



中信嘉華銀行有限公司

CITIC KA WAH BANK LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

ANNOUNCEMENT OF 2005 INTERIM RESULTS

SUMMARY OF RESULTS

The Board of Directors of CITIC Ka Wah Bank Limited (the “Bank”) is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2005 and the Group’s state of affairs as at that date together with the comparative figures for the corresponding period in the previous year as follows:–

(A) CONSOLIDATED INCOME STATEMENT

	The Group		
	Six months ended 30 June		
	2005	2004	
	Unaudited	Unaudited (restated)	Variance
	HK\$'000	HK\$'000	%
Interest income	1,278,444	1,096,690	16.57
Interest expense	(707,930)	(327,023)	116.48
Net interest income	570,514	769,667	(25.88)
Fees and commission income	199,577	211,814	(5.78)
Fees and commission expense	(5,920)	(16,211)	(63.48)
Other operating income	161,362	33,944	375.38
Non-interest income	355,019	229,547	54.66
Operating income	925,533	999,214	(7.37)
Operating expenses	(477,590)	(438,496)	8.92
Operating profit before impairment losses and impairment allowances/provisions	447,943	560,718	(20.11)
Impairment losses and impairment allowances written back on loans and advances	96,709	–	
Charge for bad and doubtful debts	–	(53,565)	
Operating profit	544,652	507,153	7.39
Net profit on disposal of tangible fixed assets	243,545	15,248	
Impairment allowances written back on held-to-maturity securities	2,254	–	
Provision written back on held-to-maturity securities	–	80	
Impairment loss on properties	(354)	–	
Loss on disposal of an associate	(6,155)	–	
Share of losses of an associate	(10,099)	(17,471)	

Profit before taxation	773,843	505,010	53.23
Income tax (<i>Note 6</i>)			
Current tax			
– Hong Kong	(87,748)	(82,489)	6.38
– Overseas	(701)	1,753	139.99
Deferred tax	(1,488)	(8,059)	(81.54)
Associate	(402)	3,875	110.37
Profit after taxation	683,504	420,090	62.70
Interim dividends declared during the period	373,253	211,000	

(B) CONSOLIDATED BALANCE SHEET

	The Group	
	As at 30 June 2005 Unaudited	As at 31 December 2004 Audited (restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Cash and short-term funds	8,073,704	8,262,040
Placements with banks and other financial institutions maturing after one month	269,576	362,429
Trade bills	215,767	246,081
Certificates of deposit held	1,266,290	1,366,315
Securities measured at fair value through profit or loss	5,829,855	–
Other investments in securities	–	3,489,760
Advances to customers and other accounts	43,977,373	42,603,199
Available-for-sale securities	6,100,240	–
Held-to-maturity securities	17,239,035	22,258,865
Investment securities	–	39,841
Interest in associates	197	191,450
Deferred tax assets	4,521	54,054
Tangible fixed assets	1,216,224	1,418,918
Total assets	84,192,782	80,292,952
Equity and liabilities		
Deposits and balances of banks and other financial institutions	4,643,547	3,555,852
Deposits from customers	55,568,787	55,648,955
Certificates of deposit issued	8,332,665	6,959,690
Debt securities issued	2,306,325	2,322,798
Current taxation	138,645	6,392
Deferred tax liabilities	52,778	8
Other accounts and provisions	1,905,788	1,538,529
Total liabilities	72,948,535	70,032,224
Share capital	3,083,341	3,083,341
Reserves	3,690,124	2,901,491
Total equity	6,773,465	5,984,832
Loan capital	4,470,782	4,275,896
Total	11,244,247	10,260,728
Total equity and liabilities	84,192,782	80,292,952

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Group			
	Six months ended		Six months ended	
	30 June 2005		30 June 2004	
	Unaudited		Unaudited (restated)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at 1 January:				
As previously reported 31 December	5,980,524			4,937,475
Prior period adjustments arising from changes in accounting policies	4,308			
As restated, before opening balance adjustments	5,984,832			
Opening balance adjustments arising from changes in accounting policies	476,154			
At 1 January, after prior period and opening balance adjustments		6,460,986		
Net income for the period recognised directly in equity:				
Exchange difference:				
– on translation of financial statements of overseas subsidiaries	(964)		1,882	
– on disposal of an associate	627		–	
Surplus on revaluation of other premises upon reclassification to investment properties	17,031		–	
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	9,792		–	
Changes in fair value of available-for-sale securities, net of deferred tax	(26,479)		–	
Net income for the period recognised directly in equity	7		1,882	
Net profit for the period:				
As previously reported			419,824	
Prior period adjustments arising from changes in accounting policies			266	
Net profit for the period (2004: as restated)	683,504		420,090	

