



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 2006 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 2006 as follows:

(A) CONSOLIDATED INCOME STATEMENT

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Interest income	4,082,120	2,978,408	37.1
Interest expense	(3,020,623)	(1,877,456)	60.9
Net interest income	1,061,497	1,100,952	(3.6)
Fee and commission income	570,170	427,577	33.3
Fee and commission expense	(14,668)	(12,837)	14.3
Net fee and commission income	555,502	414,740	33.9
Net trading income	630,825	308,308	104.6
Net (expense)/income from financial instruments designated at fair value through profit or loss	(62,594)	52,448	(219.3)
Net hedging gain/(loss)	129	(679)	119.0
Other operating income	28,696	23,881	20.2
Operating income	2,214,055	1,899,650	16.6
Operating expenses	(1,093,600)	(1,049,390)	4.2
Operating profit before impairment	1,120,455	850,260	31.8
Impairment losses (charged for)/written back on loans and advances	(53,757)	83,379	(164.5)
Impairment losses (charged for)/written back on held-to-maturity investments	(3,957)	2,433	(262.6)
Impairment losses on available-for-sale securities	(13)	(5,000)	(99.7)
Impairment losses on properties	–	(354)	N/A
Impairment losses (charged for)/written back	(57,727)	80,458	(171.7)
Net profit on disposal of available-for-sale securities	90,199	–	N/A
Net loss on disposal of held-to-maturity investments	(22,306)	–	N/A
Operating profit	1,130,621	930,718	21.5
Loss on disposal of associates	–	(6,352)	N/A
Net (loss)/profit on disposal of property and equipment	(24,368)	232,699	(110.5)
Revaluation gain on investment properties	3,376	2,140	57.8
Share of losses of associates	–	(10,501)	N/A
Profit before taxation	1,109,629	1,148,704	(3.4)
Income tax	(191,380)	(101,661)	88.3
Profit for the year	918,249	1,047,043	(12.3)
Interim dividends declared during the year	453,000	570,253	(20.6)

(B) CONSOLIDATED BALANCE SHEET

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK\$'000	HK\$'000	%
Assets			
Cash and balances with banks and other financial institutions	1,267,870	990,454	28.0
Placements with banks and other financial institutions	12,038,714	5,214,691	130.9
Trade bills	491,994	406,364	21.1
Trading assets	6,353,976	6,199,473	2.5
Securities designated at fair value through profit or loss	1,003,579	1,117,542	(10.2)
Loans and advances to customers and other accounts	52,272,690	43,617,341	19.8
Available-for-sale securities	4,973,450	5,864,658	(15.2)
Held-to-maturity investments	10,176,493	17,194,283	(40.8)
Property and equipment			
– Investment property	124,776	64,994	92.0
– Other property and equipment	961,081	1,102,815	(12.9)
Deferred tax assets	7,294	4,521	61.3
Total assets	89,671,917	81,777,136	9.7
Equity and liabilities			
Deposits and balances of banks and other financial institutions	831,973	4,157,446	(80.0)
Deposits from customers	65,965,607	54,786,566	20.4
Trading liabilities	428,648	661,137	(35.2)
Certificates of deposit issued	7,257,719	7,467,961	(2.8)
Debt securities issued	2,300,889	2,245,435	2.5
Current taxation	112,681	53,598	110.2
Deferred tax liabilities	22,586	45,466	(50.3)
Other liabilities	1,568,149	1,087,382	44.2
Loan capital	3,901,326	4,352,351	(10.4)
Total liabilities	82,389,578	74,857,342	10.1
Equity			
Share capital	3,083,341	3,083,341	–
Reserves	4,198,998	3,836,453	9.5
Total equity attributable to equity shareholders of the Bank	7,282,339	6,919,794	5.2
Total equity and liabilities	89,671,917	81,777,136	9.7

