



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 2007 INTERIM RESULTS

The Board of Directors of CITIC Ka Wah Bank Limited (“the Bank”) is pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (“the Group”) for the six months ended 30 June 2007 and the Group’s state of affairs as at that date together with the comparative figures. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2006 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), whose unmodified review report is included in the interim report to be sent to shareholders.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2007 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
Interest income	2	2,346,553	1,956,938
Interest expense		(1,730,307)	(1,464,780)
Net interest income		616,246	492,158
Fee and commission income	3	391,680	253,637
Fee and commission expense		(6,521)	(6,916)
Net fee and commission income		385,159	246,721
Net trading income	4	339,664	201,678
Net (expense)/income from financial instruments designated at fair value through profit or loss	5	(76,805)	30,844
Net hedging (loss)/gain	6	(79)	1,465
Other operating income	7	24,471	15,470
Operating income		1,288,656	988,336
Operating expenses	8	(592,746)	(508,660)
Operating profit before impairment		695,910	479,676
Impairment losses on loans and advances	9	(42,541)	(13,118)
Impairment losses written back on held-to-maturity investments		188	146
Impairment losses on properties	20	(30,068)	–
Impairment losses charged for		(72,421)	(12,972)
Net (loss)/profit on disposal of available-for-sale securities	10	(141)	18,870
Operating profit		623,348	485,574
Net profit/(loss) on disposal of property and equipment		19,536	(47,008)
Revaluation gain on investment properties		5,497	6,867
Profit before taxation		648,381	445,433
Income tax	11	(109,605)	(80,965)
Profit for the period		538,776	364,468
Interim dividend declared during the period	12	–	246,000

CONSOLIDATED BALANCE SHEET*as at 30 June 2007 – unaudited**(Expressed in Hong Kong dollars)*

		As at 30 June 2007	As at 31 December 2006
	<i>Note</i>	HK\$'000	HK\$'000
Assets			
Cash and balances with banks and other financial institutions	13	2,627,944	1,267,870
Placements with banks and other financial institutions	14	11,124,093	12,038,714
Trade bills		1,071,786	491,994
Trading assets	15	6,017,817	6,353,976
Securities designated at fair value through profit or loss	16	595,068	1,003,579
Loans and advances to customers and other accounts	17	62,820,710	52,272,690
Available-for-sale securities	18	10,464,666	4,973,450
Held-to-maturity investments	19	7,965,953	10,176,493
Property and equipment	20		
– Investment property		192,373	124,776
– Other property and equipment		864,209	961,081
Deferred tax assets	24	7,818	7,294
Total assets		103,752,437	89,671,917
Equity and liabilities			
Deposits and balances of banks and other financial institutions		4,926,446	831,973
Deposits from customers	21	73,264,016	65,965,607
Trading liabilities	22	370,223	428,648
Certificates of deposit issued	23	9,356,646	7,257,719
Debt securities issued		2,264,093	2,300,889
Current taxation	24	220,209	112,681
Deferred tax liabilities	24	18,431	22,586
Other liabilities		1,614,012	1,568,149
Loan capital	25	3,903,457	3,901,326
Total liabilities		95,937,533	82,389,578
Equity			
Share capital		3,083,341	3,083,341
Reserves	27	4,731,563	4,198,998
Total equity attributable to equity shareholders of the Bank		7,814,904	7,282,339
Total equity and liabilities		103,752,437	89,671,917

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2007 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June			
		2007		2006	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January			7,282,339		6,919,794
Net expense recognized directly in equity:					
Exchange differences on translation of:					
– financial statements of overseas branches and subsidiaries	27		6,768		2,052
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax	27		6,011		–
Changes in fair value					
– of available-for-sale securities	27	(26,466)		(44,923)	
– transfer to income statement on disposal of available-for-sale securities	27	182		8,000	
– transfer from equity to deferred tax	27	4,600		6,462	
			(21,684)		(30,461)
			(8,905)		(28,409)
Profit for the period			538,776		364,468
Total recognized income and expense for the period			529,871		336,059
Interim dividends declared during the period	12		–		(246,000)
Movements in equity arising from capital transactions:					
Equity-settled share-based transactions	27		2,694		1,726
Total equity at 30 June			7,814,904		7,011,579

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*for the six months ended 30 June 2007 – unaudited**(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Cash generated from operations	1,229,146	4,921,796
Tax paid	(3,467)	(36,188)
Net cash generated from operating activities	1,225,679	4,885,608
Net cash generated from investing activities	3,293	23,274
Net cash used in financing activities	(296,769)	(224,559)
Net increase in cash and cash equivalents	932,203	4,684,323
Cash and cash equivalents at 1 January	12,031,995	5,843,346
Cash and cash equivalents at 30 June	12,964,198	10,527,669

NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

(1) Basis of preparation

The interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standards on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the HKICPA. KPMG’s independent unmodified review report to the Board of Directors is included in the 2007 interim report of the Group to be sent to shareholders.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Bank’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Bank’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 March 2007.

(2) Interest income

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Listed securities	231,783	256,964
Unlisted securities	189,144	236,784
Others	1,925,626	1,463,190
	2,346,553	1,956,938

Other interest income includes the amount of interest income accrued on impaired financial assets of HK\$16,436,000 (2006: HK\$20,792,000), which includes interest income on unwinding of discount on loan impairment losses of HK\$906,000 (2006: HK\$15,291,000) for the period ended 30 June 2007.

(3) Fee and commission income

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Bills commission	29,848	22,542
Cards related income	17,473	16,122
General banking services	24,605	21,299
Insurance	55,825	35,582
Investment and structured investment products	111,537	54,958
Loans, overdrafts and facilities fee	151,960	102,829
Others	432	305
	391,680	253,637

(4) Net trading income

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Gains less losses from dealing in foreign currencies	62,917	65,989
Gains less losses from trading securities	151,842	44,663
Gains less losses from other dealing activities	22,913	(19,893)
Interest income on trading assets		
– Listed	12,746	29,918
– Unlisted	73,545	66,971
Interest expense on trading liabilities	–	(2,089)
Dividend income from unlisted trading securities	15,701	16,119
	339,664	201,678

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

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Net (loss)/gain	(20,180)	57,384
Interest income		
– Listed	14,622	18,110
– Unlisted	6,078	–
Interest expense	(77,325)	(44,650)
	(76,805)	30,844

(6) Net hedging (loss)/gain

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Fair value hedge (loss)/gain	(79)	1,465

(7) Other operating income

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Dividend income from available-for-sale securities		
– Unlisted	2,960	3,097
Rental income from investment properties less direct outgoings of HK\$Nil (2006: HK\$12,000)	4,277	1,729
Others	17,234	10,644
	24,471	15,470

(8) Operating expenses

		Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
(a)	Staff costs		
	Salaries and other staff costs	342,784	269,121
	Retirement costs	19,895	18,926
	Share-based payment expenses		
	– Equity-settled share-based payment expenses (<i>note 27</i>)	2,694	1,726
	– Cash-settled share-based payment expenses	8,690	4,279
		<u>374,063</u>	<u>294,052</u>
(b)	Depreciation		
	Depreciation of property and equipment		
	– Assets held for use under operating leases	7,618	3,357
	– Other assets	39,329	52,216
		<u>46,947</u>	<u>55,573</u>
(c)	Other operating expenses		
	Property and equipment expenses, excluding depreciation		
	– Rental of property	37,588	36,012
	– Others	33,659	29,775
	Auditors' remuneration	2,382	1,639
	Advertising	14,952	16,739
	Communication, printing and stationery	28,697	27,123
	Legal and professional fee	6,084	3,744
	Others	48,374	44,003
		<u>171,736</u>	<u>159,035</u>
	Total operating expenses	<u>592,746</u>	<u>508,660</u>

Included in other operating expenses are minimum lease payment under operating leases of HK\$982,000 (2006: HK\$466,000) for hire of equipment and HK\$35,207,000 (2006: HK\$35,796,000) for hire of other assets (including property rentals).