Total recognised income and expense for the period	683,511	421,972
Dividends declared	(373,253)	(211,000)
Movements in shareholders' equity arising from capital transactions		
Equity settled share-based transactions	<u>2,221</u>	<u>1,584</u>
Total equity at 30 June	<u>6,773,465</u>	<u>5,150,031</u>

Notes:

- (1) The financial information in this interim results announcement is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports", issued by the Hong Kong Institute of Certified Public Accountants. It does not constitute statutory financial statements.
- (2) The financial information relating to the financial year ended 31 December 2004 that is included in this interim results announcement as being previously reported information does not constitute the Bank's statutory financial statements for that financial year but is derived from those financial statements, as amended for new and revised accounting standards that require prior period adjustments. Statutory financial statements for the year ended 31 December 2004 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 March 2005.
- (3) The interim results announcement has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 4 and 5.
- (4) Summary of the effect of changes in the accounting policies
- (i) *Effect on opening balance of total equity at 1 January 2005 (as adjusted)*
- The following table sets out the adjustments that have been made to the opening balances at 1 January 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31 December 2004 and the opening balance adjustments made as at 1 January 2005.

<i>Effect of new policy (increase/(decrease))</i>	Retained profits	Capital and other reserves	Total equity
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Prior period adjustments:</i>			
<i>HKFRS 2</i>			
Share-based payment transactions	<u>668</u>	<u>3,640</u>	<u>4,308</u>
Total increase in equity before opening balance adjustments	<u>668</u>	<u>3,640</u>	<u>4,308</u>
<i>Opening balance adjustments:</i>			
<i>HKAS 39</i>			
Derivatives and hedging	(86,544)	360,887	274,343
Asset classification and fair values	24,840	–	24,840
Impairment	174,394	–	174,394
Associate's opening balance adjustments	<u>2,577</u>	<u>–</u>	<u>2,577</u>
	<u>115,267</u>	<u>360,887</u>	<u>476,154</u>
Total effect at 1 January 2005	<u>115,935</u>	<u>364,527</u>	<u>480,462</u>

- (ii) *Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*
In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six month period ended 30 June 2004, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

<i>Effect of new policy (increase/(decrease))</i>	Six months ended 30 June	
	2005	2004
	Equity holders of the parent	Equity holders of the parent
	HK\$'000	HK\$'000
<i>HKFRS 2</i>		
Share-based payment transactions	(882)	266
<i>HKAS 39</i>		
Derivatives and hedging	(54,203)	–
Asset classification and fair values	57,527	–
	3,324	–
<i>HKAS 40</i>		
Investment properties	(354)	–
Total effect for the period	2,088	266

In respect of the six months ended 30 June 2005 it is not practicable to estimate the extent to which the profits for that period are higher or lower than they would have been had the previous policy on impairment of financial assets still been applied in the interim period.

- (iii) *Effect on net income recognised directly in equity for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the income or expenses recognised directly in equity are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six month period ended 30 June 2004, the table discloses the adjustments that have been made to the net income or expenses as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

<i>Effect of new policy (increase/(decrease))</i>	Six months ended 30 June	
	2005	2004
	Equity holders of the parent	Equity holders of the parent
	HK\$'000	HK\$'000
<i>HKAS 39</i>		
Available-for-sale securities	(26,479)	–
Hedging	9,792	–
	(16,687)	–

HKAS 40

Investment properties

– effect on other property revaluation reserve

17,031

–

Total effect for the period

344

–

- (iv) *Effect on amounts recognised as capital transactions with owners for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the amounts recorded as capital transactions with owners are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six month period ended 30 June 2004, the table discloses the adjustments that have been made to the amounts recorded as capital transactions with owners as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

	Six months ended 30 June	
	2005 Equity holders of the parent HK\$'000	2004 Equity holders of the parent HK\$'000
<i>Effect of new policy (increase)</i>		
HKFRS 2		
Employee share option scheme		
– effect recognised in share option reserve	2,221	1,584
Total effect for the period	2,221	1,584

- (5) Changes in accounting policies

- (a) *Share-based payment transactions (HKFRS 2, Share-based payment)*

- (i) Employee share option scheme

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the holding company of the Bank, CITIC International Financial Holdings Limited (“CIFH”). If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option’s exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement. A corresponding increase is recognised in a share option reserve within equity.

