

Chairman's Statement

To Our Shareholders,

Hong Kong's economy has regained its momentum since the fourth quarter of 2003 after experiencing six years of misty business environment.

Inflation appeared to have set in to end a protracted deflationary period, as consumer price index rose 0.8% year-on-year in August 2004, on top of a 0.9% increase in July 2004. Hong Kong's unemployment rate dropped in August 2004 to 6.8%, the lowest level in the past 30 months. Vacancies increased noticeably in all major job categories over a year earlier.



Hong Kong people are quickly restoring their self-confidence. Hong Kong has gone through countless difficult moments in the past. Our belief in our abilities and our determination to work for a better future have helped us overcome all obstacles.

The external environment is likely to remain favourable to Hong Kong's economy. China's economy has maintained its stability since measures to prevent economic overheating were put in place a few months ago.

Higher interest rates and rising oil prices are the key risk factors for Hong Kong in the coming months, though their impacts have been minimal so far. The effects of interest rate increases will be mitigated by inflationary pressures, now that an inflationary environment has gradually returned. High oil prices will have direct adverse impacts on Mainland China, while their effects on Hong Kong tend to be more indirect. As in the last oil crisis, these challenges will present us a good opportunity to improve productivity.

Regional economic initiatives, such as Pearl River Delta regional cooperation, will coordinate developmental efforts by cities within the region, with a view to realizing mutual benefits and creating a win-win situation for all. Hong Kong is and will remain the focal point of the Pearl River Delta. Let us work together to take Hong Kong to new heights. I believe Hong Kong will continue to be a business and financial hub in the region for decades to come.

Dr. Cheng Yu-Tung

Chairman

Hong Kong, 15 October 2004