



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 FINAL RESULTS

The Board of Directors of CITIC Ka Wah Bank Limited (the “Bank”) is pleased to announce the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2005 as follows:–

(A) CONSOLIDATED INCOME STATEMENT

	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Interest income	2,978,408	2,229,845	33.57
Interest expense	(1,877,456)	(773,492)	142.72
Net interest income	1,100,952	1,456,353	(24.40)
Fee and commission income	427,577	437,496	(2.27)
Fee and commission expense	(12,837)	(26,880)	(52.24)
Net fee and commission income	414,740	410,616	1.00
Net trading income	308,308	160,339	92.29
Net income from financial instruments designated at fair value through profit or loss	52,448	–	N/A
Net hedging expense	(679)	–	N/A
Other operating income	23,881	30,039	(20.50)
Operating income	1,899,650	2,057,347	(7.67)
Operating expenses	(1,049,390)	(1,011,556)	3.74
	850,260	1,045,791	(18.70)
Impairment losses written back on loans and advances	83,379	–	N/A
Charge for bad and doubtful debts	–	(100,540)	N/A
Impairment losses written back on held-to-maturity investments	2,433	–	N/A
Impairment losses on available-for-sale securities	(5,000)	–	N/A
Provision written back on held-to-maturity investments	–	9,682	N/A
Impairment losses on properties	(354)	–	N/A
Impairment losses on goodwill	–	(9,502)	N/A
Impairment losses written back/(charged)	80,458	(100,360)	(180.17)
Operating profit	930,718	945,431	(1.56)
Loss on disposal of associates	(6,352)	–	N/A
Net profit on disposal of tangible fixed assets	232,699	19,755	1,077.92
Revaluation gain on investment properties	2,140	7,555	(71.67)
Share of profits less losses of associates	(10,501)	(4,139)	153.71
Profit before taxation	1,148,704	968,602	18.59
Income tax	(101,661)	(151,538)	(32.91)
Profit for the year	1,047,043	817,064	28.15
Dividends payable to equity shareholders of the Bank attributable to the year:			
Interim dividend declared during the year	570,253	463,600	

(B) CONSOLIDATED BALANCE SHEET

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Assets			
Cash and balances with banks and other financial institutions	990,454	1,451,400	(31.76)
Placements with banks and other financial institutions	5,214,691	6,774,246	(23.02)
Trade bills	406,364	246,081	65.13
Trading assets	6,199,473	–	N/A
Securities designated at fair value through profit or loss	1,117,542	–	N/A
Other investment in securities	–	3,579,709	N/A
Advances to customers and other accounts	43,617,341	42,603,199	2.38
Available-for-sale securities	5,864,658	–	N/A
Held-to-maturity investments	17,194,283	23,934,054	(28.16)
Investment securities	–	39,841	N/A
Interest in associates	–	191,450	N/A
Tangible fixed assets			
– Investment property	64,994	64,850	0.22
– Other property and equipment	1,102,815	1,354,068	(18.56)
Deferred tax assets	4,521	54,054	(91.64)
Total assets	81,777,136	80,292,952	1.85
Equity and liabilities			
Deposits and balances of banks and other financial institutions	4,157,446	3,555,852	16.92
Deposits from customers	54,786,566	55,648,955	(1.55)
Trading liabilities	661,137	–	N/A
Certificates of deposit issued	7,467,961	6,959,690	7.30
Debt securities issued	2,245,435	2,322,798	(3.33)
Current taxation	53,598	6,392	738.52
Deferred tax liabilities	45,466	8	568,225.00
Other liabilities	1,087,382	1,538,529	(29.32)
Loan capital	4,352,351	4,275,896	1.79
Total liabilities	74,857,342	74,308,120	0.74
Equity			
Share capital	3,083,341	3,083,341	–
Reserves	3,836,453	2,901,491	32.22
Total equity attributable to equity shareholders of the Bank	6,919,794	5,984,832	15.62
Total equity and liabilities	81,777,136	80,292,952	1.85

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2005		2004 (restated)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January:				
As previously reported:				
– attributable to equity shareholders of the Bank	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		4,937,475	
Opening balance adjustments arising from changes in accounting policies	476,154		–	
At 1 January, after prior period and opening balance adjustments		6,460,986		4,937,475
Net income recognized directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches, subsidiaries and associates	3,407		253	
– on disposal of an associate	627		–	
		4,034		253
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax		14,091		–
Cash flow hedge				
– effective portion of changes in fair value	9,364		–	
– transfer to deferred tax	(1,639)		–	
		7,725		–
Changes in fair value				
– of available-for-sale securities	(59,442)		–	
– to deferred tax	10,403		–	
		(49,039)		–
Net profit for the year:				
As previously reported				
–attributable to equity shareholders of the Bank			816,396	
Prior year adjustments arising from changes in accounting policies			668	
Net profit for the year (2004: as restated)		1,047,043		817,064
Total recognized income and expense for the year (2004: as restated)		1,023,854		817,317
Dividends declared during the year		(570,253)		(463,600)
Movements in equity arising from capital transactions:				
Increase in share capital	–		690,000	
Equity settled share-based transactions, net of tax (2004: as restated)	5,207	5,207	3,640	693,640
Total equity at 31 December		6,919,794		5,984,832

Notes:

- (1) The financial information in this financial results announcement does not constitute statutory financial statements.