As the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period.

If an employee chooses to exercise options, the related share option reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related share option reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- all options granted to employees on or before 7 November 2002; and
- all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The amount charged to the income statement as a result of the change of policy increased staff costs for the six months ended 30 June 2005 by \$2,221,000 (six months ended 30 June 2004: \$1,584,000), with the corresponding amounts credited to the share option reserve.

(ii) Employee Equity Linked Deferred Award

In prior years, when employees (which term includes directors) were granted Equity Linked Deferred Award ("ELDA"), provision for the ELDA was made and recognised immediately as expenses in the year in which the awards were granted.

With effect from 1 January 2005, in order to comply with HKFRS 2, the fair value of the amount payable is recognised as an expense in the income statement over the relevant vesting period with a corresponding increase in liabilities. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2. As a result of the change of policy, staff costs for the six months ended 30 June 2005 has reduced by \$1,152,000 (six months ended 30 June 2004: \$1,850,000), with the corresponding amounts debited to the liabilities.

(b) *Investment properties (HKAS 40, Investment property)*

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years premises (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the cost model in SSAP 17, Property, plant and equipment, whereby the premises was carried at cost less accumulated depreciation and impairment.

Upon adoption of HKAS 40 as from 1 January 2005:

- all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40; and
- land held for an undetermined future purpose is recognised as "investment property" if the property is freehold or, if the property is leasehold, the Group has chosen to recognise such land as investment property rather than as land held under an operating lease. As such, movements in the fair value of premises held for an undetermined future purpose are also now recognised directly in the income statement as they arise in accordance with the fair value model.

Despite these changes in accounting policy have to be adopted retrospectively, no adjustment to the opening balances as at 1 January 2004 and 1 January 2005 are required because the net surplus on revaluation of investment properties for the year ended 31 December 2003 and 31 December 2004 was taken to the income statement as a deficit/surplus on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement.

As at 30 June 2005, in accordance with HKAS 40, premises held for an undetermined future purpose is reclassified as investment property at its fair value resulting to a decrease in the Group's profit before taxation for the six months ended 30 June 2005 by \$354,000 and an increase in other property revaluation reserve by \$17,031,000.

(c) *Financial instruments (HKAS 39, Financial instruments: Recognition and measurement)*

(i) Derivatives and hedging

In prior years, derivatives that were held for trading purposes were accounted for at fair value and carried as assets when the fair value was positive and as liabilities when the fair value was negative. Gains or losses from changes in fair value were recognised in the income statement. Derivatives held for non-trading purposes and qualified as hedges were accounted for on an equivalent basis to the underlying assets, liabilities and positions.

With effect from 1 January 2005 and in accordance with HKAS 39, all derivatives are initially recognised at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Subsequent changes in fair value are recognised depending on the intended use of the derivatives as follows:

Derivatives designated as hedges will apply hedge accounting provided certain qualifying criteria are met. There are two types of hedges:

- Fair value hedge, a hedge against the fair value of recognised assets or liabilities. This will be accounted for with the changes in fair value of the derivatives, together with the changes in fair value of the hedged assets or liabilities that are attributable to the hedged risk, recorded in the income statement.

- Cash flow hedge, a hedge against the cash flows attributable to recognised assets or liabilities. This is accounted for with changes in the fair value of the derivatives initially through equity, and subsequently released into the income statement in line with the recognition of income or expense of the assets or liabilities being hedged.

Derivatives held for trading purposes and those that do not qualify for hedge accounting, will be accounted for with changes in fair value reported in the income statement.

Interest receipts and payments of interest rate derivatives of qualifying hedges are accounted as interest income or interest expenses following the underlying recognised assets or liabilities. Interest receipts and payments of other interest rate derivatives are recognised as part of “Other operating income” in the income statement.

(ii) Asset classification and fair value

Financial assets

In prior years, all financial assets were carried at cost or amortised cost, net of provisions, except for securities held for trading purposes were held at fair value. Gains and losses from change in fair value were recognised in the income statement in respect of securities held for trading.

In accordance with HKAS 39, financial assets are recognised based on the following classifications.

Loans and receivables

Loans and receivables not intended for trading are carried at amortised cost less impairment allowances.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity are carried at amortised cost less impairment allowances.

At fair value through profit or loss

Non-derivative financial assets that have been acquired or incurred principally for the purpose of selling or repurchasing in the near term are classified as held for trading.

