

EXECUTIVE CHAIRMAN'S STATEMENT



Mr Liu Lit Man GBS, JP, FIBA
Executive Chairman

Economic Review

The tumultuous year of 2003 started off in the doldrums and ended in an upswing. The first half of the year witnessed the spread of the plummeting effect of the US-Iraq confrontations

and the Severe Acute Respiratory Syndrome (“SARS”) epidemic across the board, worrying the citizenry, quieting social activities and paralysing commercial transactions. The second half of the year tended to stabilise on the coattails of an improving external environment and a controlled SARS outbreak, not to mention the Central Government’s implementation of various policies to support the local economy. Annual economic growth exceeded expectation and the pace of recovery started to pick up.

Hong Kong’s macroeconomic environment was deplorable last year. The growth rate of our gross domestic product was on the low side and unemployment problem was serious. Moreover, deflation worsened and fiscal deficit continued to escalate. The trend of development was momentarily rather good at the beginning of last year. Gross domestic product was 4.5 percent for the first quarter. However, the economy, burdened with tensions in the Middle East, fights against terrorism and the SARS epidemic, abruptly went into reverse. The gross domestic product for the second quarter dropped 0.5 percent. The dawn of the third quarter saw the calming down of the global climate and the beginning of the turning around of the global economy. The local economy also began to show signs of improvement. Gross domestic product for the third quarter grew 4 percent over that of the previous corresponding period. The fourth quarter is expected to have grown about 4.5 percent and the growth for the whole year can be expected to meet the target of 3 percent increase. Hong Kong’s economy is extrovert by nature and external trade plays an important role. Industrial production, however, has dwindled over the years because of economic transformation. Despite the difficult environment, external trade for the whole year still managed to register growth. With the liberalisation of travel restrictions to Hong Kong, beginning in the second half of last year, by the mainland authorities for their residents, the market started to show signs of recovery, instantly blessing the transportation, hotel, restaurant, retail and entertainment businesses, among others, with a breath of new life. On the stock market front, the Hong Kong stock market rose last year after its earlier drop. Hang Seng Index fluctuated between 9,321 points at the beginning of the year and 12,576 points at the end of the year (an increase of 3,255 points, or 35 percent, over that of 2002), spanning 4,409 points for the whole year. Average daily turnover amounted to HK\$10.3 billion (a marked increase of 58 percent against the

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Head Office at Ground Floor, New World Tower 2, Central

previous year's HK\$6.5 billion), an indication that the money market is abundant with capital and the public's desire to invest is on the increase. On the property front, in the light of such negative factors as the dismal state of the global political landscape and the territory's own SARS epidemic in the first half of the year, property prices plummeted nearly ten percent in the second quarter of last year to hit rock bottom following the financial crisis in 1997. The number of cases of negative-equity residential mortgage loans shot up to more than 100,000. Although property developers had tried their best to offer incentives to boost flat sales, it was difficult to arouse the public's interest in

investing in the property market. It was not until the second half of the year that migrant capital came flooding in from overseas and the local government started introducing new immigration policy for those applicants who wish to invest in Hong Kong. The market gradually became active and property prices had on average risen more than 20 percent in six months from their low points. Since the momentum is still there, steady growth can be expected to continue. As far as the banking sector is concerned, there was no major breakthrough: the dismal condition of the Hong Kong economy last year was an extension of that experienced during the last few years. Interest rates remained low throughout the year. Interbank rate was even at zero percent most of the time. Credit demand, however, was still sluggish. Although certain sectors, having benefited from the introduction of the new "individual travels" arrangement, improved somewhat in the second half of the year, they only managed to make up for their losses incurred from their meager operations during the first half of the year.



Customer service counter at Head Office

Results Announcement

The Bank's results for 2003 improved slightly over those of the year before. For the financial year of 2003, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$311.475 million, a slight increase of 0.02 percent against the previous year's. Total customers' deposits rose slightly by 0.31 percent to HK\$32.592 billion. Total loans to customers (after accounting for provisions for bad and doubtful debts as well as interest accrued and suspended) increased 3.03 percent to HK\$19.736 billion. On 31 December 2003, the Bank's loan portfolios were made up as follows: property developments and investments (27.30 percent), personal real estate purchases (19.24 percent), financial and securities concerns