The financial information relating to the financial year ended 31 December 2005 included in this preliminary final results announcement does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 will be available from the Bank's registered office.

- (2) The financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA which have first been implemented in the 2005 annual accounts. Details of these changes in accounting policies are set out in Note (3).

- (3) **Changes in accounting policies**

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

- (a) **Restatement of prior periods and opening balances**

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and consolidated balance sheet as previously reported for the year ended 31 December 2004. The changes in certain accounting policies were adopted by way of opening balance adjustments on the balances as at 1 January 2005.

Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in profit for the year)		2004 (as restated)
	HK\$'000	HKFRS 2 (note 3(d)) HK\$'000	HKAS 1 & 30 (note 3(g)) HK\$'000	HK\$'000
Interest income	2,229,845	–	–	2,229,845
Interest expense	(773,492)	–	–	(773,492)
Net interest income	1,456,353	–	–	1,456,353
Fee and commission income	437,496	–	–	437,496
Fee and commission expense	(26,880)	–	–	(26,880)
Net fee and commission income	410,616	–	–	410,616
Net trading income	–	–	160,339	160,339
Other operating income	190,378	–	(160,339)	30,039
Operating income	2,057,347	–	–	2,057,347
Operating expenses	(1,012,224)	668	–	(1,011,556)
	1,045,123	668	–	1,045,791
Charge for bad and doubtful debts	(100,540)	–	–	(100,540)
Provision written back on held-to-maturity investments	9,682	–	–	9,682
Impairment losses on goodwill	(9,502)	–	–	(9,502)
Impairment losses	(100,360)	–	–	(100,360)
Operating profit	944,763	668	–	945,431
Net profit on disposal of tangible fixed assets	19,755	–	–	19,755
Revaluation gain on investment properties	7,555	–	–	7,555
Share of profits less losses of associates	(6,094)	–	1,955	(4,139)
Profit before taxation	965,979	668	1,955	968,602
Income tax	(149,583)	–	(1,955)	(151,538)
Profit for the year	816,396	668	–	817,064

Effect on the Consolidated Balance Sheet as at 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/(decrease) in total assets and total liabilities)			2004 (as restated)
	HK\$'000	HKFRS 2 (note 3(d)) HK\$'000	HKAS 1 & 30 (note 3(g)) HK\$'000	Sub-total HK\$'000	HK\$'000
Assets					
Cash & short-term funds	8,262,040	–	(6,810,640)	(6,810,640)	1,451,400
Placements with banks and other financial institutions	362,429	–	6,411,817	6,411,817	6,774,246
Trade bills	246,081	–	–	–	246,081
Certificates of deposit held	1,366,315	–	(1,366,315)	(1,366,315)	–
Other investments in securities	3,489,760	–	89,949	89,949	3,579,709
Advances to customers and other accounts	42,603,199	–	–	–	42,603,199
Held-to-maturity investments	22,258,865	–	1,675,189	1,675,189	23,934,054
Investment securities	39,841	–	–	–	39,841
Interest in associates	191,450	–	–	–	191,450
Tangible fixed assets	1,418,918	–	–	–	1,418,918
Deferred tax assets	54,054	–	–	–	54,054
Total assets	80,292,952	–	–	–	80,292,952
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
Debt securities issued	2,322,798	–	–	–	2,322,798
Current taxation	6,392	–	–	–	6,392
Deferred tax liabilities	8	–	–	–	8
Other liabilities	1,542,837	(4,308)	–	(4,308)	1,538,529
Loan capital	4,275,896	–	–	–	4,275,896
Total liabilities	74,312,428	(4,308)	–	(4,308)	74,308,120
Equity					
Share capital	3,083,341	–	–	–	3,083,341
Reserves	2,897,183	4,308	–	4,308	2,901,491
Total equity attributable to equity shareholders of the Bank	5,980,524	4,308	–	4,308	5,984,832
Total equity and liabilities	80,292,952	–	–	–	80,292,952

(b) Estimated effect of changes in accounting policies on the current year

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and consolidated balance sheet for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Effect on the consolidated financial statements
Estimated effect on the Consolidated Income Statement for the year ended 31 December 2005

	Effect of new policy (increase/(decrease) in profit for the year)		
	HKFRS 2 (note 3(d)) HK\$'000	HKAS 32 & 39* (note 3(c)) HK\$'000	Total HK\$'000
Interest income	–	(198,012)	(198,012)
Interest expense	–	114,796	114,796
Net interest income	–	(83,216)	(83,216)
Net fee and commission income	–	10,161	10,161
Net trading income	–	64,524	64,524
Net income from financial instruments designated at fair value through profit or loss	–	52,447	52,447
Net hedging expense	–	(679)	(679)
Operating income	–	43,237	43,237
Operating expenses	(2,111)	–	(2,111)
Profit before taxation	(2,111)	43,237	41,126

* In respect of the year ended 31 December 2005, it is not practicable to estimate the extent to which the profit for the year would have been higher or lower had the previous policy on impairment of financial assets still been applied.