If a financial asset meets the criteria set out below, and is so designated by management at inception, it is classified as financial assets designated at fair value through profit or loss. The Group designates financial instruments at fair value because the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- relates to financial instruments containing one or more embedded derivatives which significantly modify the cash flows resulting from the financial instruments, and which would otherwise require separate accounting.

Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Gains and losses from changes in fair value are recognised in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

Financial assets except for those classified at fair value are initially recognised at fair value plus transaction costs and carried at amortised costs using the effective interest method. Financial assets classified at fair value are recognised initially at fair value and transaction costs taken directly to the income statement. The changes in fair value are recognised in the income statement as they arise.

Financial liabilities

In prior years, all financial liabilities except trading securities short positions were carried at cost or amortised cost. Trading securities short positions were carried at fair value and any gains and losses from changes in fair value were recognised in the income statement.

In accordance with HKAS 39, the Group's financial liabilities are recognised based on the following classifications:

Financial liabilities designated as at fair value through profit or loss

Financial liabilities that are held for trading, including trading securities short positions, are carried at fair value. Gains and losses from change in fair value are recognised in the income statement as they arise.

Financial liabilities designated as at fair value through profit or loss, including own debt securities in issue, are designated as such at inception and the classification criteria are set out above under "Financial assets - At fair value through profit or loss". Gains and losses from the changes in fair value are recognised in the income statement as they arise.

Deposits, debt securities in issue and other liabilities

Deposits and debt securities in issue, other than those designated as trading liabilities or at fair value, and other financial liabilities, are carried at amortised cost.

Interest income and expense

Interest income and interest expense of trading assets and liabilities and financial assets and liabilities designated as at fair value are recognised as part of "Other operating income", instead of "Interest income" and "Interest expense" as for those arising from other financial assets and liabilities.

(iii) **Impairment**

Loans and receivables

In prior years, provisions for bad and doubtful debts were classified into specific and general provisions. Specific provisions on loans were assessed individually or, for individually insignificant loans, on a portfolio basis. General provisions were assessed on loans which were not identified as impaired individually. When a loan was considered doubtful, interest was suspended and ceased to accrue.

In accordance with HKAS 39, impairment allowances are made on a loan when objective evidence of impairment loss has been incurred. Impairment loss is assessed either individually for individually significant loans, or collectively for loan portfolios with similar credit risk characteristics.

Impairment loss of an individually assessed loan is measured as the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

For the purpose of collective assessment of impairment, individually insignificant loans and loans which have been assessed individually and determined to have no objective evidence of impairment are grouped on the basis of similar credit risk characteristics and collectively assessed based on historical loss experience of each type of loans and management judgement of the current economic and credit environment.

Interest will continue to be recognised on impaired financial assets using the interest rate for discounting future cash flows for the purpose of measuring the related impairment loss. Subsequent unwinding of discount allowance is recognised as interest income.

Other financial assets

In prior years, financial assets, other than loans and receivables, were reviewed on each balance sheet date to determine whether there was any indication of impairment. Provisions were made when carrying amounts were not expected to be fully recovered and recognised as an expense in the income statement.

In accordance with HKAS 39, held-to-maturity investments and available-for-sale financial assets are assessed for objective evidence of impairment at each balance sheet date. Impairment loss for held-to-maturity investments is recognised in the income statement. When an available-for-sale financial asset is determined to be impaired, the cumulative loss previously recognised in equity will be transferred to the income statement.

(iv) **Opening balance adjustments**

The new accounting policies have been applied prospectively with effect from 1 January 2005, and as in accordance with HKAS 39, no restatement of comparative amounts has been made. Adjustments to the opening balances of the retained profits and reserves as at 1 January 2005 are shown in note 4(i).

- (6) The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the period. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Summary of financial position

	The Group		
	As at	As at	Variance
	30 June 2005	31 December 2004	
	HK\$'000	HK\$'000	%
Loans and advances	43,042,223	42,296,803	1.76
Impairment allowances for loan and advances	565,897	N/A	N/A
Loan loss provision	N/A	903,009	N/A
Total assets	84,192,782	80,292,952	4.86
Total deposits	63,901,452	62,608,645	2.06
Total equity	6,773,465	5,984,832	13.18
<i>Financial ratios</i>			
Capital adequacy – unadjusted*	16.86%	16.51%	
Capital adequacy – adjusted**	16.01%	16.03%	
Average liquidity***	54.31%	47.91%	
Loans to deposits	67.36%	67.56%	
Loans to total assets	51.12%	52.68%	
Property lending	38.23%	35.72%	
Cost to income	51.60%	49.17%	
Return on assets	1.39%	1.04%	
Return on equity	17.34%	14.96%	

* The unadjusted capital adequacy ratio is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the “HKMA”) for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

** The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline “Maintenance of Adequate Capital Against Market Risks” issued by the HKMA and on the same consolidated basis as for unadjusted capital adequacy ratio.

