



集友銀行

Chiyu Banking Corporation Ltd.

中國銀行（香港）有限公司附屬機構

A SUBSIDIARY OF BANK OF CHINA (HONG KONG) LIMITED

2006

Interim Report



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The directors are pleased to announce the unaudited consolidated interim results of Chiyu Banking Corporation Limited (hereinafter referred to as the "Bank") and its subsidiaries (together with the Bank hereinafter referred to as the "Group") for the period ended 30 June 2006 together with the comparative figures in 2005 as follows:

Consolidated Income Statement

	Notes	(Unaudited) Half-year ended 30 June 2006 HK\$'000	(Unaudited) Half-year ended 30 June 2005 HK\$'000
Interest income		737,379	404,210
Interest expense		(418,426)	(142,954)
Net interest income	3	318,953	261,256
Fees and commission income		117,548	97,618
Fees and commission expenses		(17,428)	(14,683)
Net fees and commission income	4	100,120	82,935
Net trading income	5	17,894	21,144
Net gain on investments in securities	6	3,134	-
Other operating income	7	3,114	1,490
Net operating income before loan impairment allowances		443,215	366,825
Reversal of loan impairment allowances on advances	8	2,982	4,948
Net operating income		446,197	371,773
Operating expenses	9	(108,563)	(105,259)
Operating profit		337,634	266,514
Net gain from disposal/revaluation of properties, plant and equipment	10	774	132
Net gain from fair value adjustments on investment properties	11	2,480	3,919
Profit before taxation		340,888	270,565
Taxation	12	(57,075)	(45,413)
Profit for the period		283,813	225,152
Dividends	13	198,000	168,000



Consolidated Balance Sheet

	Notes	(Unaudited) At 30 June 2006 HK\$'000	(Audited) At 31 December 2005 HK\$'000
ASSETS			
Cash and balances with banks and other financial institutions	16	710,176	875,747
Placements with banks and other financial institutions	17	13,193,040	10,289,960
Other financial assets at fair value through profit or loss	18	1,140,971	1,137,117
Derivative financial instruments	19	123,654	179,443
Advances and other accounts	20	11,090,069	10,890,769
Investment in securities			
- Available-for-sale securities	21	23,940	26,952
- Held-to-maturity securities	22	4,320,045	6,470,849
- Loans and receivables	23	-	316,647
Properties, plant and equipment		550,220	548,573
Investment properties		56,420	53,940
Deferred tax assets	26	84	117
Other assets		490,160	443,032
Total assets		31,698,779	31,233,146
LIABILITIES			
Deposits and balances of banks and other financial institutions		521,951	633,800
Other financial liabilities at fair value through profit or loss	24	2,886,942	2,616,209
Derivative financial instruments	19	58,853	104,536
Deposits from customers	25	22,832,762	22,860,102
Certificates of deposit issued			
- at fair value through profit or loss	24	358,350	360,848
Deferred tax liabilities	26	64,421	62,719
Other accounts and provisions	27	1,087,325	803,756
Total liabilities		27,810,604	27,441,970
EQUITY			
Share capital	28	300,000	300,000
Reserves	29	3,588,175	3,491,176
Capital and reserves attributable to the equity holders		3,888,175	3,791,176
Total equity		3,888,175	3,791,176
Total liabilities and equity		31,698,779	31,233,146



Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group						
	Share capital	Premises revaluation reserve	Translation reserve	Reserve for fair value changes of available-for-sale securities	Regulatory reserve*	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	300,000	195,121	354	-	140,148	2,955,851	3,591,474
Net profit for the first half of 2005	-	-	-	-	-	225,152	225,152
Currency translation difference	-	-	10	-	-	-	10
2005 first interim dividend paid	-	-	-	-	-	(168,000)	(168,000)
Release from deferred tax liabilities	-	208	-	-	-	-	208
Transfer from retained earnings	-	-	-	-	7,241	(7,241)	-
At 30 June 2005	300,000	195,329	364	-	147,389	3,005,762	3,648,844
Bank and subsidiaries	300,000	195,329	364	-	147,389	3,005,762	3,648,844
At 1 July 2005	300,000	195,329	364	-	147,389	3,005,762	3,648,844
Net profit for the second half of 2005	-	-	-	-	-	269,015	269,015
Currency translation difference	-	-	(10)	-	-	-	(10)
2005 second interim dividend paid	-	-	-	-	-	(207,000)	(207,000)
Release upon disposal of premises	-	-	(354)	-	-	-	(354)
Revaluation of premises	-	96,645	-	-	-	-	96,645
Change in fair value of available-for-sales securities taken to equity	-	-	-	885	-	-	885
Release to deferred tax liabilities	-	(16,706)	-	(143)	-	-	(16,849)
Transfer from retained earnings	-	-	-	-	6,418	(6,418)	-
At 31 December 2005	300,000	275,268	-	742	153,807	3,061,359	3,791,176
Bank and subsidiaries	300,000	275,268	-	742	153,807	3,061,359	3,791,176



Consolidated Statement of Changes in Equity (continued)

	Unaudited Attributable to equity holders of the Group						Total HK\$'000
	Share capital	Premises revaluation reserve	Translation reserve	Reserve for fair value changes of available-for- sale securities	Regulatory reserve*	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	300,000	275,268	-	742	153,807	3,061,359	3,791,176
Net profit for the first half of 2006	-	-	-	-	-	283,813	283,813
Currency translation difference	-	-	-	-	-	42	42
2006 first interim dividend declared	-	-	-	-	-	(198,000)	(198,000)
Revaluation of premises	-	15,551	-	-	-	-	15,551
Release upon disposal of premises	-	(4,498)	-	-	-	4,498	-
Change in fair value of available-for-sales securities taken to equity	-	-	-	297	-	-	297
Release of reserve upon derecognition of AFS reserve	-	-	-	(649)	-	(2,348)	(2,997)
Release (to)/ from deferred tax	-	(1,756)	-	49	-	-	(1,707)
Transfer from retained earnings	-	-	-	-	1,420	(1,420)	-
At 30 June 2006	300,000	284,565	-	439	155,227	3,147,944	3,888,175
Bank and subsidiaries	300,000	284,565	-	439	155,227	3,147,944	3,888,175

* In accordance with the requirements of the Hong Kong Monetary Authority ("HKMA"), the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances on advances recognised under Hong Kong Accounting Standard ("HKAS") 39.



Consolidated Cash Flow Statement

	Notes	(Unaudited) Half-year ended 30 June 2006 HK\$'000	(Unaudited) Half-year ended 30 June 2005 HK\$'000
Cash flows from operating activities			
Operating cash inflow/(outflow) before taxation	30(a)	1,178,052	(636,913)
Hong Kong profits tax paid		(22,799)	(21,240)
Overseas profits tax paid		(4,195)	(1,013)
Net cash inflow/(outflow) from operating activities		1,151,058	(659,166)
Cash flows from investing activities			
Purchase of properties, plant and equipment		(2,384)	(5,748)
Proceeds from disposal of properties, plant and equipment		10,944	3,139
Proceeds from disposal of available-for-sale securities		3,459	-
Dividends received from investment securities		639	606
Net cash inflow/(outflow) from investing activities		12,658	(2,003)
Cash flows from financing activities			
Dividends paid to equity holders of the Group		-	(189,000)
Increase/(decrease) in cash and cash equivalents		1,163,716	(850,169)
Cash and cash equivalents at 1 January		9,124,460	10,865,480
Cash and cash equivalents at 30 June	30(b)	10,288,176	10,015,311



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中國銀行（香港）有限公司附屬機構
A subsidiary of Bank of China Limited

Notes to the Financial Statements

1. Basis of preparation and accounting policies

The unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and should be read in conjunction with the Group’s Annual Report for 2005.

The accounting policies and methods of computation used in the preparation of this unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2005.

The HKICPA has issued a number of revised Hong Kong Financial Reporting Standards (“HKFRSs”) which are effective for accounting period beginning or after 1 January 2007. The Group has not early adopted any of the following new/revised standards:

HKAS 1 (Amendment)

Capital Disclosures

HKFRS 7

Financial Instruments: Disclosures

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.



Notes to the Financial Statements (continued)

2. Financial risk management

This note presents financial information about the Group's exposure to the use of financial instruments.

A) Currency risk

Tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2006 and 31 December 2005. Included in the tables are the Group's assets and liabilities at carrying amounts in HK\$ equivalent, categorised by the original currency.