Estimated effect on the Consolidated Balance Sheet as at 31 December 2005

	<i>Effect of new policy (increase/(decrease) in total assets and total liabilities)</i>			Total HK\$'000
	<i>HKFRS 2 (note 3(d)) HK\$'000</i>	<i>HKAS 32 & 39* (note 3(c)) HK\$'000</i>	<i>HKAS 40 (note 3(e)) HK\$'000</i>	
Assets				
Trading assets	–	4,028,338	–	4,028,338
Securities designated at fair value through profit or loss	–	1,005,945	–	1,005,945
Other investments in securities	–	(3,489,760)	–	(3,489,760)
Advances to customers and other accounts	–	(222,895)	–	(222,895)
Available-for-sale securities	–	5,906,358	–	5,906,358
Held-to-maturity investments	–	(6,309,109)	–	(6,309,109)
Investment securities	–	(39,841)	–	(39,841)
Tangible fixed assets				
– Investment property	–	–	16,795	16,795
Total	–	879,036	16,795	895,831
Equity and Liabilities				
Trading liabilities	–	845,863	–	845,863
Certificates of deposit issued	–	(153,530)	–	(153,530)
Debt securities issued	–	(73,520)	–	(73,520)
Current taxation	–	35,433	–	35,433
Deferred tax liabilities	–	67,788	2,704	70,492
Other liabilities	(7,404)	(230,269)	–	(237,673)
Loan capital	–	87,033	–	87,033
Total	(7,404)	578,798	2,704	574,098
Equity				
Reserves	7,404	300,238	14,091	321,733
Total equity attributable to equity shareholders of the Bank	7,404	300,238	14,091	321,733
Total	–	879,036	16,795	895,831

* In respect of the year ended 31 December 2005, it is not practicable to estimate the extent to which the net assets would have been higher or lower had the previous policy on impairment of financial assets still been applied.

Estimated effect on net income recognised directly in consolidated equity for the year ended 31 December 2005:

	<i>Effect of new policy (increase/(decrease) in equity)</i>		Total HK\$'000
	<i>HKAS 32 & 39 (note 3(c)) HK\$'000</i>	<i>HKAS 40 (note 3(e)) HK\$'000</i>	
Attributable to equity shareholders of the Bank	(41,314)	14,091	(27,223)

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31 December 2005:

	<i>Effect of new policy (increase/(decrease) in equity)</i>
	<i>HKFRS 2 (note 3(d)) HK\$'000</i>
Attributable to equity shareholders of the Bank	5,207

(c) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32, the Group has provided additional disclosures of terms, conditions, accounting policies, risk and fair values of financial instruments throughout the notes to the financial statements. In order to comply with HKAS 39, the Group has changed its accounting policies relating to financial instruments, further details of the changes are as follows:

(i) Financial instruments

In prior years, all financial assets were carried at cost or amortized cost net of impairment provisions for diminution in value, except for other investments (under Benchmark treatment of SSAP 24) which were held at fair value. Gains and losses from change in fair value were recognized in the income statement in respect of other investments. Provisions were recognized as an expense in the income statement and written back to income statement when circumstances and events that led to the write-down cease to exist.

In prior years, all financial liabilities except for trading securities short positions were carried at cost or amortized cost. Trading securities short positions were carried at fair value and any changes in fair value were recognized through the income statement.

With effect from 1 January 2005, and in accordance with HKAS 39, financial instruments are recognized according to the following categories (i) fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale and (v) other financial liabilities.

Fair value through profit or loss

This category comprises financial assets and liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Financial instruments designated at fair value through profit or loss primarily consist of securities with embedded derivatives that the characteristics and risks of the embedded derivatives are not closely related to the host contracts.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available for sale. Loans and receivables mainly comprise loans and advances to customer and placements with banks and financial institutions.

Loans and receivables are carried at amortized cost using the effective interest method, less impairment losses, if any.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the positive intention and ability to hold to maturity, other than those that the Group, upon initial recognition, designates as fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method less impairment losses, if any.

Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are carried at cost less impairment losses, if any.

Available-for-sale financial assets are carried at fair value. Unrealized gains and losses arising from changes in the fair value are recognized directly in the fair value reserve, except for foreign exchange gains and losses on monetary items such as debt securities which are recognized in the income statement.

When the available-for-sale financial assets are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the equity are treated as gains or losses on disposal.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortized cost using the effective interest method.

(ii) Derivatives and hedge accounting

In prior years, derivatives mainly included derivatives arising from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. Netting was applied where a legal right of set-off exists.

The accounting for these instruments was dependent upon whether the transactions were undertaken for trading purposes or as part of the management of asset and liability portfolios.

Derivatives used for trading purposes

Trading transactions included transactions undertaken for market making, to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes were marked to market and the net present value of the gain or loss arising was recognized in the income statement as dealing gains/losses.

The fair value of derivatives that were not exchange-traded was estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Derivatives used for asset and liability management purposes

Derivatives used for this purpose were accounted for as hedge and were valued on an equivalent basis to the underlying assets, liabilities or net positions which they were hedging. Any profit or loss was recognized on the same basis as that arising from the related assets, liabilities or net positions.

Any gain or loss on termination of hedging derivatives was deferred and amortized to the income statement over the original life of the terminated contract. Where the underlying asset, liability or position was sold or terminated, the hedging derivative was immediately marked to market through the income statement.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to derivative and hedge accounting respectively.

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.

(iii) Embedded derivatives

In prior years, embedded derivatives were not separately accounted for and they were carried accordingly to the classification of the host contracts.

With effect from 1 January 2005, embedded derivative that is not closely related to the host contract or where the hybrid (combined) instrument is not measured at fair value through profit or loss is accounted for separately from the host contract as equity, assets or liabilities.

