

# 2008



**集友銀行**  
*Chiyu Banking Corporation Ltd.*

中銀香港集團成員 A member of BOCHK Group

# Interim Report

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## Financial Highlights

	Half-year ended 30 June 2008	Half-year ended 30 June 2007	Year ended 31 December 2007
For the period/ year	HK\$'000	HK\$'000	HK\$'000
Net operating income before impairment allowances	643,269	533,174	1,177,834
Operating profit	494,254	389,195	930,983
Profit before taxation	502,700	394,258	942,273
Profit for the period/ year	416,253	325,305	774,890
At period/ year-end	HK\$'000	HK\$'000	HK\$'000
Capital and reserves	4,108,583	4,076,118	4,285,141
Issued and fully paid share capital	300,000	300,000	300,000
Total assets	38,055,977	37,456,442	39,039,964
Financial ratios	%	%	%
Return on average capital and reserves <sup>1</sup>	19.95	16.36	18.83
Return on average total assets <sup>2</sup>	2.17	1.83	2.12
Cost to income ratio	23.37	23.49	22.93
Loan to deposit ratio <sup>3</sup>	53.34	46.30	41.70
Average liquidity ratio <sup>4</sup>	39.08	45.41	44.63
Capital adequacy ratio <sup>5</sup>	17.07	18.87	19.97

1. Return on average capital and reserves = 
$$\frac{\text{Profit for the period/ year}}{\text{Average of beginning and ending balance of capital and reserves}}$$

2. Return on average total assets = 
$$\frac{\text{Profit for the period/ year}}{\text{Average of the beginning and ending balance of total assets}}$$

3. Loan to deposit ratio is calculated as at 30 June 2008, 30 June 2007, and 31 December 2007. Loan represents gross advances to customers. Deposit also includes structured deposits reported as "Financial liabilities designated at fair value through profit or loss".
4. Average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of local offices of Chi Yu Banking Corporation Limited (the "Bank") for the corresponding period.
5. Capital adequacy ratio is computed on the combined basis that comprises the positions of the Bank's local offices and overseas branches specified by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes and in accordance with the Banking (Capital) Rules.

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## Management's Discussion and Analysis

### Business Review

For the first half of 2008, due to global economic slowdown and decreased economic growth in Hong Kong, the banking industry's operating environment was filled with challenges and uncertainties. In implementing this year's strategic plan, the Group (the Bank together with its subsidiaries) focused specifically on building stronger and closer customer relationships, expanding financial products development, enhancing branch network services as well as strengthening internal control, risk management and the efficient use of resources. In sum, the Group made good progress for the first half of the year.

The Group's core business is in providing personal and corporate banking and related financial services. In 2008, we continued to improve our personal banking platform. By providing tailor-made asset portfolio management services and enriching the variety of wealth management products, customers can better manage their assets according to their risk appetite and required return. Striving to provide better and more convenient financial services, a new branch has been opened in Aberdeen. In addition, we provide more convenient and economy transaction channel for customers by extending the scope of our electronic banking service with the effort to provide real-time market information.

The Group values joint success with its Small and Medium Enterprises ("SME") clients. Our corporate banking sales teams strive to provide total business solutions to our clients. With our branches located in Mainland China, the Group is able to provide a one-stop-service platform in facilitating cross-border businesses.

### Financial Review

For the first half of 2008, the Group recorded a profit attributable to shareholders of HK\$416,253,000, up by 27.96% from the same period last year. The return on average shareholders' funds and the return on average total assets were 19.95% and 2.17%, respectively increased by 3.59% and 0.34% against the first half of 2007.

Net interest income was HK\$445,559,000, increased by 21.89% as compared with the first half of 2007. Net interest margin was 2.45%, or 27 basis points higher than the same period last year. Non-interest income was HK\$197,710,000, up by 17.95% than that of the first half of 2007 on a comparable basis. Operating expenses increased by 20.04% to HK\$150,364,000, while the cost-to-income ratio dropped 0.12% to 23.37% as compared with last year.

The Group has continued to enhance credit risk management, the classified loans ratio dropped from 0.31% to 0.15% compared with the end of 2007. For the first half of 2008, net reversal of loan impairment allowances was HK\$1,349,000, as compared with net charge of loan impairment allowances HK\$18,720,000 in the first half of 2007.

