



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 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 2007 as follows:–

Consolidated Income Statement for the year ended 31 December 2007 (Expressed in Hong Kong dollars)

	2007 HK\$'000	2006 HK\$'000
Interest income	5,057,239	4,082,120
Interest expense	(3,657,411)	(3,020,623)
Net interest income	1,399,828	1,061,497
Fee and commission income	835,875	570,170
Fee and commission expense	(13,835)	(14,668)
Net fee and commission income	822,040	555,502
Net loss and write-down on structured investment vehicles	(1,311,170)	–
Other net trading income	576,543	630,825
Net trading (loss)/income	(734,627)	630,825
Net expense from financial instruments designated at fair value through profit or loss	(249,014)	(62,594)
Net hedging gain	2,455	129
Other operating income	61,127	28,696
Operating income	1,301,809	2,214,055
Operating expenses	(1,179,048)	(1,093,600)
Operating profit before impairment	122,761	1,120,455
Impairment losses on loans and advances	(72,476)	(53,757)
Impairment losses written back/(charged for) on held-to-maturity investments	242	(3,957)
Impairment losses on available-for-sale securities	–	(13)
Impairment losses on property and equipment	(30,068)	–
Impairment losses	(102,302)	(57,727)
Net profit on disposal of available-for-sale securities	6,905	90,199
Net loss on disposal of held-to-maturity investments	–	(22,306)
Operating profit	27,364	1,130,621
Net profit/(loss) on disposal of property and equipment	18,859	(24,368)
Revaluation gain on investment properties	60,104	3,376
Profit before taxation	106,327	1,109,629
Income tax	38	(191,380)
Profit for the year	106,365	918,249
Dividends		
Interim dividends declared during the year	–	453,000

Consolidated Balance Sheet
as at 31 December 2007
(Expressed in Hong Kong dollars)

	2007	2006
	HK\$'000	HK\$'000
ASSETS		
Cash and balances with banks, central banks and other financial institutions	1,502,875	1,267,870
Placements with and advances to banks, central banks and other financial institutions	12,647,588	12,392,538
Trade bills	1,523,200	491,994
Trading assets	3,479,009	6,353,976
Securities designated at fair value through profit or loss	531,025	1,003,579
Loans and advances to customers and other accounts	67,751,338	51,918,866
Available-for-sale securities	22,125,403	4,973,450
Held-to-maturity investments	–	10,176,493
Property and equipment		
– Investment property	238,380	124,776
– Other property and equipment	845,856	961,081
Tax recoverable	71,248	–
Deferred tax assets	67,155	7,294
TOTAL ASSETS	110,783,077	89,671,917
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	1,539,030	831,973
Deposits from customers	84,018,313	65,965,607
Trading liabilities	879,690	428,648
Certificates of deposit issued	6,863,124	7,257,719
Debt securities issued	2,314,394	2,300,889
Current taxation	6,760	112,681
Deferred tax liabilities	–	22,586
Other liabilities	1,596,952	1,568,149
Loan capital	3,926,390	3,901,326
TOTAL LIABILITIES	101,144,653	82,389,578
EQUITY		
Share capital	5,583,341	3,083,341
Reserves	4,055,083	4,198,998
Total equity attributable to equity shareholders of the Bank	9,638,424	7,282,339
TOTAL EQUITY AND LIABILITIES	110,783,077	89,671,917

Consolidated Statement of Changes in Equity
for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	2007		2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January		7,282,339		6,919,794
Net expense recognised directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches and subsidiaries		15,238		6,886
Release of revaluation surplus upon disposal of investment properties (transferred from other premises during the year)		6,011		–
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax		–		8,210
Available-for-sale securities				
– changes in fair value	(337,476)		(68,390)	
– transfer from equity to deferred tax	60,346		25,830	
– transfer from equity to income statement on disposal	(7,356)		(79,221)	
		(284,486)		(121,781)
		(263,237)		(106,685)
Profit for the year		106,365		918,249
Total recognised income and expense for the year		(156,872)		811,564
Interim dividends declared during the year		–		(453,000)
Movements in equity arising from capital transactions:				
Issue and allotment of shares	2,500,000		–	
Equity-settled share-based transactions	12,957	2,512,957	3,981	3,981
Total equity at 31 December		9,638,424		7,282,339