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2006		2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January		6,919,794		6,460,986
Net income recognized directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches, subsidiaries and associates	6,886		3,407	
– on disposal of associates	–		627	
		6,886		4,034
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax		8,210		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	(68,390)		(59,442)	
– transfer from equity to deferred tax	25,830		10,403	
– transfer to income statement on disposal of available-for-sale securities	(79,221)		–	
		(121,781)		(49,039)
Profit for the year		918,249		1,047,043
Total recognized income and expense for the year		811,564		1,023,854
Interim dividends declared during the year		(453,000)		(570,253)
Movements in equity arising from capital transactions:				
Equity-settled share-based transactions		3,981		5,207
Total equity at 31 December		7,282,339		6,919,794

Notes:

- (1) The financial information relating to the financial year ended 31 December 2006 included in this 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 2006 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 2005 annual accounts.

SUPPLEMENTARY FINANCIAL INFORMATION

(a) Summary of financial position

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK\$'000	HK\$'000	%
Loans and advances to customers and trade bills	51,177,344	42,952,278	19.1
Impairment allowances	329,526	409,322	(19.5)
Total assets	89,671,917	81,777,136	9.7
Average interest earning assets	72,280,906	69,722,488	3.7
Total deposits	73,223,326	62,254,527	17.6
Total equity attributable to equity shareholders of the Bank	7,282,339	6,919,794	5.2
<i>Financial ratios</i>			
Loans to deposits	69.89%	68.99%	
Loans to total assets	57.07%	52.52%	
Collective assessment coverage	0.49%	0.69%	
Property lending	33.58%	39.43%	
Cost to income	49.39%	55.24%	
Return on assets	1.07%	1.29%	
Return on average total equity attributable to equity shareholders of the Bank	12.93%	16.23%	

(b) Fee and commission income

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Bills commission	49,255	40,152	22.7
Cards related income	36,929	35,064	5.3
General banking services	44,748	38,433	16.4
Insurance	81,001	77,964	3.9
Investment and structured investment products	120,203	75,888	58.4
Loans, overdrafts and facilities fee	237,226	159,256	49.0
Others	808	820	(1.5)
	570,170	427,577	33.3

(c) Net trading income

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Gains less losses from dealing in foreign currencies	141,781	87,079	62.8
Gains less losses from trading securities	230,950	125,517	84.0
Gains less losses from other dealing activities	55,283	(62,958)	187.8
Interest income on trading assets			
– Listed	44,697	26,807	66.7
– Unlisted	131,186	120,050	9.3
Interest expense on trading liabilities	(2,089)	(8,592)	(75.7)
Dividend income from listed trading securities	164	–	N/A
Dividend income from unlisted trading securities	28,853	20,405	41.4
	630,825	308,308	104.6

(d) Net (expense)/income from financial instruments designated at fair value through profit or loss

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Net (losses)/gains	(6,177)	123,909	(105.0)
Interest income			
– Listed	31,106	31,348	(0.8)
– Unlisted	10,134	3,395	198.5
Interest expense	(97,657)	(106,204)	(8.0)
	(62,594)	52,448	(219.3)

(e) Net hedging gain/(loss)			
	2006	2005	Variance
	HK\$'000	HK\$'000	%
Fair value hedge	129	(679)	119.0
(f) Other operating income			
	2006	2005	Variance
	HK\$'000	HK\$'000	%
Dividend income from available-for-sale securities			
– Unlisted investments	4,147	5,312	(21.9)
Rental income from investment properties less direct outgoings of HK\$15,000 (2005: HK\$43,000)	4,615	2,196	110.2
Others	19,934	16,373	21.7
	28,696	23,881	20.2
(g) Operating expenses			
	2006	2005	Variance
	HK\$'000	HK\$'000	%
Staff costs			
Salaries and other staff costs	571,821	528,245	8.2
Retirement costs	37,912	36,614	3.5
Share-based payment expenses:			
– Equity-settled share-based payment expenses	3,981	5,206	(23.5)
– Cash-settled share-based payment expenses	11,474	9,029	27.1
	625,188	579,094	8.0
Depreciation			
Depreciation of property and equipment			
– Assets held for use under operating leases	10,820	2,571	320.8
– Other assets	101,868	114,229	(10.8)
	112,688	116,800	(3.5)
Other operating expenses			
Property and equipment expenses, excluding depreciation			
– Rental of property	73,072	54,999	32.9
– Others	65,868	75,523	(12.8)
Auditor's remuneration	4,480	3,871	15.7
Advertising	52,886	62,265	(15.1)
Communication, printing and stationery	57,444	55,131	4.2
Legal and professional fee	10,247	20,867	(50.9)
Others	91,727	80,840	13.5
	355,724	353,496	0.6
Total operating expenses	1,093,600	1,049,390	4.2