At 30 June 2008, the Group's total consolidated assets dropped 2.52% to HK\$38,055,977,000. Loans and advances to customers increased by 22.64% to HK\$16,117,549,000. Customer deposits reduced by 4.12% to HK\$30,218,921,000.

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## Management's Discussion and Analysis (continued)

### Prospect

Looking ahead, the US credit crisis will continue to hamper global economy. Crude oil and commodity prices remain high and inflationary pressure persists. Such factors will impede Hong Kong and Mainland China economic growth. Macro-economic factors will also affect local financial market and decrease market activities. With these challenges ahead, the Group will take a cautious yet positive approach; capitalize on its strengths and market opportunities. The Group will keep improving the customer services standard and enriching the variation of wealth management products through better understanding of investment market trend and customer needs, with a mission to enhance customer's returns. The Group will further develop its service platform in Mainland China for better capturing of business opportunities in the region. We will continue to expand our scopes of service to our target customers, improve operation efficiency and resource utilization. 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.

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## Management's Discussion and Analysis (continued)

### Risk Management

#### Overview

The Group believes that sound risk management is a key success factor for any organisation. In its daily operation, the Group attaches a high degree of importance to risk management and emphasises that a balance must be struck between risk control and business growth and development. 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's risk management governance structure is designed to cover the whole process of all businesses and ensure various risks are properly managed and controlled in the course of conducting business. 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 Bank and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the determination of risk management strategies and for ensuring that the Group has an effective risk management system to implement these risk management strategies. Risk Management Committee ("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. Audit Committee ("AC") assists the Board in fulfilling its role on overseeing internal control system.

To achieve the Group's risk management goals, the Group has established a centralised risk management structure that involves the following elements:

- a corporate governance structure to provide active oversight and participation by the Board of Directors, committees and senior management;
- reporting lines that are independent of the Group's Business Units;
- uniform risk management policies, procedures and limits by which the Group identifies, measures, monitors and controls inherent risks;
- improved risk measurement, monitoring and management information systems to support business activities and risk management; and
- clearly defined risk management responsibilities and accountability.

The Group faces the same types of inherent business risks and adopts consistent risk management strategies and policies as its immediate holding company, Bank of China (Hong Kong) Limited ("BOCHK"). The Group executes its risk management strategy independently and functionally reports to BOCHK on a regular basis.

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## **Management's Discussion and Analysis (continued)**

### **Risk Management (continued)**

#### **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.

#### **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 ("CMD") 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.

The Group's internal loan grading system divides loans into 5 categories with reference to HKMA's guidelines. CMD provides regular credit management information reports and ad hoc reports to members of Executive Committee ("EC"), RC, AC and Board of Directors.



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## Management's Discussion and Analysis (continued)

### Risk Management (continued)

#### 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.

CMD, Finance Division and Settlement Section are responsible for the regular oversight of the Group's market risk to ensure that overall and individual market risks are within the Group's risk tolerance. Risk exposures are monitored on a regular basis to ensure that they are within established risk limits.

The Group has met the "de minimis" criteria set out in the Maintenance of Adequate Capital Against Market Risk guideline issued by the HKMA. As a result, the Group considers that the market risk arising from its trading book is not material and no further qualitative or quantitative disclosure is made of market risk in these accounts.

#### 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 Asset and Liability 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. The Treasury Division manages the interest rate risk according to the established policies. The Finance Division closely monitors the related risks and the results are reported to RC and ALCO regularly.

Gap analysis is one of the tools used to measure the Group's exposure to repricing risk. This provides the Group with a static view of the maturity and repricing characteristics of its balance sheet positions. The Group uses interest rate derivatives to hedge its interest rate exposures and in most cases, plain vanilla interest rate swaps are used.

Sensitivities of earnings and economic value to interest rate changes (Earnings at Risk and Economic Value at Risk) are assessed through hypothetical interest rate shock of 200 basis points across the yield curve on both sides. Earnings at Risk and Economic Value at Risk are controlled respectively within an approved percentage of the projected net interest income for the year and the latest capital base as sanctioned by RC. The results are reported to ALCO and RC on a regular basis.