	At 30 June 2006								
	Renminbi		US Dollars	HK Dollars	EURO	Japanese Yen	Pound Sterling	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets									
Cash and balances with banks and other financial institutions	412,144	109,945	117,476	5,081	42,721	3,529	19,280	710,176	
Placements with banks and other financial institutions	58,513	2,702,463	8,454,684	157,133	-	145,833	1,674,414	13,193,040	
Other financial assets at fair value through profit or loss	-	1,057,193	83,778	-	-	-	-	1,140,971	
Derivative financial instruments	-	5,547	118,107	-	-	-	-	123,654	
Advances and other accounts	339,390	1,584,256	9,107,466	53,948	4,543	466	-	11,090,069	
Available-for-sale securities	-	-	20,609	199	-	-	3,132	23,940	
Held-to-maturity securities	-	763,791	3,556,254	-	-	-	-	4,320,045	
Properties, plant and equipment	-	-	550,220	-	-	-	-	550,220	
Investment properties	-	-	56,420	-	-	-	-	56,420	
Other assets (including deferred tax assets)	6,809	15,931	465,465	-	20	-	2,019	490,244	
Total assets	816,856	6,239,126	22,530,479	216,361	47,284	149,828	1,698,845	31,698,779	
Liabilities									
Deposits and balances of banks and other financial institutions	(104,369)	(101,211)	(47,214)	(8,953)	(162,470)	-	(97,734)	(521,951)	
Other financial liabilities at fair value through profit or loss	-	(1,519,466)	(1,367,476)	-	-	-	-	(2,886,942)	
Derivative financial instruments	-	(26,306)	(32,547)	-	-	-	-	(58,853)	
Deposits from customers	(470,912)	(4,458,866)	(15,998,400)	(165,547)	(59,265)	(136,950)	(1,542,822)	(22,832,762)	
Certificates of deposit issued	-	(211,245)	(147,105)	-	-	-	-	(358,350)	
Other accounts and provisions (including deferred tax liabilities)	(55,304)	(124,017)	(814,244)	(10,785)	(15,548)	(5,571)	(126,277)	(1,151,746)	
Total liabilities	(630,585)	(6,441,111)	(18,406,986)	(185,285)	(237,283)	(142,521)	(1,766,833)	(27,810,604)	
Net on-balance sheet position	186,271	(201,985)	4,123,493	31,076	(189,999)	7,307	(67,988)	3,888,175	
Off-balance sheet net notional position*	-	81,064	(209,220)	(29,427)	190,137	(6,336)	77,554	103,772	
Contingent liabilities and commitments	21,723	5,024,923	1,055,589	2,869	60,724	59,899	9,933	6,235,660	



Notes to the Financial Statements (continued)

2. Financial risk management (continued)

A) Currency risk (continued)

	At 31 December 2005							
	Renminbi	US Dollars	HK Dollars	EURO	Japanese Yen	Pound Sterling	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	397,961	201,817	206,667	13,280	37,487	2,778	15,757	875,747
Placements with banks and other financial institutions	-	2,001,178	6,203,362	220,752	-	248,661	1,616,007	10,289,960
Other financial assets at fair value through profit or loss	-	1,053,272	83,845	-	-	-	-	1,137,117
Derivative financial instruments	-	4,488	174,955	-	-	-	-	179,443
Advances and other accounts	226,152	2,182,066	8,261,552	44,866	173,494	2,639	-	10,890,769
Available-for-sale securities	-	-	20,609	185	-	-	6,158	26,952
Held-to-maturity securities	-	841,650	5,629,199	-	-	-	-	6,470,849
Loans and receivables	-	-	316,647	-	-	-	-	316,647
Properties, plant and equipment	-	-	548,573	-	-	-	-	548,573
Investment properties	-	-	53,940	-	-	-	-	53,940
Other assets (including deferred tax assets)	4,225	24,529	412,610	185	-	-	1,600	443,149
Total assets	628,338	6,309,000	21,911,959	279,268	210,981	254,078	1,639,522	31,233,146
Liabilities								
Deposits and balances of banks and other financial institutions	(31,268)	(126,444)	(56,354)	(2,382)	(373,923)	(2,331)	(41,098)	(633,800)
Other financial liabilities at fair value through profit or loss	-	(1,490,303)	(1,125,906)	-	-	-	-	(2,616,209)
Derivative financial instruments	-	(6,982)	(97,554)	-	-	-	-	(104,536)
Deposits from customers	(485,663)	(5,626,864)	(14,834,487)	(210,443)	(56,580)	(158,801)	(1,487,264)	(22,860,102)
Certificates of deposit issued	-	(212,968)	(147,880)	-	-	-	-	(360,848)
Other accounts and provisions (including deferred tax liabilities)	(35,682)	(163,777)	(501,921)	(9,866)	(19,255)	(9,583)	(126,391)	(866,475)
Total liabilities	(552,613)	(7,627,338)	(16,764,102)	(222,691)	(449,758)	(170,715)	(1,654,753)	(27,441,970)
Net on-balance sheet position	75,725	(1,318,338)	5,147,857	56,577	(238,777)	83,363	(15,231)	3,791,176
Off-balance sheet net notional position*	961	202,577	(214,443)	(56,075)	238,119	(83,320)	28,377	116,196
Contingent liabilities and commitments	11,101	1,089,014	4,679,139	55,665	43,322	916	16,436	5,895,593

* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements.



Notes to the Financial Statements (continued)

2. Financial risk management (continued)

B) Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2006 and 31 December 2005 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2006							Total
	On	Up to 1	1-3	3-12	1-5	Over 5	Undated	
	demand	month	months	months	years	years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	710,176	-	-	-	-	-	-	710,176
Placements with banks and other financial institutions	-	6,792,970	6,119,538	280,532	-	-	-	13,193,040
Other financial assets at fair value through profit or loss – debt securities – certificates of deposit held	-	-	-	-	315,453	-	-	315,453
– others	-	-	-	-	324,506	501,012	-	825,518
Derivative financial instruments	111,512	247	388	3,342	8,165	-	-	123,654
Advances and other accounts – advances to customers	1,497,481	527,239	942,557	1,405,941	2,962,169	3,481,392	70,248	10,887,027
– trade bills	-	99,590	96,218	7,234	-	-	-	203,042
Available-for-sale securities – equity securities	-	-	-	-	-	-	23,940	23,940
Held-to-maturity securities – debt securities – certificates of deposit held	-	40,738	232,183	419,920	57,109	-	-	749,950
– others	-	155,762	48,355	1,935,982	1,429,996	-	-	3,570,095
Properties, plant and equipment	-	-	-	-	-	-	550,220	550,220
Investment properties	-	-	-	-	-	-	56,420	56,420
Other assets (including deferred tax assets)	399,004	34,719	20	47,166	3,679	594	5,062	490,244
Total assets	2,718,173	7,651,265	7,439,259	4,100,117	5,101,077	3,982,998	705,890	31,698,779

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Chiyu Banking Corporation Ltd.

中國銀行(香港)有限公司附屬機構

Notes to the Financial Statements (continued)**2. Financial risk management (continued)****B) Liquidity risk (continued)**

	At 30 June 2006							
	On	Up to 1	1-3	3-12	1-5	Over 5	Undated	Total
	Demand	month	months	months	years	years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Deposits and balances of banks and other financial institutions	(177,189)	(288,249)	(12,519)	(43,994)	-	-	-	(521,951)
Other financial liabilities at fair value through profit or loss	-	-	(190,229)	(986,768)	(1,220,485)	(489,460)	-	(2,886,942)
Derivative financial instruments	(7,687)	(473)	(1,067)	(16,366)	(33,260)	-	-	(58,853)
Deposits from customers	(10,425,541)	(7,738,620)	(2,984,703)	(1,047,568)	(585,076)	(51,254)	-	(22,832,762)
Certificates of deposit issued	-	-	(69,376)	-	(288,974)	-	-	(358,350)
Other accounts and provisions (including deferred tax liabilities)	(725,596)	(85,543)	(198,410)	(133,170)	(8,207)	-	(820)	(1,151,746)
Total liabilities	(11,336,013)	(8,112,885)	(3,456,304)	(2,227,866)	(2,136,002)	(540,714)	(820)	(27,810,604)
Net liquidity gap	(8,617,840)	(461,620)	3,982,955	1,872,251	2,965,075	3,442,284	705,070	3,888,175



Notes to the Financial Statements (continued)

2. Financial risk management (continued)

B) Liquidity risk (continued)