(9) Impairment losses on loans and advances

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Individual assessment (charged for)/written back		
– Additions	(58,216)	(97,585)
– Releases	2,019	26,874
– Recoveries	21,298	21,884
	(34,899)	(48,827)
Collective assessment (charged for)/written back	(7,642)	35,709
	(42,541)	(13,118)

(10) Net (loss)/profit on disposal of available-for-sale securities

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Net revaluation gain transferred from reserves (note 27)	182	8,000
(Loss)/profit arising in current period	(323)	10,870
	(141)	18,870

(11) Income tax in the consolidated income statement

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	107,070	77,787
Under provision in respect of prior years	–	1,429
	107,070	79,216
Current tax – Overseas		
Provision for the period	3,888	1,877
Deferred tax		
Reversal of temporary differences (note 24(b))	(1,353)	(128)
	109,605	80,965

The provision of Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2006: 17.5%) of the estimated assessable profits for the period. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

(12) Dividends

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interim dividend declared	–	246,000

(13) Cash and balances with banks and other financial institutions

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Cash in hand	138,822	155,146
Balances with central banks	53,864	27,694
Balances with banks and other financial institutions	2,435,258	1,085,030
	2,627,944	1,267,870

(14) Placements with banks and other financial institutions

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Maturing		
– within 1 month	9,635,856	8,971,727
– between 1 month and 1 year	1,488,237	3,066,987
	11,124,093	12,038,714

(15) Trading assets

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Debt securities	3,367,426	3,211,734
Equity securities	6,676	–
Investment funds	2,324,641	2,787,151
Trading securities	5,698,743	5,998,885
Positive fair value of derivatives (<i>note 29(b)</i>)	319,074	355,091
	6,017,817	6,353,976
Issued by:		
Central governments and central banks	596	599
Public sector entities	4,202	10,395
Banks and other financial institutions	620,157	583,401
Corporate entities	5,073,788	5,404,490
	5,698,743	5,998,885
Analyzed by place of listing:		
Listed in Hong Kong	2,772	3,296
Listed outside Hong Kong	1,049,203	1,077,026
	1,051,975	1,080,322
Unlisted	4,646,768	4,918,563
	5,698,743	5,998,885

(16) Securities designated at fair value through profit or loss

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Debt securities issued by corporate entities	595,068	959,436
Investment funds issued by corporate entities	–	44,143
	595,068	1,003,579
Analyzed by place of listing:		
Listed in Hong Kong	138,000	153,750
Listed outside Hong Kong	120,859	221,092
	258,859	374,842
Unlisted	336,209	628,737
	595,068	1,003,579

Financial assets are designated at fair value including financial assets with embedded derivatives or financial assets with the corresponding derivative financial instrument. Also, investment funds are designated at fair value through profit or loss as they are held for backing certain fund-linked structured note issued, thus eliminating or significantly reducing the accounting mismatch.

(17) Loans and advances to customers and other accounts

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

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Gross loans and advances to customers	60,320,814	50,685,350
Impairment allowances		
– Individually assessed	(86,604)	(76,360)
– Collectively assessed	(256,914)	(253,166)
	59,977,296	50,355,824
Advances to banks and other financial institutions	1,370,818	353,824
Accrued interest and other accounts less impairment allowances	1,472,596	1,563,042
	62,820,710	52,272,690

(b) *Loans and advances to customers analyzed by industry sectors*

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority (“HKMA”).

	As at 30 June 2007	As at 30 June 2007	As at 31 December 2006
	HK\$'000	% of loans and advances covered by collateral*	HK\$'000
Industrial, commercial and financial			
– Property development	125,000	20.0	205,155
– Property investment	6,064,376	97.9	5,370,620
– Financial concerns	2,765,445	52.9	3,315,125
– Stockbrokers	4,885,725	98.4	50,000
– Wholesale and retail trade	3,093,567	58.3	2,885,044
– Manufacturing	4,347,079	33.2	3,370,282
– Transport and transport equipment	3,127,832	84.4	3,467,330
– Recreational activities	100,000	100.0	143,763
– Information technology	28,308	98.8	52,082
– Others	2,382,827	75.3	2,468,601
Individuals			
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	27,466	100.0	16,054
– Loans for the purchase of other residential properties	11,307,450	99.9	11,446,698
– Credit card advances	448,763	0.0	535,293
– Others	2,157,545	84.5	1,693,327
Gross loans and advances for use in Hong Kong	40,861,383	81.2	35,019,374
Trade finance	4,285,829	46.1	3,508,201
Gross loans and advances for use outside Hong Kong	15,173,602	47.4	12,157,775
Gross loans and advances to customers	60,320,814	70.2	50,685,350

* *It is not practicable to present comparative figures on collateral value as the Bank adopted the Banking (Disclosure) Rules effective on 1 January 2007.*

(c) *Impaired loans and advances to customers*

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	874,414	846,639
Impairment allowances – individually assessed	(86,604)	(76,360)
	787,810	770,279
Gross impaired loans and advances as a % of total loans and advances to customers	1.45%	1.67%
Current market value of collateral held against in respect of gross impaired loans and advances to customers	816,630	788,446

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

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

There were no impaired advances to banks and other financial institutions as at 30 June 2007 and 31 December 2006, nor were there any individually assessed impairment allowances made for them on these two respective dates.

The analysis of impaired loans and advances of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	As at 30 June 2007		
	Individual impairment allowance	Collective impairment allowance	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000
Property investment	7,819	10,156	25,849
Loans and advances for the purchase of other residential properties	607	14,313	16,333
Loans and advances for use outside Hong Kong	41,512	99,733	681,833
	49,938	124,202	724,015
	As at 31 December 2006		
	Individual impairment allowance	Collective impairment allowance	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000
Property investment	3,060	9,220	3,060
Loans and advances for the purchase of other residential properties	616	15,743	20,042
Loans and advances for use outside Hong Kong	45,398	84,309	692,867
	49,074	109,272	715,969

(18) Available-for-sale securities

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Debt securities	8,316,803	4,771,960
Treasury bills	2,067,463	149,757
Equity securities	29,801	29,762
Investment funds	106,392	77,764
	10,520,459	5,029,243
Impairment allowances – individually assessed	(55,793)	(55,793)
	10,464,666	4,973,450
Issued by:		
Central governments and central banks	2,067,464	149,757
Banks and other financial institutions	4,677,569	847,022
Corporate entities	3,719,633	3,976,671
	10,464,666	4,973,450
Analyzed by place of listing:		
Listed outside Hong Kong	7,465,560	3,913,802
Unlisted	2,999,106	1,059,648
	10,464,666	4,973,450