*** The average liquidity ratio is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(2) Advances to customers and other accounts

	The Group		
	As at	As at	Variance
	30 June 2005	31 December 2004	
	HK\$'000	HK\$'000	%
Advances to customers	42,826,456	42,048,236	1.85
Individual impairment allowances	(270,263)	–	
Collective impairment allowances	(295,634)	–	
Specific provisions for bad and doubtful debts	–	(381,172)	
General provisions for bad and doubtful debts	–	(519,351)	
	42,260,559	41,147,713	2.70
Advances to banks and other financial institutions	150,932	20,000	654.66
Accrued interest and other accounts less impairment allowances	1,565,882	1,435,486	9.08
	43,977,373	42,603,199	3.23

(3) Reserves

	The Group		
	As at	As at	Variance
	30 June 2005	31 December 2004 (restated)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Share Premium	282,930	282,930	–
Other property revaluation reserve	17,031	11,945	42.58
Capital reserve	6,589	6,589	–
General reserve	100,000	100,000	–
Exchange differences	(795)	(458)	73.58
Fair value reserve	342,133	–	
Hedging reserve	2,067	–	
Share option reserve	5,861	3,640	61.02
Retained profits	2,934,308	2,496,845	17.52
Total	3,690,124	2,901,491	27.18

In accordance with the HKMA guideline “Impact of the New Hong Kong Accounting Standards on Authorised Institutions’ Capital Base and Regulatory Reporting”, the Group has earmarked a “Regulatory Reserve” of \$233,800,000 from retained profits as at 30 June 2005.

(4) Advances to customers – By industry sectors

	The Group				
	As at 30 June 2005		As at 31 December 2004		Variance
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	333,413	0.78	350,668	0.83	(4.92)
– Property investment	4,828,839	11.27	4,157,529	9.89	16.15
– Financial concerns	2,500,283	5.84	2,654,487	6.31	(5.81)
– Stockbrokers	83,208	0.19	39,835	0.10	108.88
– Wholesale and retail trade	2,025,356	4.73	1,898,338	4.51	6.69
– Manufacturing	3,009,046	7.03	3,372,328	8.02	(10.77)
– Transport and transport equipment	5,410,146	12.63	5,404,016	12.85	0.11
– Others	3,446,885	8.05	3,690,455	8.78	(6.60)
Individuals					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	17,559	0.04	19,394	0.05	(9.46)
– Loans for the purchase of other residential properties	11,211,016	26.18	10,512,764	25.00	6.64
– Credit card advances	527,762	1.23	538,041	1.28	(1.91)
– Others	1,163,036	2.71	1,108,971	2.64	4.88
Trade finance	2,653,113	6.20	2,124,777	5.05	24.87
Loans for use outside Hong Kong	5,616,794	13.12	6,176,633	14.69	(9.06)
	42,826,456	100.00	42,048,236	100.00	1.85

(5) **Impaired/Non-performing loans**

(a) *Impaired loans*

Impaired loans are loans which have been classified and subject to individual impairment assessment.

	The Group			
	Total amount of impaired loans		Market value of collateral held	Individual impairment allowances made
	HK\$'000	%*	HK\$'000	HK\$'000
As at 30 June 2005	1,315,412	3.07	1,254,225	270,263

(b) *Non-performing loans*

Non-performing advances on which interest is being placed in suspense or on which interest accrual has ceased.

	The Group				
	Total amount of loans on which interest is placed in suspense		Market value of collateral held	Specific provisions made	Amount of interest in suspense
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2004	1,380,662	3.28	1,175,290	304,703	186,720

* Based on total advances to customers

There were no impaired advances to banks and other financial institutions as at 30 June 2005 nor advances on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004; nor were there any individual impairment allowances and specific provisions made for them on these two respective dates.

(6) **Overdue advances to customers**

The gross amount of advances have been overdue for periods of:

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	HK\$'000	%*	HK\$'000	%*
– 6 months or less but over 3 months	48,636	0.11	90,905	0.22
– 1 year or less but over 6 months	258,951	0.60	213,538	0.51
– over 1 year	1,043,186	2.44	1,154,343	2.74
Total	1,350,773	3.15	1,458,786	3.47
Secured overdue advances	1,061,835		1,095,739	
Unsecured overdue advances	288,938		363,047	
	1,350,773		1,458,786	

Market value of collateral held against the secured overdue advances	1,750,640	1,231,918
Individual impairment allowance made	228,379	
Specific provisions made		317,788

* Based on total advances to customers

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2005 and 31 December 2004.