(iv) Impairment of financial assets

Loans and advances

In prior years, provisions were made against specific loans and advances as and when the directors had doubts on the ultimate recoverability of principal or interest in full.

Specific provisions represented the quantification of actual and expected losses from identified accounts and were deducted from loans and advances in the balance sheet.

Other than where provisions on smaller balance homogeneous advances were assessed on a portfolio basis, the amount of specific provision raised was assessed on a case by case basis. Specific provisions were made against the carrying amount of advances that were identified as being in doubt based on regular reviews of outstanding balances to reduce these advances, net of any collateral, to their recoverable amounts.

Where specific provisions were raised on a portfolio basis, the level of provisioning took into account management's assessment of the portfolio's structure, past and expected credit losses, business and economic conditions, and any other relevant factors. The principal portfolios evaluated on this basis were credit cards and certain unsecured personal advances.

General provisions augmented specific provisions and provided cover for loans which were impaired at the balance sheet date but would not be identified as such until some time in the future. The Group maintained a general provision which was determined taking into account the structure and risk characteristics of the Group's loan portfolio and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience. Historic levels of latent risk were regularly reviewed to determine that the level of general provisioning continues to be appropriate. General provisions were deducted from loans and advances to customers in the balance sheet.

In respect of the year ended 31 December 2005, it is not practicable to estimate the extent to which the profit for the year would have been higher or lower had the previous policy on impairment of financial assets still been applied.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to impairment on loans and advances to customers.

Impairment allowances are made on a loan when objective evidence of impairment loss has been observed or occurred. 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.

Other financial assets

For financial assets, other than loans and advances, were reviewed on each balance sheet date to determine whether there was any indication of impairment. If the recoverable amount of the asset was estimated to be less than its carrying amount, the carrying amount of the asset was reduced to its recoverable amount and the impairment loss was recognized in the income statement.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to impairment of investments in debt and equity securities, and impairment of other financial assets.

Held-to-maturity investments and available-for-sale securities 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.

- (v) Interest recognition on impaired loans
In prior years, loans were not reclassified as accruing until interest and principal payments were up-to-date and future payments were reasonably assured. Where the probability of receiving interest payments was remote, interest was no longer accrued. Where the loan had no reasonable prospect of recovery, the loan and related suspended interests were written off.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to interest income recognition.

Interest will continue to be recognized 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 recognized as interest income.

- (vi) Description of transitional provisions and effect of adjustments
The changes in accounting policies of the above items were adopted by way of opening balance adjustments to certain reserves and redesignation of financial instruments as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line of the Group affected for the year ended 31 December 2005 are set out in note 3(b).

(d) Employee share option scheme (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 has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of such share options as an expense with a corresponding increase recognized in a capital reserve within equity.

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

- (a) all options granted to employees on or before 7 November 2002; and
(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.
- (ii) Employee Equity Linked Deferred Award Scheme (“ELDA”)
In prior years, when employees (which term includes directors) were granted awards under ELDA, provision for the ELDA was made and recognized 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 recognized 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 recognized in the income statement.
- (iii) The adjustments for each financial statement line items of the Group affected for the years ended 31 December 2005 and 2004 are set out in notes 3(a) and (b).

(e) Investment property (HKAS 40, Investment property)

- (i) Timing of recognition of movements in fair value in the income statement
In prior years, movements in the fair value of the Group’s investment property were recognised directly in the investment property 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 property (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the cost model in Statement of Standard Accounting Practice (“SSAP”) No.17, Property, plant and equipment, whereby the property was carried at cost less accumulated depreciation and impairment.

Upon adoption of HKAS 40 as from 1 January 2005, the Group has adopted a new policy for investment property. Under this new policy:

- all changes in the fair value of investment property are recognized directly in the income statement in accordance with the fair value model in HKAS 40; and
 - land held for an undetermined future purpose is recognized as “investment property” if the property is freehold or, if the property is leasehold, the Group has chosen to recognize such land as investment property rather than as land held under an operating lease.
- (ii) Measurement of deferred tax on movements in fair value
In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognized on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognizes deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

- (iii) **Description of transitional provisions and effect of adjustments**
While 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 this related to deficit on revaluation in respect of the portfolio of investment properties previously charged to the income statement.
- (f) **Definition of related parties (HKAS 24, Related party disclosures)**
As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.
- (g) **Changes in presentation (HKAS 1, Presentation of financial statements and HKAS 30, Disclosures in financial statements of banks and similar financial institutions)**
Presentation of income statement and balance sheets
In prior years, there were no specific accounting standards governing the presentation of the financial statements of banks. Management, having regard to the overall clarity and the disclosure requirements of the Hong Kong Monetary Authority, exercised its judgment in deciding on the relative prominence given to each item presented on the face of the income statement and balance sheets. As a result, certificates of deposits held were separately presented on the face of the balance sheets. Treasury bills (including Exchange Fund Bills) and money at call and short notice (representing placements with banks and other financial institutions maturing within one month) were included in cash and short-term funds with treasury bills being presented separately as held-to-maturity investments and other investments in securities according to the previous SSAP 24.

With effect from 1 January 2005, in order to comply with HKAS 30 and take into account the measurement basis that has been applied, the Group has changed its presentation of certain items on the face of the income statement and balance sheets. Treasury bills (including Exchange Fund Bills) and certificates of deposit held are included in the four categories of financial instruments under HKAS 39. Placements with banks and other financial institutions maturing within one month are included in placements with banks and other financial institutions. These changes in presentation have been applied retrospectively with comparatives reclassified.

