

2007



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

Interim Report



CONTENTS	PAGE
Consolidated Income Statement	3
Consolidated Balance Sheet	4
Consolidated Statement of Changes in Equity	5
Consolidated Cash Flow Statement	7
Notes to the Financial Statements	
1. Basis of preparation and accounting policies	8
2. Critical accounting estimates and judgements in applying accounting policies	8
3. Financial risk management	9
4. Net interest income	13
5. Net fees and commission income	14
6. Net trading income	14
7. Net gain/(loss) on financial instruments designated at fair value through profit or loss	15
8. Net gain on investments in securities	15
9. Other operating income	15
10. (Charge for)/reversal of loan impairment allowances	15
11. Operating expenses	16
12. Net gain from disposal of/fair value adjustments on investment properties	16
13. Net (loss)/gain from disposal/revaluation of properties, plant and equipment	16
14. Taxation	17
15. Dividends	17
16. Retirement benefit costs	18
17. Share option schemes	19
18. Cash and balances with banks and other financial institutions	21
19. Financial assets designated at fair value through profit or loss	21
20. Derivative financial instruments	22
21. Advances and other accounts	24
22. Investment in securities	25
23. Investment properties	26
24. Properties, plant and equipment	27
25. Other assets	27
26. Financial liabilities designated at fair value through profit or loss	28
27. Deposits from customers	28
28. Other accounts and provisions	28
29. Deferred taxation	29
30. Share capital	30
31. Reserves	30
32. Notes to consolidated cash flow statement	31
33. Contingent liabilities and commitments	32
34. Capital commitments	32
35. Operating lease commitments	33
36. Segmental reporting	34
37. Significant related party transactions	37
38. Ultimate holding company	47
39. Comparative amounts	47
40. Statutory accounts	47



CONTENTS	PAGE
Supplementary Financial Information	
1. Capital adequacy ratio	48
2. Components of capital base after deductions	48
3. Liquidity ratio	49
4. Currency concentrations	49
5. Segmental information	50
6. Cross-border claims	53
7. Non-bank Mainland China exposures	54
8. Overdue and rescheduled assets	54
9. Repossessed assets held	55
Independent Review Report	56
Additional Information	
1. Corporate Information	57
2. Subsidiaries of the Bank	58
3. Corporate Governance	59
4. Risk Management	60
5. Management Discussion and Analysis	63
6. Branch Network	64



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 2007 together with the comparative figures in 2006 as follows:

Consolidated Income Statement

	Notes	(Unaudited) Half-year ended 30 June 2007 HK\$'000	(Unaudited) Half-year ended 30 June 2006 HK\$'000
Interest income		831,675	737,380
Interest expense		(466,125)	(418,427)
Net interest income	4	365,550	318,953
Fees and commission income		161,823	117,548
Fees and commission expenses		(27,523)	(17,428)
Net fees and commission income	5	134,300	100,120
Net trading income	6	28,334	21,049
Net gain/(loss) on financial instruments designated at fair value through profit or loss	7	1,934	(3,116)
Net gain on investments in securities	8	-	3,134
Other operating income	9	3,056	3,075
Net operating income before loan impairment allowances		533,174	443,215
(Charge for)/reversal of loan impairment allowances	10	(18,720)	2,982
Net operating income		514,454	446,197
Operating expenses	11	(125,259)	(108,563)
Operating profit		389,195	337,634
Net gain from disposal of/fair value adjustments on investment properties	12	5,071	2,480
Net (loss)/gain from disposal/revaluation of properties, plant and equipment	13	(8)	774
Profit before taxation		394,258	340,888
Taxation	14	(68,953)	(57,075)
Profit for the period		325,305	283,813
Dividends	15	222,000	198,000

The notes on pages 8 to 47 are an integral part of these consolidated financial statements.



Consolidated Balance Sheet

	Notes	(Unaudited) At 30 June 2007 HK\$'000	(Audited) At 31 December 2006 HK\$'000
ASSETS			
Cash and balances with banks and other financial institutions	18	5,575,214	5,102,028
Placements with banks and other financial institutions maturing between one and twelve months		8,022,929	7,582,425
Financial assets designated at fair value through profit or loss	19	1,152,671	1,220,977
Derivative financial instruments	20	134,488	125,842
Advances and other accounts	21	13,658,396	11,101,224
Investment in securities	22	7,452,016	7,268,543
Investment properties	23	58,220	54,540
Properties, plant and equipment	24	536,829	528,843
Deferred tax assets	29	-	110
Other assets	25	865,679	1,001,262
Total assets		37,456,442	33,985,794
LIABILITIES			
Deposits and balances of banks and other financial institutions		2,358,819	625,868
Financial liabilities designated at fair value through profit or loss	26	2,827,219	3,319,205
Derivative financial instruments	20	54,348	47,010
Deposits from customers	27	26,449,644	24,542,695
Other accounts and provisions	28	1,545,382	1,404,438
Current tax liabilities		85,471	46,180
Deferred tax liabilities	29	59,441	56,945
Total liabilities		33,380,324	30,042,341
EQUITY			
Share capital	30	300,000	300,000
Reserves	31	3,776,118	3,643,453
Total equity		4,076,118	3,943,453
Total liabilities and equity		37,456,442	33,985,794

The notes on pages 8 to 47 are an integral part of these consolidated financial statements.



Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Group					
	Share capital	Premises revaluation 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
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 paid	-	-	-	-	(198,000)	(198,000)
Revaluation of premises	-	15,551	-	-	-	15,551
Write back upon disposal of premises	-	(4,498)	-	-	4,498	-
Change in fair value of available-for-sale securities taken to equity	-	-	297	-	-	297
Release of reserve upon derecognition of available-for-sale securities	-	-	(649)	-	(2,348)	(2,997)
Release (to)/from deferred tax liabilities	-	(1,756)	49	-	-	(1,707)
Transfer to retained earnings	-	-	-	1,420	(1,420)	-
At 30 June 2006	<u>300,000</u>	<u>284,565</u>	<u>439</u>	<u>155,227</u>	<u>3,147,944</u>	<u>3,888,175</u>
Bank and subsidiaries	<u>300,000</u>	<u>284,565</u>	<u>439</u>	<u>155,227</u>	<u>3,147,944</u>	<u>3,888,175</u>
At 1 July 2006	300,000	284,565	439	155,227	3,147,944	3,888,175
Net profit for the second half of 2006	-	-	-	-	276,005	276,005
Currency translation difference	-	-	-	-	88	88
2006 second interim dividend paid	-	-	-	-	(210,000)	(210,000)
Revaluation of premises	-	(10,252)	-	-	-	(10,252)
Change in fair value of available-for-sale securities taken to equity	-	-	(297)	-	-	(297)
Release of reserve upon derecognition of available-for-sale securities	-	-	(236)	-	(2,278)	(2,514)
Release from deferred tax liabilities	-	2,154	94	-	-	2,248
Transfer from retained earnings	-	-	-	380	(380)	-
At 31 December 2006	<u>300,000</u>	<u>276,467</u>	<u>-</u>	<u>155,607</u>	<u>3,211,379</u>	<u>3,943,453</u>
Bank and subsidiaries	<u>300,000</u>	<u>276,467</u>	<u>-</u>	<u>155,607</u>	<u>3,211,379</u>	<u>3,943,453</u>



Consolidated Statement of Changes in Equity (continued)

	(Unaudited) Attributable to equity holders of the Group					Total HK\$'000
	Share capital	Premises revaluation 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	
At 1 January 2007	300,000	276,467	-	155,607	3,211,379	3,943,453
Net profit for the first half of 2007	-	-	-	-	325,305	325,305
Currency translation difference	-	-	-	-	395	395
2007 interim dividend declared	-	-	-	-	(222,000)	(222,000)
Revaluation of premises	-	23,297	-	-	-	23,297
Release upon disposal of premises	-	(8,598)	-	-	8,598	-
Change in fair value of available-for-sale securities taken to equity	-	-	9,461	-	-	9,461
Release to deferred tax liabilities	-	(2,323)	(1,470)	-	-	(3,793)
Transfer from retained earnings	-	-	-	19,031	(19,031)	-
At 30 June 2007	300,000	288,843	7,991	174,638	3,304,646	4,076,118
Bank and subsidiaries	300,000	288,843	7,991	174,638	3,304,646	4,076,118

* 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.

The notes on pages 8 to 47 are an integral part of these consolidated financial statements.



Consolidated Cash Flow Statement

	Notes	(Unaudited) Half-year ended 30 June 2007 HK\$'000	(Unaudited) Half-year ended 30 June 2006 HK\$'000
Cash flows from operating activities			
Operating cash inflow before taxation	32(a)	2,122,689	1,069,752
Hong Kong profits tax paid		(24,837)	(22,799)
Overseas profits tax paid		(6,013)	(4,195)
Net cash inflow from operating activities		2,091,839	1,042,758
Cash flows from investing activities			
Purchase of properties, plant and equipment		(4,642)	(2,384)
Proceeds from disposal of properties, plant and equipment		-	10,944
Proceeds from disposal of investment properties		14,891	-
Net cash inflow from investing activities		10,249	8,560
Cash flows from financing activity			
Dividends paid to equity holders of the Bank		(210,000)	-
Net cash outflow from financing activity		(210,000)	-
Increase in cash and cash equivalents		1,892,088	1,051,318
Cash and cash equivalents at 1 January		7,576,757	9,497,123
Cash and cash equivalents at 30 June	32(b)	9,468,845	10,548,441

The notes on pages 8 to 47 are an integral part of these consolidated financial statements.