Consolidated Cash Flow Statement
for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	2007	2006
	HK\$'000	HK\$'000
Operating activities		
Profit before taxation	106,327	1,109,629
Adjustments for non-cash items:		
Impairment losses on loans and advances	72,476	53,757
Revaluation gain on investment properties	(60,104)	(3,376)
Net loss and write-down on structured investment vehicles	1,311,170	–
Net (profit)/loss on disposal of property and equipment	(18,859)	24,368
Net profit on disposal of available-for-sale securities	(6,905)	(90,199)
Net loss on disposal of held-to-maturity investments	–	22,306
Impairment losses (written back)/charged for on held-to-maturity investments	(242)	3,957
Impairment losses on available-for-sale securities	–	13
Impairment losses on property and equipment	30,068	–
Equity-settled share-based payment expenses	12,957	3,981
Amortisation of deferred expenses	66,236	60,384
Depreciation on property and equipment	83,069	112,688
Dividend income from equity securities	(20,291)	(33,164)
Interest expense on loan capital	318,035	266,781
Foreign exchange differences	36,662	25,326
	1,930,599	1,556,451
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond three months	(2,115,988)	(1,406,763)
Treasury bills with original maturity beyond three months	(499,609)	99,468
Certificates of deposit held with original maturity beyond three months	(99,734)	449,923
Trading assets	1,563,797	(154,503)
Securities designated at fair value through profit or loss	472,554	113,963
Loans and advances to customers, other accounts and trade bills	(16,999,056)	(8,500,545)
Held-to-maturity investments	9,988,152	6,432,528
Available-for-sale securities	(16,768,423)	983,538
	(24,458,307)	(1,982,391)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	707,057	(3,325,473)
Deposits from customers	18,052,706	11,179,041
Trading liabilities	451,042	(232,489)
Certificates of deposit issued	(399,015)	(210,242)
Debt securities issued	4,945	6,284
Other liabilities	42,290	288,961
	18,859,025	7,706,082
Cash (used in)/generated from operations	(3,668,683)	7,280,142

	2007	2006
	HK\$'000	HK\$'000
Cash (used in)/generated from operations	(3,668,683)	7,280,142
Income tax paid		
Hong Kong Profits Tax paid	(192,372)	(129,667)
Overseas tax paid	(7,501)	(4,200)
Net cash (used in)/generated from operating activities	(3,868,556)	7,146,275
Investing activities		
Dividends received from equity securities	20,291	33,164
Purchase of property and equipment	(54,390)	(210,736)
Proceeds from disposal of property and equipment	29,143	168,998
Net cash used in investing activities	(4,956)	(8,574)
Financing activities		
Ordinary dividends paid	–	(246,000)
Proceeds from shares issued	2,500,000	–
Interest paid on loan capital	(319,337)	(355,061)
Proceeds from loan capital issued	1,949,500	1,942,230
Redemption of loan capital	(1,949,363)	(2,331,346)
Proceeds from debt securities issued	–	41,125
Net cash generated from/(used in) financing activities	2,180,800	(949,052)
Net (decrease)/increase in cash and cash equivalents	(1,692,712)	6,188,649
Cash and cash equivalents at 1 January	12,031,995	5,843,346
Cash and cash equivalents at 31 December	10,339,283	12,031,995
Cash flows from operating activities included:		
Interest received	5,046,218	4,071,665
Interest paid	(3,209,371)	(2,697,222)

Notes:

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Basis of preparation

- (1) The financial information relating to the financial year ended 31 December 2007 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 2007 will be available from the Bank's website and registered office.
- (2) The financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2006 annual accounts.
- (3) As a result of adopting HKFRS 7, Financial instruments: Disclosures, the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, and complying with the Banking (Disclosure) Rules, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

2. Interest income

	2007	2006
	HK\$'000	HK\$'000
Listed securities	450,986	518,780
Unlisted securities	488,512	395,448
Others	4,117,741	3,167,892
	<u>5,057,239</u>	<u>4,082,120</u>

All interest income and interest expenses included in the income statement refer to those interest income on financial assets or interest expense on financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2007 and 2006.