SUPPLEMENTARY FINANCIAL INFORMATION

(a) Summary of financial position

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Advances to customers and trade bills	42,952,278	42,296,803	1.55
Impairment allowances	409,322	—	N/A
Provisions for advances to customers and trade bills	—	903,009	N/A
Total assets	81,777,136	80,292,952	1.85
Average interest earning assets	69,722,488	69,559,294	0.23
Total deposits	62,254,527	62,608,645	(0.57)
Total equity attributable to equity shareholders of the Bank	6,919,794	5,984,832	15.62
Financial ratios			
Loans to deposits	68.99%	67.56%	
Loans to total assets	52.52%	52.68%	
Collective assessment coverage	0.69%	N/A	
General provisions coverage	N/A	1.23%	
Property lending	39.43%	35.72%	
Cost to income (before goodwill amortization in respect of 2004)	55.24%	49.12%	
Cost to income (after goodwill amortization in respect of 2004)	55.24%	49.17%	
Return on assets	1.29%	1.04%	
Return on average total equity attributable to equity shareholders of the Bank	16.23%	14.96%	

(b) Fee and commission income			
	2005	2004	Variance
	HK\$'000	HK\$'000	%
Bills commission	40,152	42,281	(5.04)
Cards related income	35,064	23,722	47.81
General banking services	38,433	41,990	(8.47)
Insurance	77,964	61,715	26.33
Investment and structural investment products	75,888	90,451	(16.10)
Loans, overdrafts and facility fee	159,256	176,956	(10.00)
Others	820	381	115.22
	427,577	437,496	(2.27)

(c) Net trading income			
	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Gains less losses from dealing in foreign currencies	87,079	49,258	76.78
Gains less losses from trading securities	125,517	91,627	36.99
Gains less losses from other dealing activities	(62,958)	19,454	(423.62)
Interest income on trading assets			
– Listed	26,807	–	N/A
– Unlisted	120,050	–	N/A
Interest expense on trading liabilities	(8,592)	–	N/A
Dividend income from unlisted trading securities	20,405	–	N/A
	308,308	160,339	92.29

SUPPLEMENTARY FINANCIAL INFORMATION

(d) Net income from financial instruments designated at fair value through profit or loss			
	2005	2004	Variance
	HK\$'000	HK\$'000	%
Net gains	123,909	–	N/A
Interest income			
– Listed	31,348	–	N/A
– Unlisted	3,395	–	N/A
Interest expense	(106,204)	–	N/A
	52,448	–	N/A

(e) Net hedging expense			
	2005	2004	Variance
	HK\$'000	HK\$'000	%
Fair value hedge	(679)	–	N/A

(f) Other operating income			
	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Dividend income from investment securities and other investments in securities			
– Listed investments	–	243	N/A
– Unlisted investments	–	8,880	N/A
Dividend income from available-for-sale securities			
– Unlisted investments	5,312	–	N/A
Gross rental income from investment properties of HK\$2,239,000 (2004: HK\$4,644,000) less direct outgoings of HK\$43,000 (2004: HK\$280,000)	2,196	4,364	(49.68)
Others	16,373	16,552	(1.08)
	23,881	30,039	(20.50)

(g) **Operating expenses**

	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Staff costs			
Salaries and other staff costs	528,245	523,288	0.95
Retirement costs	36,614	34,584	5.87
Share-based payment expenses:			
– Equity-settled share-based payment expenses	5,206	3,641	42.98
– Cash-settled share-based payment expenses	9,029	4,221	113.91
	579,094	565,734	2.36
Depreciation and amortization			
Depreciation of premises and equipment			
– assets held for use under operating leases	2,571	932	175.86
– other assets	114,229	148,138	(22.89)
Amortization of goodwill	–	1,056	N/A
	116,800	150,126	(22.20)
Other operating expenses			
Premises and equipment expenses, excluding depreciation			
– Rental of premises	54,999	34,617	58.88
– Others	75,523	71,164	6.13
Auditors' remuneration	3,871	2,903	33.34
Advertising	62,265	65,070	(4.31)
Communication, printing and stationery	55,131	49,417	11.56
Legal and professional fee	20,867	18,114	15.20
Others	80,840	54,411	48.57
	353,496	295,696	19.55
Total operating expenses	1,049,390	1,011,556	3.74

Included in operating expenses are minimum lease payment under operating leases of HK\$931,000 (2004: HK\$1,372,000) for hire of equipment and HK\$51,193,000 (2004: HK\$30,867,000) for hire of other assets (including property rentals).