Notes to the Financial Statements

1. Basis of preparation and accounting policies

Basis of preparation

The unaudited interim report has been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountant (“HKICPA”) and also complies with the requirements set out in the Banking (Disclosure) Rules.

Accounting policies

The accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2006 and should be read in conjunction with the Group’s Annual Report for 2006.

2. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that are consistent with those used in the Group’s financial statements for the year ended 31 December 2006.



Notes to the Financial Statements (continued)

3. 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 2007 and 31 December 2006. 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 2007							
	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	439,078	1,000,902	3,698,451	149,384	123,172	2,068	162,159	5,575,214
Placements with banks and other financial institutions maturing between one and twelve months	61,851	1,252,281	6,630,145	-	-	78,652	-	8,022,929
Financial assets designated at fair value through profit or loss	-	1,065,185	87,486	-	-	-	-	1,152,671
Derivative financial instruments	-	1,725	132,763	-	-	-	-	134,488
Advances and other accounts	485,847	1,867,180	11,266,519	21,330	12,894	2,023	2,603	13,658,396
Available-for-sale securities	-	-	30,070	212	-	-	-	30,282
Held-to-maturity securities	-	930,092	4,020,553	-	-	-	572,056	5,522,701
Loans and receivables	-	933,436	834,852	-	-	-	130,745	1,899,033
Investment properties	-	-	58,220	-	-	-	-	58,220
Properties, plant and equipment	-	-	536,829	-	-	-	-	536,829
Other assets (including deferred tax assets)	28,935	20,715	473,457	24,046	32,766	46,977	238,783	865,679
Total assets	1,015,711	7,071,516	27,769,345	194,972	168,832	129,720	1,106,346	37,456,442
Liabilities								
Deposits and balances of banks and other financial institutions	(70,999)	(79,479)	(2,030,785)	(1,870)	(231)	(1,111)	(174,344)	(2,358,819)
Financial liabilities designated at fair value through profit or loss	-	(1,692,276)	(1,134,943)	-	-	-	-	(2,827,219)
Derivative financial instruments	-	(7,611)	(46,737)	-	-	-	-	(54,348)
Deposits from customers	(690,346)	(5,099,599)	(19,316,672)	(181,353)	(142,995)	(126,237)	(892,442)	(26,449,644)
Other accounts and provisions (including current and deferred tax liabilities)	(13,219)	(241,088)	(1,359,142)	(10,472)	(25,133)	(2,436)	(38,804)	(1,690,294)
Total liabilities	(774,564)	(7,120,053)	(23,888,279)	(193,695)	(168,359)	(129,784)	(1,105,590)	(33,380,324)
Net on-balance sheet position	241,147	(48,537)	3,881,066	1,277	473	(64)	756	4,076,118
Off-balance sheet net notional position*	3,593	(81,395)	(166,695)	24,046	33,246	46,977	235,891	95,663
Contingent liabilities and commitments	27,639	1,153,335	3,983,005	73,295	143,700	2,437	10,809	5,394,220

* 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)

3. Financial risk management (continued)

A) Currency risk (continued)

	At 31 December 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
Assets								
Cash and balances with banks and other financial institutions	406,791	952,674	3,050,330	59,976	147,629	90,553	394,075	5,102,028
Placements with banks and other financial institutions maturing between one and twelve months	59,994	2,081,515	5,199,188	-	-	-	241,728	7,582,425
Financial assets designated at fair value through profit or loss	-	1,132,934	88,043	-	-	-	-	1,220,977
Derivative financial instruments	-	2,382	123,460	-	-	-	-	125,842
Advances and other accounts	382,062	1,477,935	9,184,973	46,615	8,394	606	639	11,101,224
Available-for-sale securities	-	-	20,609	206	-	-	-	20,815
Held-to-maturity securities	-	814,821	5,098,355	-	-	-	516,583	6,429,759
Loans and receivables	-	559,177	141,406	-	-	-	117,386	817,969
Investment properties	-	-	54,540	-	-	-	-	54,540
Properties, plant and equipment	-	-	528,843	-	-	-	-	528,843
Other assets (including deferred tax assets)	19,655	12,810	671,509	72,573	120,154	33,529	71,142	1,001,372
Total assets	868,502	7,034,248	24,161,256	179,370	276,177	124,688	1,341,553	33,985,794
Liabilities								
Deposits and balances of banks and other financial institutions	(90,019)	(112,723)	(45,491)	(15,395)	(202,774)	-	(159,466)	(625,868)
Financial liabilities designated at fair value through profit or loss	-	(1,875,899)	(1,443,306)	-	-	-	-	(3,319,205)
Derivative financial instruments	-	(11,829)	(35,181)	-	-	-	-	(47,010)
Deposits from customers	(556,882)	(4,553,175)	(17,891,100)	(160,096)	(72,777)	(124,449)	(1,184,216)	(24,542,695)
Other accounts and provisions (including current and deferred tax liabilities)	(24,170)	(163,755)	(1,319,638)	-	-	-	-	(1,507,563)
Total liabilities	(671,071)	(6,717,381)	(20,734,716)	(175,491)	(275,551)	(124,449)	(1,343,682)	(30,042,341)
Net on-balance sheet position	197,431	316,867	3,426,540	3,879	626	239	(2,129)	3,943,453
Off-balance sheet net notional position*	1,992	(38,238)	(279,102)	83,888	136,660	36,280	152,428	93,908
Contingent liabilities and commitments	68,352	1,414,178	4,132,724	68,978	53,810	915	7,087	5,746,044



Notes to the Financial Statements (continued)

3. Financial risk management (continued)

B) Liquidity risk

Tables below analyse assets and liabilities of the Group as at 30 June 2007 and 31 December 2006 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2007							
	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	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	777,868	4,797,346	-	-	-	-	-	5,575,214
Placements with banks and other financial institutions maturing between one and twelve months	-	-	5,786,593	2,236,336	-	-	-	8,022,929
Financial assets designated at fair value through profit or loss								
– debt securities								
– certificates of deposit held	-	-	-	19,991	315,190	-	-	335,181
– others	-	-	-	136,574	376,394	304,522	-	817,490
Derivative financial instruments	128,865	3,503	963	1,157	-	-	-	134,488
Advances and other accounts								
– advances to customers	2,979,098	625,333	874,859	1,706,088	3,533,266	3,600,066	25,766	13,344,476
– trade bills	-	124,232	171,523	18,165	-	-	-	313,920
Available-for-sale securities								
– equity securities	-	-	-	-	-	-	30,282	30,282
Held-to-maturity securities								
– debt securities								
– certificates of deposit held	-	-	-	213,119	36,087	-	-	249,206
– others	-	199,176	219,925	2,821,258	2,033,136	-	-	5,273,495
Loans and receivables	-	-	396,099	1,502,934	-	-	-	1,899,033
Investment properties	-	-	-	-	-	-	58,220	58,220
Properties, plant and equipment	-	-	-	-	-	-	536,829	536,829
Other assets (including deferred tax assets)	849,919	5,294	-	3,375	2,915	-	4,176	865,679
Total assets	4,735,750	5,754,884	7,449,962	8,658,997	6,296,988	3,904,588	655,273	37,456,442
Liabilities								
Deposits and balances of banks and other financial institutions	(170,044)	(2,173,660)	(7,680)	(7,435)	-	-	-	(2,358,819)
Financial liabilities designated at fair value through profit or loss	-	(120,078)	(100,222)	(1,135,773)	(962,865)	(508,281)	-	(2,827,219)
Derivative financial instruments	(28,292)	(18,380)	(7,116)	(560)	-	-	-	(54,348)
Deposits from customers	(12,031,423)	(9,647,420)	(3,155,604)	(1,459,193)	(156,004)	-	-	(26,449,644)
Other accounts and provisions (including current and deferred tax liabilities)	(1,131,161)	(171,101)	(222,404)	(100,647)	(64,141)	-	(840)	(1,690,294)
Total liabilities	(13,360,920)	(12,130,639)	(3,493,026)	(2,703,608)	(1,183,010)	(508,281)	(840)	(33,380,324)
Net liquidity gap	(8,625,170)	(6,375,755)	3,956,936	5,955,389	5,113,978	3,396,307	654,433	4,076,118



Notes to the Financial Statements (continued)

3. Financial risk management (continued)

B) Liquidity risk (continued)

	At 31 December 2006							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	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	836,948	4,265,080	-	-	-	-	-	5,102,028
Placements with banks and other financial institutions maturing between one and twelve months	-	-	6,183,227	1,399,198	-	-	-	7,582,425
Financial assets designated at fair value through profit or loss								
– debt securities								
– certificates of deposit held	-	-	-	-	333,254	-	-	333,254
– others	-	-	-	22,486	563,592	301,645	-	887,723
Derivative financial instruments	108,565	326	113	1,529	15,309	-	-	125,842
Advances and other accounts								
– advances to customers	1,139,102	785,615	843,091	1,474,622	3,044,707	3,606,068	112,621	11,005,826
– trade bills	-	62,861	20,320	12,217	-	-	-	95,398
Available-for-sale securities								
– equity securities	-	-	-	-	-	-	20,815	20,815
Held-to-maturity securities								
– debt securities								
– certificates of deposit held	-	-	186,393	395,321	57,121	-	-	638,835
– others	-	99,847	1,609,891	933,066	3,148,120	-	-	5,790,924
Loans and receivables	-	-	103,563	714,406	-	-	-	817,969
Investment properties	-	-	-	-	-	-	54,540	54,540
Properties, plant and equipment	-	-	-	-	-	-	528,843	528,843
Other assets (including deferred tax assets)	886,743	20,397	-	85,106	4,474	-	4,652	1,001,372
Total assets	2,971,358	5,234,126	8,946,598	5,037,951	7,166,577	3,907,713	721,471	33,985,794
Liabilities								
Deposits and balances of banks and other financial institutions	(251,621)	(359,330)	(7,576)	(7,341)	-	-	-	(625,868)
Financial liabilities designated at fair value through profit or loss	-	(149,511)	(354,197)	(763,515)	(1,750,337)	(301,645)	-	(3,319,205)
Derivative financial instruments	(14,817)	(563)	(1,902)	(7,601)	(22,127)	-	-	(47,010)
Deposits from customers	(12,317,632)	(8,143,431)	(2,400,701)	(1,143,703)	(518,845)	(18,383)	-	(24,542,695)
Other accounts and provisions (including current and deferred tax liabilities)	(1,150,466)	(41,300)	(229,864)	(24,288)	(61,645)	-	-	(1,507,563)
Total liabilities	(13,734,536)	(8,694,135)	(2,994,240)	(1,946,448)	(2,352,954)	(320,028)	-	(30,042,341)
Net liquidity gap	(10,763,178)	(3,460,009)	5,952,358	3,091,503	4,813,623	3,587,685	721,471	3,943,453



