

# Chairman's Statement

The year 2001 began with cautious expectations in the business community of continued recovery from the downturn of 1998-99. In fact, it proved to be one of the most challenging periods for many years, especially for companies in the financial services sector, and this was certainly the case for Asia Financial Group.

Net group profit of HK\$30.1 million was 82.8% lower than in 2000. However, it is important to bear in mind that the greater part of this substantial fall in profit reflects the impact of exceptional profits related to the sale of listed investments in the previous year, and of impairment provisions for investment securities booked in 2001. Behind these disappointing figures lie some acceptable operating results, which point to improved future prospects.

The greatest single impact on our bottom line for the year was the significant decline in value of certain strategic, long-term listed investment securities, which appears as a note to the accounts. We consider the value of these securities may rebound as global markets strengthen, and the negative effect on the Group's profitability will be reversed in due course.

## **A Year of Increasing Economic Difficulty**

The main challenge facing the Group's operations last year was the overall weakness in the global economy. This was especially the case in the second half, as the US economy showed signs of a serious slowdown, compounded by the tragic events of 11th September in the USA.

In Hong Kong, the global economic slowdown translated into declining export business and weak levels of consumption and investment, exacerbated by continuing negative inflation and by worries about job security, the Government's deficit and the changes brought about by the restructuring of the Hong Kong economy. All these factors seriously affected the financial and banking industry's profit growth.

In essence, demand for many of our Group's main services weakened significantly.

## **Core Businesses Show Strength Beneath Volatile Results**

Weakness in the securities markets naturally affected the Group. As it happens, the Group's own portfolio was prudently focused on quality fixed-income investments. Such a defensive strategy helped the portfolio to achieve a better result than most major market benchmarks, even though low interest rates reduced interest income. But poor market sentiment inevitably reduced trading volume for our investment services arm, Asia Investment Services.



# Chairman's Statement (cont'd)

Asia Insurance enjoyed considerable success in its core underwriting activities, building up existing business, and expanding into new areas, despite fierce competition in much of Hong Kong's insurance sector. Its 56.5% fall in profit is largely the result of impairment provisions for investment securities.

Asia Commercial Bank saw net profit decline by 19% in 2001. This mediocre but acceptable performance reflects the low levels of consumer demand and business confidence in Hong Kong during the year, the severe competition among banks and the heavy downward pressure on margins. Despite the difficult business conditions, the Bank continued to invest prudently in products with future growth prospects.

More details about the performance of the subsidiaries during 2001 appear in the Management Discussion and Analysis. The important thing for shareholders to bear in mind is that all three subsidiaries are prepared for a rebound when the economic climate improves and exceptional items and provisions weigh less heavily on our bottom line.

## **Management Focused on Future Profits**

The Group's management took various measures during the year to maintain profitability, in particular through managing costs. At the same time we increasingly focused on ways in which we could take advantage of new opportunities in the future. Where these two aims conflicted, our strategy was to favour investment in longer-term development of the business rather than shorter-term cost savings.

The Group continued to explore new opportunities through the development of our network of alliances during the year. We believe that partnerships with like-minded local institutions can reap important competitive advantages in terms of economies of scale and market share.

## **Outlook**

As of the first quarter of 2002, it was apparent that the US economy had bottomed out, but recovery proceeded at a slow pace. Given the over-investment that took place in the United States in recent years, the weak confidence of many American consumers and the possibility that the US stock market remains sluggish, prospects for a quick return to strong growth in the US appear quite limited.

However, the US economy is not the only factor affecting Hong Kong, and we are cautiously optimistic that even a gradual upturn in the US will boost confidence among local businesses and consumers, stimulate local markets and increase demand for our Group's services. It is likely that interest rates will start to climb at some stage later in the coming year, which will help net interest margins and yields. Not least, we are hopeful that the results for 2002 will show little or no effect of special provisions with regard to long-term investment securities. In short, we expect to announce improved profit levels in the year ahead.

# Chairman's Statement (cont'd)

With that in mind, we will continue to explore opportunities to develop our core businesses, and we will continue to monitor closely the opportunities offered by newer markets in the Mainland. We will also continue to take a pragmatic approach towards the development of alliances with existing or new partners where we believe it is in the interests of shareholders.

Despite uncertainty in the world economy, I hope to be able to report an improved results for the coming year.

**ROBIN Y.H. CHAN**

*Chairman and Managing Director*

Hong Kong, 25th March, 2002