(19) Held-to-maturity investments

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	204,977	138,593
Certificates of deposit held	49,993	49,990
Debt securities	7,724,735	10,001,850
	7,979,705	10,190,433
Impairment allowances – individually assessed	(13,752)	(13,940)
	7,965,953	10,176,493
Issued by:		
Central governments and central banks	284,106	317,316
Public sector entities	701,738	1,023,223
Banks and other financial institutions	5,923,958	7,593,359
Corporate entities	1,056,151	1,242,595
	7,965,953	10,176,493
Analyzed by place of listing:		
Listed in Hong Kong	854,352	953,630
Listed outside Hong Kong	3,045,103	3,595,266
	3,899,455	4,548,896
Unlisted	4,066,498	5,627,597
	7,965,953	10,176,493
Market value of listed securities	3,820,546	4,493,453

(20) Property and equipment

	Investment properties	Other premises	Furniture, fixtures and equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:				
At 1 January 2006	64,994	1,208,660	611,233	1,884,887
Additions	106,064	18,782	85,890	210,736
Reclassification	(40,458)	38,705	–	(1,753)
Disposals	(9,200)	(223,741)	(41,132)	(274,073)
Surplus on revaluation before reclassification	–	9,952	–	9,952
Surplus on revaluation	3,376	–	–	3,376
Exchange adjustments	–	–	71	71
At 31 December 2006	124,776	1,052,358	656,062	1,833,196
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	1,018,664	656,062	1,674,726
Valuation				
– 1985	–	33,694	–	33,694
– 2006	124,776	–	–	124,776
	124,776	1,052,358	656,062	1,833,196
At 1 January 2007	124,776	1,052,358	656,062	1,833,196
Additions	–	–	36,448	36,448
Reclassification	62,100	(121,177)	–	(59,077)
Disposals	–	(2,657)	(2,110)	(4,767)
Surplus on revaluation before reclassification	–	7,286	–	7,286
Surplus on revaluation	5,497	–	–	5,497
Exchange adjustments	–	–	104	104
At 30 June 2007	192,373	935,810	690,504	1,818,687
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	904,773	690,504	1,595,277
Valuation				
– 1985	–	31,037	–	31,037
– 2007	192,373	–	–	192,373
	192,373	935,810	690,504	1,818,687
Accumulated depreciation:				
At 1 January 2006	–	294,986	422,092	717,078
Charge for the year	–	24,029	88,659	112,688
Written back on disposals	–	(44,143)	(36,564)	(80,707)
Reclassification	–	(1,753)	–	(1,753)
Exchange adjustments	–	–	33	33
At 31 December 2006	–	273,119	474,220	747,339
At 1 January 2007	–	273,119	474,220	747,339
Charge for the period (<i>note 8(b)</i>)	–	10,855	36,092	46,947
Written back on disposals	–	(1,715)	(1,508)	(3,223)
Reclassification	–	(59,077)	–	(59,077)
Impairment loss	–	30,068	–	30,068
Exchange adjustments	–	–	51	51
At 30 June 2007	–	253,250	508,855	762,105
Net book value:				
At 30 June 2007	192,373	682,560	181,649	1,056,582
At 31 December 2006	124,776	779,239	181,842	1,085,857

(21) Deposits from customers

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Demand deposits and current deposits	6,011,628	6,510,645
Savings deposits	10,216,400	11,074,328
Time, call and notice deposits	57,035,988	48,380,634
	73,264,016	65,965,607

(22) Trading liabilities

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Negative fair value of derivatives (<i>note 29(b)</i>)	370,223	428,648

(23) Certificates of deposit issued

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Designated at fair value through profit or loss	6,056,993	3,726,854
Non-trading	3,299,653	3,530,865
	9,356,646	7,257,719

Certificates of deposit issued are designated at fair value through profit or loss when they contain embedded derivatives that modify the cash flows.

As at 30 June 2007, the difference between the carrying amount and the contractual amount payable at maturity for the Group amounted to HK\$104,909,000 (31 December 2006: HK\$86,493,000). Such a decrease in fair value is attributable to changes in benchmark interest rate only.

(24) Income tax in the balance sheet

(a) *Current taxation in the consolidated balance sheet represents:*

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the period	107,070	172,323
Provisional Profits Tax paid	–	(121,081)
	107,070	51,242
Balance of Profits Tax provision relating to prior years	108,158	56,964
	215,228	108,206
Provision for overseas taxation	4,981	4,475
	220,209	112,681

(b) *Deferred tax assets and liabilities recognized*

The components of deferred tax (assets)/liabilities recognized in the consolidated balance sheet and the movements during the period are as follows:

	Depreciation allowances in excess of related depreciation	Impairment allowances for loans	Fair value adjustments for properties and other assets	Fair value adjustments for available- for-sale securities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	16,840	(46,622)	2,939	67,788	–	40,945
(Credited)/charged to consolidated income statement	(8,673)	7,362	–	–	(254)	(1,565)
Charged/(credited) to reserves	–	–	1,742	(25,830)	–	(24,088)
At 31 December 2006	8,167	(39,260)	4,681	41,958	(254)	15,292
At 1 January 2007	8,167	(39,260)	4,681	41,958	(254)	15,292
Credited to consolidated income statement	(1,121)	(228)	–	–	(4)	(1,353)
Charged/(credited) to reserves	–	–	1,274	(4,600)	–	(3,326)
At 30 June 2007	7,046	(39,488)	5,955	37,358	(258)	10,613

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Net deferred tax assets recognized on the balance sheet	(7,818)	(7,294)
Net deferred tax liabilities recognized on the balance sheet	18,431	22,586
	10,613	15,292

(c) *Deferred tax assets not recognized*

The Group has not recognized deferred tax assets in respect of cumulative tax losses of HK\$2,928,000 (31 December 2006: HK\$16,628,000), as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses are as follows:

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Expiring within 5 years	–	13,164
No expiry date	2,928	3,464
	2,928	16,628

(25) **Loan capital**

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Subordinated notes with US\$250 million 9.125%*	1,960,034	1,958,353
Subordinated notes with US\$250 million 1.68%+LIBOR rate **	1,943,423	1,942,973
	3,903,457	3,901,326

* *Subordinated notes with a coupon of 9.125% per annum and with face value of US\$250 million (HK\$ equivalent 1,944.1 million) were issued on 23 May 2002 by CKWH-UT2 Limited, a wholly-owned subsidiary of the Bank, and qualify as tier 2 capital. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The 9.125% per annum perpetual subordinated notes will be callable by CKWH-UT2 Limited in 2012.*

** *On 11 December 2006, the Bank issued subordinated notes, with a coupon of 1.68% per annum above the London interbank offered rate ("LIBOR") for three-month US dollar deposits with face value of US\$250 million (HK\$ equivalent 1,944.1 million). The notes are listed on The Stock Exchange of Hong Kong Limited and will mature on 12 December 2011.*

(26) Maturity Profile

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

As the trading portfolio may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

As at 30 June 2007							
	Total	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	2,627,944	2,627,944	-	-	-	-	-
Placements with banks and other financial institutions	11,124,093	-	10,975,190	148,903	-	-	-
Trade bills	1,071,786	-	797,490	274,296	-	-	-
Trading assets	6,017,817	319,074	-	49	2,555,062	812,315	2,331,317
Securities designated at fair value through profit or loss	595,068	-	-	-	588,189	6,879	-
Loans and advances to customers and other accounts	62,820,710	1,607,708	10,698,269	5,727,387	23,955,197	18,729,381	2,102,768
Available-for-sale securities	10,464,666	-	3,005,474	2,981,599	4,067,739	329,453	80,401
Held-to-maturity investments	7,965,953	-	347,454	650,756	6,090,533	875,000	2,210
Undated assets	1,064,400	-	-	-	-	-	1,064,400
Total assets	103,752,437	4,554,726	25,823,877	9,782,990	37,256,720	20,753,028	5,581,096
Liabilities							
Deposits and balances of banks and other financial institutions	4,926,446	220,853	4,613,601	91,992	-	-	-
Deposits from customers	73,264,016	16,228,028	53,795,497	2,439,647	800,844	-	-
Trading liabilities	370,223	370,223	-	-	-	-	-
Certificates of deposit issued	9,356,646	-	2,154,292	5,346,701	1,855,653	-	-
Debt securities issued	2,264,093	-	-	-	2,264,093	-	-
Loan capital	3,903,457	-	-	-	3,903,457	-	-
Undated liabilities	1,852,652	-	-	-	-	-	1,852,652
Total liabilities	95,937,533	16,819,104	60,563,390	7,878,340	8,824,047	-	1,852,652
Asset – liability gap		(12,264,378)	(34,739,513)	1,904,650	28,432,673	20,753,028	