Notes to the Financial Statements (continued)

3. Financial risk management (continued)

B) Liquidity risk (continued)

The above maturity classifications have been prepared in accordance with relevant provisions under Banking (Disclosure) Rules. 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 relevant provisions under Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

4. Net interest income

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Interest income		
Cash and due from banks and other financial institutions	297,531	296,399
Advances to customers	361,347	336,997
Listed investments	1,160	2,113
Unlisted investments	165,013	96,904
Others	6,624	4,967
	831,675	737,380
Interest expense		
Due to banks, customers and other financial institutions	(446,263)	(389,984)
Debt securities in issue	(4,748)	(5,465)
Others	(15,114)	(22,978)
	(466,125)	(418,427)
Net interest income	365,550	318,953

Included within interest income is HK\$2,010,000 (first half of 2006: HK\$1,760,000) of interest with respect to income recognised on advances classified as impaired for the first half of 2007.

Included within interest income and interest expense are HK\$808,770,000 (first half of 2006: HK\$711,393,000) and HK\$401,873,000 (first half of 2006: HK\$346,477,000) for financial assets and financial liabilities that are not at fair value through profit or loss respectively.



Notes to the Financial Statements (continued)

5. Net fees and commission income

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Fees and commission income		
Securities brokerage		
- Stockbroking	80,466	46,314
- Bonds	7,879	2,137
Credit cards	119	117
Bills commissions	18,464	18,806
Loan commissions	6,629	6,860
Payment services	9,478	8,591
Insurance	4,660	5,898
Asset management	13,496	8,705
Guarantees	1,046	662
Others		
- safe deposit box	5,742	5,729
- currency exchange	137	126
- low deposit balance accounts	666	916
- BOC cards	525	547
- dormant accounts	446	483
- agency services	228	267
- postage and telegrams	1,047	743
- information search	1,024	866
- correspondent banking	1,049	1,045
- sundries	8,722	8,736
	161,823	117,548
Fees and commission expenses	(27,523)	(17,428)
Net fees and commission income	134,300	100,120
Of which arise from		
- financial assets or financial liabilities not at fair value through profit or loss		
- Fees and commission income	7,785	8,292
- Fees and commission expenses	(686)	(1,503)
	7,099	6,789

6. Net trading income

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Net gain/(loss) from:		
- foreign exchange and foreign exchange products	29,986	18,574
- interest rate instruments	(1,646)	2,475
- commodities	(6)	-
	28,334	21,049

Comparatives for the first half of 2006 have been reclassified as a result of excluding gains and losses related to financial instrument designated at fair value through profit or loss other than those held for trading, which are shown as net gain or loss on financial instruments designated at fair value through profit or loss in Note 7 on page 15.



Notes to the Financial Statements (continued)

7. Net gain/(loss) on financial instruments designated at fair value through profit or loss

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Net change in fair value of financial instruments designated at fair value through profit or loss	1,934	(3,116)
	<u>1,934</u>	<u>(3,116)</u>

8. Net gain on investments in securities

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Net gain from disposal of available-for-sale securities	-	3,134
	<u>-</u>	<u>3,134</u>

9. Other operating income

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Dividend income from investments in securities		
- listed investments	-	92
- unlisted investments	1,659	547
Gross rental income from investment properties	1,292	1,104
Less: Outgoings in respect of investment properties	(24)	(23)
Others	129	1,355
	<u>3,056</u>	<u>3,075</u>

10. (Charge for)/reversal of loan impairment allowances

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Net (charge for)/reversal of loan impairment allowances		
- Individually assessed	(3,410)	5,036
- Collectively assessed	(15,310)	(2,054)
	<u>(18,720)</u>	<u>2,982</u>
Of which		
- new allowances	(29,026)	(16,319)
- releases	1,291	18,207
- recoveries	9,015	1,094
Net (debit)/credit to income statement	<u>(18,720)</u>	<u>2,982</u>



Notes to the Financial Statements (continued)

11. Operating expenses

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Staff costs (including directors' emoluments)		
- salaries and other costs	73,574	62,544
- pension cost	4,923	5,239
	78,497	67,783
Premises and equipment expenses (excluding depreciation)		
- rental of premises	8,265	7,021
- information technology	13,961	11,554
- others	2,270	2,049
	24,496	20,624
Depreciation	6,444	6,118
Auditors' remuneration		
- audit services	555	176
Other operating expenses	15,267	13,862
	125,259	108,563

12. Net gain from disposal of/fair value adjustments on investment properties

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Net gain from disposal of investment properties	1,391	-
Net gain from fair value adjustments on investment properties	3,680	2,480
	5,071	2,480

13. Net (loss)/gain from disposal/revaluation of properties, plant and equipment

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Net gain from disposal of premises	-	4,148
Net loss from disposal of other fixed assets	(8)	(2)
Net gain from revaluation of premises	-	138
Impairment losses on other fixed assets	-	(3,510)
	(8)	774

Notes to the Financial Statements (continued)

14. Taxation

Taxation in the income statement represents:

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Hong Kong profits tax		
- current period taxation	63,500	52,516
Deferred tax (credit)/charge	(1,187)	28
Hong Kong profits tax	62,313	52,544
Overseas taxation	6,640	4,531
	68,953	57,075

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2007. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2007 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 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Profit before taxation	394,258	340,888
Calculated at a taxation rate of 17.5% (2006: 17.5%)	68,995	59,655
Effect of different taxation rates in other countries	15	(1,656)
Income not subject to taxation	(1,590)	(2,169)
Expenses not deductible for taxation purposes	1,533	1,245
Taxation charge	68,953	57,075
Effective tax rate	17.49%	16.74%

15. Dividends

	Half-year ended 30 June 2007		Half-year ended 30 June 2006	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
Interim dividend	74	222,000	66	198,000

At a meeting held on 21 May 2007, the Board declared an interim dividend of HK\$74 per ordinary share for the first half of 2007 amounting to approximately HK\$222,000,000.

Notes to the Financial Statements (continued)

16. Retirement benefit costs

The principal defined contribution schemes for the Group's employees are the Occupational Retirement Schemes under Occupational Retirement Schemes Ordinance "ORSO schemes" exempted under the Mandatory Provident Fund "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 2007 amounted to approximately HK\$4,743,000 (first half of 2006: approximately HK\$4,468,000), after a deduction of forfeited contributions of approximately HK\$530,000 (first half of 2006: approximately HK\$466,000). For the MPF Scheme, the Group contributed approximately HK\$487,000 and HK\$295,000 for the first half of 2007 and 2006 respectively.



Notes to the Financial Statements (continued)

17. 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 BOCHKHL. The Board of BOCHKHL ("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 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.

No options were granted pursuant to the Share Option Scheme or the Sharesave Plan during the first half of 2007 (first half of 2006: Nil).



Notes to the Financial Statements (continued)

17. Share option schemes (continued)

(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 BOCHKHL, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) an aggregate of 3,652,800 existing issued shares of 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 granted to employees on or before 7 November 2002.

Details of the share options outstanding as at 30 June 2007 are disclosed as follows:

	Total number of share options to Directors of the Group	Average exercise price (HK\$ per share)
At 1 January 2007	1,534,300	8.5
Less: Share options exercised during the period	<u>(178,500)</u>	8.5
At 30 June 2007	<u>1,355,800</u>	<u>8.5</u>
Exercisable at 30 June 2007	<u>1,355,800</u>	<u>8.5</u>
At 1 January 2006	2,019,800	8.5
Less: Share options exercised during the year	<u>(485,500)</u>	8.5
At 31 December 2006	<u>1,534,300</u>	<u>8.5</u>
Exercisable at 31 December 2006	<u>1,534,300</u>	<u>8.5</u>

Share options were exercised on a regular basis throughout the period, the weighted average share price during the period was HK\$18.76 (31 December 2006: HK\$16.39).