	At 31 December 2005							Total
	On	Up to 1	1-3	3-12	1-5	Over 5	Undated	
	demand	month	months	months	years	years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	875,747	-	-	-	-	-	-	875,747
Placements with banks and other financial institutions	-	6,153,578	3,860,454	275,928	-	-	-	10,289,960
Other financial assets at fair value through profit or loss – debt securities – certificates of deposit held	-	-	-	-	275,008	47,143	-	322,151
– others	-	-	-	-	257,438	557,528	-	814,966
Derivative financial instruments	-	362	169,592	1,701	7,788	-	-	179,443
Advances and other accounts								
– advances to customers	1,095,005	651,056	752,506	1,239,134	3,052,855	3,250,078	61,511	10,102,145
– trade bills	-	142,559	593,447	52,618	-	-	-	788,624
Available-for-sale securities								
– equity securities	-	-	-	-	-	-	26,952	26,952
Held-to-maturity securities – debt securities								
– certificates of deposit held	-	-	706,123	376,119	529,253	-	-	1,611,495
– others	-	-	1,194,844	547,207	3,117,303	-	-	4,859,354
Loans and receivables	-	-	226,243	90,404	-	-	-	316,647
Properties, plant and equipment	-	-	-	-	-	-	548,573	548,573
Investment properties	-	-	-	-	-	-	53,940	53,940
Other assets (including deferred tax assets)	393,507	113	-	-	49,529	-	-	443,149
Total assets	2,364,259	6,947,668	7,503,209	2,583,111	7,289,174	3,854,749	690,976	31,233,146
Liabilities								
Deposits and balances of banks and other financial institutions	(155,699)	(142,330)	(248,969)	(86,802)	-	-	-	(633,800)
Other financial liabilities at fair value through profit or loss	-	-	(55,044)	(612,984)	(1,385,783)	(562,398)	-	(2,616,209)
Derivative financial instruments	-	(365)	(53,568)	(11,314)	(35,354)	(3,935)	-	(104,536)
Deposits from customers	(9,682,748)	(6,688,676)	(4,635,163)	(1,338,189)	(515,326)	-	-	(22,860,102)
Certificates of deposit issued	-	-	-	(67,734)	(293,114)	-	-	(360,848)
Other accounts and provisions (including deferred tax liabilities)	(706,772)	(516)	-	(155,791)	(3,396)	-	-	(866,475)
Total liabilities	(10,545,219)	(6,831,887)	(4,992,744)	(2,272,814)	(2,232,973)	(566,333)	-	(27,441,970)
Net liquidity gap	(8,180,960)	115,781	2,510,465	310,297	5,056,201	3,288,416	690,976	3,791,176



Notes to the Financial Statements (continued)

2. Financial risk management (continued)

B) Liquidity risk (continued)

The above maturity classifications have been prepared in accordance with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. In accordance with the guideline, the Group has reported assets such as advances and debt securities which have been overdue for not more than one month as “Repayable on demand”. In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as “Undated”. The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA. The disclosure does not imply that the securities will be held to maturity.

3. Net interest income

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest income		
Cash and due from banks and other financial institutions	296,399	134,510
Advances to customers	336,997	168,096
Listed investments	2,113	3,864
Unlisted investments	96,903	92,163
Others	4,967	5,577
	737,379	404,210
Interest expense		
Due to banks, customers and other financial institutions	(389,984)	(134,276)
Debt securities in issue	(5,465)	(5,188)
Others	(22,977)	(3,490)
	(418,426)	(142,954)
Net interest income	318,953	261,256

Included within interest income is HK\$1,760,000 of interest with respect to income recognised on advances classified as impaired for the first half of 2006 (first half of 2005: HK\$3,358,000).



Notes to the Financial Statements (continued)

4. Net fees and commission income

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Fees and commission income		
Securities brokerage	48,451	31,742
Credit cards	117	142
Bills commissions	18,806	18,665
Loan commissions	6,860	6,331
Payment services	8,591	7,092
Insurance	5,898	5,049
Asset management	8,705	2,434
Guarantees	662	624
Others		
- safe deposit box	5,729	5,613
- low deposit balance accounts	916	937
- currency exchange	126	180
- BOC cards	547	599
- dormant accounts	483	443
- agency services	267	149
- postage and telegrams	743	475
- information search	866	992
- correspondent banking	1,045	936
- sundries	8,736	15,215
	117,548	97,618
Fees and commission expenses	(17,428)	(14,683)
Net fees and commission income	100,120	82,935

5. Net trading income

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Net gain/(loss) from:		
- foreign exchange and foreign exchange products	18,574	16,952
- interest rate instruments	(680)	4,198
- equity instruments	-	(6)
	17,894	21,144

Foreign exchange net trading income includes gains and losses from forward contracts, options, swaps and translation of foreign currency assets and liabilities.



Notes to the Financial Statements (continued)

6. Net gain on investments in securities

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Net gain from disposal of available-for-sale securities	<u>3,134</u>	<u>-</u>

7. Other operating income

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Dividend income from investments in securities		
- listed investments	92	59
- unlisted investments	547	547
Gross rental income from investment properties	1,104	679
Less: Outgoings in respect of investment properties	(23)	(57)
Others	<u>1,394</u>	<u>262</u>
	<u>3,114</u>	<u>1,490</u>

8. Reversal of loan impairment allowances on advances

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Net reversal of loan impairment allowances on advances		
- Individually assessed	5,036	2,209
- Collectively assessed	<u>(2,054)</u>	<u>2,739</u>
	<u>2,982</u>	<u>4,948</u>
Of which		
- new allowances	(16,319)	(3,893)
- releases	18,207	7,862
- recoveries	<u>1,094</u>	<u>979</u>
Net credit to consolidated income statement	<u>2,982</u>	<u>4,948</u>



Notes to the Financial Statements (continued)

9. Operating expenses

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Staff costs (including directors' emoluments)		
- salaries and other costs	62,544	60,501
- termination benefit	-	79
- pension cost	5,239	5,257
	<u>67,783</u>	<u>65,837</u>
Premises and equipment expenses (excluding depreciation)		
- rental of premises	7,021	6,762
- information technology	11,554	11,385
- others	2,049	2,034
	<u>20,624</u>	<u>20,181</u>
Depreciation	6,118	5,890
Auditors' remuneration		
- audit services	176	240
Other operating expenses	13,862	13,111
	<u>108,563</u>	<u>105,259</u>

10. Net gain from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Net gain from disposal of properties, plant and equipment	4,146	132
Net gain from revaluation of properties, plant and equipment	138	-
Impairment losses on properties, plant and equipment	(3,510)	-
	<u>774</u>	<u>132</u>

11. Net gain from fair value adjustments on investment properties

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Net gain from fair value adjustments on investment properties	<u>2,480</u>	<u>3,919</u>



Notes to the Financial Statements (continued)

12. Taxation

Taxation in the consolidated income statement represents:

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Hong Kong profits tax		
- current period taxation	52,516	43,943
Deferred tax charge	28	297
Hong Kong profits tax	52,544	44,240
Overseas taxation	4,531	1,173
	57,075	45,413

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2006. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2006 at the rates of taxation prevailing in the countries in which the Group operates.

The taxation on the Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Profit before taxation	340,888	270,565
Calculated at a taxation rate of 17.5% (2005: 17.5%)	59,655	47,349
Effect of different taxation rates in other countries	(1,656)	(645)
Income not subject to taxation	(2,169)	(2,023)
Expenses not deductible for taxation purposes	1,217	435
Tax losses not recognised	28	297
Taxation charge	57,075	45,413
Effective tax rate	16.74%	16.78%

13. Dividends

	Half-year ended 30 June 2006		Half-year ended 30 June 2005	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
Interim dividend	66	198,000	56	168,000

At a meeting held on 20 June 2006, the Board declared an interim dividend of HK\$66 per ordinary share for the first half of 2006 amounting to approximately HK\$198,000,000.



Notes to the Financial Statements (continued)

14. Retirement benefit costs

The principal defined contribution schemes for the Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon termination of employment after completing 20 years of service, or at a scale ranging from 20% to 95% for employees who have completed between 3 to 20 years of service, on conditions of retirement, early retirement, permanent incapacity and ill-health or termination of employment other than summary dismissal.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee and the investment manager is BOCI-Prudential Manager, which are related parties of the Bank.

The Group's total contributions made to the ORSO schemes for the first half of 2006 amounted to approximately HK\$4,468,000 (first half of 2005: approximately HK\$4,775,000), after a deduction of forfeited contributions of approximately HK\$466,000 (first half of 2005: approximately HK\$290,000). For the MPF Scheme, the Group contributed approximately HK\$295,000 and HK\$157,000 for the first half of 2006 and 2005 respectively.

15. Share option schemes

(a) Share Option Scheme and Sharesave Plan

The principal terms of the Share Option Scheme and the Sharesave Plan were approved and adopted by written resolutions of all the shareholders of the Bank's intermediate holding company, BOC Hong Kong (Holdings) Limited ("BOCHKHL"), dated 10 July 2002.

The purpose of the Share Option Scheme is to provide the participants with the opportunity to acquire proprietary interests in the BOCHKHL. The Board of BOCHKHL (the "BOCHKHL Board") may, in its absolute discretion, offer to grant options under the Share Option Scheme to any person as the BOCHKHL Board may select. The subscription price for the shares shall be determined on the date of grant by the BOCHKHL Board as an amount per share calculated on the basis of established rules. An option may be exercised in whole or in part at any time after the date prescribed by the BOCHKHL Board and from time to time as specified in the offer and on or before the termination date prescribed by the BOCHKHL Board.