As at 31 December 2006

	Total	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
Cash and balances with banks and other financial institutions	1,267,870	1,267,870	–	–	–	–	–
Placements with banks and other financial institutions	12,038,714	–	11,515,236	523,478	–	–	–
Trade bills	491,994	–	402,535	89,459	–	–	–
Trading assets	6,353,976	355,091	751	798	2,396,475	798,158	2,802,703
Securities designated at fair value through profit or loss	1,003,579	–	23,420	116,166	738,344	81,506	44,143
Loans and advances to customers and other accounts	52,272,690	1,898,202	4,785,087	5,558,399	21,647,531	16,153,976	2,229,495
Available-for-sale securities	4,973,450	–	399,566	78,385	4,117,430	326,336	51,733
Held-to-maturity investments	10,176,493	–	866,860	1,736,803	6,234,100	1,336,601	2,129
Undated assets	1,093,151	–	–	–	–	–	1,093,151
Total assets	89,671,917	3,521,163	17,993,455	8,103,488	35,133,880	18,696,577	6,223,354
Liabilities							
Deposits and balances of banks and other financial institutions	831,973	203,416	628,557	–	–	–	–
Deposits from customers	65,965,607	17,584,973	45,952,248	1,858,045	570,341	–	–
Trading liabilities	428,648	428,648	–	–	–	–	–
Certificates of deposit issued	7,257,719	–	–	4,494,424	2,763,295	–	–
Debt securities issued	2,300,889	–	–	44,142	2,256,747	–	–
Loan capital	3,901,326	–	–	–	1,942,973	1,958,353	–
Undated liabilities	1,703,416	–	–	–	–	–	1,703,416
Total liabilities	82,389,578	18,217,037	46,580,805	6,396,611	7,533,356	1,958,353	1,703,416
Asset – liability gap		(14,695,874)	(28,587,350)	1,706,877	27,600,524	16,738,224	

(27) Reserves

Attributable to equity shareholders of the Bank								
	Share premium	Capital reserve	General reserve	Exchange differences reserve	Other property revaluation reserve	Fair value reserve	Share option reserve	Retained profits*
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	282,930	6,589	100,000	3,576	13,856	319,573	8,847	3,101,082
Revaluation surplus, net of deferred tax	-	-	-	-	8,210	-	-	8,210
Exchange difference on translation	-	-	-	6,886	-	-	-	6,886
Equity-settled share-based transactions	-	-	-	-	-	-	3,981	-
Available-for-sale securities								
– change in fair value	-	-	-	-	-	(68,390)	-	(68,390)
– transfer to income statement on disposal	-	-	-	-	-	(79,221)	-	(79,221)
– deferred tax	-	-	-	-	-	25,830	-	25,830
Profit for the year	-	-	-	-	-	-	-	918,249
Interim dividends declared in respect of the current year	-	-	-	-	-	-	-	(453,000)
At 31 December 2006	282,930	6,589	100,000	10,462	22,066	197,792	12,828	3,566,331
At 1 January 2007	282,930	6,589	100,000	10,462	22,066	197,792	12,828	3,566,331
Revaluation surplus, net of deferred tax	-	-	-	-	6,011	-	-	6,011
Exchange difference on translation	-	-	-	6,768	-	-	-	6,768
Equity-settled share-based transactions (note 8(a))	-	-	-	-	-	-	2,694	-
Available-for-sale securities								
– change in fair value	-	-	-	-	-	(26,466)	-	(26,466)
– transfer to income statement on disposal	-	-	-	-	-	182	-	182
– deferred tax	-	-	-	-	-	4,600	-	4,600
Profit for the period	-	-	-	-	-	-	-	538,776
At 30 June 2007	282,930	6,589	100,000	17,230	28,077	176,108	15,522	4,105,107

* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognized. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. As at 30 June 2007, HK\$498,100,000 (31 December 2006: HK\$376,300,000) was included in the retained profits in this respect which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(28) Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Transactions with group companies

During the period, the Group entered into a number of transactions with related parties, in the normal course of its banking business including, inter alia, lending, acceptance and placement of inter-bank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

The amount of related party transactions during the period and outstanding balances at the end of the period are set out below:

	Ultimate controlling party		Immediate controlling party		Fellow subsidiaries		Associates	
					Six months ended 30 June			
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	-	-	-	-	2,089	1,019	8,102	4,705
Interest expense	-	(6,917)	(1,029)	(1,484)	(39,952)	(44,390)	(52,694)	(10,537)
Other operating income	-	-	-	-	-	-	620	10,858
Operating expenses	(511)	(503)	-	-	(5,806)	(694)	(19,041)	(216)
	(511)	(7,420)	(1,029)	(1,484)	(43,669)	(44,065)	(63,013)	4,810
Lending activities:								
At 1 January	-	-	-	-	475,381	152,264	221,798	200,000
At 30 June 2007/31 December 2006	-	-	-	-	18,987	475,381	388,811	221,798
Average for the period/for the year	-	-	-	-	19,020	321,453	357,720	241,617
Other receivables:								
At 1 January	-	-	-	1	2,462	4,800	124,728	2,385
At 30 June 2007/31 December 2006	-	-	-	-	5,628	2,462	21,464	124,728
Average for the period/for the year	-	-	-	-	6,907	2,483	11,365	34,528
Acceptance of deposits:								
At 1 January	109,415	72,392	543,776	75,583	971,957	2,515,483	2,022,559	876,868
At 30 June 2007/31 December 2006	-	109,415	143,070	543,776	1,862,469	971,957	2,653,903	2,022,559
Average for the period/for the year	-	376,306	137,316	213,817	2,103,579	1,978,238	2,096,983	1,064,381
Other payables:								
At 1 January	145	-	327	177	1,599	12,066	903	885
At 30 June 2007/31 December 2006	-	145	-	327	1,412	1,599	3,358	903
Average for the period/for the year	-	253	-	790	4,844	2,891	2,998	2,084

No impairment allowances were made in respect of the above loans to and placements with related parties.

(b) *Transactions with key management personnel*

Remuneration for key management personnel of the Bank, including amounts paid to the Bank's directors and certain employees with the highest emoluments, are as follows:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Short-term employee benefits	15,832	17,105
Share-based payments	3,707	1,521
	19,539	18,626

Total remuneration is included in "staff costs" (note 8(a)).

During the period, the Bank provided credit facilities to key management personnel of the Bank and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2007	2006
	HK\$'000	HK\$'000
At 1 January	13,112	17,750
At 30 June 2007/31 December 2006	13,189	13,112
Maximum amount during the period/year	20,727	27,942

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no individually assessed impairment allowances has been made on balances with key management personnel and their immediate relatives at the period end.