Included in the above is interest income accrued on impaired financial assets of HK\$18,172,000 (2006: HK\$23,756,000) which includes interest income on unwinding of discount on loan impairment losses of HK\$1,820,000 (2006: HK\$16,838,000) for the year ended 31 December 2007.

3. Net fee and commission income

	2007	2006
	HK\$'000	HK\$'000
Fee and commission income:		
Bills commission	67,184	49,255
Cards related income	36,549	36,929
General banking services	52,373	44,748
Insurance	125,543	81,001
Investment and structured investment products	270,818	120,203
Loans, overdrafts and facilities fees	282,509	237,226
Others	899	808
	835,875	570,170
Fee and commission expense	(13,835)	(14,668)
Net fee and commission income	822,040	555,502
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss		
– Fee and commission income	319,058	274,155
– Fee and commission expense	(4,641)	(3,754)
	314,417	270,401

4. Net trading (loss)/income

	2007	2006
	HK\$'000	HK\$'000
Net loss and write-down on structured investment vehicle	(1,311,170)	–
Other net trading income:		
Gains less losses from dealing in foreign currencies	133,058	141,781
Gains less losses from trading securities	178,958	230,950
Gains less losses from other dealing activities	160,407	55,283
Interest income on trading assets		
– Listed	13,752	44,697
– Unlisted	73,937	131,186
Interest expense on trading liabilities	–	(2,089)
Dividend income from listed trading securities	–	164
Dividend income from unlisted trading securities	16,431	28,853
	576,543	630,825
	(734,627)	630,825

The Group's investments in structured investment vehicles ("SIVs") recorded a net loss and write down on SIVs of HK\$1,311,170,000 during the year, which represented the changes in fair value of the investments.

5. Net expense from financial instruments designated at fair value through profit or loss

	2007	2006
	HK\$'000	HK\$'000
Net losses	(103,020)	(6,177)
Interest income		
– Listed	11,304	31,106
– Unlisted	22,899	10,134
Interest expense	(180,197)	(97,657)
	(249,014)	(62,594)

6. Net hedging gain

	2007	2006
	HK\$'000	HK\$'000
Fair value hedge gain	2,455	129

7. Other operating income

	2007	2006
	HK\$'000	HK\$'000
Dividend income from available-for-sale securities		
– Unlisted investments	3,860	4,147
Rental income from investment properties less direct outgoings of HK\$217,000 (2006: HK\$15,000)	5,201	2,916
Others	52,066	21,633
	61,127	28,696

8. Operating expenses

	2007 HK\$'000	2006 HK\$'000
(a) Staff costs		
Salaries and other staff costs	631,772	571,821
Retirement costs	41,064	37,912
Share-based payment expenses		
– Equity-settled share-based payment expenses	12,957	3,981
– Cash-settled share-based payment expenses	12,828	11,474
	<u>698,621</u>	<u>625,188</u>
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	13,212	10,820
– Other assets	69,857	101,868
	<u>83,069</u>	<u>112,688</u>
(c) Other operating expenses		
Property and equipment expenses, excluding depreciation		
– Rental of property	81,357	73,072
– Others	69,143	65,868
Auditor's remuneration	5,169	4,480
Advertising	56,039	52,886
Communication, printing and stationery	60,815	57,444
Legal and professional fee	15,910	10,247
Others	108,925	91,727
	<u>397,358</u>	<u>355,724</u>
Total operating expenses	<u>1,179,048</u>	<u>1,093,600</u>

9. Impairment losses on loans and advances

	2007 HK\$'000	2006 HK\$'000
Individual assessment charged for		
– Additions	(158,954)	(146,898)
– Releases	11,037	31,746
– Recoveries	53,559	30,498
	<u>(94,358)</u>	<u>(84,654)</u>
Collective assessment written back	21,882	30,897
	<u>(72,476)</u>	<u>(53,757)</u>