The impact of basis risk is gauged by the projected change in net interest income under scenarios of imperfect correlation in the adjustment of the rates earned and paid on different instruments. Ratios of assets to liabilities with similar pricing basis are established to monitor such risk.

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## Management's Discussion and Analysis (continued)

### Risk Management (continued)

#### 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.

The Group funds its operations principally by accepting deposits from retail and corporate depositors. In addition, the Group may issue certificates of deposit to secure long-term funds. Funding may also be secured through adjusting the asset mix in the Group's investment portfolio. The Group uses the majority of funds raised to extend loans, to purchase debt securities or to conduct interbank placements.

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 Department 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.

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## **Management's Discussion and Analysis (continued)**

### **Risk Management (continued)**

#### **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.

#### **Stress Testing**

The Group supplements the analysis of various types of risks with stress testing. Stress testing is a risk management tool for estimating the Group's risk exposures under stressed conditions arising from extreme but plausible market or macroeconomic movements. These tests are conducted on a regular basis and ALCO monitors the results against limits approved by RC. Stress test results are also reported to the Board and RC regularly.

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## Corporate Governance

The Group has complied with the HKMA's guidelines set out in the Supervisory Policy Manual CG-1 "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.

## Condensed Consolidated Income Statement

	Notes	(Unaudited) Half-year ended 30 June 2008 HK\$'000	(Unaudited) Half-year ended 30 June 2007 HK\$'000
Interest income		702,461	831,675
Interest expense		(256,902)	(466,125)
<b>Net interest income</b>	4	<b>445,559</b>	365,550
Fees and commission income		175,747	161,823
Fees and commission expenses		(26,850)	(27,523)
<b>Net fees and commission income</b>	5	<b>148,897</b>	134,300
Net trading income	6	18,287	28,334
Net gain on financial instruments designated at fair value through profit or loss		26,280	1,934
Net gain on investment in securities	7	131	-
Other operating income	8	4,115	3,056
<b>Net operating income before impairment allowances</b>		<b>643,269</b>	533,174
Net reversal/(charge) of impairment allowances	9	1,349	(18,720)
<b>Net operating income</b>		<b>644,618</b>	514,454
Operating expenses	10	(150,364)	(125,259)
<b>Operating profit</b>		<b>494,254</b>	389,195
Net gain from disposal of/fair value adjustments on investment properties	11	8,450	5,071
Net loss from disposal of properties, plant and equipment	12	(4)	(8)
<b>Profit before taxation</b>		<b>502,700</b>	394,258
Taxation	13	(86,447)	(68,953)
<b>Profit for the period</b>		<b>416,253</b>	325,305
<b>Dividends</b>	14	<b>678,000</b>	222,000

The notes on pages 15 to 75 are an integral part of this interim financial information.

## Condensed Consolidated Balance Sheet

	Notes	(Unaudited) At 30 June 2008 HK\$'000	(Audited) At 31 December 2007 HK\$'000
<b>ASSETS</b>			
Cash and balances with banks and other financial institutions	17	9,635,318	9,751,518
Placements with banks and other financial institutions maturing between one and twelve months		5,333,693	7,242,392
Financial assets designated at fair value through profit or loss	18	442,151	1,036,422
Derivative financial instruments	19	223,747	176,682
Advances and other accounts	20	16,772,929	13,354,058
Investment in securities	21	4,224,273	5,793,716
Investment properties	22	86,400	64,450
Properties, plant and equipment	23	640,588	571,328
Other assets	24	696,878	1,049,398
Total assets		<b>38,055,977</b>	<b>39,039,964</b>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions		1,323,936	1,085,595
Financial liabilities designated at fair value through profit or loss	25	1,019,982	2,485,192
Derivative financial instruments	19	94,222	51,124
Deposits from customers	26	29,382,541	29,328,028
Other accounts and provisions	27	1,922,279	1,659,067
Current tax liabilities		122,210	78,481
Deferred tax liabilities	28	82,224	67,336
Total liabilities		<b>33,947,394</b>	<b>34,754,823</b>
<b>EQUITY</b>			
Share capital	29	300,000	300,000
Reserves	30	3,808,583	3,985,141
Total equity		<b>4,108,583</b>	<b>4,285,141</b>
Total liabilities and equity		<b>38,055,977</b>	<b>39,039,964</b>

The notes on pages 15 to 75 are an integral part of this interim financial information.

