The Hong Kong economy rebounded significantly last year, with the gross domestic product attaining a growth of 8.1 percent over that of the year before - being the highest level since 2000. Market conditions remained strong as 2005 began to unfold. Various economic indicators continued to register conspicuous growth. Export and re-export trades maintained their growth momentum. The Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") effect has gradually attracted those who had earlier moved north to return and set up shops here. The expanded scope of the arrangement for individual travels further promoted the tourism and related industries. The continued growth of domestic demand has facilitated the robust development of the retail and consumption industries. The smooth introduction of immigration measures to attract foreign investments has absorbed considerable migrant capital and new business talents. The increasing desire to invest has further boosted the stock and property markets. Employment conditions have progressively improved and the political climate has tended to have gradually stabilized, hence the marked optimism about the general business environment.

Although Hong Kong was still awash with liquidity during the first quarter of this year, the absorption of large amounts of capital by the frequent large initial public offering exercises and the continual raising of interest rates by the US Federal Reserve Board had finally prompted the announcement of interest rate increase by the local banks on 19 May. Funding costs soared in the light of the protracted tightening of the interbank market. Banks raised their mortgage rates and reduced their preferential offers such as cash rebates in droves, thereby moderating the intense competition over the years somewhat. It is expected that this would be conducive to the overall profitability of the industry this year.

The Bank's unaudited, consolidated results for the first half of this year improved markedly in comparison with those of the corresponding period last year. Net interest income rose 0.39 percent to HK$354.677 million. Operating profit before impairment allowances decreased 13.24 percent to HK$218.82 million. Impairment allowances newly made for bad and doubtful debts for the first half of this year dropped significantly by 62.09 percent to HK$32.209 million from HK$84.966 million for the corresponding period last year. However, the impairment allowances written back during the period fell 44.37 percent to HK$18.44 million from HK$33.149 million for the corresponding period last year. As such, impairment allowances for bad and doubtful debts for the first half of this year decreased substantially by 73.43 percent to HK$13.769 million. Profit attributable to shareholders amounted to HK$191.989 million, an increase of 9.17 percent. As of 30 June 2005, total customers' deposits increased 11.09 percent to HK$37.718 billion compared with the corresponding figure as of 31 December 2004. Total loans and advances to customers (after impairment allowances for bad and doubtful debts) increased 9.92 percent to HK$22.014 billion. Total assets amounted to HK$45.917 billion, an increase of 9.04 percent. As of 30 June 2005, unadjusted capital adequacy ratio fell 9.87 percent to 17.99 percent against the corresponding ratio of 31 December 2004. Average liquidity ratio for the first half of 2005 dropped 8.45 percent to 48.73 percent against the corresponding ratio for the first half of 2004. As of 30 June 2005, loan-to-deposit ratio stood at 51.64 percent, a slight decrease of 0.02 percent against the corresponding ratio as of 31 December 2004. Earnings per share for the first half of 2005 amounted to HK$0.44, an increase of HK$0.04 per share over the corresponding figure for the first half of 2004. The increase in profit is due mainly to the continual rebound of the economy as a whole, the maintenance of the upward momentum of the property market, the decent performance of the mortgage and commercial credit businesses, not to mention the significant reduction in impairment allowances for bad and doubtful debts brought about by the progressive improvement in loan quality.

Looking ahead, although the ushering in of Hong Kong's interest rate hiking cycle in tandem with that of the United States has affected investment sentiments somewhat, real interest rates are still low compared with their record highs. It is generally believed that the pace of rate hikes will crest early next year and interest rates can be expected to start resuming a falling track come the second quarter or the mid-year. Currently, the active yet highly speculative property market and the rapid expansion of the economy have created an overheated environment. The increase in interest rates should therefore be looked upon as a means of timely consolidation which is conducive to the long-term healthy development of the market in the future.

The swift recovery of the Hong Kong economy has accounted for the increase in government revenue, thereby significantly easing the pressure of fiscal deficit. With the successful election of the new Chief Executive, the political scene has become clearer. In order to clinch the advantages for Hong Kong's long-term development, the Central Government is continuing to introduce such supportive measures as CEPA, relaxation of restrictions for individual travels as well as investments by mainland companies in Hong Kong, and plans to foster closer cooperation in the Pan Pearl River Delta area (comprising nine provinces and two Special Administrative Regions). The people of Hong Kong should therefore seize this critical moment and stride forward by continuing to live up to the unfailing "Hong Kong spirit" of perseverance, untiring hard work and incessant self-improvement.

In view of traditional bank credit's evernarrowing interest margins, which threaten to a certain extent the profit prospects for the industry, the Bank has thus endeavoured to actively look for opportunities to increase non-interest income. Having successfully acquired Chong Hing Insurance Company Limited from its parent company, Liu Chong Hing Investment Limited, on 27 June, the Bank will continue to look for the best possible investment opportunities, while further enhancing the development of its different business lines.