(29) Derivatives

(a) Notional amounts of 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 30 June 2007			As at 31 December 2006		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Currency derivatives						
Forwards	14,262,535	–	14,262,535	29,142,597	–	29,142,597
Swaps	26,844,011	–	26,844,011	8,649,601	–	8,649,601
Options purchased	266,990	–	266,990	182,800	–	182,800
Options written	264,997	–	264,997	179,579	–	179,579
Interest rate derivatives						
Swaps	15,202,308	5,988,070	21,190,378	12,325,280	6,238,456	18,563,736
Options purchased	–	–	–	933,162	–	933,162
Options written	–	–	–	933,162	–	933,162
	56,840,841	5,988,070	62,828,911	52,346,181	6,238,456	58,584,637

The above transactions are undertaken by the Group 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 proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

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

	As at 30 June 2007			As at 31 December 2006		
	Fair value	Fair value	Credit risk-	Fair value	Fair value	Credit risk-
	assets	liabilities	weighted	assets	liabilities	weighted
	HK\$'000	HK\$'000	amount	HK\$'000	HK\$'000	amount
Interest rate derivatives	72,975	246,354	38,649	104,010	307,380	44,213
Currency derivatives	246,099	123,869	345,668	251,081	121,268	158,912
	319,074	370,223	384,317	355,091	428,648	203,125

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules effective on 1 January 2007 on capital adequacy and depends on the status of the counterparty and the maturity characteristics. In the year of 2006, credit risk-weighted amount referred to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance. The risk weights used range from 0% to 150% (2006: 0% to 100%) for contingent liabilities and commitments, and from 0% to 150% (2006: 0% to 50%) for exchange rate, interest rate and other derivatives contracts.

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

(c) *Fair value of derivatives designated as hedging instruments*

The following is a summary of the fair value of derivatives held for hedging purposes by product type entered into by the Group:

	As at 30 June 2007		As at 31 December 2006	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate contracts	22,580	103,254	25,679	137,507

Fair value hedges are principally consisted of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets or liabilities due to movements in the market interest rates.

(d) *Remaining life of derivatives*

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date:

	As at 30 June 2007			
	Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	21,190,378	5,354,674	15,523,031	312,673
Currency derivatives	41,638,533	35,398,201	6,240,332	–
	62,828,911	40,752,875	21,763,363	312,673

	As at 31 December 2006			
	Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	20,430,060	5,593,283	12,348,344	2,488,433
Currency derivatives	38,154,577	37,612,963	463,614	78,000
	58,584,637	43,206,246	12,811,958	2,566,433

(30) Contingent liabilities and commitments

(a) 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 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Direct credit substitutes	3,432,201	1,723,211
Transaction-related contingencies	84,161	73,740
Trade-related contingencies	1,725,541	1,659,341
Forward forward deposits placed	650,996	—
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	14,204,948	12,915,501
– with an original maturity of under 1 year	3,440,235	2,556,234
– with an original maturity of 1 year or over	3,724,486	2,938,186
	27,262,568	21,866,213
Credit risk-weighted amounts	4,216,429	2,762,347

Contingent liabilities and commitments are credit-related instruments which include letter 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 contractual amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2006: 0% to 100%).

(b) Capital commitments

Capital commitments for purchase of equipment outstanding at balance sheet date not provided for in the financial statements were as follows:

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Authorized and contracted for:		
Property and equipment	7,859	7,221
Authorized but not contracted for:		
Property and equipment	—	6,983
	7,859	14,204

(31) Non-adjusting post balance sheet events

Subsequent to the balance sheet date, China International Finance Company Limited (Shenzhen) (“CIFIC”), the Bank’s wholly-owned subsidiary, received official approval from the China Banking Regulatory Commission to upgrade CIFIC to a locally incorporated bank. The upgrade project of CIFIC will be completed before December 2007.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION*(Expressed in Hong Kong dollars unless otherwise indicated)***(A) Summary of financial position**

	As at 30 June 2007	As at 31 December 2006
	HK\$'000	HK\$'000
Loans and advances to customers and trade bills	61,392,600	51,177,344
Impairment allowances	343,518	329,526
Total assets	103,752,437	89,671,917
Total deposits	82,620,662	73,223,326
Total equity attributable to equity shareholders of the Bank	7,814,904	7,282,339
Financial ratios		
Capital adequacy ratio	15.29%	16.67%
Core capital ratio	8.76%	9.26%
Average liquidity ratio for the period/year ended* (30 June 2006: 45.72%)	40.75%	40.35%
Loans to deposits	74.31%	69.89%
Loans to total assets	59.17%	57.07%
Cost to income	46.00%	49.39%
Return on assets	1.14%	1.07%
Return on average total equity attributable to equity shareholders of the Bank	14.37%	12.93%

* *The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.*

(B) (i) Capital base after deductions

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Core capital		
Paid up ordinary share capital	3,083,341	3,083,341
Share premium	282,930	282,930
Reserves	2,886,024	2,571,114
Profit and loss account	387,842	274,476
Less: Core capital items deductions	(5,818)	–
Total core capital	6,634,319	6,211,861
Eligible supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	96,058	138,456
Unrealized fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss (in supplementary capital)	195,789	316,438
Regulatory reserve for general banking risks	498,100	376,300
Collective provisions	257,077	253,386
Perpetual subordinated debt	1,960,034	1,958,353
Term subordinated debt	1,943,423	1,942,973
Less: Supplementary capital items deductions	(5,818)	–
Total eligible supplementary capital	4,944,663	4,985,906
Deductions from total capital base	–	(12,156)
Total capital base after deductions	11,578,982	11,185,611
	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Risk-weighted amount		
– credit risk	71,009,101	66,572,563
– market risk	675,625	517,575
– operational risk	4,037,813	–
	75,722,539	67,090,138
Capital adequacy ratios		
– capital adequacy ratio	15.29%	16.67%
– core capital ratio	8.76%	9.26%

At 30 June 2007, the capital adequacy ratio and core capital ratio are computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules. The Bank has adopted the “standardized approach” for the calculation of the risk-weighted amount for credit risk and market risk and the “basic indicator approach” for the calculation of operational risk. At 31 December 2006, the two ratios were computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

As there are significant differences between the Banking (Capital) Rules and the Third Schedule on requirements in the scope of consolidation and the calculation of capital base and risk-weighted amount, the capital ratios are not directly comparable.