10. Net profit on disposal of available-for-sale securities

	2007	2006
	HK\$'000	HK\$'000
Net revaluation gain transferred from reserves	7,356	79,221
Net (loss)/profit arising in current year	(451)	10,978
	<u>6,905</u>	<u>90,199</u>

11. Income tax in the consolidated income statement

	2007	2006
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	9,544	172,323
Under-provision in respect of prior years	3,655	13,772
	<u>13,199</u>	<u>186,095</u>
Current tax – Overseas		
Provision for the year	<u>10,755</u>	<u>6,850</u>
Deferred tax		
Reversal of temporary differences	<u>(23,992)</u>	<u>(1,565)</u>
	<u>(38)</u>	<u>191,380</u>

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

12. Trading assets

	2007	2006
	HK\$'000	HK\$'000
Debt securities	1,335,609	3,211,734
Equity securities	5,612	–
Investment funds	<u>1,238,246</u>	<u>2,787,151</u>
Trading securities	2,579,467	5,998,885
Positive fair values of derivatives	<u>899,542</u>	<u>355,091</u>
	<u>3,479,009</u>	<u>6,353,976</u>
Issued by:		
Sovereigns	898	599
Public sector entities	2,355	10,395
Banks and other financial institutions	628,054	583,401
Corporate entities	<u>1,948,160</u>	<u>5,404,490</u>
	<u>2,579,467</u>	<u>5,998,885</u>

	2007	2006
	HK\$'000	HK\$'000
Analysed by place of listing:		
Listed in Hong Kong	1,095	3,296
Listed outside Hong Kong	200,165	1,077,026
	201,260	1,080,322
Unlisted	2,378,207	4,918,563
	2,579,467	5,998,885

13. Securities designated at fair value through profit or loss

	2007	2006
	HK\$'000	HK\$'000
Debt securities	531,025	959,436
Investment funds	–	44,143
	531,025	1,003,579
Issued by:		
Banks and other financial institutions	134,422	–
Corporate entities	396,603	1,003,579
	531,025	1,003,579
Analysed by place of listing:		
Listed in Hong Kong	–	153,750
Listed outside Hong Kong	82,844	221,092
	82,844	374,842
Unlisted	448,181	628,737
	531,025	1,003,579

14. Loans and advances to customers and other accounts

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

	2007	2006
	HK\$'000	HK\$'000
Gross loans and advances to customers	65,833,430	50,685,350
Impairment allowances		
– Individually assessed	(70,883)	(76,360)
– Collectively assessed	(223,540)	(253,166)
	65,539,007	50,355,824
Accrued interest and other accounts less impairment allowances	2,212,331	1,563,042
	67,751,338	51,918,866

(b) *Loans and advances to customers analysed by industry sector*

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

	2007		2006	
	Gross loans and advances to customer	Impaired loans and advances	Gross loans and advances to customer	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Industrial, commercial and financial				
– Property development	207,000	–	205,155	–
– Property investment	7,740,669	21,931	5,370,620	3,060
– Financial concerns	5,061,032	323	3,315,125	2,570
– Stockbrokers	181,000	–	50,000	–
– Wholesale and retail trade	3,383,895	95,552	2,885,044	34,891
– Manufacturing	5,833,965	8,208	3,370,282	11,386
– Transport and transport equipment	3,394,165	2,750	3,467,330	12,254
– Recreational activities	100,800	–	143,763	–
– Information technology	1,122	–	52,082	–
– Others	3,332,366	24,483	2,468,601	41,168
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,963	–	16,054	–
– Loans for the purchase of other residential properties	11,284,553	13,927	11,446,698	20,042
– Credit card advances	506,775	488	535,293	386
– Others	2,401,149	11,781	1,693,327	22,808
Gross loans and advances for use in Hong Kong	43,463,454	179,443	35,019,374	148,565
Trade finance	4,467,495	44,838	3,508,201	5,207
Gross loans and advances for use outside Hong Kong	17,902,481	532,931	12,157,775	692,867
Gross loans and advances to customers	65,833,430	757,212	50,685,350	846,639