(h) **Income tax in the consolidated income statement represents:**

	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Current tax – Hong Kong Profits Tax			
Provision for the year	123,709	156,377	(20.89)
Over-provision in respect of prior years	(20,213)	(1,253)	1,513.17
	103,496	155,124	(33.28)
Current tax – Overseas			
Provision for the year	1,711	1,127	51.82
Deferred tax			
Origination and reversal of temporary differences	(3,546)	(4,713)	(24.76)
Total	101,661	151,538	(32.91)

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

(i) **Dividends**

	2005	2004
	HK\$'000	HK\$'000
Interim dividend declared and paid	373,253	211,000
Interim dividend declared but not yet paid	197,000	252,600
	570,253	463,600

(j) **Advances to customers and other accounts**

	As at 31 Dec 2005	As at 31 Dec 2004	Variance
	HK\$'000	HK\$'000	%
Gross advances to customers	42,545,914	42,048,236	1.18
Less: Impairment allowances			
– Individually assessed	(114,778)	–	N/A
– Collectively assessed	(294,544)	–	N/A
Provisions for bad and doubtful debts			
– Specific	–	(381,172)	N/A
– General	–	(519,351)	N/A
	42,136,592	41,147,713	2.40
Advances to banks and other financial institutions	327,521	20,000	1,537.61
Accrued interest and other accounts less impairment allowances	1,153,228	1,435,486	(19.66)
	43,617,341	42,603,199	2.38

(k) **Reserves**

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Share premium	282,930	282,930	–
General reserve	100,000	100,000	–
Other property revaluation reserve	13,856	11,945	16.00
Capital reserve	6,589	6,589	–
Fair value reserve	319,573	–	N/A
Exchange differences	3,576	(458)	880.79
Share option reserve	8,847	3,640	143.05
Retained profits*	3,101,082	2,496,845	24.20
Total	3,836,453	2,901,491	32.22

* The Group complies with Hong Kong Monetary Authority's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 31 December 2005, an amount of HK\$233,800,000 (2004: Nil) was included in the retained profits in this respect which was distributable to equity shareholders of the Company subject to consultation with the Hong Kong Monetary Authority.

(l) Advances to customers – By industry sector

	As at 31 Dec 2005		As at 31 Dec 2004		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– Property development	324,704	0.76	350,668	0.83	(7.40)
– Property investment	5,033,111	11.83	4,157,529	9.89	21.06
– Financial concerns	2,348,129	5.52	2,654,487	6.31	(11.54)
– Stockbrokers	45,606	0.11	39,835	0.10	14.49
– Wholesale and retail trade	1,946,786	4.58	1,898,338	4.51	2.55
– Manufacturing	2,813,124	6.61	3,372,328	8.02	(16.58)
– Transport and transport equipment	4,280,529	10.06	5,404,016	12.85	(20.79)
– Others	3,093,252	7.27	3,690,455	8.78	(16.18)
<i>Individuals</i>					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	18,409	0.05	19,394	0.05	(5.08)
– Loans for the purchase of other residential properties	11,416,704	26.83	10,512,764	25.00	8.60
– Credit card advances	586,781	1.38	538,041	1.28	9.06
– Others	1,256,345	2.95	1,108,971	2.64	13.29
Trade finance	2,628,660	6.18	2,124,777	5.05	23.71
Loans for use outside Hong Kong	6,753,774	15.87	6,176,633	14.69	9.34
	42,545,914	100.00	42,048,236	100.00	1.18

(m) Advances to customers – By geographical area

The 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.

	As at 31 Dec 2005			As at 31 Dec 2004		
	Advances to customers	Overdue loans and advances	Impaired loans	Advances to customers	Overdue loans and advances	Non-performing loans
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	34,276,715	233,908	267,297	34,026,118	928,361	850,237
Mainland China	6,429,148	465,307	465,307	5,731,095	530,062	530,062
USA	743,396	–	–	663,834	–	–
Others	1,096,655	–	71,288	1,627,189	363	363
	42,545,914	699,215	803,892	42,048,236	1,458,786	1,380,662

Overdue loans and advances are loans that have been overdue more than three months.

Impaired loans are individually assessed loans with objective evidence of impairment on an individual basis.

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

(n) Impaired/Non-performing loans

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

	As at 31 Dec 2005	As at 31 Dec 2004
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	803,892	–
Impairment allowance-individually assessed	(114,778)	–
Gross non-performing loans and advances to customers	–	1,380,662
Specific provisions of bad and doubtful debts	–	(304,703)
	689,114	1,075,959
As a % of total loans and advances to customers		
– Gross impaired loans and advances	1.89%	–
– Gross non-performing loans and advances	–	3.28%

(o) Overdue advances to customers

	As at 31 Dec 2005		As at 31 Dec 2004	
	HK\$'000	%*	HK\$'000	%*
The gross amount of advances has been overdue for periods of:				
– 6 months or less but over 3 months	40,244	0.09	90,905	0.22
– 1 year or less but over 6 months	82,213	0.19	213,538	0.51
– over 1 year	576,758	1.36	1,154,343	2.74
Total	699,215	1.64	1,458,786	3.47
Secured overdue advances	640,526		1,095,739	
Unsecured overdue advances	58,689		363,047	
	699,215		1,458,786	
Market value of collateral held against the secured overdue advances	1,014,444		1,231,918	
Individual impairment allowance made	58,707			
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 31 December 2005 and 31 December 2004.

(p) Other overdue assets

	As at 31 Dec 2005	As at 31 Dec 2004
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for:		
– 6 months or less but over 3 months	–	2,565
– 1 year or less but over 6 months	2,725	–
	2,725	2,565
Held-to-maturity investments which have been overdue for:		
– over 1 year	15,510	15,549

(q) **Rescheduled loans**

	As at 31 Dec 2005		As at 31 Dec 2004	
	HK\$'000	%*	HK\$'000	%*
Rescheduled loans	25,077	0.06	226,093	0.54

* Based on total advances to customers

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note (o).

