

EXECUTIVE CHAIRMAN'S STATEMENT

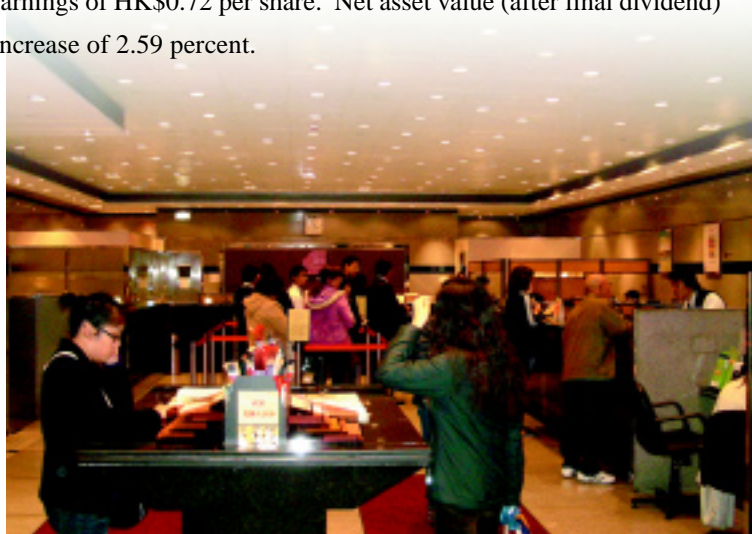
(9.60 percent), trade finance (3.48 percent), wholesale and retail trade (3.17 percent), manufacturing, transportation and other businesses (22.89 percent), loans outside Hong Kong (8.82 percent), and others (5.50 percent). Adjusted capital adequacy ratio dropped 3.82 percent to 19.12 percent at the end of 2003, while average liquidity ratio for 2003 decreased 5.45 percent to 52.37 percent. Loan-to-deposit ratio increased 2.68 percent to 52.93 percent. Total assets rose 1.92 percent to HK\$39.941 billion. Shareholders' funds (after final dividend) amounted to HK\$5.792 billion, an increase of 2.59 percent. As far as the local economy is concerned, last year was a rollercoaster year: first bitter, then sweet. Our results for the whole year edged up somewhat thanks to the concerted efforts of members of our staff who managed to recoup our initial lost ground by taking timely advantage of the upswing of the economy. Your board has recommended paying the final dividend for the financial year of 2003 of HK\$0.35 per share to shareholders whose names appear in the Register of Members at the close of business on Wednesday, 21 April 2004. Total dividends for the financial year of 2003 (including the interim dividend of HK\$0.15 per share paid earlier) amounted to HK\$0.50 per share.

Profit Analysis

On an audited, consolidated basis, net interest income dropped 10.57 percent from that of 2002 to HK\$670.178 million in 2003. Interest spread decreased 11.52 percent to 1.69 percent. After accounting for the other operating income, which amounted to HK\$213.84 million, total operating income was HK\$884.018 million and total operating expenditure was HK\$463.154 million. Cost-to-income ratio amounted to 52.39 percent. Operating profit before provisions and disposal of long-term assets decreased 17.63 percent to HK\$420.864 million. During the year under discussion, the Bank continued to strive for good credit quality. Provisions for bad and doubtful debts fell sharply from those of 2002 by 51.33 percent to HK\$62.8 million. After accounting for the provisions for bad and doubtful debts as well as the charge for taxation, the Bank recorded an increase of 0.02 percent in the profit attributable to shareholders to HK\$311.475 million, translating into earnings of HK\$0.72 per share. Net asset value (after final dividend) amounted to HK\$13.31 per share, an increase of 2.59 percent.