(c) *Impaired loans and advances to customers*

	2007	2006
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	757,212	846,639
Impairment allowance – individually assessed	(70,883)	(76,360)
	686,329	770,279
Gross impaired loans and advances as a % of total loans and advances to customers	1.15%	1.67%

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

Individually assessed impairment allowance were made after taking into account the realisable value of collateral in respect of such loans and advances of HK\$601,359,000 and HK\$596,740,000 (2006: HK\$788,446,000 and HK\$785,425,000) for the Group and the Bank respectively. This collateral mainly comprise mortgage interest over residential or commercial properties and cash with the Group.

15. Available-for-sale securities

	2007 HK\$'000	2006 HK\$'000
Certificates of deposit held	150,033	–
Debt securities	21,157,046	4,771,960
Treasury bills (including Exchange Fund Bills)	721,180	149,757
Equity securities	40,212	23,181
Investment funds	56,932	28,552
	22,125,403	4,973,450
Issued by:		
Sovereigns	805,060	149,757
Public sector entities	710,682	–
Banks and other financial institutions	15,450,543	847,022
Corporate entities	5,159,118	3,976,671
	22,125,403	4,973,450
Analysed by place of listing:		
Listed in Hong Kong	864,142	–
Listed outside Hong Kong	6,473,642	3,913,802
	7,337,784	3,913,802
Unlisted	14,787,619	1,059,648
	22,125,403	4,973,450

16. Reserves

	2007 HK\$'000	2006 HK\$'000
Share premium	282,930	282,930
Capital reserve	6,589	6,589
General reserve	100,000	100,000
Exchange differences reserve	25,700	10,462
Other property revaluation reserve	22,066	22,066
Fair value reserve	(86,694)	197,792
Share option reserve	25,785	12,828
Retained profits*	3,678,707	3,566,331
Total	4,055,083	4,198,998

* The 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 and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. As at 31 December 2007, HK\$957,055,000 (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.

17. Contingent assets, liabilities and commitments to extend credit

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

	2007 HK\$'000	2006 HK\$'000
Direct credit substitutes	4,391,322	1,723,211
Transaction-related contingencies	576,339	73,740
Trade-related contingencies	1,746,636	1,659,341
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	15,921,154	12,915,501
– with an original maturity of not more than 1 year	3,551,324	2,556,234
– with an original maturity of more than 1 year	3,488,150	2,938,186
	29,674,925	21,866,213
Credit risk-weighted amounts	4,472,023	2,762,347

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

18. Currency concentrations

The Bank's foreign exchange risk stems from taking 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 Asset and Liabilities Committee. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options).

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

	2007			
Equivalent in HK\$'000	US dollars	Renminbi	Others	Total
Spot assets	38,538,910	1,255,843	5,102,714	44,897,467
Spot liabilities	(34,921,047)	(891,646)	(7,187,422)	(43,000,115)
Forward purchases	25,333,018	8,026,722	9,424,640	42,784,380
Forward sales	(28,515,984)	(8,016,877)	(7,328,437)	(43,861,298)
Net option position	–	–	–	–
Net long position	434,897	374,042	11,495	820,434
Net structural position	–	213,555	48,559	262,114

Equivalent in HK\$'000	2006			
	US dollars	Renminbi	Others	Total
Spot assets	29,199,298	757,626	3,166,630	33,123,554
Spot liabilities	(27,192,098)	(443,806)	(4,589,986)	(32,225,890)
Forward purchases	18,010,065	996	7,523,379	25,534,440
Forward sales	(19,944,897)	–	(6,086,158)	(26,031,055)
Net options position	869	–	(869)	–
Net long position	<u>73,237</u>	<u>314,816</u>	<u>12,996</u>	<u>401,049</u>
Net structural position	<u>–</u>	<u>199,226</u>	<u>48,565</u>	<u>247,791</u>