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)

18. Cash and balances with banks and other financial institutions

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Cash	130,927	139,937
Balances with central banks	115,300	133,935
Balances with banks and other financial institutions	531,642	563,076
Placements with banks and other financial institutions maturing within one month	4,797,345	4,265,080
	5,575,214	5,102,028

19. Financial assets designated at fair value through profit or loss

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
At fair value		
Debt securities		
- Unlisted	1,152,671	1,220,977

Financial assets designated at fair value through profit or loss are analysed by type of issuer as follows:

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Sovereigns	41,190	42,971
Banks and other financial institutions	1,111,481	1,178,006
	1,152,671	1,220,977

Financial assets designated at fair value through profit or loss are analysed as follows:

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Certificates of deposit held	335,181	333,254
Financial instruments designated at fair value through profit or loss	817,490	887,723
	1,152,671	1,220,977

Notes to the Financial Statements (continued)

20. Derivative financial instruments

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

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

Currency and interest rate swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate, equity and precious metal 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 or equity and metal prices 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)

20. Derivative financial instruments (continued)

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

	At 30 June 2007		At 31 December 2006	
	Trading	Total	Trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts				
Spot and forward	2,217,747	2,217,747	1,822,498	1,822,498
Foreign currency option contracts				
- Options purchased	9,884	9,884	22,804	22,804
- Options written	9,884	9,884	22,804	22,804
	2,237,515	2,237,515	1,868,106	1,868,106
Interest rate contracts				
Swaps	1,850,989	1,850,989	2,222,163	2,222,163
Equity contracts				
- Options purchased	8,489	8,489	17,894	17,894
- Options written	8,489	8,489	17,894	17,894
	16,978	16,978	35,788	35,788
Total	4,105,482	4,105,482	4,126,057	4,126,057

The following table summarises the fair values of each class of derivative financial instrument as at 30 June 2007 and 31 December 2006:

	At 30 June 2007		At 31 December 2006	
	Trading	Total	Trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value assets				
Exchange rate contracts	121,878	121,878	108,957	108,957
Interest rate contracts	12,489	12,489	16,838	16,838
Equity contracts	121	121	47	47
	134,488	134,488	125,842	125,842
Fair value liabilities				
Exchange rate contracts	(27,111)	(27,111)	(15,087)	(15,087)
Interest rate contracts	(27,115)	(27,115)	(31,876)	(31,876)
Equity contracts	(122)	(122)	(47)	(47)
	(54,348)	(54,348)	(47,010)	(47,010)

The credit risk weighted amounts of the above derivative financial instruments are as follows:

	At 30 June 2007	Restated At 31 December 2006
	HK\$'000	HK\$'000
Exchange rate contracts	4,365	185
Interest rate contracts	1,310	1,637
	5,675	1,822



Notes to the Financial Statements (continued)

20. Derivative financial instruments (continued)

The credit risk weighted amounts are the amounts that have been calculated in accordance with the Banking (Capital) Rules. Comparative figures have been restated to reflect the implementation of the Banking (Capital) Rules. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

There is no effect of bilateral netting agreement on the fair values or the credit risk-weighted amounts of the derivative financial instruments.

Approximately 51% (31 December 2006: 60%) of the Group's transactions in derivative financial instruments contracts are conducted with other financial institutions.

21. Advances and other accounts

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Corporate loans and advances	9,906,753	7,282,008
Personal loans and advances	3,512,765	3,771,492
Advances to customers	13,419,518	11,053,500
Loan impairment allowances		
- Individually assessed	(20,623)	(7,525)
- Collectively assessed	(54,419)	(40,149)
	(75,042)	(47,674)
Trade bills	313,920	95,398
Total	13,658,396	11,101,224

As at 30 June 2007, advances to customers include accrued interest on gross advances of HK\$44,008,000 (31 December 2006: HK\$36,423,000)

Impaired advances to customers are analysed as follows:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Gross impaired advances to customers	32,261	27,152
Individually assessed loan impairment allowances made in respect of such advances	20,623	7,525



Notes to the Financial Statements (continued)

21. Advances and other accounts (continued)

Impaired advances to customers are individually assessed loans with objective evidence of impairment. The loan impairment allowances were made after taking into account the value of collateral in respect of such advances.

As at 30 June 2007 and 31 December 2006, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

Classified and impaired advances to customers and the value of collateral of such advances are analysed as follows:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Gross classified and impaired advances to customers	<u>47,743</u>	<u>37,440</u>
Gross classified and impaired advances to customers as a percentage of gross advances to customers	<u>0.36%</u>	<u>0.34%</u>
Current market value of collateral held against the covered portion of such advances	<u>176,150</u>	<u>152,800</u>
Covered portion of such advances	<u>34,100</u>	<u>14,567</u>
Uncovered portion of such advances	<u>13,643</u>	<u>22,873</u>

Classified and impaired advances to customers follow the definition set out in the Banking (Disclosure) Rules and represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality, or individually assessed to be impaired.

22. Investment in securities

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
A) Available-for-sale securities		
Equity securities		
- Unlisted	<u>30,282</u>	<u>20,815</u>
	<u>30,282</u>	<u>20,815</u>
B) Held-to-maturity securities		
Listed, at amortised cost		
- outside Hong Kong	<u>78,387</u>	<u>78,356</u>
Unlisted, at amortised cost	<u>5,444,314</u>	<u>6,351,403</u>
	<u>5,522,701</u>	<u>6,429,759</u>
C) Loans and receivables		
Unlisted, at amortised cost	<u>1,899,033</u>	<u>817,969</u>
Total	<u>7,452,016</u>	<u>7,268,543</u>
Market value of listed held-to-maturity securities	<u>77,992</u>	<u>78,070</u>



Notes to the Financial Statements (continued)

22. Investment in securities (continued)

Investment in securities is analysed by type of issuer as follows:

At 30 June 2007			
Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sovereigns	99,903	-	99,903
Public sector entities	703,388	-	703,388
Bank and other financial institutions	4,719,410	1,899,033	6,618,443
Corporate entities	-	-	30,282
30,282	-	-	30,282
30,282	5,522,701	1,899,033	7,452,016

At 31 December 2006			
Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sovereigns	99,847	-	99,847
Public sector entities	702,818	-	702,818
Bank and other financial institutions	5,627,094	817,969	6,445,063
Corporate entities	-	-	20,815
20,815	-	-	20,815
20,815	6,429,759	817,969	7,268,543

Available-for-sale and held-to-maturity securities are analysed as follows:

	Available-for-sale securities		Held-to-maturity Securities	
	At 30 June 2007	At 31 December 2006	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Treasury bills	-	-	99,903	99,847
Certificates of deposit held	-	-	249,206	638,835
Others	30,282	20,815	5,173,592	5,691,077
30,282	30,282	20,815	5,522,701	6,429,759

23. Investment properties

	2007	2006
	HK\$'000	HK\$'000
At 1 January	54,540	53,940
Disposals	(13,500)	-
Fair value gains	3,680	600
Reclassification from properties, plant and equipment (Note 24)	13,500	-
At period/year end	58,220	54,540



Notes to the Financial Statements (continued)

24. Properties, plant and equipment

	Premises HK\$'000	Property under development HK\$'000	Equipment, fixtures and fittings HK\$'000	Total HK\$'000
Net book value at 1 January 2007	502,570	-	26,273	528,843
Additions	-	-	4,641	4,641
Disposals	-	-	(8)	(8)
Revaluation	23,297	-	-	23,297
Depreciation for the period	(2,767)	-	(3,677)	(6,444)
Reclassification to investment properties (Note 23)	(13,500)	-	-	(13,500)
Net book value at 30 June 2007	509,600	-	27,229	536,829
At 30 June 2007				
Cost or valuation	509,600	-	99,989	609,589
Accumulated depreciation	-	-	(72,760)	(72,760)
Net book value at 30 June 2007	509,600	-	27,229	536,829
Net book value at 1 January 2006	509,530	10,670	28,373	548,573
Additions	-	-	4,526	4,526
Disposals	(6,796)	(7,160)	(4)	(13,960)
Revaluation	5,437	-	-	5,437
Depreciation for the year	(5,601)	-	(6,622)	(12,223)
(Charge for) impairment losses	-	(3,510)	-	(3,510)
Net book value at 31 December 2006	502,570	-	26,273	528,843
At 31 December 2006				
Cost or valuation	502,570	-	96,224	598,794
Accumulated depreciation	-	-	(69,951)	(69,951)
Net book value at 31 December 2006	502,570	-	26,273	528,843
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2007				
At cost	-	-	99,989	99,989
At valuation	509,600	-	-	509,600
	509,600	-	99,989	609,589
At 31 December 2006				
At cost	-	-	96,224	96,224
At valuation	502,570	-	-	502,570
	502,570	-	96,224	598,794

25. Other assets

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Reposessed assets	69,101	84,538
Accounts receivable and prepayments	796,578	916,724
	865,679	1,001,262



Notes to the Financial Statements (continued)

26. Financial liabilities designated at fair value through profit or loss

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Financial liabilities designated at fair value through profit or loss		
- Structured deposits (Note 27)	2,533,889	3,026,933
- Certificates of deposit issued	293,330	292,272
	2,827,219	3,319,205

The amount of change in their fair values is attributable to changes in a benchmark interest rate. The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2007 is less than the amount that the Group would be contractually required to pay at maturity to the holder by HK\$58,922,000 (31 December 2006: HK\$65,232,000).