## Condensed Consolidated Statement of Changes in Equity

(Audited) 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 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 first interim dividend paid	-	-	-	-	(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
At 1 July 2007	300,000	288,843	7,991	174,638	3,304,646	4,076,118
Net profit for the second half of 2007	-	-	-	-	449,585	449,585
Currency translation difference	-	-	-	-	536	536
2007 second interim dividend paid	-	-	-	-	(270,000)	(270,000)
Revaluation of premises	-	34,418	-	-	-	34,418
Change in fair value of available-for-sale securities taken to equity	-	-	201	-	-	201
Release to deferred tax liabilities	-	(5,682)	(35)	-	-	(5,717)
Transfer from retained earnings	-	-	-	(2,364)	2,364	-
At 31 December 2007	300,000	317,579	8,157	172,274	3,487,131	4,285,141
Bank and subsidiaries	300,000	317,579	8,157	172,274	3,487,131	4,285,141

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

## Condensed Consolidated Statement of Changes in Equity (continued)

	(Unaudited) 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 2008	300,000	317,579	8,157	172,274	3,487,131	4,285,141
Net profit for the first half of 2008	-	-	-	-	416,253	416,253
Currency translation difference	-	-	-	-	1,886	1,886
2008 first interim dividend declared	-	-	-	-	(678,000)	(678,000)
Revaluation of premises	-	83,666	-	-	-	83,666
Change in fair value of available-for-sale securities taken to equity	-	-	11,376	-	-	11,376
Release to deferred tax liabilities	-	(9,773)	(1,966)	-	-	(11,739)
Transfer from retained earnings	-	-	-	25,630	(25,630)	-
At 30 June 2008	<u>300,000</u>	<u>391,472</u>	<u>17,567</u>	<u>197,904</u>	<u>3,201,640</u>	<u>4,108,583</u>
Bank and subsidiaries	<u>300,000</u>	<u>391,472</u>	<u>17,567</u>	<u>197,904</u>	<u>3,201,640</u>	<u>4,108,583</u>

The notes on pages 15 to 75 are an integral part of this interim financial information.





## Condensed Consolidated Cash Flow Statement

	Notes	(Unaudited) Half-year ended 30 June 2008 HK\$'000	(Unaudited) Half-year ended 30 June 2007 HK\$'000
<b>Cash flows from operating activities</b>			
Operating cash inflow before taxation	31(a)	123,444	2,122,689
Hong Kong profits tax paid		(27,144)	(24,837)
Overseas profits tax paid		(12,425)	(6,013)
<b>Net cash inflow from operating activities</b>		<b>83,875</b>	<b>2,091,839</b>
<b>Cash flows from investing activities</b>			
Purchase of properties, plant and equipment		(5,707)	(4,642)
Proceeds from disposal of investment properties		-	14,891
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(5,707)</b>	<b>10,249</b>
<b>Cash flows from financing activity</b>			
Dividends paid to equity holders of the Bank		(270,000)	(210,000)
<b>Net cash outflow from financing activity</b>		<b>(270,000)</b>	<b>(210,000)</b>
(Decrease)/Increase in cash and cash equivalents		(191,832)	1,892,088
Cash and cash equivalents at 1 January		12,649,557	7,576,757
<b>Cash and cash equivalents at 30 June</b>	31(b)	<b>12,457,725</b>	<b>9,468,845</b>

The notes on pages 15 to 75 are an integral part of this interim financial information.

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## Notes to the Interim Financial Information

### 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 Accountants (“HKICPA”).

#### 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 2007 and should be read in conjunction with the Group’s Annual Report for 2007.

### 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 2007.

### 3. Financial risk management

The Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency and interest rate risk) and liquidity risk. This note summarises the Group’s exposures to these risks.

#### 3.1 Credit Risk

##### Gross loans and advances

##### (a) Impaired advances

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the financial asset. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the loss events.