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of the BOCHKHL. The amount of the monthly contribution under the savings contract to be made in connection with an option shall be the amount which the relevant eligible employee is willing to contribute, which amount shall not be less than 1% and not more than 10% of the eligible employee's monthly salary as at the date of application or such other maximum or minimum amounts as permitted by the BOCHKHL Board. When an option is exercised during an exercise period, it may be exercised in whole or in part.



Notes to the Financial Statements (continued)

15. Share option schemes (continued)

(a) Share Option Scheme and Sharesave Plan (continued)

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2006.

(b) Pre-Listing Share Option Scheme

On 5 July 2002, several directors of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOC (BVI)"), the immediate holding company of the BOCHKHL, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 3,652,800 existing issued shares of the BOCHKHL. The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all options grants to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2006 are disclosed as follows:

	Total number of share options to Directors of the Group	Average exercise price (HK\$ per share)
At 1 January 2006	2,019,800	
Less: Share options exercised during the period	(160,000)	8.5
At 30 June 2006	1,859,800	
Exercisable at 30 June 2006	946,600	
At 1 January 2005	2,572,800	
Less: Share options exercised during the period	(553,000)	8.5
At 31 December 2005	2,019,800	
Exercisable at 31 December 2005	1,106,600	

Share options were exercised on a regular basis throughout the period, the weighted average share price during the period was HK\$ 15.88 (31 December 2005: HK\$15.01).

The options granted under this scheme can be exercised at HK\$8.50 per share in respect of the option price of HK\$1.00. These options have a vesting period of four years (25% of the number of shares subject to such options will vest at the end of each year) from the date on which dealings in the shares commenced on the Stock Exchange with a valid exercise period of ten years. No offer to grant any options under the Pre-Listing Share Option Scheme will be made on or after the date on which dealings in the shares commenced on the Stock Exchange.



Notes to the Financial Statements (continued)

16. Cash and balances with banks and other financial institutions

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Cash	116,619	114,902
Balances with banks and other financial institutions	593,557	760,845
	710,176	875,747

17. Placements with banks and other financial institutions

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Placements with banks and other financial institutions maturing within one month	6,792,970	6,153,578
Placements with banks and other financial institutions maturing between one and twelve months	6,400,070	4,136,382
	13,193,040	10,289,960

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Cash and balance with banks and other financial institutions (Note 16)	710,176	875,747
Placements with banks and other financial institutions within one month	13,193,040	10,289,960
Treasury bills (Note 22)	99,729	-
Cash and short-term funds	14,002,945	11,165,707



Notes to the Financial Statements (continued)

18. Other financial assets at fair value through profit or loss

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
At fair value		
Debt securities		
- Unlisted	1,140,971	1,137,117

Other financial assets at fair value through profit or loss are analysed by issuers as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Central governments and central banks	40,696	43,668
Banks and other financial institutions	1,100,275	1,093,449
	1,140,971	1,137,117

Other financial assets at fair value through profit or loss are classified as follows in:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Certificates of deposit held	315,453	322,151
Other financial assets at fair value through profit or loss	825,518	814,966
	1,140,971	1,137,117



Notes to the Financial Statements (continued)

19. Derivative financial instruments

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate for floating rate).

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

**Notes to the Financial Statements (continued)****19. Derivative financial instruments (continued)**

The following is a summary of the contract/notional amounts of each significant type of derivative financial instruments:

	At 30 June 2006		At 31 December 2005	
	Trading	Total	Trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts				
Spot and forward	1,582,135	1,582,135	3,728,130	3,728,130
Foreign currency option contracts				
- Options purchased	15,854	15,854	17,371	17,371
- Options written	15,854	15,854	17,371	17,371
	<u>1,613,843</u>	<u>1,613,843</u>	<u>3,762,872</u>	<u>3,762,872</u>
Interest rate contracts				
Swaps	<u>2,274,584</u>	<u>2,274,584</u>	<u>1,915,988</u>	<u>1,915,988</u>
Equity contracts				
Equity option contracts				
- Options purchased	22,285	22,285	23,065	23,065
- Options written	22,285	22,285	23,065	23,065
	<u>44,570</u>	<u>44,570</u>	<u>46,130</u>	<u>46,130</u>
Total	<u>3,932,997</u>	<u>3,932,997</u>	<u>5,724,990</u>	<u>5,724,990</u>



Notes to the Financial Statements (continued)

19. Derivative financial instruments (continued)

The following table summarises the fair values of each class of derivative financial instrument as at 30 June 2006 and 31 December 2005:

	At 30 June 2006		At 31 December 2005	
	Trading HK\$'000	Total HK\$'000	Trading HK\$'000	Total HK\$'000
Fair value assets				
Exchange rate contracts	111,869	111,869	169,828	169,828
Interest rate contracts	11,564	11,564	9,519	9,519
Equity contracts	221	221	96	96
	123,654	123,654	179,443	179,443
Fair value liabilities				
Exchange rate contracts	(8,162)	(8,162)	(53,633)	(53,633)
Interest rate contracts	(50,470)	(50,470)	(50,807)	(50,807)
Equity contracts	(221)	(221)	(96)	(96)
	(58,853)	(58,853)	(104,536)	(104,536)

The replacement costs and credit risk weighted amounts of the above derivative financial instruments, which do not take into account the effects of bilateral netting arrangements are as follows:

	At 30 June 2006	At 31 December 2005	At 30 June 2006	At 31 December 2005
	Credit risk weighted amount HK\$'000	HK\$'000	Replacement cost HK\$'000	HK\$'000
Exchange rate contracts	77	-	158	67
Interest rate contracts	1,091	1,290	747	613
Equity contracts	-	-	221	96
	1,168	1,290	1,126	776

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates and is calculated in accordance with the guidelines issued by the HKMA. Accrued interest has been excluded in the calculation.

The Group undertakes approximately 60% of its transactions in derivative financial instruments contracts with other financial institutions.



Notes to the Financial Statements (continued)

20. Advances and other accounts

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Corporate loans and advances	7,458,516	7,090,910
Personal loans and advances	3,473,587	3,063,441
Advances to customers	<u>10,932,103</u>	<u>10,154,351</u>
Loan impairment allowances		
- Individually assessed	(33,004)	(41,918)
- Collectively assessed	(12,072)	(10,288)
	<u>(45,076)</u>	<u>(52,206)</u>
Trade bills	<u>203,042</u>	<u>788,624</u>
Total	<u>11,090,069</u>	<u>10,890,769</u>

As at 30 June 2006, advances to customers include accrued interest on gross advances of HK\$34,077,000 (31 December 2005: HK\$31,633,000).

Impaired advances to customers are analysed as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Gross impaired advances to customers (Note)	<u>66,548</u>	<u>103,028</u>
Loan impairment allowances made in respect of such advances	<u>33,995</u>	<u>45,743</u>
Gross impaired advances to customers as a percentage of gross advances to customers	<u>0.61%</u>	<u>1.01%</u>

The above loan impairment allowances were made after taking into account the value of collateral in respect of such advances.

As at 30 June 2006 and 31 December 2005, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

Note:

Impaired advances to customers are those individual advances where full repayment of principal and/or interest is considered unlikely and are classified as such when such a situation becomes apparent. Accordingly, impaired advances represented advances, which have been classified as "substandard", "doubtful" and "loss" under the Group's classification of loan quality.



Notes to the Financial Statements (continued)

21. Available-for-sale securities

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Equity securities		
- Listed outside Hong Kong	3,132	6,158
- Unlisted	20,808	20,794
Total	<u>23,940</u>	<u>26,952</u>

Available-for-sale securities are analysed by issuers as follows:

Banks and other financial institutions	3,132	6,158
Corporate entities	20,808	20,794
	<u>23,940</u>	<u>26,952</u>

Available-for-sales securities are classified as follows in:

Other available-for-sale securities	<u>23,940</u>	<u>26,952</u>
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22. Held-to-maturity securities

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Listed, at amortised cost		
- in Hong Kong	-	306,783
- outside Hong Kong	78,357	78,237
	<u>78,357</u>	<u>385,020</u>
Unlisted, at amortised cost	<u>4,241,688</u>	<u>6,085,829</u>
Total	<u>4,320,045</u>	<u>6,470,849</u>
Market value of listed securities	<u>77,236</u>	<u>377,413</u>

Held-to-maturity securities are analysed by issuers as follows:

Central governments and central banks	99,729	306,783
Public sector entities	200,123	596,635
Banks and other financial institutions	4,020,193	5,567,431
	<u>4,320,045</u>	<u>6,470,849</u>

Held-to-maturity securities are classified as follows in :

Treasury bills	99,729	-
Certificates of deposit held	749,950	1,611,495
Other held-to-maturity securities	3,470,366	4,859,354
	<u>4,320,045</u>	<u>6,470,849</u>



Notes to the Financial Statements (continued)

23. Loans and receivables

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Unlisted, at amortised cost	-	316,647
Loans and receivables are analysed by issuers as follows:		
Banks and other financial institutions	-	316,647

24. Other financial liabilities at fair value through profit or loss

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Structured deposits (Note 25)	2,886,942	2,616,209
Certificates of deposit issued – at fair value through profit or loss (per consolidated balance sheet)	358,350	360,848
	3,245,292	2,977,057

The Group designated on initial recognition HK\$3,245,292,000 (31 December 2005: HK\$2,977,057,000) of financial liabilities at fair value through profit or loss. The amount of change in their fair values is attributable to changes in a benchmark interest rate. The difference between the carrying amount and the amount that the Group would be contractually required to pay at maturity to the holder of these financial liabilities is HK\$ 142,754,000 (31 December 2005: HK\$115,334,000).