27. Deposits from customers

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Current, savings and other deposit accounts (per consolidated balance sheet)	26,449,644	24,542,695
Structured deposits reported as financial liabilities at fair value through profit or loss (Note 26)	2,533,889	3,026,933
	28,983,533	27,569,628
Analysed by :		
Demand deposits and current accounts		
- corporate customers	1,269,069	1,339,087
- individual customers	298,277	304,615
	1,567,346	1,643,702
Savings deposits		
- corporate customers	2,187,998	2,025,832
- individual customers	8,228,565	8,625,635
	10,416,563	10,651,467
Time, call and notice deposits		
- corporate customers	3,029,791	2,064,409
- individual customers	13,969,833	13,210,050
	16,999,624	15,274,459
	28,983,533	27,569,628

28. Other accounts and provisions

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Other accounts payable	1,322,978	1,194,034
Dividend payable	222,404	210,404
	1,545,382	1,404,438



Notes to the Financial Statements (continued)

29. 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 financial statements 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 2007 and the year ended 31 December 2006 are as follows:

	2007					
	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 2007	5,835	58,372	(346)	(7,026)	-	56,835
Charged/(credited) to income statement	666	644	-	(2,497)	-	(1,187)
Charged to equity	-	3,793	-	-	-	3,793
At 30 June 2007	6,501	62,809	(346)	(9,523)	-	59,441

	2006					
	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 2006	5,417	58,807	(314)	(1,824)	516	62,602
Charged/(credited) to income statement	418	106	(32)	(5,202)	(516)	(5,226)
Credited to equity	-	(541)	-	-	-	(541)
At 31 December 2006	5,835	58,372	(346)	(7,026)	-	56,835

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 2007 HK\$'000	At 31 December 2006 HK\$'000
Deferred tax assets	-	(110)
Deferred tax liabilities	59,441	56,945
	59,441	56,835

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Deferred tax assets to be recovered after more than twelve months	-	(110)
Deferred tax liabilities to be settled after more than twelve months	57,970	56,945
	57,970	56,835



Notes to the Financial Statements (continued)

29. Deferred taxation (continued)

The deferred tax charged/(credited) to equity during the first half of 2007 and the year ended 31 December 2006 are as follows:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Fair value reserves in shareholder's equity		
- premises	2,323	(398)
- available-for-sale securities	1,470	(143)
	3,793	(541)

30. Share capital

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Authorised:		
3,000,000 ordinary shares of HK\$100 each	300,000	300,000
Issued and fully paid:		
3,000,000 ordinary shares of HK\$100 each	300,000	300,000

31. Reserves

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 5 to 6 of the financial statements.



Notes to the Financial Statements (continued)

32. Notes to consolidated cash flow statement

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

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Operating profit	389,195	337,634
Depreciation	6,444	6,118
Charge for/(reversal of) loan impairment allowances	18,720	(2,982)
Unwind of discount on impairment	527	(1,760)
Advances written off net of recoveries	8,121	(2,387)
Change in cash and balances with banks and other financial institutions with original maturity over three months	978,342	(1,785,919)
Change in financial assets designated at fair value through profit or loss	68,306	(3,854)
Change in derivative financial instruments	(1,309)	10,106
Change in advances and other accounts	(2,584,539)	(192,170)
Change in investment in securities	(173,956)	2,567,505
Change in other assets	135,583	(47,128)
Change in deposits and balances of banks and other financial institutions	1,732,952	(111,849)
Change in financial liabilities designated at fair value through profit or loss	(491,986)	268,235
Change in deposits from customers	1,906,949	(27,340)
Change in other accounts and provisions	128,945	55,516
Exchange difference	395	27
Operating cash inflow before taxation	2,122,689	1,069,752
Cash flows from operating activities included:		
- Interest received	828,234	755,522
- Interest paid	(459,595)	(397,377)
- Dividend received	1,659	639

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

	At 30 June 2007 HK\$'000	At 30 June 2006 HK\$'000
Cash and balances with banks and other financial institutions with original maturity within three months	5,142,704	6,337,947
Placements with banks and other financial institutions with original maturity within three months	4,226,238	4,110,765
Treasury bills with original maturity within three months	99,903	99,729
	9,468,845	10,548,441



Notes to the Financial Statements (continued)

33. 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 2007 HK\$'000	Restated At 31 December 2006 HK\$'000
Direct credit substitutes	19,539	18,503
Transaction-related contingencies	153,130	126,976
Trade-related contingencies	1,103,051	902,062
Other commitments with an original maturity of		
- up to one year	3,488,429	3,394,880
- over one year	630,071	1,303,623
	<u>5,394,220</u>	<u>5,746,044</u>
Credit risk weighted amount	<u>1,183,742</u>	<u>1,368,298</u>

The calculation basis of credit risk weighted amount has been set out in Note 20 to the financial statements.

34. Capital commitments

The Group has the following outstanding capital commitments not provided for in the financial statements:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Authorised and contracted for but not provided for	3,943	1,854
Authorised but not contracted for	332	1,053
	<u>4,275</u>	<u>2,907</u>

The above capital commitments mainly relate to commitments to purchase computer equipment, fixtures and fittings, and to renovate the Group's premises.



Notes to the Financial Statements (continued)

35. 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 2007 HK\$'000	At 31 December 2006 HK\$'000
Land and buildings		
- not later than one year	14,658	11,402
- later than one year but not later than five years	24,686	12,554
- later than five years	1,500	-
	<u>40,844</u>	<u>23,956</u>

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

(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 2007 HK\$'000	At 31 December 2006 HK\$'000
Land and buildings		
- not later than one year	2,008	2,502
- later than one year but not later than five years	162	929
	<u>2,170</u>	<u>3,431</u>

The Group leases its investment properties (Note 23) 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.

Notes to the Financial Statements (continued)

36. 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 four business segments is provided in segmental reporting. They are Retail Banking, Corporate Banking, Treasury and Investment.

Both Retail Banking and Corporate Banking segments provide general banking services. Retail Banking mainly serves individual customers and small companies. Corporate Banking mainly deals with medium to large companies. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group. The Investment segment includes the Group's holdings of premises and investment properties. "Others" 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. In relation to 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. During the period, the Group has revised the allocation bases and comparative amounts have been reclassified to conform with the current year's presentation. There is no impact on the Group's income statement and balance sheet. Inter-segment funding is charged according to the internal funds transfer pricing mechanism of the Group. The charge on any such funding is mainly made by reference to the corresponding money market rate.



Notes to the Financial Statements (continued)

36. Segmental reporting (continued)

Half-year ended 30 June 2007								
	Retail HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others HK\$'000	Subtotal HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Net interest income/(expenses)	159,372	127,370	90,950	(12,142)	-	365,550	-	365,550
Net fees and commission income/(expenses)	100,265	34,087	(116)	-	64	134,300	-	134,300
Net trading income	14,315	11,680	1,853	486	-	28,334	-	28,334
Net gain on financial instruments designated at fair value through profit or loss	-	-	1,934	-	-	1,934	-	1,934
Other operating income	125	182	-	15,270	-	15,577	(12,521)	3,056
Net operating income before loan impairment allowances	274,077	173,319	94,621	3,614	64	545,695	(12,521)	533,174
Charge for loan impairment allowances	(5,939)	(12,781)	-	-	-	(18,720)	-	(18,720)
Net operating income	268,138	160,538	94,621	3,614	64	526,975	(12,521)	514,454
Operating expenses	(91,680)	(25,747)	(2,864)	(3,749)	(13,740)	(137,780)	12,521	(125,259)
Operating profit/(loss)	176,458	134,791	91,757	(135)	(13,676)	389,195	-	389,195
Net loss from disposal of properties, plant and equipment	-	-	-	(8)	-	(8)	-	(8)
Net gain from disposal of/fair value adjustments on investment properties	-	-	-	5,071	-	5,071	-	5,071
Profit/(loss) before taxation	176,458	134,791	91,757	4,928	(13,676)	394,258	-	394,258
At 30 June 2007								
Assets								
Segment assets	6,727,379	8,330,950	21,807,503	584,300	6,310	37,456,442	-	37,456,442
Liabilities								
Segment liabilities	25,822,545	4,628,687	2,541,951	224,261	162,880	33,380,324	-	33,380,324
Half-year ended 30 June 2007								
Other information								
Additions of properties, plant and equipment	-	-	-	4,641	-	4,641	-	4,641
Depreciation	3,146	466	34	2,663	135	6,444	-	6,444
Amortisation of securities	-	-	15,272	-	-	15,272	-	15,272



Notes to the Financial Statements (continued)

36. Segmental reporting (continued)

	Half-year ended 30 June 2006							
	Retail HK\$'000	Corporate HK\$'000	Treasury HK\$'000	Investment HK\$'000	Others 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	12,859	4,020	4,170	-	-	21,049	-	21,049
Net loss on financial instruments designated at fair value through profit or loss	-	-	(3,116)	-	-	(3,116)	-	(3,116)
Net gain on investments in securities	-	-	-	3,134	-	3,134	-	3,134
Other operating income	1,216	138	-	13,646	-	15,000	(11,925)	3,075
Net operating income/(expenses) before loan impairment allowances	228,120	137,407	85,588	4,169	(144)	455,140	(11,925)	443,215
(Charge for)/reversal of loan impairment allowances	(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 disposal of/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 31 December 2006								
Assets								
Segment assets	5,040,030	7,434,002	20,934,784	570,825	6,153	33,985,794	-	33,985,794
Liabilities								
Segment liabilities	25,586,676	3,450,517	666,087	210,939	128,122	30,042,341	-	30,042,341
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)

37. 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 are summarised as follows:

(a) Summary of transactions entered into during the ordinary course of business with Bank of China Limited ("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 2007	
		Immediate and intermediate holding companies	Other related parties ¹
		HK\$'000	HK\$'000
Income statement items:			
Interest income	(i)	32,297	6,491
Interest expense	(ii)	(11,743)	(877)
Insurance commission received (net)	(iii)	-	3,626
Administrative services fees paid/payable	(iv)	(16,950)	(1,911)
Credit card commission received/receivable (net)	(v)	-	119
Securities brokerage commission paid/payable (net)	(v)	-	(7,811)
Rental, property management and letting agency fees paid/payable	(v)	(715)	-
Funds selling commission received	(vi)	-	2,625
	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)
Credit card commission received/receivable (net)	(v)	-	117
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)

37. Significant related party transactions (continued)

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

	Notes	At 30 June 2007	
		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)	953,857	318
Placements with banks and other financial institutions maturing between one and twelve months	(i)	739,627	-
Derivative financial instruments assets	(vii)	440	-
Advances and other accounts	(i)	-	241,093
Other assets	(viii)	70,670	197,710
Deposits and balances of banks and other financial institutions	(ii)	(748,649)	-
Deposits from customers	(ii)	-	(52,067)
Derivative financial instruments liabilities	(vii)	(4,521)	-
Other accounts and provisions	(viii)	(337,522)	(192,755)

	Notes	At 31 December 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)	575,028	353
Placements with banks and other financial institutions maturing between one and twelve months	(i)	1,130,713	-
Derivative financial instruments assets	(vii)	684	-
Advances and other accounts	(i)	-	250,803
Other assets	(viii)	159,053	247,646
Deposits and balances of banks and other financial institutions	(ii)	(566,410)	-
Deposits from customers	(ii)	-	(52,294)
Derivative financial instruments liabilities	(vii)	(5,435)	-
Other accounts and provisions	(viii)	(310,902)	(250,869)

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)

37. 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

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

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 companies and subsidiaries of BOC mainly on the basis of cost plus a margin of 5%, and pays office premises rental fees to the subsidiaries of BOC at the relevant market rates at the time of the transactions.