Included in other operating expenses are minimum lease payment under operating leases of HK\$1,737,000 (2005: HK\$931,000) for hire of equipment and HK\$68,729,000 (2005: HK\$51,193,000) for hire of other assets (including property rentals).

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

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Current tax – Hong Kong Profits Tax			
Provision for the year	172,323	123,709	39.3
Under/(over) – provision in respect of prior years	13,772	(20,213)	168.1
	<u>186,095</u>	<u>103,496</u>	79.8
Current tax – Overseas			
Provision for the year	<u>6,850</u>	<u>1,711</u>	300.4
Deferred tax			
Reversal of temporary differences	<u>(1,565)</u>	<u>(3,546)</u>	(55.9)
	<u>191,380</u>	<u>101,661</u>	88.3

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 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**

	2006	2005	Variance
	HK\$'000	HK\$'000	%
Interim dividend declared and paid	246,000	373,253	(34.1)
Interim dividend declared but not yet paid	207,000	197,000	5.1
	<u>453,000</u>	<u>570,253</u>	(20.6)

(j) **Loans and advances to customers and other accounts less impairment allowances**

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK\$'000	HK\$'000	%
Gross loans and advances to customers	50,685,350	42,545,914	19.1
Impairment allowances			
– Individually assessed	(76,360)	(114,778)	(33.5)
– Collectively assessed	(253,166)	(294,544)	(14.0)
	<u>50,355,824</u>	<u>42,136,592</u>	19.5
Advances to banks and other financial institutions	353,824	327,521	8.0
Accrued interest and other accounts less impairment allowances	<u>1,563,042</u>	<u>1,153,228</u>	35.5
	<u>52,272,690</u>	<u>43,617,341</u>	19.8

(k) **Reserves**

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK\$'000	HK\$'000	%
Share premium	282,930	282,930	–
Capital reserve	6,589	6,589	–
General reserve	100,000	100,000	–
Exchange differences reserves	10,462	3,576	192.6
Other property revaluation reserve	22,066	13,856	59.3
Fair value reserve	197,792	319,573	(38.1)
Share option reserve	12,828	8,847	45.0
Retained profits*	<u>3,566,331</u>	<u>3,101,082</u>	15.0
Total	<u>4,198,998</u>	<u>3,836,453</u>	9.5

* The Group complies with the 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 2006, an amount of HK\$376,300,000 (2005: HK\$233,800,000) was included in the retained profits as regulatory reserve in this respect which was distributable to equity shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority.

(l) Loans and advances to customers – By industry sector

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority.