Directorate Changes

Mr Tatsuo Tanaka resigned as a non-executive director on 20 November 2003. I would like to express my sincere gratitude to Mr Tanaka for what he had contributed to the Bank during his term of office. Mr Toshiaki Arai was then appointed a non-executive director of the Bank



Service lobby at Head Office

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Tsuen Wan Branch moved to self-owned premises

upon the nomination of The Bank of Tokyo-Mitsubishi, Ltd in Japan. Mr Arai is currently the Regional Head for Hong Kong and the General Manager of the Hong Kong Branch of The Bank of Tokyo-Mitsubishi, Ltd. I would like to warmly welcome Mr Arai to the Bank's board.

Economic Prospects

Hong Kong finally sees the light at the end of the tunnel after more than six years of economic hardship. On the one hand, the Central Government has introduced an array of preferential policies (including the Mainland and Hong Kong Closer Economic Partnership Arrangement and the liberalisation of travel restrictions on "individual travels" to Hong Kong and Macau which are applicable to mainland residents). On the other hand, the local government has in tandem introduced certain new immigration measures to attract foreign investments and has also actively participated in the integration of such cities as Guangzhou, Hong Kong and Macau into the Pearl River Delta region in order to vie for a broader range of business opportunities. Market activities have begun to pick up since July last year, improving the operating environment for certain industries. The opportune influx of migrant capital has brought about V-shaped rebounds in both the stock and the property markets. Trading volume and confidence have swiftly recovered. Such display of optimistic sentiments has been a rare phenomenon since the onslaught of the financial turmoil.



Modern design of the service lobby of Tsuen Wan Branch

It is expected that the overseas markets will continue to improve this year and that the China economy will keep on expanding rapidly. Although Hong Kong still has to encounter such problems as huge deficit, continued deflation and high unemployment, the worst is behind us. The general feeling is that this year the economy will grow between 6 and 7 percent, thereby increasing government revenues and, as can be expected, gradually lessening the problems associated with fiscal deficits. It is hoped that after more than five years of deflation, it will be history in the second half of the year when increasing industrial and commercial activities will help improve employment. It is believed that one can be cautiously optimistic in the year of 2004.

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As to the running of the banking business, the local economy is expected to recover fully this year. The greenback will remain weak in the international financial market, while the expectation of the appreciation in value of renminbi will continue to cause an influx of hot money into Hong Kong. Large-scale mainland enterprises have been seeking, one after the other, Hong Kong listings. The continued increase in fundraising activities is conducive to the sustained development of the stock and the property markets. Loan demand will increase gradually. Banks in Hong Kong have just started conducting personal renminbi business and the opening of renminbi accounts has become a vogue. The banking industry will benefit from the economic synergy resulting from time to time from both the Mainland and Hong Kong Closer Economic Partnership Arrangement and the Guangzhou-Hong Kong-Macau alliance in the next three years or so. Be that as it may, the banking industry in reality faces many challenges too. Firstly, it is possible that interest rates in both the United States and Hong Kong, which have remained rather low for a prolonged period of time, will gradually increase in the second half of this year. This will in turn bring about a softening of the bond market which has already experienced years of bullishness. The treasury business of the banking industry will definitely be affected one way or another. Secondly, this is a general election year for the United States. The surfacing of uncertain political factors and frequent Sino-US trade disputes will certainly provoke confrontations and hinder external trade. Moreover, the structural transformation of Hong Kong's economy is still at the stage of groping for directions. The economy as a whole lacks the support of a stabilising force resulting from "pillar industries". Hong Kong is mainly service industry-oriented. As such, any sudden change in the international terrain will inevitably have a ripple effect on the territory. All in all, conventional banking business has yet to have any greater breakthrough. Market competition is becoming fiercer day by day and marginal profits are gradually shrinking. In order for the banks to achieve better results, they must be innovative and adaptive to the needs of the market. We will continue to capitalise on our deliberated strategies and seize business opportunities to flexibly expand our business horizon with a vengeance so as to seek better returns for our shareholders.

Finally, I, on behalf of your board, would like to sincerely thank our customers, friends and shareholders for their trust in and support for the Bank throughout the years, not to mention my fellow directors for their resolute judgment and all members of our staff for their devotion to their work.

By Order of the Board

Liu Lit Man

Executive Chairman

10 March 2004