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

19. Post balance sheet events

- (a) On 22 February 2008, CITIC Ka Wah Bank (China) Limited (“CKWB China”) received formal approval from the China Banking Regulatory Committee for its incorporation as the Group’s wholly-owned subsidiary bank in the PRC. CKWB China expects to commence its banking business in the second quarter of 2008.
- (b) As at 31 December 2007, the carrying amount of the remaining two SIVs (i.e. Beta Finance Corporation and Five Finance Corporation) held by the Group was approximately HK\$704 million. Uncertainties in the credit and capital market for SIVs continued subsequent to the balance sheet date, and the net assets value of these two SIVs up to 12 March 2008 had dropped to 1.6% and -0.53% respectively. As a result of the decline in the net assets value, these two SIVs were required to and had drawn on the ratings support facility provided by Citibank, N.A..

Unaudited supplementary financial information

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Capital adequacy ratio

(i) Capital adequacy ratio

	2007	2006
Capital adequacy ratio as at 31 December	<u>15.77%</u>	<u>16.67%</u>
Core adequacy capital ratio as at 31 December	<u>10.26%</u>	<u>9.26%</u>

At 31 December 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 “standardised 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, these 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.

(ii) *Capital base after deductions*

	2007 HK\$'000	2006 HK\$'000
Core capital		
Paid up ordinary share capital	5,583,341	3,083,341
Share premium	282,930	282,930
Reserves	2,791,766	2,571,114
Profit and loss account	106,352	274,476
Total core capital before deductions	8,764,389	6,211,861
Less: Net deferred tax assets	(67,155)	–
Less: Deductions from core capital	(357,533)	–
Total core capital after deductions	8,339,701	6,211,861
Eligible supplementary capital		
Reserves attributable to fair value (losses)/gains on revaluation of holdings of available-for-sale equities and debt securities	(105,085)	138,456
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss (in supplementary capital)	–	316,438
Regulatory reserve for general banking risks	795,023	376,300
Collective provisions	223,695	253,386
Perpetual subordinated debt	1,976,738	1,958,353
Term subordinated debt	1,949,652	1,942,973
Total supplementary capital before deductions	4,840,023	4,985,906
Less: Deductions from supplementary capital items	(357,533)	–
Total supplementary capital after deductions	4,482,490	4,985,906
Deductions from total capital base	–	(12,156)
Total capital base after deductions	12,822,191	11,185,611
Total deductions from the core capital and supplementary capital	715,066	12,156
Risk-weighted amount		
– credit risk	77,053,822	66,572,563
– market risk	875,063	517,575
– operational risk	3,384,425	–
	81,313,310	67,090,138
 (iii) <i>Liquidity ratio</i>		
Average liquidity ratio for the year ended 31 December *	40.77%	40.35%

* 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 HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(B) Segmental information

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.

(i) 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.

	2007					
	Wholesale banking	Retail banking	Treasury	Fund investment	Unallocated	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Net interest income	635,929	664,512	333,299	(293,469)	59,557	1,399,828
Other operating income	324,593	571,785	(64,358)	(998,975)	68,936	(98,019)
Operating income	960,522	1,236,297	268,941	(1,292,444)	128,493	1,301,809
Operating expenses	(147,804)	(418,850)	(27,474)	–	(584,920)	(1,179,048)
Inter-segment expenses	(131,661)	(242,568)	(56,731)	–	430,960	–
Operating profit before impairment	681,057	574,879	184,736	(1,292,444)	(25,467)	122,761
Impairment losses (charged for)/written back on loans and advances	(56,657)	(23,664)	–	–	7,845	(72,476)
Impairment losses written back on available-for-sale securities and held-to-maturity investments	–	242	–	–	–	242
Impairment losses on properties	–	–	–	–	(30,068)	(30,068)
Impairment losses	(56,657)	(23,422)	–	–	(22,223)	(102,302)
Net profit on disposal of available-for-sale securities and held-to-maturity investments	–	–	6,905	–	–	6,905
Operating profit/(loss)	624,400	551,457	191,641	(1,292,444)	(47,690)	27,364
Net (loss)/profit on disposal of property and equipment	(3)	(703)	–	–	19,565	18,859
Revaluation gain on investment properties	–	–	–	–	60,104	60,104
Profit before taxation	624,397	550,754	191,641	(1,292,444)	31,979	106,327
Income tax	–	–	–	–	38	38
Profit for the year	624,397	550,754	191,641	(1,292,444)	32,017	106,365
Depreciation for the year	(3,836)	(15,023)	(182)	(27)	(64,001)	(83,069)
Segment assets	43,024,517	25,873,041	37,137,738	4,846,946	(99,165)	110,783,077
Segment liabilities	43,692,816	42,827,062	16,331,955	2,065	(1,709,245)	101,144,653
Capital expenditure incurred during the year	2,488	23,203	1,103	–	27,596	54,390