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

(r) **Reposessed assets**

	As at 31 Dec 2005	As at 31 Dec 2004
	HK\$'000	HK\$'000
Included in advances to customers and other accounts	192,128	231,572

(s) **Off-balance sheet exposures**

(i) **Contingent liabilities and commitments**

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

	As at 31 Dec 2005	As at 31 Dec 2004
	HK\$'000	HK\$'000
Direct credit substitutes	958,516	943,362
Trade-related contingencies	1,058,462	1,165,944
Other commitments:		
– with an original maturity of under 1 year		
or which are unconditionally cancellable	12,846,765	10,576,584
– with an original maturity of 1 year and over	350,146	588,078
	15,213,889	13,273,968
Credit risk weighted amounts	991,061	1,072,223

(ii) 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:

	As at 31 Dec 2005			As at 31 Dec 2004		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	18,941,850	-	18,941,850	2,637,254	-	2,637,254
Swaps	11,521,138	-	11,521,138	7,447,460	3,504,209	10,951,669
Options purchased	91,471	-	91,471	241,068	-	241,068
Options written	84,553	-	84,553	238,249	-	238,249
Interest rate contracts						
Forwards and futures	3,032,254	-	3,032,254	427,590	-	427,590
Swaps	6,897,921	12,074,747	18,972,668	3,570,070	11,615,697	15,185,767
Options purchased	1,298,984	-	1,298,984	1,671,487	-	1,671,487
Options written	1,298,984	-	1,298,984	1,849,231	-	1,849,231
Equity contracts						
Options purchased	-	-	-	-	1,083	1,083
Options written	-	-	-	-	1,083	1,083
	43,167,155	12,074,747	55,241,902	18,082,409	15,122,072	33,204,481

The above transactions are undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

Derivatives used for hedging purpose as at 31 Dec 2005 were representing hedging instruments that were qualified for hedge accounting under HKAS 39.

Derivatives used for hedging purpose as at 31 Dec 2004 were representing all derivatives that having an asset and liability management relationship. The conditions for using hedge accounting under HKAS 39 were not allowed to be applied retrospectively.

(iii) Fair values and credit risk weighted amounts of derivatives

	2005			2004 (restated)		
	Fair value		Credit risk weighted amount	Fair value*		Credit risk weighted amount
	Assets	Liabilities		Assets	Liabilities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	157,286	387,765	74,175	268,774	383,276	105,037
Currency derivatives	70,858	55,468	85,145	119,554	127,623	66,096
Other derivatives	-	-	-	90	-	46
	228,144	443,233	159,320	388,418	510,899	171,179

* The fair values information for 2004 were representing 1 January 2005 restated figures.

Credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate, interest rate and other derivatives contracts.

The fair values of derivative assets and liabilities and credit risk weighted amount of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements.

(t) Segmental reporting

Segment information is represented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format as the directors consider that this is more relevant to the Group's internal financial reporting.

Business segments

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.
Fund investment:	It mainly comprises all fund investments made by the Bank that are managed by external fund managers.
Unallocated:	It mainly comprises the bank premises and any items which cannot be reasonably allocated to specific business segments.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on internal funds transfer pricing mechanism.

Cost allocation is based on the direct costs incurred by the respective business segments and apportionment of overheads on a reasonable basis to the business segments. Rental charges at market rate for usage of bank premises are reflected as inter-segment income for the "unallocated" segment and inter-segment expenses for the respective business segments.

2005

	Wholesale banking	Retail banking	Treasury	Fund Investment	Unallocated	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Net interest income	525,857	487,304	237,921	(165,583)	15,453	1,100,952
Other operating income	171,695	319,067	55,788	229,363	22,785	798,698
Total operating income	697,552	806,371	293,709	63,780	38,238	1,899,650
Operating expenses	(105,382)	(377,478)	(51,568)	–	(514,962)	(1,049,390)
Inter-segment expenses	(133,960)	(242,670)	(39,711)	–	416,341	–
	458,210	186,223	202,430	63,780	(60,383)	850,260
Impairment losses on loans and advances written back/(charged)	32,570	3,753	–	–	47,056	83,379
Impairment losses on held-to-maturity investments and available-for-sale securities	(2,918)	351	–	–	–	(2,567)
Impairment losses on properties	–	–	–	–	(354)	(354)
Impairment losses	29,652	4,104	–	–	46,702	80,458
Operating profit	487,862	190,327	202,430	63,780	(13,681)	930,718
Net profit on disposal of tangible fixed assets and associates	(424)	(5,168)	–	–	231,939	226,347
Revaluation gain on investment properties	–	–	–	–	2,140	2,140
Share of profits less losses of associates	–	–	–	–	(10,501)	(10,501)
Profit before taxation	487,438	185,159	202,430	63,780	209,897	1,148,704
Income Tax	–	–	–	–	(101,661)	(101,661)
Profit for the year	487,438	185,159	202,430	63,780	108,236	1,047,043
Depreciation for the year	5,370	19,349	972	–	91,109	116,800
Segment assets	24,511,498	21,740,932	26,858,703	5,117,980	3,548,023	81,777,136
Segment liabilities	23,867,496	36,374,520	12,607,782	–	2,007,544	74,857,342
Capital expenditure incurred during the year	8,131	31,328	1,806	–	11,972	53,237

2004
(restated)