Notes to the Financial Statements (continued)

25. Deposits from customers

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Current, savings and other deposit accounts (per consolidated balance sheet)	22,832,762	22,860,102
Structured deposits reported as other financial liabilities at fair value through profit or loss (Note 24)	2,886,942	2,616,209
	25,719,704	25,476,311
Analysed by :		
Demand deposits and current accounts		
- corporate customers	1,138,858	1,210,147
- individual customers	237,800	201,379
	1,376,658	1,411,526
Savings deposits		
- corporate customers	1,914,095	1,730,306
- individual customers	7,083,642	6,489,761
	8,997,737	8,220,067
Time, call and notice deposits		
- corporate customers	1,981,267	2,256,599
- individual customers	10,477,100	10,971,910
	12,458,367	13,228,509
	22,832,762	22,860,102

26. Deferred taxation

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts in accordance with HKAS 12 "Income taxes".

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the first half of 2006 and the year ended 31 December 2005 are as follows:

	2006				
	Accelerated tax depreciation HK\$'000	Asset revaluation HK\$'000	Losses HK\$'000	Provisions HK\$'000	Other temporary differences HK\$'000
At 1 January 2006	5,417	58,807	(314)	(1,824)	516
Charged/(credited) to income statement	399	434	-	(289)	(516)
Charged to equity	-	1,707	-	-	-
At 30 June 2006	5,816	60,948	(314)	(2,113)	-



Notes to the Financial Statements (continued)

26. Deferred taxation (continued)

	2005					
	Accelerated tax depreciation	Asset revaluation	Losses	Provisions	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	4,792	40,723	(271)	(3,301)	1,242	43,185
Charged/(credited) to income statement	625	1,443	(43)	1,477	(726)	2,776
Charged to equity	-	16,641	-	-	-	16,641
At 31 December 2005	<u>5,417</u>	<u>58,807</u>	<u>(314)</u>	<u>(1,824)</u>	<u>516</u>	<u>62,602</u>

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	At 30 June 2006	At 31 December 2005
	HK\$'000	HK\$'000
Deferred tax assets	84	117
Deferred tax liabilities	(64,421)	(62,719)
	<u>(64,337)</u>	<u>(62,602)</u>
	At 30 June 2006	At 31 December 2005
	HK\$'000	HK\$'000
Deferred tax assets to be recovered after more than twelve months	2,427	2,138
Deferred tax liabilities to be settled after more than twelve months	(5,816)	(5,418)
	<u>(3,389)</u>	<u>(3,280)</u>

27. Other accounts and provisions

	At 30 June 2006	At 31 December 2005
	HK\$'000	HK\$'000
Current taxation (Note)	61,068	31,015
Dividend payable	198,404	404
Accruals and other payables	827,853	772,337
	<u>1,087,325</u>	<u>803,756</u>
Note:		
Current taxation	At 30 June 2006	At 31 December 2005
	HK\$'000	HK\$'000
Hong Kong profits tax	58,643	28,926
Overseas taxation	2,425	2,089
	<u>61,068</u>	<u>31,015</u>



Notes to the Financial Statements (continued)

28. Share capital

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Authorised: 3,000,000 ordinary shares of HK\$100.00 each	<u>300,000</u>	<u>300,000</u>
Issued and fully paid: 3,000,000 ordinary shares of HK\$100.00 each	<u>300,000</u>	<u>300,000</u>

29. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on pages 3 and 4 of the financial statements.

30. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash inflow/(outflow) before taxation:

	Half-year ended At 30 June 2006 HK\$'000	Half-year ended At 30 June 2005 HK\$'000
Operating profit	337,634	266,514
Dividend income from investments in securities	(639)	(606)
Depreciation	6,118	5,890
Gain from disposal of available-for-sales securities	(3,134)	-
Impairment loss on loans and advances	(2,982)	(4,948)
Advances written off net of recoveries	(2,387)	(26,973)
Change in placements with banks and other financial institutions with original maturity over three months	(1,785,919)	(230,748)
Change in other financial assets at fair value through profit or loss	(3,854)	(45,691)
Change in derivative financial instruments	10,106	56,390
Change in advances and other accounts	(193,930)	(977,276)
Change in available-for-sale securities	-	953
Change in held-to-maturity securities	2,250,533	(784,906)
Change in loans and receivables	316,647	-
Change in other assets	(47,128)	(349,600)
Change in deposits and balances of banks and other financial institutions repayable over three months	549	921,802
Change in other financial liabilities at fair value through profit or loss	270,733	889,565
Change in deposits from customers	(27,340)	(286,995)
Change in certificates of deposit issued	(2,498)	(4,201)
Change in other accounts and provisions	55,516	(66,034)
Exchange difference	27	(49)
Operating cash inflow/(outflow) before taxation	<u>1,178,052</u>	<u>(636,913)</u>



Notes to the Financial Statements (continued)

30. Notes to consolidated cash flow statement (continued)

(b) Analysis of the balances of cash and cash equivalents

	At 30 June 2006	At 30 June 2005
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	710,176	900,178
Placements with banks and other financial institutions with original maturity within three months	9,738,536	9,633,509
Treasury bills with original maturity within three months	99,729	-
Deposits and balances of banks and other financial institutions with original maturity within three months	(260,265)	(518,376)
	<u>10,288,176</u>	<u>10,015,311</u>

31. Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the corresponding aggregate credit risk weighted amount:

	At 30 June 2006	At 31 December 2005
	HK\$'000	HK\$'000
Direct credit substitutes	20,740	19,950
Transaction-related contingencies	113,718	102,261
Trade-related contingencies	920,054	918,940
Other commitments with an original maturity of		
- under one year or which are unconditionally cancellable	4,330,271	3,898,649
- one year and over	850,877	955,793
	<u>6,235,660</u>	<u>5,895,593</u>
Credit risk weighted amount	<u>629,669</u>	<u>670,750</u>

The calculation basis of credit risk weighted amount has been set out in Note 19 to the financial statements.

32. Operating lease commitments

(a) The Group as lessee

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

	At 30 June 2006	At 31 December 2005
	HK\$'000	HK\$'000
Land and buildings		
- not later than one year	11,479	11,385
- later than one year but not later than five years	11,776	9,135
- later than five years	-	184
	<u>23,255</u>	<u>20,704</u>

Certain non-cancellable operating leases included in the above were subject to renegotiation and rent adjustment with reference to market rates prevailing at specified agreed dates.



Notes to the Financial Statements (continued)

32. Operating lease commitments (continued)

(b) The Group as lessor

The Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Land and buildings		
- not later than one year	1,858	1,712
- later than one year but not later than five years	1,232	1,675
	<u>3,090</u>	<u>3,387</u>

The Group leases its investment properties under operating lease arrangements, with leases typically for a period from one to three years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. None of the leases includes contingent rentals.

33. Segmental reporting

The Group engages in many businesses in several regions. For segmental reporting purposes, information is solely provided in respect of business segments. Geographical segment information is not presented because over 90% of the Group's revenues, profits before tax and assets are derived from Hong Kong.

Information about five business segments is provided in segmental reporting. They are Retail Banking, Corporate Banking, Treasury, Investment Activities and Unallocated.

Both Retail Banking and Corporate Banking segments provide general banking services. Retail Banking mainly serves individual customers and small companies. Corporate Banking mainly manages medium to large companies. Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. Investment Activities include the Group's holdings of premises and investment properties. The segment "Unallocated" refers to those items related to the Group as a whole but independent of the other four business segments.

Revenues, expenses, assets and liabilities of any business segment mainly include items directly attributable to the segment. Regarding occupation of the Group's premises, rentals are internally charged on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. Inter-segment fund flows are charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such flow is mainly made by reference to the corresponding money market rate. Although there are internal charges on funds transferred between business segments, no assets and liabilities are created in any form for any segment in respect of such transfers for segmental reporting purposes.