(B) (ii) Basis of consolidation

Unless otherwise stated, all financial information contained in the interim financial report are prepared according to the consolidation basis for accounting purpose.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group’s subsidiaries, which are discussed as follows:

The Bank calculates the capital adequacy ratio (“CAR”) in accordance with Banking (Capital) Rules effective on 1 January 2007. The HKMA has granted approval under section 28(2)(a) of the Banking (Capital) Rules for the Bank to calculate its CAR on a solo-consolidated basis instead of solo basis in respect of the following subsidiaries of the Bank:

<u>Name of subsidiaries</u>	<u>Place of incorporation/operation</u>	<u>% of shares held</u>	<u>Principal activities</u>
CKWB (Cayman Islands) Limited	Cayman Islands/Hong Kong	100%	Inactive
CKWH-UT2 Limited	Cayman Islands/Hong Kong	100%	Issue of subordinated notes
Viewcon Hong Kong Limited	Hong Kong	100%	Mortgage financing

On the other hand, the Bank is required under section 98(2)(b) of the Banking Ordinance to calculate its CAR on a consolidated basis in respect of the following subsidiaries:

Name of subsidiaries	Place of incorporation/operation	% of shares held	Principal activities
HKCB Finance Limited	Hong Kong	100%	Consumer financing
CITIC Insurance Brokers Limited	Hong Kong	100%	Insurance brokerage
The Ka Wah Bank (Trustee) Limited	Hong Kong	100%	Trustee services
KWB Management Limited	Hong Kong	100%	Inactive
CKWB (Cayman Islands) Limited	Cayman Islands/Hong Kong	100%	Inactive
CKWH-UT2 Limited	Cayman Islands/Hong Kong	100%	Issue of subordinated notes
HKCB Insurance Agency Limited	Hong Kong	100%	Insurance agency
Viewcon Hong Kong Limited	Hong Kong	100%	Mortgage financing
Carford International Limited	Hong Kong	100%	Property holding
China International Finance Company Limited (Shenzhen)	People's Republic of China ("PRC")	100%	Financial services
CKWB-SN Limited	Cayman Islands/Hong Kong	100%	Issue of structured notes and investments
Ka Wah International Merchant Finance Limited	Hong Kong	100%	Inactive

The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Capital Rules.

Name of subsidiaries	Place of incorporation/operation	% of shares held	Principal activities
The Ka Wah Bank (Nominees) Limited	Hong Kong	100%	Nominees services
Security Nominees Limited	Hong Kong	100%	Nominees services
The Hongkong Chinese Bank (Nominees) Limited	Hong Kong	100%	Nominees services

(C) **Segmental information**

(a) *By geographical areas*

As at 30 June 2007					
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	46,814,828	239,417	234,440	56,609	144,362
Mainland China	7,947,616	472,241	472,241	29,995	54,841
USA	1,819,718	–	–	–	31,501
Others	3,738,652	114,430	167,733	–	26,210
	60,320,814	826,088	874,414	86,604	256,914

As at 31 December 2006					
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	39,910,144	197,448	184,848	40,036	162,393
Mainland China	6,703,093	469,794	469,794	30,034	43,609
USA	1,429,400	–	–	–	28,846
Others	2,642,713	191,997	191,997	6,290	18,318
	50,685,350	859,239	846,639	76,360	253,166

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 individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(b) *By business segments*

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

Wholesale banking business:	It mainly comprises trade financing, syndicated loans and other corporate lendings.
Retail banking business:	It mainly comprises deposit account services, residential mortgage, other consumer lendings, credit card services and finance leases.
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.

	Six months ended 30 June			
	2007	2006	2007	2006
	Profit/(loss)	Profit/(loss)	Operating	Operating
	before taxation	before taxation	income	income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Wholesale banking business	310,701	299,791	459,213	393,134
Retail banking business	274,556	188,099	569,824	474,892
Treasury	54,178	47,971	91,019	90,815
Fund investment	102,658	9,771	106,817	9,771
Unallocated	(93,712)	(100,199)	61,783	19,724
	648,381	445,433	1,288,656	988,336

(D) Overdue loans and advances to customers

	As at 30 June 2007		As at 31 December 2006	
	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	215,183	0.36	36,759	0.07
– 1 year or less but over 6 months	33,178	0.05	258,965	0.51
– over 1 year	577,727	0.96	563,515	1.11
	826,088	1.37	859,239	1.69
Secured overdue loans and advances	800,928		767,533	
Unsecured overdue loans and advances	25,160		91,706	
	826,088		859,239	
Market value of collateral held against the secured overdue loans and advances	1,348,799		1,179,363	
Individual impairment allowance made	51,559		70,702	

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 30 June 2007 and 31 December 2006.

Majority of collateral held in respect of the overdue loans and advances is real estate properties. The eligible collateral should generally satisfy the following:

- (a) The market value of the asset is readily determinable or can be reasonably established and verified;
- (b) The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- (c) The Bank's right to repossess the asset is legally enforceable and without impediment; and
- (d) The Bank is able to secure control over the asset if necessary.

The main types of "Eligible Collateral" is "Eligible Physical Collateral" mainly comprises real estate.

(E) Other overdue assets

	As at 30 June 2007 <u>HK\$'000</u>	As at 31 December 2006 <u>HK\$'000</u>
The gross amount of trade bills which has been overdue for: – over 1 year	<u>–</u>	<u>1,198</u>
Held-to-maturity investment which has been overdue for: – over 1 year	<u>15,634</u>	<u>15,553</u>

(F) Rescheduled loans

	As at 30 June 2007		As at 31 December 2006	
	HK\$'000	% on total loans and advances to customers	HK\$'000	% on total loans and advances to customers
Rescheduled loans	<u>199,723</u>	<u>0.33</u>	<u>16,393</u>	<u>0.03</u>

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 (D).

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2007 and 31 December 2006.

(G) Repossessed assets

	As at 30 June 2007 <u>HK\$'000</u>	As at 31 December 2006 <u>HK\$'000</u>
Included in loans and advances to customers and other accounts	<u>180,158</u>	<u>176,216</u>

The amount represents the estimated market value of the repossessed assets as at 30 June 2007 and 31 December 2006.

(H) Currency risk

The Bank's foreign exchange risk stems from taking foreign exchange position, commercial dealing, investment in foreign currency securities, operations of overseas branches and subsidiaries. Foreign exchange positions of the Bank are subject to exposure limits approved by ALCO.

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

Equivalent in HK\$'000	As at 30 June 2007				As at 31 December 2006			
	US dollars	Renminbi	Others	Total	US dollars	Renminbi	Others	Total
Spot assets	34,458,449	529,452	3,791,687	38,779,588	29,199,298	757,626	3,166,630	33,123,554
Spot liabilities	(31,294,804)	(330,223)	(5,718,585)	(37,343,612)	(27,192,098)	(443,806)	(4,589,986)	(32,225,890)
Forward purchases	19,062,342	4,670,700	7,298,105	31,031,147	18,010,065	996	7,523,379	25,534,440
Forward sales	(21,948,920)	(4,665,926)	(5,365,129)	(31,979,975)	(19,944,897)	-	(6,086,158)	(26,031,055)
Net options position	(994)	-	994	-	869	-	(869)	-
Net long/(short) position	276,073	204,003	7,072	487,148	73,237	314,816	12,996	401,049
Net structural position	-	205,408	48,818	254,226	-	199,226	48,565	247,791

The net options position is calculated using the model user approach which has been approved by the HKMA.

(I) 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
At 30 June 2007				
Asia and Pacific excluding Hong Kong	8,714,372	94,049	10,012,305	18,820,726
of which Australia	2,407,709	772	360,986	2,769,467
of which Mainland China	3,531,702	92,310	7,793,702	11,417,714
Caribbean	-	-	4,606,799	4,606,799
of which Bermuda	-	-	874,922	874,922
of which Cayman Islands	-	-	3,332,449	3,332,449
Western Europe	12,606,991	1,496	3,837,190	16,445,677
of which France	1,166,991	-	806,598	1,973,589
of which Germany	2,863,826	-	-	2,863,826
of which Netherlands	1,062,032	-	851,789	1,913,821
of which United Kingdom	3,970,861	503	704,733	4,676,097
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

(J) Non-bank mainland exposures

Non-bank mainland exposures are the mainland exposures to non-bank counterparties. The categories follow the non-bank mainland exposures submitted by the institution to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

As at 30 June 2007			
	On-balance sheet exposure	Off-balance sheet exposure	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000
Mainland entities	12,058,349	5,828,457	29,994
Companies and individuals outside mainland where the credit is granted for use in Mainland	11,049,429	5,768,710	14,355
	23,107,778	11,597,167	44,349
As at 31 December 2006			
	On-balance sheet exposure	Off-balance sheet exposure	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000
Mainland entities	11,313,971	3,374,338	28,427
Companies and individuals outside mainland where the credit is granted for use in Mainland	9,885,249	4,795,268	34,547
	21,199,220	8,169,606	62,974

(K) Risk management

The Group manages various types of risks mainly through the Bank under the delegation and close supervision of the Board. The Risk Management Group of the Bank which is entrusted with the responsibilities, consists of group credit, inter-bank credit, market risk, operational risk, risk asset management and policy & portfolio risk management functions. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products, best practice and regulatory requirements.