	As at 31 Dec 2006		As at 31 Dec 2005		Variance
	HK\$'000	%	HK\$'000	%	%
Industrial, commercial and financial					
– Property development	205,155	0.40	324,704	0.76	(36.8)
– Property investment	5,370,620	10.60	5,033,111	11.83	6.7
– Financial concerns	3,315,125	6.54	2,348,129	5.52	41.2
– Stockbrokers	50,000	0.10	45,606	0.11	9.6
– Wholesale and retail trade	2,885,044	5.69	1,946,786	4.58	48.2
– Manufacturing	3,370,282	6.65	2,813,124	6.61	19.8
– Transport and transport equipment	3,467,330	6.84	4,280,529	10.06	(19.0)
– Others	2,664,446	5.26	3,093,252	7.27	(13.9)
Individuals					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	16,054	0.03	18,409	0.04	(12.8)
– Loans for the purchase of other residential properties	11,446,698	22.58	11,416,704	26.83	0.3
– Credit card advances	535,293	1.06	586,781	1.38	(8.8)
– Others	1,693,327	3.34	1,256,345	2.96	34.8
Gross loans for use in Hong Kong	35,019,374		33,163,480		5.6
Trade finance	3,508,201	6.92	2,628,660	6.18	33.5
Gross loans for use outside Hong Kong	12,157,775	23.99	6,753,774	15.87	80.0
Gross loans to customers	50,685,350	100.00	42,545,914	100.00	19.1

(m) Loans and advances to customers – By geographical area

	As at 31 Dec 2006			As at 31 Dec 2005		
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	39,910,144	197,448	184,848	34,276,715	233,908	267,297
Mainland China	6,703,093	469,794	469,794	6,429,148	465,307	465,307
USA	1,429,400	–	–	743,396	–	–
Others	2,642,713	191,997	191,997	1,096,655	–	71,288
	50,685,350	859,239	846,639	42,545,914	699,215	803,892

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.

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

Impaired loans and advances are mainly individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(n) **Impaired loans and advances to customers**

	As at 31 Dec 2006	As at 31 Dec 2005
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	846,639	803,892
Impairment allowance – Individually assessed	(76,360)	(114,778)
	770,279	689,114
Gross impaired loans and advances as a % of total loans and advances to customers	1.67%	1.89%

Individually assessed impairment allowance was made to write down the carrying value of the advances to the discounted value of future recoverable amounts, including from realization of collateral.

(o) **Overdue loans and advances to customers**

	As at 31 Dec 2006		As at 31 Dec 2005	
	HK\$'000	% on total loans and advances to customers	HK\$'000	% on total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	36,759	0.07	40,244	0.09
– 1 year or less but over 6 months	258,965	0.51	82,213	0.19
– over 1 year	563,515	1.11	576,758	1.36
	859,239	1.69	699,215	1.64
Secured overdue loans and advances	767,533		640,526	
Unsecured overdue loans and advances	91,706		58,689	
	859,239		699,215	
Market value of collateral held against the secured overdue loans and advances	1,179,363		1,014,444	
Individual impairment allowance made	70,702		58,707	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end, loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2006 and 31 December 2005.

(p) **Other overdue assets**

	As at 31 Dec 2006	As at 31 Dec 2005
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for:		
– 1 year or less but over 6 months	–	2,725
– over 1 year	1,198	–
	1,198	2,725
Held-to-maturity investments which have been overdue for:		
– over 1 year	15,553	15,510

(q) **Rescheduled loans**

	As at 31 Dec 2006		As at 31 Dec 2005	
	HK\$'000	% on total loans and advances to customers	HK\$'000	% on total loans and advances to customers
Rescheduled loans	16,393	0.03	25,077	0.06

Rescheduled loans 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 loans 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 2006 and 31 December 2005.

(r) **Reposessed assets**

	As at 31 Dec 2006	As at 31 Dec 2005
	HK\$'000	HK\$'000
Included in loans and advances to customers and other accounts	176,216	192,128

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

(i) **Contingent liabilities and commitments to extend credit**

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

	As at 31 Dec 2006	As at 31 Dec 2005
	HK\$'000	HK\$'000
Direct credit substitutes	1,796,951	958,516
Trade-related contingencies	1,659,341	1,058,462
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	15,471,735	12,846,765
– with an original maturity of 1 year and over	2,938,186	350,146
	21,866,213	15,213,889
Credit risk-weighted amounts	2,762,347	991,061

Contingent liabilities and commitments are credit-related instruments which include acceptance, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 100%.

