient for our customers, and will help the Bank to reduce front-line operational costs and dedicate more personnel to pro-active and personalised customer service.

The Bank will also be launching new life insurance products in conjunction with Hong Kong Life Insurance Limited ("Hong Kong Life"), an alliance with five fellow members of the Bank Consortium. We are confident that growing awareness in Hong Kong of the importance of long-term financial planning will encourage demand for life insurance products.

One of the main reasons for this increased awareness is likely to be the recent launch of the Mandatory Provident Fund. The core business of the Bank Consortium, the provision of MPF services, has started extremely well, having captured about a 10% share of the market. We are confident that MPF and related business will offer growing opportunities.

We also expect to conduct more syndicated loan business in conjunction with fellow members of the Bank Consortium.

Shareholders may be wondering whether the Bank will be affected by the full deregulation of short-term interest rates on deposits in the middle of this year. We do not expect this measure to have a seriously negative impact on the business, and we believe this deregulation, combined with the possible introduction of a deposit insurance system, may offer the business new opportunities.

In conclusion, the Bank can look forward to continued growth as it expands its range of products and its distribution capabilities.

Insurance

Net profit attributable to shareholders:	HK\$48.6mn	-40%
Underwriting profit:	HK\$18.4mn	-25%
Investment/dividend income:	(HK\$1.0mn)	-104%
Interest and other income:	HK\$66.5mn	-
Premium turnover:	HK\$365.7mn	+4%

The heavy decline in underwriting profit came in spite of a modest increase in premium turnover. This reflects the malaise affecting the entire Hong Kong insurance industry in 2000, with companies cutting margins ruthlessly in search of market share.

The fall in investment and dividend income was due to an exceptional investment gain of HK\$20 million in 1999, as well as general weakness in the equities market at the end of 2000.

Under these conditions, it is essential that management pays special attention to costs. The 5% reduction in Asia Insurance's cost base in 2000 follows a 10% fall in 1999. Our achievements in this area are due to the streamlining of internal processes, enhancement of information technology capabilities and management of staff costs.

It should be noted that the above result represents one of the profitable insurance companies in Hong Kong, with the industry as a whole making an underwriting loss in 2000. Our relative success in this respect can be attributed to our strategy of concentrating on quality of business rather than market share.

There is finally some cause to hope for better times for the general insurance industry in Hong Kong. We may see some consolidation in the industry during 2001 and new underwriting guidelines that bring premiums to more realistic levels in the least profitable areas of the market.

During 2000, we prepared for better times by signing agreements with ING Life (formerly known as Aetna) and Chekiang First Bank to distribute Asia Insurance products, and recruiting a number of new agents. Asia Insurance, in conjunction with Asia Commercial Bank, is one of the six member groups of Hong Kong Life. This life insurance will be distributed through the six member banks and offers good long-term growth prospects. In order to further diversify our range of business, Asia Insurance has joined with three member banks and other institutions to establish BC Reinsurance Limited ("BC Reinsurance"). We are confident that BC Reinsurance will prove to be a successful venture in the fields of reinsurance and other non conventional new products.

We are hopeful that the improving outlook for the industry, the diversification of products, the expansion of sales networks and a continued strategy of prudence will bring about an improvement in Asia Insurance's results in 2001.

Investment Services

Net profit attributable to shareholders: HK\$60.7mn +237%

The substantial rise in net profit for Asia Investment Services is largely due to the disposal during the year of shares in Hong Kong Exchanges and Clearing Limited, following the demutualisation and listing of the exchange. The underlying composition of recurrent profit underwent some changes. Contributions from asset management, local broking, securities financing and corporate finance fees increased, while those from regional broking and futures brokerage fell.

In order to prepare for increasing competition in the broking field, we are working on an Internet trading system that will allow our customers convenient access to local and international markets. We believe this new service will play a key part in expanding the business in the medium term.

The year ahead looks rather mixed. There may not be as much corporate finance and advisory activity in 2001 compared with 2000, while the performance of broking services will rely to some extent on the strength of the markets. Provided the Hong Kong economy and markets show some strength this year, we are confident that asset management, broking and financing services will continue to expand, enabling Asia Investment Services to have a satisfactory year in 2001. We are especially hopeful that demand for quality asset management services will rise and that assets managed by Asia Investment Services will continue to grow, after passing the US\$100 million mark in January this year.

Alliances

During 2000, the Group continued to play a leading role in the formation and development of innovative alliances among financial institutions in Hong Kong. In most cases, these groupings are specifically intended to enable smaller local financial institutions to boost market share, to increase marketing and distribution power, and to exploit economies of scale. It is a “strength in numbers” approach, and it is proving to be very positive.

The prime example of such an alliance is Bank Consortium, in which Asia Commercial Bank and nine other banks provide Mandatory Provident Fund services. This joint venture is proving to be very successful, having gained about a 10% market share. Other mutually beneficial arrangements between Asia Commercial Bank and other companies are showing promise in such areas as syndicated loans, credit card administration and joint procurement. Asia Insurance is involved with Asia Commercial Bank in the six-bank life insurance provider, Hong Kong Life, and with three member banks and other institutions in BC Reinsurance.

There is no reason why this approach to alliances should not be successful in other fields of banking and insurance business or in investment services. We believe that the pooling of business activities and functions with like-minded partners can offer the subsidiaries of the Group significant benefits in facing rising competitive pressure. We will continue to take a pragmatic approach towards alliances where we believe it is in the interests of shareholders.

Contingent Liabilities

As at 31st December 2000, corporate guarantee of HK\$390 million in aggregate was executed by the Company for banking facilities made available to the Group which was utilised to the extent of HK\$40,706,000 at the balance sheet date.

Staff

The Group had about a total of 620 (1999: 590) employees at the end of 2000. Our policy is to offer competitive salaries and conditions in order to attract and retain good quality personnel, and ensuring that adequate resources are available for training. The results of this policy can be seen from the success of the Group in overcoming the challenges of the recent years.