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (a) Impaired advances (continued)

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Gross impaired advances to customers	<u>17,681</u>	<u>30,884</u>
Individually assessed loan impairment allowances made in respect of such advances	<u>(7,788)</u>	<u>(10,984)</u>
Current market value of collateral held against the covered portion of advances to customers	<u>14,069</u>	<u>26,610</u>
Covered portion of advances to customers	<u>10,101</u>	<u>21,806</u>
Uncovered portion of advances to customers	<u>7,580</u>	<u>9,078</u>
Gross impaired advances to customers as a percentage of gross advances to customers	<u>0.11%</u>	<u>0.23%</u>

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

Classified or impaired advances to customers are analysed as follows:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Gross classified or impaired advances to customers	<u>23,654</u>	<u>40,550</u>
Gross classified or impaired advances to customers as a percentage of gross advances to customers	<u>0.15%</u>	<u>0.31%</u>

Classified or impaired advances to customers follow the definitions 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.

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (b) Advances overdue for more than 3 months

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due 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.

The gross amount of advances overdue for more than 3 months is analysed as follows:

	<b>At 30 June 2008</b>		<b>At 31 December 2007</b>	
	<b>Amount</b>	<b>% of gross advances to customers</b>	<b>Amount</b>	<b>% of gross advances to customers</b>
	<b>HK\$'000</b>		<b>HK\$'000</b>	
Gross advances to customers which have been overdue for:				
- six months or less but over three months	4,870	0.03%	897	0.01%
- one year or less but over six months	6,229	0.04%	10,322	0.08%
- over one year	10,980	0.07%	22,948	0.17%
Advances overdue for over three months	<b>22,079</b>	<b>0.14%</b>	<b>34,167</b>	<b>0.26%</b>
Individually assessed loan impairment allowances made in respect of such advances	<b>7,225</b>		<b>10,244</b>	

	<b>At 30 June 2008</b>	<b>At 31 December 2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current market value of collateral held against the covered portion of advances to customers	<b>19,885</b>	<b>39,943</b>
Covered portion of advances to customers	<b>10,178</b>	<b>22,501</b>
Uncovered portion of advances to customers	<b>11,901</b>	<b>11,666</b>

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

As at 30 June 2008 and 31 December 2007, there were no advances to banks and other financial institutions that were overdue for more than three months.



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (c) Rescheduled advances

	At 30 June 2008		At 31 December 2007	
	Amount HK\$'000	% of gross advances to customers	Amount HK\$'000	% of gross advances to customers
Rescheduled advances to customers net of amounts included in advances overdue for more than 3 months	-	-	1,121	0.01%

As at 30 June 2008 and 31 December 2007, 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.

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers

##### (i) Sectoral analysis of gross advances to customers

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

	At 30 June 2008				
	Gross advances HK\$'000	% Covered by collateral or other security	Classified or impaired HK\$'000	Overdue* HK\$'000	Individually assessed impairment allowances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	737,289	19.99%	-	-	-
- Property investment	3,165,964	96.54%	-	9,765	-
- Financial concerns	367,518	23.28%	-	-	-
- Wholesale and retail trade	697,810	67.08%	-	6,975	-
- Manufacturing	958,002	46.99%	2,977	11,437	1,153
- Transport and transport equipment	385,834	81.89%	-	2,008	-
- Recreational activities	863	100.00%	-	-	-
- Information technology	1,653	100.00%	-	1,311	-
- Others	1,044,645	74.02%	1,403	23,889	-
Individuals					
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	121,232	99.87%	179	1,440	-
- Loans for purchase of other residential properties	2,448,051	99.85%	3,787	17,469	-
- Others	980,831	97.48%	718	23,459	34
Total loans for use in Hong Kong	10,909,692	80.86%	9,064	97,753	1,187
Trade finance	1,211,630	52.68%	1,807	11,542	985
Loans for use outside Hong Kong	3,996,227	79.41%	12,783	22,722	5,616
Gross advances to customers	16,117,549	78.38%	23,654	132,017	7,788

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers (continued)