(ii) Derivatives

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

	As at 31 Dec 2006			As at 31 Dec 2005		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Currency derivatives						
Forwards	29,142,597	–	29,142,597	18,941,850	–	18,941,850
Swaps	8,649,601	–	8,649,601	11,521,138	–	11,521,138
Options purchased	182,800	–	182,800	91,471	–	91,471
Options written	179,579	–	179,579	84,553	–	84,553
Interest rate derivatives						
Forwards and futures	–	–	–	3,032,254	–	3,032,254
Swaps	12,325,280	6,238,456	18,563,736	6,897,921	12,074,747	18,972,668
Options purchased	933,162	–	933,162	1,298,984	–	1,298,984
Options written	933,162	–	933,162	1,298,984	–	1,298,984
	52,346,181	6,238,456	58,584,637	43,167,155	12,074,747	55,241,902

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.

Trading includes the Group's and the Bank's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market marking, and positions taken in order to hedge other elements of the trading book.

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

	As at 31 Dec 2006			As at 31 Dec 2005		
	Fair value		Credit	Fair value		Credit
	Assets	Liabilities	risk-weighted amount	Assets	Liabilities	risk-weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	104,010	307,380	44,213	157,286	387,765	74,175
Currency derivatives	251,081	121,268	158,912	70,858	55,468	85,145
	355,091	428,648	203,125	228,144	443,233	159,320

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 Group did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

(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's 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.

2006

	Wholesale banking	Retail banking	Treasury	Fund Investment	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	542,816	640,959	93,912	(274,695)	58,505	1,061,497
Other operating income	280,165	365,552	67,533	415,572	23,736	1,152,558
Operating income	822,981	1,006,511	161,445	140,877	82,241	2,214,055
Operating expenses	(123,414)	(404,711)	(44,325)	–	(521,150)	(1,093,600)
Inter-segment expenses	(127,207)	(219,920)	(51,306)	–	398,433	–
Operating profit before impairment	572,360	381,880	65,814	140,877	(40,476)	1,120,455
Impairment losses (charged for)/written back on loans and advances	(39,735)	(22,145)	–	–	8,123	(53,757)
Impairment losses on available-for-sale securities and held-to-maturity investments	(3,900)	(70)	–	–	–	(3,970)
Impairment losses (charged for)/written back	(43,635)	(22,215)	–	–	8,123	(57,727)
Net profit on disposal of available-for-sale securities and held-to-maturity investments	17,985	–	49,023	–	885	67,893
Operating profit/(loss)	546,710	359,665	114,837	140,877	(31,468)	1,130,621
Net loss on disposal of property and equipment	(200)	(1,564)	(56)	–	(22,548)	(24,368)
Revaluation gain on investment properties	–	–	–	–	3,376	3,376
Profit before taxation	546,510	358,101	114,781	140,877	(50,640)	1,109,629
Income tax	–	–	–	–	(191,380)	(191,380)
Profit for the year	546,510	358,101	114,781	140,877	(242,020)	918,249
Depreciation for the year	5,983	23,973	1,091	–	81,641	112,688
Segment assets	31,227,164	22,927,619	24,636,000	5,960,664	4,920,470	89,671,917
Segment liabilities	27,487,468	43,092,917	8,083,999	–	3,725,194	82,389,578
Capital expenditure incurred during the year	2,430	27,434	318	–	180,554	210,736