In mid 2006, the Bank segregated operational risk as a distinct category of risk under Risk Management Group's direct management; following that, an operational risk management team staffed with experienced personnel was formed, and the operational risk framework and policies were finalized in the first half of 2007.

The Bank successfully reengineered the core banking system for calculation of capital charges under Standardized Approach of Basel II in September 2006. A working committee has also been formed in the second quarter of 2007 for the further implementation of the New Accord requirements under Pillar II ("Supervisory Review") and Pillar III ("Market Discipline").

The Group manages the following main types of risks:

(i) *Credit risk management*

Credit risk is managed by regular analyses of the current and potential risk of loss arising from a customer's or counterparty's inability to meet financial obligations. The Bank is exposed to credit risk through its lending, trading and capital markets activities. The Bank defines the credit exposure to a customer as the amount of maximum potential loss arising from all these activities. These exposures include both on- and off-balance sheet transactions, including unfunded lending commitments such as loan commitments, letters of credit and financial guarantees.

Credit risk management is effected by monitoring implementation of adopted credit policies that determine the borrower's creditworthiness, credit risks classification, loan application procedure and procedures for making lending decisions. The Bank applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the balance sheet, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also minimized by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

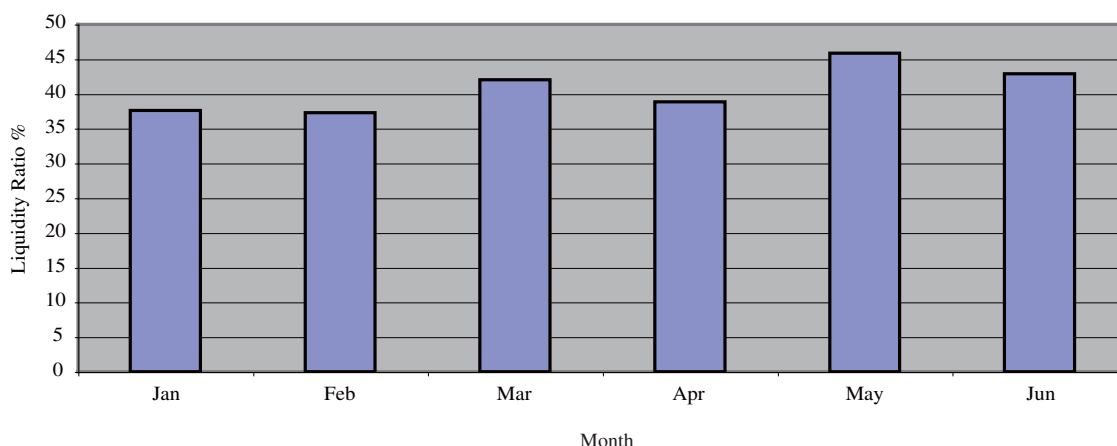
The Bank's credit risk management practices are designed to preserve the independence and integrity of the risk assessment process. The Bank assesses credit risk based upon the risk profile of the borrower, the source of repayment and the nature of the underlying collateral after giving consideration to current events and market developments. Credit risk is also managed at portfolio levels in terms of product, industry and geography to manage concentration risk.

(ii) *Liquidity risk management*

It is the Bank's policy to exercise prudence in its funding and liquidity management. The Bank has a Liquidity Management Policy which needs to be strictly followed. The Policy covers the important aspects of the Bank's liquidity management. The Bank is committed to apply the best market practices in liquidity management by adopting the guidelines and recommendations of the HKMA. The structure of this Policy conforms to the "LM-1 Liquidity Risk Management" issued by the HKMA in 2004. The Policy applies to CKWB and its overseas branches and subsidiaries. The Bank expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and HKMA.

A high liquidity ratio was always maintained, and stress tests were performed regularly to ensure that the Bank could handle sudden drains in market liquidity due to adverse or unexpected economic events. In 2007, the Bank's average liquidity ratio was 40.75% (2006: 40.35%). The Bank holds a portfolio of high-grade securities with short maturities which can generate liquidity if necessary either through the re-purchase arrangements or out-right selling in the secondary market. It is also active in wholesale funding through the issuances of one-year Hong Kong dollar certificates of deposit ("CDs") so as to secure a stable source of funding. Up till 30 June 2007, a total of HK\$3.68 billion was raised through several successful CD issuances.

The Bank's Average Monthly Liquidity Ratio for Jan – Jun 2007



(iii) *Market risk management*

Market risk is the risk of loss arising from the movements in market variables such as foreign exchange rates, interest rates, equity and commodity prices. The Bank's short term trading positions and long term strategic businesses inherit market risk exposure.

The Bank manages its market risk within a hierarchy of limits approved by the Bank's Credit and Risk Management Committee ("CRMC"), Asset and Liability Management Committee ("ALCO") and its delegated sub-committees or members. The hierarchy is composed of limits at 3 levels: policy, business and transaction. Each level in the hierarchy consists of limits on a series of risk measurements, including profit and loss limits, position limits and sensitivity limits. Limit excesses will set off alert signals or trigger adequate actions at different management levels.

The Bank's Treasury is the central point to take and manage market risk exposure within the prescribed limit hierarchy.

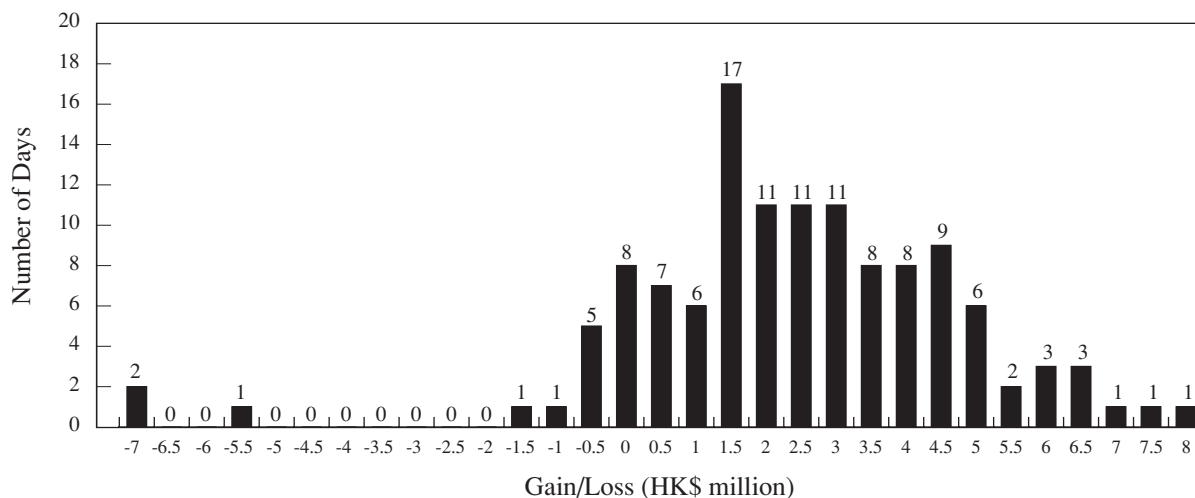
Operating as an unit under the Risk Management Group, Market Risk Management is responsible for the daily monitoring and reporting to ensure that the Bank's market risk exposure measures are within the prescribed limits.