Notes to the Financial Statements (continued)

37. 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 credit card administrative and promotional services, 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 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 group companies. As at 30 June 2007 the aggregate notional amount of such derivative transactions amounted to HK\$479,230,000 (31 December 2006: HK\$395,056,000) whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$440,000 (31 December 2006: HK\$684,000) and HK\$4,521,000 (31 December 2006: HK\$5,435,000) respectively. 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.



Notes to the Financial Statements (continued)

37. Significant related party transactions (continued)

(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 2007, the total undrawn loan commitments, trade finance-related contingencies and guarantees amounted to HK\$12,703,000 (31 December 2006: HK\$2,703,000).

(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 BOCHK, its holding companies and parties related to them.

The key management compensation for the six months ended 30 June 2007 and 2006 is detailed as follows:

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	2,794	2,625



Notes to the Financial Statements (continued)

37. Significant related party transactions (continued)

(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 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Interest income	<u>1,335</u>	<u>1,326</u>
	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Outstanding balance at beginning of the period/year	<u>38,881</u>	<u>38,768</u>
Outstanding balance at end of the period/year	<u>39,085</u>	<u>38,881</u>

(ii) Due from banks and other financial institutions

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Interest income	<u>657</u>	<u>508</u>
	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Outstanding balance at beginning of the period/year	<u>129,888</u>	<u>132,070</u>
Outstanding balance at end of the period/year	<u>112,877</u>	<u>129,888</u>



Notes to the Financial Statements (continued)

37. 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 Bank by virtue of its interest in BOC.

The Group did not have any balances with Central SAFE at the period/year ended 30 June 2007 and 31 December 2006. The Group did not enter into any transactions with Central SAFE for the first half of 2007 and 2006.

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, investment securities 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 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Interest income	5,761	4,154

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Outstanding balance at beginning of the period/year	217,734	204,295
Outstanding balance at end of the period/year	195,423	217,734



Notes to the Financial Statements (continued)

37. 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. 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.



Notes to the Financial Statements (continued)

37. Significant related party transactions (continued)

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

The Group enters into banking transactions with other state-controlled entities in the ordinary course of business. These include loans, deposits, investment securities, 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 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Interest income	10,631	17,108
Reversal of individually assessed loan impairment allowances	-	348
	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Outstanding balance at beginning of the period/year	478,608	679,561
Outstanding balance at end of the period/year	378,842	478,608
Less: individually assessed loan impairment allowances	-	-
	378,842	478,608

(ii) Due from banks and other financial institutions

	Half-year ended 30 June 2007 HK\$'000	Half-year ended 30 June 2006 HK\$'000
Interest income	18,204	14,192
	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Outstanding balance at beginning of the period/year	432,649	626,085
Outstanding balance at end of the period/year	772,475	432,649



Notes to the Financial Statements (continued)

37. Significant related party transactions (continued)

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

(iii) Due to banks and other financial institutions

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
	HK\$'000	HK\$'000
Interest expense	(3,194)	(230)

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Outstanding balance at beginning of the period/year	42,658	26,479
Outstanding balance at end of the period/year	1,561,838	42,658

(iv) Deposits from customers

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
	HK\$'000	HK\$'000
Interest expense	(5,208)	(3,624)

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Outstanding balance at beginning of the period/year	295,492	296,629
Outstanding balance at end of the period/year	562,295	295,492

	Half-year ended 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
(v) Contingent liabilities and commitments (including guarantees)	444,409	656,038



Notes to the Financial Statements (continued)

38. Ultimate holding company

Central SAFE, acting on behalf of the State is the ultimate holding company of the Bank whilst BOC is the Bank's intermediate holding company.

39. Comparative amounts

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

40. Statutory accounts

The information in the interim report is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2006 have been delivered to the Registrar of Companies and the HKMA. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 16 March 2007.



Supplementary Financial Information

1. Capital adequacy ratio

	At 30 June 2007	Restated At 31 December 2006
Capital adequacy ratio	18.87%	21.09%
Core capital ratio	17.82%	20.17%

The above Capital ratios are computed on the combined basis that comprises the positions of the Bank's Hong Kong Offices and overseas branches specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules effective from 1 January 2007. Comparative ratios at 31 December 2006 are restated accordingly. Differences between the basis of consolidation for accounting and regulatory purposes are described in "Additional information – Subsidiaries of the Bank" on page 58.

2. Components of capital base after deductions

The combined capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2007 and 31 December 2006 and reported to the HKMA is analysed as follows:

	At 30 June 2007 HK\$'000	Restated At 31 December 2006 HK\$'000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	3,061,841	2,989,738
Profit and loss account	95,673	147,373
	3,457,514	3,437,111
Deductions from core capital	(32,544)	(40,475)
Core capital after deductions	3,424,970	3,396,636
Supplementary capital:		
Premises and investment properties revaluation reserves	224	224
Reserves on revaluation of holding of available-for-sale securities	471	-
Reserves on revaluation of holding of securities designated at fair value through profit or loss	3,710	-
Collective loan impairment allowances	54,419	40,149
Regulatory reserve	174,638	155,607
	233,462	195,980
Deductions from supplementary capital	(32,544)	(40,475)
Supplementary capital after deductions	200,918	155,505
Total capital base after deductions	3,625,888	3,552,141

Subsidiaries of the Bank are not included for the calculation of capital adequacy ratios. They are shown in "Additional information – Subsidiaries of the Bank" on page 58. Investment costs in such subsidiaries are deducted from the capital base.

Supplementary Financial Information (continued)

3. Liquidity ratio

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
Average liquidity ratio	45.41%	42.51%

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) 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.

At 30 June 2007							
Equivalent in thousand of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others
Spot assets	7,394,243	136,404	176,142	517,144	300,528	945,325	133,011
Spot liabilities	(7,294,697)	(169,175)	(199,527)	(526,553)	(313,911)	(832,489)	(393,339)
Forward purchases	284,730	91,555	43,780	25,020	20,555	141,277	301,942
Forward sales	(393,105)	(58,310)	(19,734)	(16,277)	(7,246)	(116,403)	(41,127)
Net long/(short) position	(8,829)	474	661	(666)	(74)	137,710	487
Net structural position	-	-	-	-	-	61,589	-
							61,589
At 31 December 2006							
Equivalent in thousand of HK\$							
	US Dollars	Japanese Yen	Euro	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others
Spot assets	7,231,041	164,236	105,502	706,323	425,858	840,751	233,998
Spot liabilities	(6,853,253)	(300,240)	(188,274)	(672,276)	(425,162)	(736,875)	(454,728)
Forward purchases	154,071	146,296	109,046	6,149	4,117	22,829	234,208
Forward sales	(223,407)	(9,636)	(25,158)	(38,872)	(4,480)	(230)	(12,413)
Net long/(short) position	308,452	656	1,116	1,324	333	126,475	1,065
Net structural position	-	-	-	-	-	59,755	-
							59,755



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

Kong by industry sectors of the borrowers as follows:

	At 30 June 2007					
	Gross advances	% Covered by collateral or other security	Classified and impaired	Overdue	Individually assessed impairment allowances	Collectively assessed impairment allowances
	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	397,760	37.84%	-	-	-	2,417
- Property investment	2,105,453	90.78%	55	273	-	12,972
- Financial concerns	471,126	42.30%	-	-	-	2,867
- Stockbrokers	149,729	25.18%	-	-	-	910
- Wholesale and retail trade	586,619	87.83%	9,887	12,341	1,029	3,983
- Manufacturing	686,678	56.36%	10,697	15,023	2,724	5,563
- Transport and transport equipment	74,598	84.98%	-	-	-	453
- Recreational activities	1,094	100.00%	-	-	-	7
- Information technology	2,035	100.00%	2,014	-	-	12
- Others	2,749,829	37.77%	1,538	5,804	-	5,243
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	115,203	95.34%	27	27	-	82
- Loans for purchase of other residential properties	2,290,858	99.25%	1,556	2,817	-	1,404
- Others	825,432	96.84%	570	3,232	65	532
Total loans for use in Hong Kong	10,456,414	71.62%	26,344	39,517	3,818	36,445
Trade finance	944,484	57.72%	5,974	20,438	9,393	6,834
Loans for use outside Hong Kong	2,018,620	75.03%	15,425	20,511	7,412	11,140
Gross advances to customers	13,419,518	71.15%	47,743	80,466	20,623	54,419



Supplementary Financial Information (continued)

5. Segmental information (continued)

(a) Sectoral analysis of gross advances to customers (continued)