2006

	Wholesale banking	Retail banking	Treasury	Fund investment	Unallocated	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000	HKD'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

(ii) *By geographical area*

2007					
	Profit before taxation	Total assets	Total liabilities	Operating income	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	(31,146)	108,215,373	98,738,530	1,092,362	26,570,652
Mainland China	51,563	5,941,578	5,322,139	108,609	689,495
USA	61,375	1,921,844	1,778,619	72,433	618,920
Others	17,364	1,757,310	1,736,415	28,643	1,795,858
Inter-segment items	7,171	(7,053,028)	(6,431,050)	(238)	–
	106,327	110,783,077	101,144,653	1,301,809	29,674,925
2006					
	Profit before taxation	Total assets	Total liabilities	Operating income	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,029,334	87,818,486	81,866,604	2,060,920	19,449,537
Mainland China	39,361	3,049,084	2,890,442	70,394	140,346
USA	33,429	1,757,315	1,670,449	69,480	896,550
Others	7,505	2,789,290	2,783,338	13,261	1,379,780
Inter-segment items	–	(5,742,258)	(6,821,255)	–	–
	1,109,629	89,671,917	82,389,578	2,214,055	21,866,213

The above geographical analysis is classified by the location of the principal operations of the subsidiaries or branches.

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	46,888,980	183,628	254,867	29,969	142,348
Mainland China	11,397,494	502,346	502,345	40,914	55,616
USA	1,787,427	–	–	–	1,618
Others	5,759,529	51,034	–	–	23,958
	65,833,430	737,008	757,212	70,883	223,540
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.

(C) Further analysis on loans and advances to customers by industry sector

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2007		2006	
	Gross loans and advances HK\$'000	% of gross loans and advances covered by collateral	Gross loans and advances HK\$'000	% of gross loans and advances covered by collateral
Industrial, commercial and financial				
– Property development	207,000	–	205,155	–
– Property investment	7,740,669	98	5,370,620	97
– Financial concerns	5,061,032	36	3,315,125	43
– Stockbrokers	181,000	6	50,000	–
– Wholesale and retail trade	3,383,895	54	2,885,044	51
– Manufacturing	5,833,965	24	3,370,282	27
– Transport and transport equipment	3,394,165	81	3,467,330	71
– Recreational activities	100,800	99	143,763	30
– Information technology	1,122	80	52,082	99
– Others	3,332,366	60	2,468,601	70
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,963	100	16,054	100
– Loans for the purchase of other residential properties	11,284,553	99	11,446,698	99
– Credit card advances	506,775	–	535,293	–
– Others	2,401,149	83	1,693,327	79
Gross loans and advances for use in Hong Kong	43,463,454	70	35,019,374	74
Trade finance	4,467,495	38	3,508,201	40
Gross loans and advances for use outside Hong Kong	17,902,481	42	12,157,775	59
Gross loans and advances to customers	65,833,430	61	50,685,350	68

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:

2007					
	Overdue loans and advances	Individual impairment allowance	Collective impairment allowance	Impaired loans and advances	Impairment charged to income statement during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property investment	63,650	3,059	7,486	21,931	–
Loans and advances for the purchase of other residential properties	7,238	1,944	4,470	13,927	1,378
Gross loans and advances for use outside Hong Kong	582,837	52,846	63,886	532,931	16,197
	<u>653,725</u>	<u>57,849</u>	<u>75,842</u>	<u>568,789</u>	<u>17,575</u>
2006					
	Overdue loans and advances	Individual impairment allowance	Collective impairment allowance	Impaired loans and advances	Impairment charged to income statement during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property investment	43,956	3,060	9,220	3,060	–
Loans and advances for the purchase of other residential properties	15,688	616	15,743	20,042	531
Gross loans and advances for use outside Hong Kong	686,565	45,398	84,309	692,867	14,656
	<u>746,209</u>	<u>49,074</u>	<u>109,272</u>	<u>715,969</u>	<u>15,187</u>

(D) Overdue assets

(i) Overdue loans and advances to customers

	2007		2006	
		% on total loans and advances to customers		% on total loans and advances to customers
	HK\$'000		HK\$'000	
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	100,158	0.15	36,759	0.07
– 1 year or less but over 6 months	55,274	0.08	258,965	0.51
– over 1 year	581,576	0.88	563,515	1.11
	737,008	1.11	859,239	1.69
Secured overdue loans and advances	679,136		767,533	
Unsecured overdue loans and advances	57,872		91,706	
	737,008		859,239	
Market value of collateral held against the secured overdue loans and advances	982,533		1,179,363	
Individual impairment allowance made	61,491		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.

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

- The market value of the asset is readily determinable or can be reasonably established and verified;
- 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.

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2007 and 31 December 2006.

(ii) *Other overdue assets*

	<u>2007</u> HK\$'000	<u>2006</u> HK\$'000
The gross amount of trade bills which has been overdue for:		
– over 1 year	<u>–</u>	<u>1,198</u>
Available-for-sale securities which have been overdue for:		
– over 1 year	<u>15,597</u>	<u>–</u>
Held-to-maturity investments which have been overdue for:		
– over 1 year	<u>–</u>	<u>15,553</u>

(E) Rescheduled loans

	<u>2007</u>	<u>2006</u>
	% on total loans and advances to customers	% on total loans and advances to customers
	<u>HK\$'000</u>	<u>HK\$'000</u>
Rescheduled loans	<u>15,970</u> <u>0.02</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 31 December 2007 and 31 December 2006.

(F) Repossessed assets

	<u>2007</u>	<u>2006</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Included in loans and advances to customers and other accounts	<u>37,773</u>	<u>176,216</u>

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

(G) 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
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
2007				
Asia and Pacific excluding Hong Kong	12,793,868	112,353	14,251,739	27,157,960
of which Australia	4,620,357	1,212	352,456	4,974,025
of which Mainland China	4,976,665	109,598	10,889,775	15,976,038
Caribbean	–	–	3,256,767	3,256,767
of which Bermuda	–	–	482,910	482,910
of which Cayman Islands	–	–	2,185,974	2,185,974
of which British Virgin Islands	–	–	587,884	587,884
Western Europe	15,516,696	2,451	2,946,157	18,465,304
of which France	1,746,454	–	791,162	2,537,616
of which Germany	3,394,903	–	2,287	3,397,190
of which Netherlands	1,593,567	–	886,191	2,479,758
of which United Kingdom	<u>3,789,650</u>	<u>402</u>	<u>566,492</u>	<u>4,356,544</u>

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
of which British Virgin Islands	–	–	320,789	320,789
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	734	1,036,088	3,970,776

(H) Non-bank Mainland China exposures

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

	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2007				
Mainland China entities	14,800,862	5,346,463	20,147,325	37,836
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	13,212,306	6,549,817	19,762,123	10,520
	<u>28,013,168</u>	<u>11,896,280</u>	<u>39,909,448</u>	<u>48,356</u>
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2006				
Mainland China entities	11,313,971	3,374,338	14,688,309	28,427
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	9,885,249	4,795,268	14,680,517	34,547
	<u>21,199,220</u>	<u>8,169,606</u>	<u>29,368,826</u>	<u>62,974</u>