

The local economy, which has been plagued by years of lingering sluggishness, still showed no signs of improvement with the entering of the year of 2003. The continued listlessness of the economies of the developed countries in Europe and America, as well as the United States' all-out military manoeuvres with Britain to attack Iraq, had caused the global economy to be stuck in a quagmire. Although major combat operations had only lasted some thirty days, fights are still going on and the threats of terrorism persist. Such confrontations have not directly affected the way of life of the people in Hong Kong, but mishap does not strike once. The ruthless rampage of atypical pneumonia this past March and April had all of a sudden caused the turnovers of most of the local businesses to plummet drastically by some 70 to 80 percent. Among the hardest hit were restaurants and retailers in the consumption sector. Tourism and hotel businesses suffered even more significant losses. People's way of life had thus been unprecedentedly ravaged, leaving them concerned about their well-being. It was a blessing that, after nearly three tumultuous months, the concerted efforts of the government and its people had gradually managed to restore order to the community and the economy. All in all, Hong Kong managed to ride out a treacherous storm in the first half of this year with sombre composure.

There is nothing worthy of mention about Hong Kong's economic data for the short span of the first half of 2003: trading activities in the stock and property markets kept moving down, while residential property prices even dropped sharply by about ten percent during the period. Unemployment rate and bankruptcy petitions continued to register record highs, highlighting the difficult operating environment for the banking sector which is becoming more and more so.

The Bank's unaudited, consolidated results for the first half of 2003 fell somewhat against those for the previous corresponding period. Net interest income dropped 7.8 percent to HK\$346.089 million. Operating profit before provisions decreased 18.1 percent to HK\$211.197 million. Provisions for bad and doubtful debts fell sharply by 32.2 percent to HK\$38.928 million. Profit attributable to shareholders amounted to HK\$147.616 million, a drop of 9.7 percent. As of 30 June 2003, total customers' deposits decreased 2 percent to HK\$31.83 billion compared with the corresponding figure as of 31 December 2002. Total loans and advances to customers (after provisions for bad and doubtful debts) edged down slightly by 1.2 percent to HK\$18.918 billion. Total assets amounted to HK\$38.337 billion, a slight drop of 2.2 percent. As of 30 June 2003, capital adequacy ratio rose 0.7 percent to 20 percent against the corresponding ratio of 31 December 2002. Average liquidity ratio for the first half of 2003 increased slightly by 0.3 percent to 53.6 percent against the corresponding ratio for the first half of 2002. As of 30 June 2003, loan-to-deposit ratio stood at 51.9 percent, an increase of 4 percent against the corresponding ratio as of 31 December 2002. Earnings per share for the first half of 2003 amounted to HK\$0.34, a drop of HK\$0.04 per share compared with the corresponding figure for the first half of 2002. The reduction in profit is due mainly to the persistent sluggishness of the economy and the repercussions of the atypical pneumonia epidemic. Besides, customers tended to channel a large portion of their money into the purchase of such investment instruments as funds and bonds because deposit rates had remained low for a long time, while credit demand continued to shrink. As such, there was no deposit growth and nor was there any growth in lending business. However, our proactive debt collection efforts had markedly improved the recoverability of the bad and doubtful debts in question.

REVIEW AND PROSPECTS

We moved our head office operations to the New World Tower at 16-18 Queen's Road Central this past April the twenty-second and subsequently began the demolition and redevelopment work on our head office building at 24 Des Voeux Road Central in the middle of this year. Our Tsuen Wan Branch moved from the old premises to our self-owned property located at the ground floor of the Jade Plaza at 298 Sha Tsui Road in Tsuen Wan this past July the seventh. Business activities have since increased significantly because of its location in a bustling commercial district.

On the occasion of the sixth anniversary of the handover of Hong Kong, the Mainland and Hong Kong Closer Economic Partnership Arrangement was signed. The arrangement not only means zero import tariff for a number of Hong Kong products in the mainland starting from early next year, but it also facilitates access to the China market for a host of services sectors including those offering legal, accounting, construction and logistics services. Moreover, local banks will be subject to a relaxed asset requirement (down from US\$20 billion to US\$6 billion) in the establishment of branches in the mainland. The arrangement does give a boost to most of the sectors in Hong Kong. It is expected that the government will act in tandem by swiftly formulating relevant measures to reinstate the glory of Hong Kong as a leading economy. Moreover, the plan to integrate such cities as Guangzhou, Hong Kong and Macau into the Pearl River Delta region is being intensively studied by all the relevant parties. If the local government manages to accommodate properly, this will help soothe Hong Kong's unemployment problem in the short run. The implications would, however, be much greater in the long run because this will help generate endless business opportunities by linking Hong Kong's economy up with that of the western Guangdong Province and even those of other parts of China further west.

The government has recently announced the appointment of certain senior officials and stressed that currently the most pressing issue is to improve the local economic environment. With the gradual clearing up of the economic weather abroad, Hong Kong's prospects are believed to be still optimistic.

In order to seek the best possible return for our shareholders, we will continue to implement our policy of pursuing progress with prudence by making good use of our resources, devoting ourselves to the development of new products and striving for development opportunities.

By Order of the Board

Liu Lit Man

Executive Chairman

14 August 2003