##### (i) Sectoral analysis of gross advances to customers (continued)

	At 31 December 2007					
	Gross advances	% Covered by collateral or other security	Classified or 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	550,284	27.25%	-	-	-	4,122
- Property investment	2,397,056	94.03%	1,005	22,449	-	10,699
- Financial concerns	498,670	39.91%	-	8,297	-	590
- Stockbrokers	7,357	100.00%	-	-	-	8
- Wholesale and retail trade	600,075	82.82%	7,325	16,869	1,409	3,613
- Manufacturing	687,802	67.90%	11,066	37,263	1,992	3,793
- Transport and transport equipment	62,067	82.76%	-	2,005	-	95
- Recreational activities	1,031	100.00%	-	-	-	3
- Information technology	1,281	100.00%	-	-	-	2
- Others	1,116,337	72.07%	1,986	30,361	33	3,466
Individuals						
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	120,060	96.46%	144	2,215	-	70
- Loans for purchase of other residential properties	2,315,317	99.95%	2,127	33,764	-	1,175
- Others	898,326	98.70%	403	18,202	-	439
Total loans for use in Hong Kong	9,255,663	83.72%	24,056	171,425	3,434	28,075
Trade finance	989,455	60.15%	3,124	14,914	1,305	5,462
Loans for use outside Hong Kong	2,897,219	78.67%	13,370	39,021	6,245	10,018
Gross advances to customers	13,142,337	80.83%	40,550	225,360	10,984	43,555

\*Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid.

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers (continued)

##### (ii) Geographical analysis of gross advances to customers and overdue advances

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

##### Gross advances to customers

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Hong Kong	13,040,590	11,765,150
Mainland China	3,076,959	1,377,187
	<b>16,117,549</b>	<b>13,142,337</b>

##### Collectively assessed loan impairment allowances in respect of the gross advances to customers

Hong Kong	37,275	35,695
Mainland China	8,213	7,860
	<b>45,488</b>	<b>43,555</b>

##### Overdue advances

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Hong Kong	122,488	220,004
Mainland China	9,529	5,356
	<b>132,017</b>	<b>225,360</b>

##### Individually assessed loan impairment allowances in respect of the overdue advances

Hong Kong	6,006	9,171
Mainland China	1,748	1,813
	<b>7,754</b>	<b>10,984</b>

##### Collectively assessed loan impairment allowances in respect of the overdue advances

Hong Kong	643	2,441
Mainland China	147	-
	<b>790</b>	<b>2,441</b>





## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Gross loans and advances (continued)

##### (d) Concentration of advances to customers (continued)

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

##### Classified or impaired advances

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Hong Kong	18,290	35,194
Mainland China	5,364	5,356
	<b>23,654</b>	<b>40,550</b>
<b>Individually assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	6,040	9,171
Mainland China	1,748	1,813
	<b>7,788</b>	<b>10,984</b>
<b>Collectively assessed loan impairment allowances in respect of the classified or impaired advances</b>		
Hong Kong	28	42
Mainland China	-	-
	<b>28</b>	<b>42</b>

##### Reposessed assets

The estimated market value of reposessed assets held by the Group as at 30 June 2008 amounted to HK\$10,000,000 (31 December 2007: HK\$16,100,000). They comprise properties 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.

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.1 Credit Risk (continued)

##### Debt securities

The table below represents an analysis of the carrying value of investment in securities by credit rating and credit risk characteristic, based on Moody's ratings or their equivalent to the respective issues of the debt securities.

At 30 June 2008				
	US subprime mortgage related HK\$'000	Alt-A HK\$'000	Others HK\$'000	Total HK\$'000
Aaa	-	-	520,748	520,748
Aa1 to Aa3	-	-	2,582,445	2,582,445
A1 to A3	-	-	706,175	706,175
Lower than A3	-	-	-	-
Unrated	-	-	373,990	373,990
	-	-	4,183,358	4,183,358

  

At 31 December 2007				
	US subprime mortgage related HK\$'000	Alt-A HK\$'000	Others HK\$'000	Total HK\$'000
Aaa	-	-	407,154	407,154
Aa1 to Aa3	-	-	3,713,914	3,713,914
A1 to A3	-	-	435,098	435,098
Lower than A3	-	-	-	-
Unrated	-	-	1,207,325	1,207,325
	-	-	5,763,491	5,763,491

For the above investment in debt securities with no issue rating, their issuer ratings are analysed as follows:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Aaa	-	98,830
Aa1 to Aa3	373,990	1,108,495
	373,990	1,207,325

As at 30 June 2008 and 31 December 2007, there were no impaired, overdue, mortgage-backed nor asset-backed debt securities.