At 31 December 2006						
	Gross Advances*	% Covered by collateral or other security	Classified and impaired	Overdue	Individually assessed impairment allowances	Collectively assessed impairment allowances
	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong						
Industrial, commercial and financial						
- Property development	343,690	30.64%	-	-	-	1,638
- Property investment	2,012,101	95.19%	-	7,892	-	9,826
- Financial concerns	659,308	54.31%	-	-	-	3,147
- Stockbrokers	1,453	99.97%	-	-	-	7
- Wholesale and retail trade	572,035	85.09%	2,485	15,387	92	3,464
- Manufacturing	701,263	73.96%	19,464	28,010	1,770	4,312
- Transport and transport equipment	76,614	69.85%	-	504	-	365
- Recreational activities	1,302	100.00%	-	-	-	6
- Information technology	1,456	100.00%	-	-	-	7
- Others	942,211	68.36%	2,199	44,611	472	2,898
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	115,291	95.05%	452	452	-	46
- Loans for purchase of other residential properties	2,383,996	99.79%	2,463	4,172	-	834
- Others	791,995	98.63%	799	10,429	60	307
Total loans for use in Hong Kong	8,602,715	85.50%	27,862	111,457	2,394	26,857
Trade finance	896,200	65.64%	2,197	22,749	2,025	5,233
Loans for use outside Hong Kong	1,554,585	73.58%	7,381	39,592	3,106	8,059
Gross advances to customers	11,053,500	82.22%	37,440	173,798	7,525	40,149

* Comparative amounts of recreational activities, information technology and others have been reclassified to conform with the Banking (Disclosure) Rules.

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

The following geographical analysis of gross advances to customers, overdue advances and classified and impaired advances to customers 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 2007 HK\$'000	At 31 December 2006 HK\$'000
Hong Kong	11,270,956	9,906,775
Mainland China	2,148,562	1,146,725
	13,419,518	11,053,500



Supplementary Financial Information (continued)

5. Segmental information (continued)

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

(ii) Overdue advances

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Hong Kong	58,775	132,159
Mainland China	21,691	41,639
	80,466	173,798
Individually assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	13,211	4,419
Mainland China	7,412	3,106
	20,623	7,525
Collectively assessed loan impairment allowances in respect of the overdue advances		
Hong Kong	818	912
Mainland China	121	724
	939	1,636

(iii) Classified and impaired advances

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Hong Kong	32,318	30,059
Mainland China	15,425	7,381
	47,743	37,440
Individually assessed loan impairment allowances in respect of the classified and impaired advances		
Hong Kong	13,211	4,419
Mainland China	7,412	3,106
	20,623	7,525
Collectively assessed loan impairment allowances in respect of the classified and impaired advances		
Hong Kong	86	42
Mainland China	77	47
	163	89

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.



Supplementary Financial Information (continued)

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	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2007				
Asia, other than Hong Kong				
- Mainland China	2,511,000	96,000	832,000	3,439,000
- Others	4,305,000	-	1,573,000	5,878,000
	6,816,000	96,000	2,405,000	9,317,000
Western Europe				
- Germany	2,634,000	-	-	2,634,000
- Others	9,900,000	-	180,000	10,080,000
	12,534,000	-	180,000	12,714,000
Total	19,350,000	96,000	2,585,000	22,031,000
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2006				
Asia, other than Hong Kong				
- Mainland China	2,161,000	170,000	617,000	2,948,000
- Others	4,509,000	-	237,000	4,746,000
	6,670,000	170,000	854,000	7,694,000
Western Europe				
- Germany	1,983,000	-	1,000	1,984,000
- Others	9,287,000	-	243,000	9,530,000
	11,270,000	-	244,000	11,514,000
Total	17,940,000	170,000	1,098,000	19,208,000



Supplementary Financial Information (continued)

7. Non-bank Mainland China exposures

Non-bank counterparties are identified in accordance with the definitions set out in the prudential return "Quarterly Analysis of Loans and Advances and Provisions" issued by the HKMA. Exposures in the Mainland China to non-bank counterparties are summarised as follows:

	At 30 June 2007			
	On-balance sheet exposure	Off-balance sheet exposure	Total exposure	Individually assessed impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	1,513,624	832,946	2,346,570	-
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	1,216,211	792,918	2,009,129	6,255
Other non-bank Mainland China exposures	248,702	101,215	349,917	-
	2,978,537	1,727,079	4,705,616	6,255

	At 31 December 2006			
	On-balance sheet exposure	Off-balance sheet exposure	Total exposure	Individually assessed impairment allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	1,280,035	948,341	2,228,376	-
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	622,014	504,770	1,126,784	947
Other non-bank Mainland China exposures	108,476	52,641	161,117	-
	2,010,525	1,505,752	3,516,277	947

8. Overdue and rescheduled assets

(a) Gross amount of advances overdue more than three months

	At 30 June 2007		At 31 December 2006	
	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	11,520	0.08%	14,124	0.13%
- one year or less but over six months	14,466	0.11%	4,917	0.04%
- over one year	7,802	0.06%	19,850	0.18%
Advances overdue more than three months	33,788	0.25%	38,891	0.35%
Individually assessed loan impairment allowances in respect of the advances overdue for over three months	19,801		5,771	

As at 30 June 2007 and 31 December 2006, there were no advances to banks and other financial institutions that were overdue more than three months.



Supplementary Financial Information (continued)

8. Overdue and rescheduled assets (continued)

(b) Collateral held against advances overdue more than three months

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
In respect of the above advances overdue more than three months		
Current market value of collateral held against the covered portion	<u>140,087</u>	<u>140,765</u>
Covered portion	<u>21,037</u>	<u>17,813</u>
Uncovered portion	<u>12,751</u>	<u>21,078</u>

Collateral held against such loans is principally represented by charges over business assets such as premises, inventories and trade receivables for corporate loans and mortgages over residential properties for personal loans.

(c) Rescheduled advances to customers

	At 30 June 2007	At 31 December 2006
	Amount HK\$'000	Amount HK\$'000
	% of gross advances to customers	% of gross advances to customers
Rescheduled advances to customers	<u>5,033</u> <u>0.04%</u>	<u>2,933</u> <u>0.03%</u>

As at 30 June 2007 and 31 December 2006, 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.

9. Repossessed assets held

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Estimated market value of repossessed assets held	<u>102,700</u>	<u>121,020</u>

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.

Independent Review Report

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF CHIYU BANKING CORPORATION LIMITED

(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed interim financial statements set out on pages 3 to 47, which comprises the consolidated balance sheet of Chiyu Banking Corporation Limited (the “Bank”) and its subsidiaries (together, the “Group”) as at 30 June 2007 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The directors of the Bank are responsible for the preparation and presentation of these condensed interim financial statements in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim financial information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 August 2007



Additional Information

1. Corporate Information

BOARD OF DIRECTORS

Chairman	He Guangbei #
Vice Chairman	Ng Leung Sing # Ng Man Kung
Directors	Chan Yiu Fai Cheung Wai Hing * Chiu Ming Wah # Liu Yanfen # Mao Xiaowei # Ouyang Jian# Tan Wan Chye # To Chi Wing # Woo Chia Wei * Yu Kwok Chun * Zhang Qi Hua #

Non-executive Directors

* Independent non-executive Directors

BOARD OF MANAGEMENT

Chief Executive	Ng Man Kung
Deputy Chief Executive	Chan Yiu Fai
Assistant General Managers	Siu Lau Kwong Cheng Pik Chuen Wong Siu Wah Fung Tak Hee



Additional Information (continued)

2. Subsidiaries of the Bank

The following is a list of subsidiaries as at 30 June 2007:

Name	Place of incorporation	Particulars of issued share capital	Interest held	Principal activities
Chiyu Banking Corporation (Nominees) Limited	Hong Kong	1,000 shares of HK\$100 each	100%	Investment holding
Seng Sun Development Company Limited	Hong Kong	2,800 shares of HK\$1,000 each	100%	Investment holding
Pacific Trend Profits Corporation	The British Virgin Islands	1 share of US\$1 each	100%	Investment holding
Glory Cardinal Limited	Hong Kong	2 shares of HK\$1 each	*100%	Investment holding
Glistar Company Limited	Hong Kong	2 shares of HK\$1 each	*100%	Investment holding
Grace Charter Limited	Hong Kong	2 shares of HK\$1 each	*100%	Investment holding

* Shares held indirectly by the Bank

Remarks:

All the subsidiaries listed in the above table are not included in the combined basis for regulatory purposes in respect of capital adequacy. The Bank's Hong Kong Offices and overseas branches specified by the HKMA form the combined basis for its regulatory purposes in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with the accounting standards issued by the HKICPA pursuant to section 18A of the Professional Accountant Ordinance.



Additional Information (continued)

3. Corporate Governance

The Group has complied with the HKMA's guidelines set out in the Supervisory Policy Manual "Corporate Governance of Locally Incorporated Authorized Institutions".

In order to focus on the strategic and material issues that have significant impact on the Group's operation, financial performance, risk management and long-term development, three committees have been established under the Board of Directors to oversee the major areas of the Group. The details of the committees are given below.

Executive Committee ("EC")

The EC has been delegated with authorities from the Board to handle matters which require the Board's review, but arise between board meetings. Its responsibilities include:

- approving policies, implementation plans and management measures to effect the group-wide development strategies and business plans approved by the Board;
- reviewing the implementation progress of the strategies and business plans;
- recommending strategic proposals to the Board for its consideration and approval; and
- approving the Group's rules and regulations according to the policies imposed by the supervisory authorities and the holding companies.

