

Message from the Chairman



Stanley Au
Group Chairman

Last year continued to present the Group with serious challenges. The global economy struggled to recover its balance following the burst of the TMT bubble in the first quarter of 2001, which triggered a recession on both sides of the Atlantic, and the subsequent terrorist attacks on the World Trade Centre on September 11. Although Hong Kong tourism started to pick up in early 2002, and exports remained quite buoyant, unlike elsewhere in Asia, the overall picture did not brighten because of the fragility of domestic demand. Both consumer and investor sentiment continued to slide due to the deepening malaise in the property market, a sharp rise in unemployment, dramatic increase in the number of bankruptcies, and persistent hemorrhage on the fiscal front. The business climate was further clouded by the anxieties induced by the prospect of a possible war in Iraq. These factors had a distinctly adverse effect on the capital markets. In such circumstances, the banking industry in Hong Kong was confronted with a host of problems - notably, slow loan demand, narrow interest rate margins and depressed stock market turnover.

Macao, the other economy of the two Special Administrative Regions of the Peoples' Republic of China, where we have a substantial presence, fared considerably better than Hong Kong in 2002. Its economy expanded at a very impressive rate of 9.5% during the year. Theoretically speaking, the



Message from the Chairman

Macao economy bears structural similarities to its Hong Kong counterpart, except that it has a very strong casino and tourism component comprising about 40% of GDP and 55 - 60% of tax revenues. However, since the Chinese Government liberalised the outbound Mainland travel to the two Special Administrative Regions at the beginning of the year, Macao benefited significantly from this source of income, which was reflected in the tremendous rise in Casino intakes. In addition, Macao also gained from an inflow of foreign direct investment as a result of its opening up of the gaming industry to two new foreign operators. Nevertheless, parts of the economy other than the gaming and tourism industries, did not fare so well. Consequently, the banks operating in Macao faced the same headwinds as their counterparts in Hong Kong.

The unfavourable business conditions notwithstanding, the Group managed to register a net operating profit of HK\$19.4 million in 2002 versus that of HK\$15.6 million in the preceding year and thus see growth of 24.4%. The better results were mainly attributed to an improvement in loan quality control, on account of which we were able to reduce our loan loss provisions from HK\$27.7 million in 2001 to merely HK\$8.4 million. It is also noteworthy that the profit figures for the

year reflect the considerable amortisation and depreciation costs in relation to the development of four Internet trading platforms, namely *EXCELeStock*, *EXCELeTrade*, *EXCELeBank*, and *EXCELeFX*. These four Internet platforms have proved to be a very effective channel for rendering off-shore banking services to our overseas customers and their launch has fortuitously coincided with the opening of our Representative Office in Chiyoda-ku, Tokyo, Japan in the second half of the year.

As mentioned in my last report, we restructured our business activities in 2001 by giving greater prominence to investment and private banking. It is reassuring to note that this new initiative is bearing fruit. Coupled with our other initiative of transforming our Group into a sales-driven organisation, we have been able to increase our earnings considerably in the first half of 2003 and achieved a net operating profit of HK\$21 million. Even though the global political and economic picture remains uncertain, we can confidently project similarly favourable results for the rest of the year, barring unforeseen developments.

For the years ahead, there is reason to assume that the Group is comfortably positioned to maintain steady and healthy growth in its earnings by capitalising on its



Message from the Chairman

comparative advantages in market niches, building up off-shore banking services through an expanding network of overseas representative offices, relentlessly seeking an improvement in its cost/income ratio, and upgrading the calibre, professionalism and performance of its staff. Our ultimate goal is to transform the Group into a bancassurance institution.

It is my pleasure to express our gratitude to all the members of the Board of Directors and all members of the top management team, who have diligently and cohesively worked to enable the Group to surmount all the hurdles confronting us in the extremely difficult economic and business environment prevailing in 2002.

The contribution of our entire staff, who have devoted themselves unreservedly to the Group, has been equally valuable. On behalf of all my colleagues at the Executive Committee and members of our Board of Directors, I wish to convey to them our deep sense of appreciation.

Stanley Au
Group Chairman
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