CHAIRMAN'S STATEMENT

During the first six months of 2008, the Group's core businesses continued to make good progress amid a more challenging environment, riding on the impetus created by the initiatives we launched last year to strengthen our position in key market areas. The Group's net operating income before impairment allowances rose by 16.4% to HK$14,039 million while operating profit before impairment allowances increased by 15.1% to HK$9,951 million.

The ongoing turbulence in the global credit markets negatively affected our securities investments. To reflect the weakening credit environment, we wrote down the value of our US asset-backed securities. As a result, despite the strong performance of our core businesses for the first half of 2008, our profit growth was impacted by a total net securities provision of HK$2.1 billion charged to the P&L account. The Group's profit attributable to shareholders decreased by 5.1% year-on-year to HK$7,088 million or HK$0.6704 per share.

As at end June 2008, our financial position remained solid with total assets reaching HK$1,127.2 billion, up 5.6% from end 2007. The Group outperformed the market in terms of both loan and deposit growth and our loan to deposit ratio improved substantially to 57.81% from 51.66% as at end 2007. We delivered an impressive growth of 15.1% in our loan book compared to end 2007 while loan quality remained sound with the classified or impaired loan ratio further improved to 0.34% from 0.44% as at end 2007. The Group's growth momentum continues with the successful implementation of our 5-year strategic plan since 2006. Taking into account our mid-to-long term expansion plan, we further reinforced our capital base and improved our capital structure with the support of our parent bank, Bank of China Limited ("BOC"), which granted a subordinated loan of EUR660 million to the Group. Capital adequacy ratio at end-June 2008 was 13.87% and average liquidity ratio remained strong at 42.47%. Balancing the Group's capital need for business expansion and its dividend policy, the Board has declared an interim dividend of HK$0.4380 per share, an increase of 2.3% year-on-year.

As for our business development, we saw marked progress on the back of our enhanced platform. Amid the poor sentiments in the stock market which affected our investment related fee income, we continued to strive for product innovation in response to customers' needs. We also produced significant growth in the fee income from our traditional banking services, including loan and bills commissions, credit cards, RMB business. This, once again, reflected the strength of our underlying business. We maintained our leading market positions in our core businesses including residential mortgage, loan syndication and Hong Kong RMB banking business.

In addition to building a stronger base in Hong Kong, we also made good progress in growing our business outside Hong Kong. In particular, we fostered closer cooperation with our parent bank, BOC to capture emerging business opportunities for mutual gains. As I mentioned in our 2007 annual report, BOCHK was appointed as the principal bank for BOC Group's Asia-Pacific Loan Syndication Centre. Leveraging our expertise and distribution capability, we arranged a number of loan syndications with great success during the first half of 2008. This not only helped enhance our franchise and market position in the Asia-Pacific region but also generated marked increase in related fee income. We also worked closely with our parent bank, BOC to capture new business opportunities with Mainland Chinese enterprises to provide more comprehensive cross-border banking services for their overseas operations and expansion.

Our restructured Mainland business, incorporated under Nanyang Commercial Bank (China) Limited ("Nanyang (China)"), commenced operation last year-end. To cater for the needs of our customers, we continued to expand our product platform, including forming strategic alliances with insurance companies and launching a variety of structured and QDII products. China expansion will remain one of our top investment priorities despite the Group's tighter expense control amid the inflationary environment. We will continue to invest more resources to expand our branch network and enhance the Nanyang (China) franchise.

Looking forward, we expect the operating environment to become more challenging. We will stay alert and be prepared for the increasing operating risks stemming from the uncertainties in the global credit market, the slowdown of the US economy and the rising inflationary pressure worldwide. In Hong Kong, signs of a slowdown are becoming increasingly apparent as reflected in the more conservative sentiment in the property market, lower export figures, and rising operating costs for local companies. The Group believes that sound risk management is particularly crucial under the current operating environment. Although our loan quality continued to improve in the first half of the year, we have already taken more stringent risk management initiatives to prepare for possible deterioration in corporate earnings. In addition, to counteract inflationary trends, we have implemented a cost management mechanism to allow us more flexibility in aligning the growth of our expenses to our income. Nevertheless, the Group will continue to invest in accordance with its strategic priorities while managing cost increases. Our capital strength and liquidity remain sound, which enables us to withstand potential stress facing the market and to safeguard our ability to serve the needs of our customers. Amid the more challenging operating environment, we will focus on quality growth by capitalising on our enhanced business platform and adopting more proactive risk management. As articulated in our 5-year strategy, we remain committed to building a stronger and more comprehensive business platform for the Group's long-term growth and profitability.

I would like to take this opportunity to thank our customers, members of general public and our employees for their quick response and generosity in joining the Bank's fund raising activity that enabled us to deliver timely assistance to the earthquake victims in the wake of the earthquake which struck Sichuan in May.

I wish to thank our customers and shareholders for their continuous support and the Board for their wisdom and counsel. I would also like to extend on behalf of the Board a hearty welcome to Mr. Wong David See Hong, who joined us as Deputy Chief Executive on 1 July this year with overall responsibility for overseeing our financial market business lines. Mr. Wong will bring broad experience and expertise to the role. Through the dedicated leadership of our Management team and the wholehearted commitments and efforts of our associates, I am confident that we will further strengthen the BOCHK franchise and create better value for our shareholders.

XIAO Gang
Chairman

28 August 2008