Notes to the Financial Statements (continued)

33. Segmental reporting (continued)

	Half-year ended 30 June 2006							
	Retail HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Unallocated HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Net interest income/(expenses)	146,471	100,370	84,723	(12,611)	-	318,953	-	318,953
Net fees and commission income/(expenses)	67,574	32,879	(189)	-	(144)	100,120	-	100,120
Net trading income/(expenses)	12,820	4,020	1,054	-	-	17,894	-	17,894
Net gain on investments in securities	-	-	-	3,134	-	3,134	-	3,134
Other operating income	1,255	138	-	13,646	-	15,039	(11,925)	3,114
Net operating income before loan impairment allowances	228,120	137,407	85,588	4,169	(144)	455,140	(11,925)	443,215
Reversal of loan impairment allowances on advances	(581)	3,563	-	-	-	2,982	-	2,982
Net operating income/(expenses)	227,539	140,970	85,588	4,169	(144)	458,122	(11,925)	446,197
Operating expenses	(82,188)	(22,483)	(2,362)	(4,053)	(9,402)	(120,488)	11,925	(108,563)
Operating profit/(loss)	145,351	118,487	83,226	116	(9,546)	337,634	-	337,634
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	774	-	774	-	774
Net gain from fair value adjustments on investment properties	-	-	-	2,480	-	2,480	-	2,480
Profit/(loss) before taxation	145,351	118,487	83,226	3,370	(9,546)	340,888	-	340,888
At 30 June 2006								
Assets								
Segment assets	4,630,910	7,460,956	18,986,523	613,316	7,074	31,698,779	-	31,698,779
Liabilities								
Segment liabilities	23,533,398	3,382,927	552,996	198,825	142,458	27,810,604	-	27,810,604
Half-year ended 30 June 2006								
Other information								
Additions of properties, plant and equipment	-	-	-	2,384	-	2,384	-	2,384
Depreciation	2,806	383	34	2,813	82	6,118	-	6,118
Amortisation of securities	-	-	(29,581)	-	-	(29,581)	-	(29,581)



Notes to the Financial Statements (continued)

33. Segmental reporting (continued)

	Half-year ended 30 June 2005							
	Retail	Corporate	Treasury	Investment	Unallocated	Subtotal	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income/(expenses)	131,566	68,395	66,645	(5,350)	-	261,256	-	261,256
Net fees and commission income/(expenses)	53,729	29,497	(291)	-	-	82,935	-	82,935
Net trading income/(expenses)	10,301	3,362	7,485	(4)	-	21,144	-	21,144
Other operating income	55	196	11	12,478	-	12,740	(11,250)	1,490
Net operating income before loan impairment allowances	195,651	101,450	73,850	7,124	-	378,075	(11,250)	366,825
Reversal of loan impairment allowances on advances	1,196	3,752	-	-	-	4,948	-	4,948
Net operating income/(expenses)	196,847	105,202	73,850	7,124	-	383,023	(11,250)	371,773
Operating expenses	(69,002)	(21,050)	(1,680)	(7,167)	(17,610)	(116,509)	11,250	(105,259)
Operating profit/(loss)	127,845	84,152	72,170	(43)	(17,610)	266,514	-	266,514
Net gain from disposal/revaluation of properties, plant and equipment	-	-	-	132	-	132	-	132
Net gain from fair value adjustments on investment properties	-	-	-	3,919	-	3,919	-	3,919
Profit/(loss) before taxation	127,845	84,152	72,170	4,008	(17,610)	270,565	-	270,565
At 31 December 2005								
Assets								
Segment assets	4,063,856	7,272,168	19,191,556	700,944	4,622	31,233,146	-	31,233,146
Liabilities								
Segment liabilities	23,456,852	3,012,904	856,335	861	115,018	27,441,970	-	27,441,970
Half-year ended 30 June 2005								
Other information								
Additions of properties, plant and equipment	-	-	-	5,748	-	5,748	-	5,748
Depreciation	3,172	130	25	2,483	80	5,890	-	5,890
Amortisation of securities	-	-	(9,681)	-	-	(9,681)	-	(9,681)



Notes to the Financial Statements (continued)

34. Significant related party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or other entities.

Transactions with related parties, which the Group entered into during the period/year are summarised as follows:

(a) Summary of transactions entered into during the ordinary course of business with BOC group companies

The aggregate income and expenses arising from related party transactions with the immediate holding company, the intermediate holding companies of the Bank as well as subsidiaries and associates of BOC are summarised as follows:

	Notes	Half-year ended 30 June 2006	
		Immediate and intermediate holding companies	Other related parties ¹
		HK\$'000	HK\$'000
Income statement items:			
Interest income	(i)	29,521	8,513
Interest expense	(ii)	(6,979)	(1,857)
Insurance commission received (net)	(iii)	-	5,099
Administrative services fees paid/payable	(iv)	(12,091)	(1,875)
Securities brokerage commission paid/payable (net)	(v)	-	(3,910)
Rental, property management and letting agency fees paid/payable	(v)	(567)	-
Funds selling commission received	(vi)	-	418

Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

	Notes	Half-year ended 30 June 2005	
		Immediate and intermediate holding companies	Other related parties ¹
		HK\$'000	HK\$'000
Income statement items:			
Interest income	(i)	32,794	4,895
Interest expense	(ii)	(1,317)	(6,987)
Insurance commission received (net)	(iii)	-	3,662
Administrative services fees paid/payable	(iv)	(11,689)	(1,599)
Securities brokerage commission paid/payable (net)	(v)	-	(3,521)
Rental, property management and letting agency fees paid/payable	(v)	(567)	-
Funds selling commission received	(vi)	-	888

	Notes	At 30 June 2006	
		Immediate and intermediate holding companies	Other related parties ¹
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and balances with banks and other financial institutions	(i)	416,428	975
Placements with banks and other financial institutions	(i)	2,264,864	148,579
Derivative financial instruments assets	(vii)	962	-
Advances and other accounts	(i)	-	250,330
Other assets	(viii)	68,013	126,478
Deposits and balances of banks and other financial institutions	(ii)	(397,486)	-
Deposits from customers	(ii)	-	(110,079)
Derivative financial instruments liabilities	(vii)	(8,491)	-
Other accounts and provisions	(viii)	(226,601)	(66,851)

	Notes	At 31 December 2005	
		Immediate and intermediate holding companies	Other related parties ¹
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and balances with banks and other financial institutions	(i)	532,518	1,104
Placements with banks and other financial institutions	(i)	1,543,693	85,415
Derivative financial instruments assets	(vii)	735	-
Advances and other accounts	(i)	-	251,387
Other assets	(viii)	36,693	36,000
Deposits and balances of banks and other financial institutions	(ii)	(573,176)	-
Deposits from customers	(ii)	-	(567,414)
Derivative financial instruments liabilities	(vii)	(8,290)	-
Other accounts and provisions	(viii)	(117,996)	(69,147)

¹ Subsidiaries and associates of BOC and post-employment benefit plans for the benefit of employees of the Bank are collectively disclosed as other related parties and certain of which are state-controlled entities.



Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes:

(i) Interest income, balances with banks and other financial institutions and advances and other accounts

In the ordinary course of business, the Group enters into various transactions with BOC and its subsidiaries and associates including deposit of cash and balances with banks and other financial institutions, placement of interbank deposits and provision of loans and credit facilities. The transactions were conducted at prices and terms that are no more favourable than those charged to and contracted with other third party customers of the Group.

(ii) Interest expense, and deposits with banks, other financial institutions and customers

In the ordinary course of business, the Group accepts interbank deposits and current, fixed, savings and other deposits from the immediate holding company, intermediate holding companies and subsidiaries and associates of BOC at the relevant market rates at the time of the transactions.

(iii) Insurance commission received (net)

In the ordinary course of business, the Group provides insurance agency services to and purchases general and life insurance policies from subsidiaries of BOC at the relevant market rates at the time of the transactions.

(iv) Administrative services fees and rental fees paid/payable

In the ordinary course of business, the Group pays administrative services fees for the provision of various administrative services including internal audit, technology, human resources support and training to the intermediate holding company and subsidiaries of BOC. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of transactions.



Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC group companies (continued)

Notes: (continued)

(v) Commission, property management, letting agency fees and rental fees paid/payable

In the ordinary course of business, the Group pays commission fees for securities brokerage services, property management and letting agency fees to BOC and its subsidiaries. The Group also pays rental fees to subsidiaries of BOC. These transactions have been entered into in the ordinary course of business and were priced at the relevant market rates at the time of the transactions.

(vi) Funds selling commission received

In the ordinary course of business, the Group receives commission for engaging in promotion and sale of fund products of a subsidiary of BOC to customers of the Group at the relevant market rates at the time of the transactions.

(vii) Derivative financial instruments assets/liabilities

In the ordinary course of business, the Group enters into foreign exchange contracts and interest rate contracts with BOC and its subsidiaries. The aggregate notional amount of such derivative transactions amounted to HK\$ 308,741,000 as at 30 June 2006 whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$962,000 and HK\$8,491,000 respectively as at that date. These transactions are executed at the relevant market rates at the time of the transactions.