	Wholesale banking	Retail banking	Treasury	Fund Investment	Unallocated	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Net interest income	546,615	620,826	282,278	(2,765)	9,399	1,456,353
Other operating income	161,622	273,743	19,493	112,096	34,040	600,994
Total operating income	708,237	894,569	301,771	109,331	43,439	2,057,347
Operating expenses	(89,085)	(354,638)	(48,683)	–	(519,150)	(1,011,556)
Inter-segment expenses	(144,595)	(261,511)	(43,583)	–	449,689	–
	474,557	278,420	209,505	109,331	(26,022)	1,045,791
Charge for bad and doubtful debts	(131,065)	472	–	–	30,053	(100,540)
Provision written back on held-to-maturity investments	9,602	80	–	–	–	9,682
Impairment losses on goodwill	–	–	–	–	(9,502)	(9,502)
Impairment losses	(121,463)	552	–	–	20,551	(100,360)
Operating profit	353,094	278,972	209,505	109,331	(5,471)	945,431
Net profit on disposal of tangible fixed assets	77	(909)	(31)	–	20,618	19,755
Revaluation gain on investment properties	–	–	–	–	7,555	7,555
Share of profits less losses of associates	–	–	–	–	(4,139)	(4,139)
Profit before taxation	353,171	278,063	209,474	109,331	18,563	968,602
Income Tax	–	–	–	–	(151,538)	(151,538)
Profit for the year	353,171	278,063	209,474	109,331	(132,975)	817,064
Depreciation for the year	3,463	21,598	1,500	–	122,509	149,070
Amortization of goodwill for the year	–	–	–	–	1,056	1,056
Segment assets	26,786,588	19,067,753	28,832,283	2,939,626	2,475,252	80,101,502
Interest in associates	–	–	–	–	191,450	191,450
Total asset	26,786,588	19,067,753	28,832,283	2,939,626	2,666,702	80,292,952
Segment liabilities	21,678,021	37,395,844	14,588,308	–	645,947	74,308,120
Capital expenditure incurred during the year	18,140	18,437	1,355	–	24,852	62,784

(u) Capital adequacy ratio

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)
Unadjusted capital adequacy ratio *	16.44%	16.51%
Adjusted capital adequacy ratio **	15.66%	16.03%

* 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.

(v) **Capital base after deductions**

	As at 31 Dec 2005	As at 31 Dec 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	2,811,120	2,519,803
Total core capital	6,177,391	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	332,076	–
Collective impairment allowances for impaired assets and regulatory reserve	528,790	–
General provisions for doubtful debts	–	521,837
Perpetual subordinated debt	2,016,390	1,943,589
Term subordinated debt	467,192	932,923
Total eligible supplementary capital	3,344,448	3,406,711
Total capital base before deductions	9,521,839	9,292,785
Deductions from total capital base	(12,156)	(135,860)
Total capital base after deductions	9,509,683	9,156,925

(w) **Liquidity ratio**

	2005	2004
Average liquidity ratio for year ended 31 December	51.07%	47.91%

The average liquidity 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.

(x) **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.

	As at 31 Dec 2005				As at 31 Dec 2004			
Equivalent in HK\$'000	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	27,583,413	850,714	5,440,145	33,874,272	28,183,590	350,736	4,974,552	33,508,878
Spot liabilities	(29,820,124)	(540,794)	(5,080,855)	(35,441,773)	(29,468,720)	(118,758)	(4,652,022)	(34,239,500)
Forward purchases	16,617,043	104,658	3,758,734	20,480,435	7,309,008	–	2,629,869	9,938,877
Forward sales	(13,674,662)	(104,573)	(4,122,558)	(17,901,793)	(5,848,312)	–	(2,943,565)	(8,791,877)
Net options position	(179)	–	179	–	693	–	(693)	–
Net long/(short) position	705,491	310,005	(4,355)	1,011,141	176,259	231,978	8,141	416,378

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

(y) **Cross-border claims**

Cross border claims are on-balance sheet exposures of counterparties based on 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. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2005				
Asia and Pacific excluding Hong Kong	7,553,502	441,975	7,534,359	15,529,836
of which Australia	3,000,177	763	70,118	3,071,058
of which Mainland China	2,425,439	391,052	6,801,933	9,618,424
Caribbean	–	–	4,208,681	4,208,681
of which Cayman Islands	–	–	3,575,271	3,575,271
Western Europe	11,118,604	1,791	4,861,642	15,982,037
of which France	1,257,160	–	812,763	2,069,923
of which Germany	1,423,132	–	113,916	1,537,048
of which Netherlands	1,061,821	–	821,618	1,883,439
of which United Kingdom	2,492,175	623	1,224,905	3,717,703
2004				
Asia and Pacific excluding Hong Kong	6,765,626	201,643	7,245,927	14,213,196
of which Australia	3,373,719	1,128	61,338	3,436,185
of which Mainland China	2,196,755	199,858	6,405,791	8,802,404
Western Europe	13,717,333	3,008	4,276,585	17,996,926
of which France	2,281,061	–	806,261	3,087,322
of which Germany	2,519,414	–	410,682	2,930,096
of which Netherlands	1,249,111	–	720,948	1,970,059
of which United Kingdom	3,608,631	953	1,023,518	4,633,102

STATEMENT OF COMPLIANCE

In preparing the accounts for the year ended 31 December 2005, the Bank has fully complied with the requirements set out in the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the HKMA.

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