

CHAIRMAN'S STATEMENT

It gives me much pleasure to report that in the first half of 2007 the Group achieved record highs in its half-yearly financial performance with good progress on all major businesses. The Group's net operating income before loan impairment allowances increased by 14.7% to HK\$12,060 million. These encouraging results were fuelled by the growth in both net interest income and net fees and commission income. Operating profit before loan impairment allowances was up 14.5% to HK\$8,642 million while profit attributable to shareholders was up 5.3% to HK\$7,466 million. Earnings per share increased by 5.3% to HK\$0.7062. The Group's asset quality continued to improve with classified and impaired loan ratio dropping to an all-time low of 0.41%.

In view of the Group's good business results and healthy financial position, the Board has declared an interim dividend of HK\$0.428 per share, an increase of 6.7% year-on-year.

The Hong Kong economy sustained its growth momentum, providing a healthy environment for the Group's business expansion. The local stock market remained buoyant in the first half of the year, boosting the volume of local stock market to record highs. Business investment in Hong Kong and merchandise exports continued to grow while private consumption increased, thanks to an improved job market. Inflation was still considered mild

but signs were beginning to show that internal demand could jack up costs and that imported inflation could become a cause for concern.

We are also capitalising on the immense business opportunities arising from our strengthened business platform with the implementation of RPC business model, the Renminbi bond issue in Hong Kong and the opening up of the financial services in China.

Our strategic focus is to drive higher growth with an emphasis on high-margin businesses, to maintain the Group's lead in core areas, and to better equip ourselves for new business opportunities and longer-term growth. I am satisfied that much headway has already been made in attaining these goals in the first six months.

During the period, we recorded exceptionally strong growth in both business volume and operating profit in our retail and corporate banking businesses. We have established a strong momentum for loan growth in the local market. We have also maintained our market leadership in syndication loan market, retail banking, mortgage lending and RMB banking business in Hong Kong. The commencement of RMB bond offerings in Hong Kong is likely to give rise to more opportunities for us in the longer term as arranger and the RMB clearing bank in Hong Kong.

In accordance with our Strategic Plan 2006-2011, we have been actively growing our business and building a stronger presence in the Mainland. I am glad to report that in June this year, we have obtained the approval from the China Banking Regulatory Commission to start the preparatory work for incorporating a local subsidiary of Nanyang Commercial Bank, Limited in the Mainland of China. We have moved ahead at full speed for the incorporation work, including infrastructure building and staff recruitment, to ensure that our Mainland operation will be adequately prepared for new business opportunities.

We remain committed to become a top-quality financial services group with a powerful base in Hong Kong, a solid presence in Mainland China and a strategic foothold in the region. In the past six months, we have made good progress on expanding our core businesses and strengthening our business platform.

The Group recognises that human resources are the cornerstone of its success. We will continue to invest in this area, with a view to optimising our staff force and enhancing their professionalism. Looking ahead, we will continue to expand our product platform to provide our customers with quality services and products. We believe that business opportunities should continue to abound in both the Hong Kong and Mainland markets in the remainder of the year

and years ahead. We remain in a good position to deliver higher value to shareholders and customers while offering rewarding opportunities to the staff.

Lastly, I am pleased to announce that with effect from 25 May 2007, Mr. Lee Raymond Wing Hung, the Group's Chief Financial Officer, and Mr. Gao Yingxin, the Group's Deputy Chief Executive in charge of Corporate Banking and Financial Institutions, Product Management, Global Markets and China Business, have joined the Board as Executive Directors of the Company. Messrs. Lee and Gao's respective expertise in finance and banking will certainly enhance the operation of the Board. Also, on behalf of the Board, I would like to express our gratitude to Mr. Hua Qingshan who has resigned as Non-executive Director with effect from 15 June 2007. In closing, I would like to extend my appreciation to our shareholders for their continuous support, the Board for their wise counsel and all our staff for their dedication and hard work.



XIAO Gang

Chairman

Hong Kong, 23 August 2007