(viii) Other assets and other accounts and provisions

Included within "Other assets" and "Other accounts and provisions" are receivables from and payables to intermediate holding companies and subsidiaries of BOC. The amounts mainly represent the accounts receivables from and payables to a subsidiary of BOC in relation to dealing securities trading transactions on behalf of the Group's customers. The receivables and payables arose from transactions carried out in the normal course of business.

(b) Contingent liabilities and commitments

In the ordinary course of business, the Group provides loan facilities and trade finance services to, and guarantees for the obligations of BOC and its subsidiaries and associates on normal commercial terms. As at 30 June 2006, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$911,000 (31 December 2005: HK\$911,000).



Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(c) Key management personnel

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Senior Management. The Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior periods, no material transaction was conducted with key management personnel of the Group, its holding companies and parties related to them.

The key management compensation for the six months ended 30 June 2006 and 2005 is detailed as follows:

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Salaries and other short-term employee benefits	2,265	3,219

(d) Transactions with Ministry of Finance and The People's Bank of China

The Group enters into banking transactions with these entities in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions. The outstanding balances at the period/year end, and the related income and expense for the period are as follows:

(i) Treasury bonds

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest income	1,326	1,428
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	38,768	50,245
Outstanding balance at end of the period/year	38,836	38,768

(ii) Due from banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest income	508	577
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	132,070	76,401
Outstanding balance at end of the period/year	150,627	132,070



Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(e) Transactions with Central SAFE and other companies controlled by Central SAFE

Central SAFE is the controlling entity of BOC. Central SAFE is approved by the State Council of the PRC to assume the rights and obligations of the equity owner on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State, has become the ultimate holding company of the Group by virtue of its interest in BOC.

The Group did not have any balances and enter into any transactions with Central SAFE for the six months ended 30 June 2006 and 2005 respectively.

Central SAFE has controlling equity interests in certain other banks in the PRC. The Group enters into banking transactions with these companies in the normal course of business. These include loans and money market transactions. The outstanding balances at the period/year end, and the related income and expense for the period are as follows:

(i) Due from banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest income	4,154	884
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	204,295	-
Outstanding balance at end of the period/year	233,016	204,295



Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(f) Transactions with other state-controlled entities

The state-controlled entities are those, other than BOC (the intermediate holding company and its subsidiaries) and Central SAFE and its controlled companies over which the PRC government directly or indirectly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies through its government authorities, agencies and affiliates. Accordingly, the Group has extensive transactions with other state controlled entities. These transactions, conducted in the ordinary course of business, may include, but are not limited to, the following:

- lending, provision of credits and guarantees and deposit taking;
- inter-bank balance taking and placing;
- sale, purchase, underwriting and redemption of bonds issued by other state-controlled entities;
- rendering of foreign exchange, remittance, investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.

Utilities, transport, telecommunication and postal services are charged by service providers at market rates. Management believes that, based on their assessment, the amounts of such related party transactions are insignificant for the period and therefore are not disclosed below. Details of other transactions are set forth below.

The Group enters into banking transactions with other state-controlled entities in the ordinary course of business. These include loans, deposits, money market transactions and off-balance sheet exposures. The outstanding balances and related provisions at the period/year end, and the related income and expenses for the period are as follows:

(i) Advances to customers/banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest income	17,108	10,220
Charge/(reversal) of individually assessed loan impairment allowances	348	(1,222)
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	679,561	562,136
Outstanding balance at end of the period/year	629,883	679,561
Less: individually assessed loan impairment allowances	(411)	(64)
	629,472	679,497



Notes to the Financial Statements (continued)

34. Significant related party transactions (continued)

(f) Transactions with other state-controlled entities (continued)

(ii) Due from banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest expense	14,192	3,431
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	626,085	260,000
Outstanding balance at end of the period/year	685,040	626,085

(iii) Due to banks and other financial institutions

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest expense	230	38
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	26,479	5,073
Outstanding balance at end of the period/year	27,924	26,479

(iv) Deposits from customers

	Half-year ended 30 June 2006 HK\$'000	Half-year ended 30 June 2005 HK\$'000
Interest expense	3,624	1,149
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Outstanding balance at beginning of the period/year	296,629	315,929
Outstanding balance at end of the period/year	344,243	296,629

(v) Contingent liabilities and commitments (including guarantees)

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
	860,565	801,730



Notes to the Financial Statements (continued)

35. Ultimate holding company

BOC was the Group's ultimate holding company before August 2004. Following the reorganisation of BOC in August 2004, Central SAFE (previously known as China SAFE Investments Ltd) holds controlling equity capital of BOC on behalf of the State. Accordingly, Central SAFE, acting on behalf of the State has become the ultimate holding company of the Group whilst BOC has become the Group's intermediate holding company.

36. Comparative amounts

Certain comparative figures have been reclassified to conform with the current period's presentation.

37. Statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 22 March 2006.



Supplementary Financial Information

1. Capital adequacy ratio

	At 30 June 2006	At 31 December 2005
Capital adequacy ratio	24.85%	25.34%
Adjusted capital adequacy ratio	24.61%	25.24%

The Capital adequacy ratio ("CAR") is computed on the combined basis that comprises the positions of Bank and overseas branches specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

The adjusted CAR taking into account market risk exposure as at the balance sheet date is computed in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manual issued by the HKMA and on the same basis as for the unadjusted CAR.

2. Components of capital base after deductions

The combined capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2006 and 31 December 2005 and reported to the HKMA is analysed as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	3,069,194	2,905,343
Profit and loss account	128,729	160,413
	3,497,923	3,365,756
Supplementary capital:		
Premises and investment properties revaluation reserves	224	224
Reserves on revaluation of holding of securities not held for trading purposes	(118,858)	(73,800)
Collective loan impairment allowances	12,072	10,288
Regulatory reserve	155,227	153,807
	3,546,588	3,456,275
Total capital base		
	3,546,588	3,456,275
Deduction from total capital base:		
Shareholdings in subsidiaries or holding company	(3,913)	(3,913)
Exposures to connected companies	(76,719)	(76,341)
Investments in the capital of other banks or other financial institutions	(3,132)	(6,158)
	(83,764)	(86,412)
Total capital base after deductions	3,462,824	3,369,863

Supplementary Financial Information (continued)

3. Liquidity ratio

	Half-year ended 30 June 2006	Half-year ended 30 June 2005
Average liquidity ratio	42.51%	46.79%

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of Bank for the period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

4. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions. The net options position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the HKMA.

	At 30 June 2006							
	Equivalent in thousand of HK\$							
	US Dollars	Swiss Francs	Euro Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	6,634,750	1,173	216,980	1,022,817	591,076	800,347	280,541	9,547,684
Spot liabilities	(6,707,906)	(100,893)	(186,384)	(980,096)	(545,009)	(680,614)	(522,408)	(9,723,310)
Forward purchases	120,295	126,159	11,108	9,232	1,896	2,942	263,714	535,346
Forward sales	(62,030)	(25,830)	(40,535)	(47,241)	(46,277)	(224)	(20,297)	(242,434)
Net long/(short) position	(14,891)	609	1,169	4,712	1,686	122,451	1,550	117,286
Net structural position	-	-	-	-	-	58,286	-	58,286
	At 31 December 2005							
	Equivalent in thousand of HK\$							
	US Dollars	Swiss Francs	Japanese Yens	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others	Total
Spot assets	6,536,498	2,429	213,993	1,062,912	466,985	340,552	633,397	9,256,766
Spot liabilities	(6,328,148)	(53,775)	(452,669)	(1,024,152)	(435,713)	(296,682)	(533,670)	(9,124,809)
Forward purchases	301,029	56,722	290,005	16,791	11,927	961	64,294	741,729
Forward sales	(117,053)	(4,724)	(51,886)	(50,413)	(42,814)	-	(162,801)	(429,691)
Net long/(short) position	392,326	652	(557)	5,138	385	44,831	1,220	443,995
Net structural position	-	-	-	-	-	28,824	-	28,824



Supplementary Financial Information (continued)

5. Segmental information

(a) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	424,016	478,299
- Property investment	1,889,109	1,668,561
- Financial concerns	678,355	552,239
- Stockbrokers	4,894	7,648
- Wholesale and retail trade	650,035	642,622
- Manufacturing	1,037,006	965,418
- Transport and transport equipment	111,462	102,545
- Others	903,117	795,224
Individuals		
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	121,801	132,149
- Loans for purchase of other residential properties	2,446,988	2,427,885
- Others	809,602	439,255
Total loans for use in Hong Kong	9,076,385	8,211,845
Trade finance	853,029	1,029,034
Loans for use outside Hong Kong	1,002,689	913,472
Gross advances to customers	<u>10,932,103</u>	<u>10,154,351</u>