The Bank measures the overall market risk of its trading book in terms of Value-at-Risk (VaR). VaR is a statistical tool to estimate the potential loss of an investment portfolio over a selected time horizon and given a confidence level. The Bank adopts a 99% 1-day VaR and implements historical simulation to compute the VaR figure. The simulating process reflects the historical relationships among different market variables. The bank's average VaRs for the trading portfolio were HK\$3,187,527 and HK\$517,947 during the first half-year of 2006 and 2007, respectively.

The Bank also implemented stress testing for its trading portfolio to assess the potential adverse effects under the "stressed" conditions. Two types of stressed scenarios are adopted: historical and hypothetical scenarios. Historical scenarios are "stressed conditions" which happened in the past, including the Asian Crisis in 1997, the LTCM event in 1998 and the Terror Attacks in 2001. Hypothetical scenarios are developed in view of the key risk factors affecting the trading portfolio. Examples of hypothetical scenarios are a parallel yield curve shift by 200 basis points, steepening and flattening of yield curve, HKD strengthening against USD by 10% and G7 Currencies appreciating against USD by 10%.

For the half-year ended 30 June 2007, the average daily mark-to-market revenue from the Bank's trading portfolio and fund investments was a gain of HK\$2,147,928. The standard deviation of the daily revenue was HK\$2,388,216. The graph below shows a histogram of the Bank's daily mark-to-market revenue for the half-year ended 30 June 2007.

Daily Distribution of Mark-to-Market Revenue for the 1st Half Year of 2007



From the graph above, the maximum daily mark-to-market gain was HK\$7,878,856 and the maximum daily mark-to-market loss was HK\$7,357,346. Out of the 123 trading days for the period, there were 105 days with mark-to-market gains and 18 days with mark-to-market losses. The most frequent range of daily mark-to-market revenue was between HK\$1,000,000 and HK\$1,500,000, with the highest occurrence of 17 days.

(iv) *Capital adequacy management*

The Bank has structured and maintained a strong capital base to support the development of the Bank's businesses and to meet statutory capital adequacy ratios. As disclosed in note (A) above, the Bank's capital adequacy ratio and core capital adequacy ratio were 15.29% and 8.76% respectively as at 30 June 2007. Certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

(v) *Foreign currency risk management*

The Bank's foreign exchange risk stems from foreign exchange positions, commercial dealings, investments in foreign currency securities and operations of the Bank and its overseas branches and subsidiaries. Foreign exchange positions of the Bank are subject to exposure limits approved by ALCO. For the half-year ended 30 June 2007, the Bank's average daily trading profit and loss from foreign exchange positions was a profit of HK\$34,027 with a standard deviation of HK\$135,875.

(vi) *Interest rate risk management*

The Bank's ALCO oversees all interest rate risks arising from the interest rate profile of the Bank's assets and liabilities. These interest rate risks are comprised of maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate re-pricing risks and risks from embedded options, if any. ALCO supervises the interest rate risks of the banking book through gap mismatch reports, sensitivity analyses and various stress testings. To mitigate interest rate risks, the Bank has used interest rate derivatives, mainly interest rate swaps, to hedge both assets and liabilities such as available-for-sale securities (AFS) and non-trading liabilities (NTL). The Bank has also adopted hedge accounting principles, under which the fair value changes of the AFS/NTL securities and the corresponding hedging derivative instruments are offset with each other. For the half-year ended 30 June 2007, the Bank's average daily trading profit and loss from interest rate positions was a loss of HK\$40,108 with a standard deviation HK\$248,342.

(vii) *Other trading and investment activities*

The Bank has invested part of its excess liquidity into external funds to enhance its return. For the half-year ended 30 June 2007, the average daily revenue from these funds was a gain of HK\$2,154,008 with a standard deviation of HK\$2,343,939.

The Bank's derivatives transactions mainly include interest rate and foreign exchange swaps, futures, forwards and options. Derivative trading activities stem from customer transactions as well as the Bank's own position taking and hedging. Option derivative transactions mainly come from customers' demands for structured products.

(viii) *Operational risk management*

The Bank's Board of Directors, through the establishment of the CRMC:

- recognizes the major aspects of the Bank's operational risks as a distinct risk category that should be managed;
- approves and periodically reviews the Bank's operational risk management framework; and
- ensures that the Bank's senior management is taking the necessary steps to implement the operational risk management policies, processes and procedures.

The Bank's senior management, through the establishment of the Operations & Control Committee ("OCC"):

- implements the operational risk management framework approved by the CRMC;
- defines the Bank's organizational structure for operational risk management;
- assigns authority, responsibility and reporting relationships to encourage and maintain accountability; and
- ensures that sufficient human and technical resources are devoted to operational risk management.

The Risk Management Group has established the Operational Risk Management Section:

- to coordinate operational risk management activities across the Bank and to manage these risks as an independent, centralized function, including the approval of operational risk and control limits under authorities delegated by the OCC where necessary;
- to set bank-wide policies and procedures in relation to operational risk management and control; and
- to ensure adequacy of design and implementation of operational risk assessment methodology tool and reporting system within individual business lines and functional units.

The Bank currently manages its operational risks through a number of ways:

- Operations and technology policies and manuals are developed and reviewed annually to ensure processes are adequately considered and defined.
- Human resources policies and practices are established to define and encourage proper staff behaviour, and to ensure that staff are qualified and trained for their roles.
- New products and services are evaluated to ensure that staff, processes, and technology can adequately support prior to launching.
- Disaster recovery and business continuity plans are set up and tested annually for major events such as major failure of data centre caused by fire or other events; loss of operating site and sudden and massive customer withdrawal due to market rumours or other reasons.

(ix) *Legal risk management*

The Bank remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, to enhance its systems and processes to create awareness and to implement necessary change. Policies and procedures, incorporated with relevant legal and regulatory requirements, are set and regularly reviewed. These policies and procedures are promulgated through internal communications and trainings. There is a strong process in place to ensure legal risk is under control. Any significant failings are reported by the legal and compliance function to the Bank's Audit Committee and senior management.

Our Legal and Compliance Department ("LCD") has been a key partner in the business, providing legal and compliance advice and support to all parts of the Bank. In the first half of 2007, LCD was actively involved in launching new products and new business, strategically important transactions and commercial agreements, outsourcing arrangement as well as day-to-day matters arising from the business that is diverse both geographically and in scope. In second half of 2007, we will continue to support LCD as a critical mission-important function of the Bank.

(x) *Strategic and reputational risk management*

In order to keep pace with the ever-evolving operating and regulatory environment of the Bank, senior management places a high priority on ensuring that our business and operational strategies are appropriately defined and executed in a professional and time-relevant manner. Great care is taken to protect our reputation and maximize our brand equity. The Management Committee of the Bank meets regularly to monitor and manage the Bank's strategic and reputational risks, and is responsible for enforcing high-level policies approved by the Board to identify and assess such risks, as well as to improve controls.