The members of EC are Mr. Ng Man Kung (Chairman), Mr. Chan Yiu Fai and Mr. To Chi Wing. All are Directors of the Bank.

Audit Committee ("AC")

The AC assists the Board in overseeing the auditing activities of the Group and monitoring compliance with approved policies and procedures, so that the effectiveness of financial reporting process and internal control systems of the Group can be assured. Its responsibilities include:

- reviewing and monitoring the effectiveness of the internal control systems, the controls over financial risks and the procedures of financial reporting and auditing;
- assessing independently the effectiveness and efficiency of financial reporting system and its controlling mechanism, and the sufficiency of operating policies and system; and
- monitoring the operation of the Group to ensure the Group is running in compliance with the relevant rules and regulations.

The members of AC are Mr. Chiu Ming Wah (Chairman), Mr. Cheung Wai Hing, Ms. Liu Yanfen, Mr. Tan Wan Chye and Mr. Woo Chia Wei. All are non-executive Directors of the Bank.

Risk Management Committee ("RC")

The RC assists the Board in overseeing the risk management of the Group, formulating the Group's risk management strategies, policies and procedures, and monitoring the implementation of those strategies, policies and procedures. Its responsibilities include:

- assisting the Board to measure and monitor the risk exposures of the Group;
- recommending appropriate risk management strategies to the Board; and
- formulating risk management related policies such as risk management policies and authorities and duties delegation policies in accordance with the requirements set by the Board.

The members of the RC are Mr. Mao Xiaowei (Chairman), Mr. Ng Leung Sing, Mr. Ng Man Kung, Mr. To Chi Wing and Mr. Yu Kwok Chun. All are Directors of the Bank.

Additional Information (continued)

4. Risk Management

Overview

The principal types of risk inherent in the Group's businesses are reputation risk, legal and compliance risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk and operational risk. The Group's risk management objective is to enhance shareholder value by maintaining risk exposures within acceptable limits.

Risk Management Governance Structure

The Group has a sound risk management organisational structure as well as comprehensive policies and procedures to identify measure, monitor and control various risks that may arise for the organisation. These risk management policies and procedures are regularly reviewed and modified to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision making authority of the Group and has the ultimate responsibility for risk management. RC, a standing committee established by the Board of Directors, is responsible for overseeing the Group's various types of risks, reviewing and approving high level risk related policies and overseeing their implementation, reviewing significant or high risk exposures or transactions and exercising its power of veto if it believes that the transaction shall not proceed. AC assists the Board in fulfilling its role on overseeing internal control system.

Reputation Risk Management

Reputation risk is the risk that negative publicity regarding the Group's business practices, whether genuine or not, will cause a potential decline in the customer base or lead to costly litigation or revenue erosion. Reputation risk is inherent in every aspect of business operation and covers a wide spectrum of issues.

In order to mitigate reputation risk, the Group has formulated its Reputation Risk Management Policy that is diligently implemented. This policy establishes standards to prevent and to manage reputation risk proactively at an early stage. It requires constant monitoring of external reputation risk incidents and published failures of risk incidents within the financial industry.

Legal and compliance risk management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operation or financial condition of the Group. Compliance risk is the risk of penalty arising from any failure to comply with relevant regulations governing the conduct of businesses in specific countries. By establishing and maintaining appropriate policies and guidelines, the Compliance Section is responsible for proactively identifying and managing these risks.

Additional Information (continued)

4. Risk Management (continued)

Strategic Risk Management

Strategic risk generally refers to the risks that may induce immediate or future negative impact on the financial and market positions of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Group has developed a Strategic Risk Management Policy that clearly defines the management and oversight of such risks.

Credit Risk Management

Credit risk is the risk that a customer or counterparty will be unable to or unwilling to meet a commitment it has entered into. Credit Risk Management Division ("CRMD"), provides centralised management of credit risk within the Group. Different credit approval and control procedures are adopted according to the level of risk associated with the customer or transaction. Corporate credit applications and retail credit transactions, including residential mortgage loans and personal loans are independently reviewed and objectively assessed by risk management units.

Market Risk Management

Market risk is the risk of loss that results from movements in the market rates and prices. The Group's market risk arises from customer-related business. Market risk is managed within the risk limits approved by the RC. The overall risk limits are divided into sub-limits by reference to different risk factors, including interest rate, foreign exchange rate, commodity price and equity price.

Interest Rate Risk Management

The Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- | | |
|----------------|---|
| repricing risk | – mismatches in the maturity or repricing periods of assets and liabilities |
| basis risk | – different pricing basis for different transactions so that yield on assets and cost of liabilities may change by different amounts within the same repricing period |

The Group's Assets and Liabilities Management Committee ("ALCO") maintains oversight of interest rate risk and RC sanctions the interest rate risk management policies formulated by ALCO. The interest rate risk is identified and measured on a regular basis and reported to RC and ALCO regularly.

Liquidity Risk Management

The aim of liquidity management is to enable the Group, even under adverse market conditions, to meet all its maturing repayment obligations on time and to fund all of its asset growth and strategic opportunities without forced liquidation of its assets at short notice.

Additional Information (continued)

4. Risk Management (continued)

Liquidity Risk Management (continued)

The aim of liquidity management is to enable the Group, even under adverse market conditions, to meet all its maturing repayment obligations on time and to fund all of its asset growth and strategic opportunities without forced liquidation of its assets at short notice.

The Group monitors the liquidity risks using cash flow analysis and by examining deposit stability, concentration risk, mismatch ratios, loan-to-deposit ratio and liquidity profile of the investment portfolio. The primary objective of the Group's asset and liability management strategy is to achieve optimal return while ensuring adequate levels of liquidity and capital within an effective risk control framework and ALCO is responsible for establishing these policy directives (including the liquidity contingency plan), and RC sanctions the liquidity management policies. The Treasury Division manages the liquidity risk according to the established policies. The Finance Division monitors the Group's liquidity risks and reports to the management and ALCO regularly.

Operational Risk Management

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Strategic Planning and Control Department ("SCD") oversees the entire operational risk management framework of the Group.

The Group has put in place an effective internal control process which requires the establishment of detailed policies and control procedures for all the key activities. Proper segregation of duties and independent authorisation are the fundamental principles followed by the Group. Business line management is responsible for managing and reporting operational risks specific to their business units by identifying, assessing and controlling the risks inherent in their business processes, activities and products. These are followed by periodic monitoring and ongoing review of changes by SCD. SCD formulates corporate-level policies and procedures concerning operational risk management which are approved by RC. SCD evaluates the operational risk profile, records operational risk data and reports operational risk issues to RC and senior management.

Business continuity plans are in place to support business operations in the event of emergency or disaster. Adequate backup facilities are maintained and periodic drills are conducted. The Group also arranges insurance cover to reduce potential losses in respect of operational risk.

Capital Management

The major objective of capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the Group's overall risk profile. The Group periodically reviews its capital structure and adjusts the capital mix where appropriate to achieve the lowest overall cost of capital. ALCO monitors the Group's capital adequacy. The Group has complied with all the statutory capital standards for all the periods presented in the report.

Additional Information (continued)

5. Management Discussion and Analysis

Business review

During the first half of 2007, there was a robust growth in the economy of Hong Kong. Unemployment rate remained its low level. The first half of the year also witnessed a surge in personal income, investment and external trade. Capitalisation and trading activities have been flourishing in the stock market. Amidst the steady growth of Hong Kong economy, the operating environment for banking sector remains challenging and highly competitive.

The principal activities of the Group are the provision of banking and related financial services. The Group continues to focus on enriching the variety of wealth management products and enhancing customer service standard to our honorable customers. Our retail banking division goes on with promoting personal banking and wealth management services through referral bonus schemes, new customer promotion campaign, internal motivation system etc. Our corporate banking division perseveres with serving Small and Medium Enterprises (SMEs) with flexible, efficient, tailor-made services and facilitating cross border services to target clients through our network in Mainland China.

Financial review

For the first half of 2007, the Group recorded a profit attributable to shareholders of HK\$ 325,305,000, up 14.62 % from the same period last year. The return on average shareholders' funds and the return on average total assets were 16.23% and 1.83 %, respectively increased by 1.45% and 0.01% against the first half of 2006. The Group's profit growth was mainly due to the growth in net interest income and non-interest income, among which wealth management services income achieved outstanding performance.

Net interest income was HK\$365,550,000, increased 14.61 % as compared with the first half of 2006. Net interest margin was 2.18%, or 11 basis points higher than the same period in last year. Non-interest income was HK\$167,624,000, up 34.90% than that of the first half of 2006 on a comparable basis. Operating expenses increased by 15.38 % to HK\$125,259,000, which caused the cost-to-income ratio dropped 1 % to 23.49% as compared with last year.

For the six months period ended 30 June 2007, the Group recorded an increase in the total consolidated assets by HK\$3,470,648,000 or 10.21% to HK\$37,456,442,000. Loans and advances to customers increased by 23.04% to HK\$13,658,396,000. Deposits from customers increased by 5.13% to HK\$28,983,533,000.

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, backed 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.



Additional Information (continued)

6. Branch Network

BRANCH (Br.)	ADDRESS	TELEPHONE
<u>HONG KONG ISLAND</u>		
Central Br.	78, Des Voeux Road Central, Hong Kong	2843 0187
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.	967-967A, 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, Yaumatei, Kowloon	2332 2533
Castle Peak Road Br.	G/F, 226-228 Castle Peak Road, Kowloon	2720 5187
Kowloon Bay Br.	G/F, Shop 10, 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 703A, 7/F., Tsz Wan Shan Shopping Centre, 23 Yuk Wah ST., Tsz Wan Shan, Kowloon	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) 8781 0078