(7) Other overdue assets

	The Group	
	As at 30 June 2005	As at 31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The gross amount of trade bills which has been overdue for:		
– 6 months or less but over 3 months	1,198	2,565
Held-to-maturity securities which have been overdue for:		
– 1 year or less but over 6 months	41,974	–
– over 1 year	15,546	15,549
	57,520	15,549

(8) Rescheduled loans

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Rescheduled loans	53,848	0.13	226,093	0.54

* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2005 and 31 December 2004.

(9) Repossessed assets

	The Group	
	As at 30 June 2005	As at 31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Included in advances to customers and other accounts	149,762	231,572

(10) Off-balance sheet exposures**(a) Contingent liabilities and commitments**

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group	
	As at	As at
	30 June 2005	31 December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	1,019,581	943,362
Trade-related contingencies	1,089,160	1,165,944
Forward forward deposits placed	435,283	–
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	12,415,460	10,576,584
– with an original maturity of 1 year or over	517,498	588,078
	15,476,982	13,273,968

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	The Group					
	As at 30 June 2005			As at 31 December 2004		
	Trading	Hedging	Total	Trading	Hedging	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange rate contracts						
Forwards	8,968,196	–	8,968,196	2,637,254	–	2,637,254
Swaps	21,936,089	–	21,936,089	7,447,460	3,504,209	10,951,669
Options purchased	244,619	–	244,619	241,068	–	241,068
Options written	244,619	–	244,619	238,249	–	238,249
Interest rate contracts						
Forwards and futures	4,145,152	–	4,145,152	427,590	–	427,590
Swaps	3,803,195	13,038,840	16,842,035	3,570,070	11,615,697	15,185,767
Options purchased	1,486,568	–	1,486,568	1,671,487	–	1,671,487
Options written	1,486,568	–	1,486,568	1,849,231	–	1,849,231
Equity contracts						
Options purchased	2,736	–	2,736	–	1,083	1,083
Options written	–	–	–	–	1,083	1,083
	42,317,742	13,038,840	55,356,582	18,082,409	15,122,072	33,204,481

- (c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures of the Group are as follows. The Group did not enter into any bilateral netting arrangements during the period/year and accordingly these amounts are shown on a gross basis:

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	1,187,968	N/A	1,072,223
Exchange rate contracts	103,844	95,575	119,532	66,096
Interest rate contracts	277,925	91,965	325,439	105,037
Equity contracts	–	82	1	46
	381,769	1,375,590	444,972	1,243,402

(11) Segmental information

(a) By geographical area

On the basis of the location of the principal operations of the Group or, in the case of the Bank, on the location of the branches responsible for reporting the results or booking the assets, the Group operates predominantly in Hong Kong with over 90% of the Group's operating income, profit before taxation, total assets, total liabilities, contingent liabilities and commitments arising therefrom or booked therein.

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	Advances to customers	Overdue loans and advances	Advances to customers	Overdue loans and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	35,336,950	830,556	34,026,118	928,361
Mainland China	5,704,528	520,162	5,731,095	530,062
United States	667,142	–	663,834	–
Others	1,117,836	55	1,627,189	363
	42,826,456	1,350,773	42,048,236	1,458,786

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

(b) By business segment

The Group is principally engaged in the provision of banking and related financial services. The Group comprises the following main business segments:

Retail banking business:	It mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.
Wholesale banking business:	It mainly comprises trade financing, syndicated loans and other corporate lendings.
Treasury:	It covers provision of foreign exchange services, money market activities, management of investment securities and central cash management.

Unallocated:

It mainly comprises the bank premises and any items which cannot be reasonably allocated to specific business segments.

	The Group			
	Six months ended 30 June			
	2005	2004	2005	2004
	Profit*	Profit*	Operating	Operating
		(restated)	income	income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retail banking business	130,272	170,264	398,379	437,891
Wholesale banking business	320,465	197,836	325,031	363,434
Treasury	137,303	132,764	189,395	179,350
Unallocated	185,803	4,146	12,728	18,539
	773,843	505,010	925,533	999,214

* *Profit from ordinary activities before taxation*

Profit from 'Unallocated' included share of losses of an associate amounting to \$10,099,000 (2004: share of losses of \$17,471,000).