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk

##### Currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2008 and 31 December 2007. 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 2008							
	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
<b>Assets</b>								
Cash and balances with banks and other financial institutions	1,513,196	1,280,475	5,678,743	93,339	17,559	62,954	989,052	9,635,318
Placements with banks and other financial institutions maturing between one and twelve months	137,182	581,160	4,051,947	148,593	-	-	414,811	5,333,693
Financial assets designated at fair value through profit or loss	-	340,828	101,323	-	-	-	-	442,151
Derivative financial instruments	-	2,292	221,455	-	-	-	-	223,747
Advances and other accounts	1,143,795	3,907,302	11,680,370	21,890	18,961	611	-	16,772,929
Investment in securities								
- Available-for-sale securities	96,243	-	40,666	249	-	-	-	137,158
- Held-to-maturity securities	-	754,193	2,920,301	-	-	-	138,569	3,813,063
- Loans and receivables	-	-	274,052	-	-	-	-	274,052
Investment properties	-	-	86,400	-	-	-	-	86,400
Properties, plant and equipment	-	-	640,588	-	-	-	-	640,588
Other assets (including deferred tax assets)	1,089	9,929	681,745	-	-	-	4,115	696,878
<b>Total assets</b>	<b>2,891,505</b>	<b>6,876,179</b>	<b>26,377,590</b>	<b>264,071</b>	<b>36,520</b>	<b>63,565</b>	<b>1,546,547</b>	<b>38,055,977</b>



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk (continued)

##### Currency risk (continued)

	At 30 June 2008							Total
	Renminbi	US Dollars	HK Dollars	EURO	Japanese Yen	Pound Sterling	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	-	138,140	831,493	4,597	186,738	6,030	156,938	1,323,936
Financial liabilities designated at fair value through profit or loss	-	557,809	462,173	-	-	-	-	1,019,982
Derivative financial instruments	-	15,992	78,230	-	-	-	-	94,222
Deposits from customers	2,441,981	5,510,182	19,420,551	272,406	48,509	142,983	1,545,929	29,382,541
Other accounts and provisions (including current and deferred tax liabilities)	202,653	174,449	1,684,072	2,649	7,738	3,479	51,673	2,126,713
<b>Total liabilities</b>	<b>2,644,634</b>	<b>6,396,572</b>	<b>22,476,519</b>	<b>279,652</b>	<b>242,985</b>	<b>152,492</b>	<b>1,754,540</b>	<b>33,947,394</b>
<b>Net on-balance sheet position</b>	<b>246,871</b>	<b>479,607</b>	<b>3,901,071</b>	<b>(15,581)</b>	<b>(206,465)</b>	<b>(88,927)</b>	<b>(207,993)</b>	<b>4,108,583</b>
<b>Off-balance sheet net notional position*</b>	<b>10,406</b>	<b>(109,833)</b>	<b>(277,334)</b>	<b>16,907</b>	<b>205,926</b>	<b>88,872</b>	<b>214,747</b>	<b>149,691</b>
<b>Contingent liabilities and commitments</b>	<b>129,774</b>	<b>1,207,921</b>	<b>3,610,326</b>	<b>29,454</b>	<b>46,797</b>	<b>1,938</b>	<b>391</b>	<b>5,026,601</b>

\* 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 Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk (continued)