(b) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and advances overdue for over three months is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

(i) Gross advances to customers

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Hong Kong	9,932,488	9,224,250
Mainland China	999,615	930,101
	<u>10,932,103</u>	<u>10,154,351</u>



Supplementary Financial Information (continued)

5. Segmental information (continued)

(b) Geographical analysis of gross advances to customers and overdue advances (continued)

(ii) Advances overdue for over three months

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Hong Kong	41,551	68,967
Mainland China	8,628	18,607
	50,179	87,574

6. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

	Banks and other financial institutions HK\$' 000	Others HK\$' 000	Total HK\$' 000
At 30 June 2006			
Asia, other than Hong Kong			
- Mainland China	3,292,000	858,000	4,150,000
- Others	3,195,000	448,000	3,643,000
	6,487,000	1,306,000	7,793,000
Western Europe	9,441,000	264,000	9,705,000
Total	15,928,000	1,570,000	17,498,000
At 31 December 2005			
Asia, other than Hong Kong			
- Mainland China	3,242,000	55,000	3,297,000
- Others	3,461,000	81,000	3,542,000
	6,703,000	136,000	6,839,000
North America			
- United States	1,999,000	-	1,999,000
- Others	478,000	1,000	479,000
	2,477,000	1,000	2,478,000
Western Europe	8,360,000	249,000	8,609,000
Total	17,540,000	386,000	17,926,000



Supplementary Financial Information (continued)

7. Overdue and rescheduled assets

(a) Gross amount of overdue loans

	At 30 June 2006		At 31 December 2005	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers
	HK\$'000		HK\$'000	
Gross advances to customers which have been overdue for:				
- six months or less but over three months	6,303	0.06%	3,069	0.03%
- one year or less but over six months	1,236	0.01%	485	0.00%
- over one year	42,640	0.39%	84,020	0.83%
Advances overdue for over three months	50,179	0.46%	87,574	0.86%

As at 30 June 2006 and 31 December 2005, there were no advances to banks and other financial institutions that were overdue for over three months.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is overdue and remains unpaid. Advances 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 instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

(b) Rescheduled advances to customers

	At 30 June 2006		At 31 December 2005	
	Amount	% of gross advances to customers	Amount	% of gross advances to customers
	HK\$'000		HK\$'000	
Rescheduled advances to customers	1,351	0.01%	702	0.01%

As at 30 June 2006 and 31 December 2005, there were no rescheduled advances to banks and other financial institutions.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances. Rescheduled advances are stated before deduction of loan impairment allowances.



Supplementary Financial Information (continued)

8. Repossessed assets held

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Estimated market value of repossessed assets held	69,980	79,950

Repossessed assets are properties or securities in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

9. Compliance with the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions”

The interim report for the first half of 2006 fully complies with the requirements set out in the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the HKMA.

10. Compliance with HKAS 34

The interim report for the first half of 2006 complies with HKAS 34 “Interim Financial Reporting” issued by the HKICPA.



Review and Prospects by Management

Hong Kong economy has continued its strong performance and sustained robust growth in the first half of 2006. The improvements of corporate results during the period have contributed to a low level of unemployment rate and surge in personal income. Capitalization and trading activities have been flourishing in the stock market. The property market was consolidating following the recent phase of price movements. The Hong Kong economy has resumed sustainable growth in the sectors of external trade, domestic consumptions and investments. With the notable growth momentum of Mainland China, enterprises are now facing a wider expansion horizon. Amidst the intense competition in the banking sector, banks in Hong Kong have achieved considerable growth in their operating income.

For the first half of 2006, the Group recorded a profit attributable to shareholders of HK\$ 284 million, up 26.05% from the same period last year. The return on average total assets and the return on average shareholders' funds were 1.82% and 14.91% respectively, increased by 0.38 and 2.15 percentages against the first half of 2005.

The improvement in performance was attributable mainly to higher operating income, recorded a 20.82% increment compared with the first half of 2005. Net interest income increased by HK\$58 million or 22.08% to HK\$319 million on a comparable basis. Net interest margin was 2.07%, or 31 basis points higher than the same period in last year. During the period, the Group's non-interest income to total income ratio dropped slightly from 28.78% in 2005 to 28.04%. Other operating income was HK\$124 million, HK\$18 million or 17.71% higher than that of the first half of 2005 on a comparable basis. Operating expenses rose mildly by HK\$4 million to HK\$109 million, which caused the cost-to-income ratio lowered to 24.49% as compared with 28.69% last year.

For the six months period ended 30 June 2006, the Group recorded an increase in the total consolidated asset by HK\$466 million or 1.49% to HK\$31,699 million. Loans and advances to customers increased by 7.66% to HK\$10,932 million. Deposits from customers increased by 0.96% to HK\$25,720 million.

Looking forward to the second half of the year, the Group will keep improving the customer services standard and enriching the variation of wealth management products, with a mission to enhance customers' return and serve their diverse needs. Extensive efforts will be put in upgrading the branch services and facilities, aiming to offer customers with a convenient and comfortable banking environment. Different service teams and platforms will also be enhanced for serving the changing needs of different customer groups. To serve the growing needs of cross-border banking services, we will provide our corporate customers with a better business solution, backing by our experienced staff and network in both Hong Kong and Mainland China. At the same time, significant resources will be allocated to the aspects of risk management and internal control in order to achieve good corporate governance.



Independent Review Report

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHIYU BANKING CORPORATION LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by Chiyu Banking Corporation Limited and its subsidiaries ("the Group") to review the interim financial report set out on pages 1 to 42.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standards 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 August 2006



Branch Network

BRANCH (Br.)	ADDRESS	TELEPHONE
<u>HONG KONG ISLAND</u>		
Central Br.	78, Des Voeux Road Central, Hong Kong	2843 1817
North Point Br.	390-394 King's Road, North Point, Hong Kong	2570 6381
Wanchai Br.	325 Hennessy Road, Wanchai, Hong Kong	2572 2823
Sheung Wan Br.	22-24 Bonham Strand West, Hong Kong	2544 1678
Western Br.	443 Queen's Road West, Hong Kong	2548 2298
Quarry Bay Br.	997 King's Road, Quarry Bay, Hong Kong	2811 3131
<u>KOWLOON</u>		
Hung Hom Br.	23-25 Gillies Avenue, Hung Hom, Kowloon	2362 0051
Kwun Tong Br.	42-44 Mut Wah Street, Kwun Tong, Kowloon	2343 4174
Sham Shui Po Br.	235-237 Laichikok Road, Kowloon	2789 8668
San Po Kong Br.	61-63 Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Br.	117-119 Shanghai Street, Yau Ma Tei, Kowloon	2332 2533
Castle Peak Road Br.	226-228 Castle Peak Road, Kowloon	2720 5187
Kowloon Bay Br.	Shop 10, G/F., Kai Lok House, Kai Yip Estate, Kowloon Bay, Kowloon	2796 8968
Tokwawan Br.	G/F, Shop 11-13, 78 Tokwawan Road, Kowloon	2765 6118
Tsz Wan Shan Br.	Shop 202, 2/F., Tsz Wan Shan Shopping Centre, 23 Yuk Wah ST., Tsz Wan Shan	2322 3313
<u>NEW TERRITORIES</u>		
Tuen Mun Yau Oi Estate Br.	Shop 103-104, G/F Restaurant Block Yau Oi Estate Tuen Mun N. T.	2452 3666
Kwai Hing Estate Br.	Shop 1, G/F, Hing Yat House, Kwai Hing Estate, Kwai Chung, N. T.	2487 3332
Tai Po Tai Wo Estate Br.	Shop 112-114, G/F., On Wo House, Tai Wo Estate, Tai Po, N. T.	2656 3386
Belvedere Garden Br.	Shop 5A, G/F., Belvedere Square, Tsuen Wan, N.T	2411 6789
Tsuen Wan Br.	Shop 1 and 1D, Level 2, Discovery Park Commercial Centre, Tsuen Wan, N.T.	2413 8111
Shatin Sui Wo Court Br.	Shop F7, Commercial Centre, Sui Wo Court, Shatin, N.T.	2601 5888
Ma On Shan Br.	Shop 313, Level 3, Ma On Shan Plaza Bayshore Tower, Ma On Shan, N.T.	2640 0733
Sheung Tak Estate Br.	Shop 238, Sheung Tak Shopping Centre, Sheung Tak Est., Tseung Kwan O, N.T.	2178 2278
<u>THE MAINLAND OF CHINA</u>		
Xiamen Branch	1/F, 859 Xiahe Road, Xiamen, Fujian Province, China	(86-592) 585 1691
Fuzhou Branch	1/F, International Bldg., 210 Wusi Road, Fuzhou, Fujian Province, China	(86-591) 781 0078