(12) Capital base after deductions

	As at 30 June 2005	As at 31 December 2004 (restated)
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	3,083,341	3,083,341
Share premium	282,930	282,930
Reserves	2,694,528	2,519,803
Total core capital	6,060,799	5,886,074
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	–	8,362
Reserves on revaluation of holding of securities not held for trading purposes	309,381	–
Collective impairment allowances for impaired assets and regulatory reserve	529,434	–
General provision for doubtful debts	–	521,837
Perpetual subordinated debt	2,100,678	1,943,589
Term subordinated debt	948,041	932,923
Total eligible supplementary capital	3,887,534	3,406,711
Total capital base before deductions	9,948,333	9,292,785
Deductions from total capital base	(12,353)	(135,860)
Total capital base after deductions	9,935,980	9,156,925

(13) Currency risk

The information concerning the foreign currency exposures of the Group arising from trading, non-trading and structural positions is disclosed as follows. The net options position reported is calculated in accordance with the methods set out in the banking return “Foreign Currency Position” (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	The Group							
	As at 30 June 2005				As at 31 December 2004			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	26,054,840	430,657	4,753,003	31,238,500	28,183,590	350,736	4,974,552	33,508,878
Spot liabilities	(25,218,383)	(158,173)	(5,307,222)	(30,683,778)	(29,468,720)	(118,758)	(4,652,022)	(34,239,500)
Forward purchases	15,338,049	1,409	3,646,086	18,985,544	7,309,008	–	2,629,869	9,938,877
Forward sales	(15,858,320)	–	(3,083,614)	(18,941,934)	(5,848,312)	–	(2,943,565)	(8,791,877)
Net options position	–	–	–	–	693	–	(693)	–
Net long position	316,186	273,893	8,253	598,332	176,259	231,978	8,141	416,378

The net options position is calculated using the model user approach.

STATEMENT OF COMPLIANCE

In preparing the interim financial report for the period ended 30 June 2005, the Bank has fully complied with the Guideline “Interim Financial Disclosure by Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA.

Appendix 1

Consolidated Balance Sheet at 31 December 2004

Reconciliation of HKGAAP and HKFRS

	As at 31 December 2004 As reported	Effect of changes in accounting policies (except HKAS 39)	As at 31 December 2004 As restated	Opening balance adjustments for HKAS 39	As at 1 January 2005 As reported
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets					
Cash and short-term funds	8,262,040	–	8,262,040	–	8,262,040
Placements with banks and other financial institutions maturing after one month	362,429	–	362,429	–	362,429
Trade bills less provisions	246,081	–	246,081	2,486	248,567
Certificates of deposit held	1,366,315	–	1,366,315	–	1,366,315
Securities measured at fair value through profit or loss	–	–	–	4,466,978	4,466,978
Other investments in securities	3,489,760	–	3,489,760	(3,489,760)	–
Advances to customers and other accounts	42,603,199	–	42,603,199	320,858	42,924,057
Available for sale securities	–	–	–	6,177,288	6,177,288
Held-to-maturity securities	22,258,865	–	22,258,865	(6,309,109)	15,949,756
Investment securities	39,841	–	39,841	(39,841)	–
Interest in associates	191,450	–	191,450	2,577	194,027
Deferred tax assets	54,054	–	54,054	(51,107)	2,947
Tangible fixed assets	1,418,918	–	1,418,918	–	1,418,918
Total assets	80,292,952	–	80,292,952	1,080,370	81,373,322

Equity and Liabilities				
Deposits and balances of banks and other financial institutions	3,555,852	–	3,555,852	–
Deposits from customers	55,648,955	–	55,648,955	–
Certificates of deposit issued	6,959,690	–	6,959,690	5,694
Debt securities issued	2,322,798	–	2,322,798	(8,004)
Current taxation	6,392	–	6,392	44,219
Deferred tax liabilities	8	–	8	53,255
Other accounts and provisions	1,542,837	(4,308)	1,538,529	280,630
Total liabilities	70,036,532	(4,308)	70,032,224	375,794
Share capital	3,083,341	–	3,083,341	–
Reserves	2,897,183	4,308	2,901,491	476,154
Total equity	5,980,524	4,308	5,984,832	476,154
Loan capital	4,275,896	–	4,275,896	228,422
Total	10,256,420	4,308	10,260,728	704,576
Total equity and liabilities	80,292,952	–	80,292,952	1,080,370