	Wholesale banking	Retail banking	Treasury	Fund Investment	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'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
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	–
Operating profit before impairment	458,210	186,223	202,430	63,780	(60,383)	850,260
Impairment losses written back on loans and advances	32,570	3,753	–	–	47,056	83,379
Impairment losses (charged for)/written back on available-for-sale securities and held-to-maturity investments	(2,918)	351	–	–	–	(2,567)
Impairment losses on properties	–	–	–	–	(354)	(354)
Impairment losses written back	29,652	4,104	–	–	46,702	80,458
Operating profit/(loss)	487,862	190,327	202,430	63,780	(13,681)	930,718
Loss on disposal of associates	–	–	–	–	(6,352)	(6,352)
Net (loss)/profit on disposal of property and equipment	(424)	(5,168)	–	–	238,291	232,699
Revaluation gain on investment properties	–	–	–	–	2,140	2,140
Share of 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

(u) **Capital adequacy ratio**

	As at 31 Dec 2006	As at 31 Dec 2005
Unadjusted capital adequacy ratio *	16.80 %	16.44%
Adjusted capital adequacy ratio **	16.67 %	15.66%

* *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 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 Hong Kong Monetary Authority and on the same consolidated basis as for unadjusted capital adequacy ratio.*

(v) **Capital base after deductions**

	As at 31 Dec 2006 HK\$'000	As at 31 Dec 2005 HK\$'000
Core capital		
Paid up ordinary share capital	3,083,341	3,083,341
Share premium	282,930	282,930
Reserves	2,845,590	2,811,120
Total core capital	6,211,861	6,177,391
Eligible supplementary capital		
Reserves on revaluation of holding of securities not held for trading purposes	454,894	332,076
Collective impairment allowances for impaired assets and regulatory reserve	629,686	528,790
Perpetual subordinated debt	1,958,353	2,016,390
Term subordinated debt	1,942,973	467,192
Total eligible supplementary capital	4,985,906	3,344,448
Total capital base before deductions	11,197,767	9,521,839
Deductions from total capital base	(12,156)	(12,156)
Total capital base after deductions	11,185,611	9,509,683

(w) **Liquidity ratio**

	2006	2005
Average liquidity ratio for the year ended 31 December	40.35 %	51.07%

The average liquidity is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority 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 Hong Kong Monetary Authority.

Significant foreign currency exposures at the balance sheet were as follows:

Equivalent in HK\$'000	As at 31 Dec 2006				As at 31 Dec 2005			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	29,199,298	757,626	3,166,630	33,123,554	27,583,413	850,714	5,440,145	33,874,272
Spot liabilities	(27,192,098)	(443,806)	(4,589,986)	(32,225,890)	(29,820,124)	(540,794)	(5,080,855)	(35,441,773)
Forward purchases	18,010,065	996	7,523,379	25,534,440	16,617,043	104,658	3,758,734	20,480,435
Forward sales	(19,944,897)	-	(6,086,158)	(26,031,055)	(13,674,662)	(104,573)	(4,122,558)	(17,901,793)
Net options position	869	-	(869)	-	(179)	-	179	-
Net long/(short) position	73,237	314,816	12,996	401,049	705,491	310,005	(4,355)	1,011,141
Net structural position	-	199,226	48,565	247,791	-	-	-	-

The net options position is calculated using the model user approach, which has been approved by the Hong Kong Monetary Authority.

(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
As at 31 December 2006				
Asia and Pacific excluding Hong Kong	8,531,581	93,794	8,001,926	16,627,301
of which Australia	2,607,386	649	17,401	2,625,436
of which Mainland China	2,667,315	92,325	6,604,283	9,363,923
Caribbean	-	-	4,611,483	4,611,483
of which Bermuda	-	-	840,479	840,479
of which Cayman Islands	-	-	3,450,214	3,450,214
Western Europe	10,491,879	1,880	4,138,607	14,632,366
of which France	705,617	-	818,122	1,523,739
of which Germany	1,785,231	-	3,963	1,789,194
of which Netherlands	912,490	-	828,935	1,741,425
of which United Kingdom	2,933,954	754	1,036,088	3,970,796
As at 31 December 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

STATEMENT OF COMPLIANCE

In preparing the accounts for the year ended 31 December 2006, 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 Hong Kong Monetary Authority.

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