Appendix 2

Consolidated Balance Sheet at 30 June 2004

Reconciliation of HKGAAP and HKFRS

	As at 30 June 2004 As reported HK\$'000	Effect of changes in accounting policies (except HKAS 39) HK\$'000	As at 30 June 2004 As restated HK\$'000
Assets			
Cash and short-term funds	5,952,504	–	5,952,504
Placements with banks and other financial institutions maturing after one month	174,239	–	174,239
Trade bills less provisions	185,671	–	185,671
Certificates of deposit held	1,787,584	–	1,787,584
Other investments in securities	3,970,340	–	3,970,340
Advances to customers and other accounts	40,140,440	–	40,140,440
Held-to-maturity securities	22,548,628	–	22,548,628
Investment securities	39,979	–	39,979
Interest in associates	181,711	–	181,711
Goodwill	10,030	–	10,030
Deferred tax assets	41,289	–	41,289
Tangible fixed assets	1,506,335	–	1,506,335
Total assets	76,538,750	–	76,538,750

Equity and Liabilities

Deposits and balances of banks and other financial institutions

Deposits and balances of banks and other financial institutions	3,748,533	—	3,748,533
Deposits from customers	57,606,112	—	57,606,112
Certificates of deposit issued	4,507,819	—	4,507,819
Current taxation	81,990	—	81,990
Deferred tax liabilities	15	—	15
Other accounts and provisions	1,156,296	(1,850)	1,154,446
Total liabilities	67,100,765	(1,850)	67,098,915
Share capital	2,393,341	—	2,393,341
Reserves	2,754,840	1,850	2,756,690
Total equity	5,148,181	1,850	5,150,031
Loan capital	4,289,804	—	4,289,804
Total	9,437,985	1,850	9,439,835
Total equity and liabilities	76,538,750	—	76,538,750

Appendix 3

Consolidated Income Statement for the year ended 31 December 2004

Reconciliation of HKGAAP and HKFRS

	For the year ended 31 December 2004 As reported <i>HK\$'000</i>	Effect of changes in accounting policies (except HKAS 39) <i>HK\$'000</i>	For the year ended 31 December 2004 As restated <i>HK\$'000</i>
Interest income	2,229,845	—	2,229,845
Interest expense	(773,492)	—	(773,492)
Net interest income	1,456,353	—	1,456,353
Fees and commission income	437,496	—	437,496
Fees and commission expenses	(26,880)	—	(26,880)
Other operating income	190,378	—	190,378
Non-interest income	600,994	—	600,994
Operating income	2,057,347	—	2,057,347
Operating expenses	(1,012,224)	668	(1,011,556)
Operating profit before provisions	1,045,123	668	1,045,791
Charge for bad and doubtful debts	(100,540)	—	(100,540)

Operating profit	944,583	668	945,251
Net profit on disposal of tangible fixed assets	19,755	–	19,755
Net surplus on revaluation of investment properties	7,555	–	7,555
Provision written back on held-to-maturity securities	9,682	–	9,682
Impairment loss on goodwill	(9,502)	–	(9,502)
Share of losses of an associate	(6,094)	–	(6,094)
Profit before taxation	965,979	668	966,647
Income tax	(149,583)	–	(149,583)
Profit after taxation	816,396	668	817,064

Appendix 4

Consolidated Income Statement for the period ended 30 June 2004

Reconciliation of HKGAAP and HKFRS

	For the period ended 30 June 2004 As reported	Effect of changes in accounting policies (except HKAS 39)	For the period ended 30 June 2004 As restated
	HK\$'000	HK\$'000	HK\$'000
Interest income	1,096,690	–	1,096,690
Interest expense	(327,023)	–	(327,023)
Net interest income	769,667	–	769,667
Fees and commission income	211,814	–	211,814
Fees and commission expenses	(16,211)	–	(16,211)
Other operating income	33,944	–	33,944
Non-interest income	229,547	–	229,547
Operating income	999,214	–	999,214
Operating expenses	(438,762)	266	(438,496)
Operating profit before provisions	560,452	266	560,718
Charge for bad and doubtful debts	(53,565)	–	(53,565)
Operating profit	506,887	266	507,153
Net profit on disposal of tangible fixed assets	15,248	–	15,248
Provision written back on held-to-maturity securities	80	–	80
Share of losses of an associate	(17,471)	–	(17,471)
Profit before taxation	504,744	266	505,010
Income tax	(84,920)	–	(84,920)
Profit after taxation	419,824	266	420,090

“Please also refer to the published version of this announcement in South China Morning Post.”