##### Currency risk (continued)

At 31 December 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	532,488	2,945,456	5,148,579	168,777	43,378	161,176	751,664	9,751,518
Placements with banks and other financial institutions maturing between one and twelve months	64,443	1,790,698	5,212,282	-	-	-	174,969	7,242,392
Financial assets designated at fair value through profit or loss	-	946,840	89,582	-	-	-	-	1,036,422
Derivative financial instruments	-	13,887	162,795	-	-	-	-	176,682
Advances and other accounts	827,419	2,005,274	10,474,688	16,513	29,491	673	-	13,354,058
Investment in securities								
- Available-for-sale securities	89,771	-	29,993	232	-	-	-	119,996
- Held-to-maturity securities	-	635,657	3,680,624	-	-	-	349,967	4,666,248
- Loans and receivables	-	365,554	641,918	-	-	-	-	1,007,472
Investment properties	-	-	64,450	-	-	-	-	64,450
Properties, plant and equipment	-	-	571,328	-	-	-	-	571,328
Other assets (including deferred tax assets)	611	30,485	1,015,259	-	-	-	3,043	1,049,398
Total assets	1,514,732	8,733,851	27,091,498	185,522	72,869	161,849	1,279,643	39,039,964

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk (continued)

##### Currency risk (continued)

At 31 December 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
Liabilities								
Deposits and balances of banks and other financial institutions	86,690	517,616	76,174	24,265	201,894	-	178,956	1,085,595
Financial liabilities designated at fair value through profit or loss	-	1,460,718	1,024,474	-	-	-	-	2,485,192
Derivative financial instruments	-	11,418	39,706	-	-	-	-	51,124
Deposits from customers	1,197,444	6,094,439	20,453,766	207,545	55,402	131,840	1,187,592	29,328,028
Other accounts and provisions (including current and deferred tax liabilities)	53,159	156,299	1,527,712	7,490	9,346	2,466	48,412	1,804,884
Total liabilities	1,337,293	8,240,490	23,121,832	239,300	266,642	134,306	1,414,960	34,754,823
Net on-balance sheet position	177,439	493,361	3,969,666	(53,778)	(193,773)	27,543	(135,317)	4,285,141
Off-balance sheet net notional position*	14,418	6,558	(242,513)	54,812	180,364	(24,080)	135,261	124,820
Contingent liabilities and commitments	99,123	1,595,592	3,852,858	93,712	71,688	2,169	38	5,715,180

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk (continued)

##### Interest rate risk

The tables below summarise the Group's exposure to interest rate risk as at 30 June 2008 and 31 December 2007. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Derivative financial instruments are principally used to reduce the Group's exposure to interest rate movements. The carrying amounts are presented under the column captioned 'Non-interest bearing'.

	At 30 June 2008						Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Assets</b>							
Cash and balances with banks and other financial institutions	8,572,105	-	-	-	-	1,063,213	9,635,318
Placements with banks and other financial institutions maturing between one and twelve months	-	5,056,641	277,052	-	-	-	5,333,693
Financial assets designated at fair value through profit or loss	240,639	58,350	-	143,162	-	-	442,151
Derivative financial instruments	-	-	-	-	-	223,747	223,747
Advances and other accounts	14,946,666	1,256,377	507,965	32,545	29,376	-	16,772,929
Investment in securities							
- Available-for-sale securities	-	-	-	96,243	-	40,915	137,158
- Held-to-maturity securities	562,101	2,189,145	714,554	347,263	-	-	3,813,063
- Loans and receivables	-	-	274,052	-	-	-	274,052
Investment properties	-	-	-	-	-	86,400	86,400
Properties, plant and equipment	-	-	-	-	-	640,588	640,588
Other assets (including deferred tax assets)	-	-	-	-	-	696,878	696,878
<b>Total assets</b>	<b>24,321,511</b>	<b>8,560,513</b>	<b>1,773,623</b>	<b>619,213</b>	<b>29,376</b>	<b>2,751,741</b>	<b>38,055,977</b>

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk (continued)

##### Interest rate risk (continued)

At 30 June 2008						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Liabilities</b>						
Deposits and balances of banks and other financial institutions	988,762	154,122	23,082	-	-	157,970
Financial liabilities designated at fair value through profit or loss	263,940	723,209	32,833	-	-	-
Derivative financial instruments	-	-	-	-	-	94,222
Deposits from customers	22,451,969	3,819,200	2,060,830	35,349	-	1,015,193
Other accounts and provisions (including current and deferred tax liabilities)	400,610	-	-	-	-	1,726,103
<b>Total liabilities</b>	<b>24,105,281</b>	<b>4,696,531</b>	<b>2,116,745</b>	<b>35,349</b>	<b>-</b>	<b>2,993,488</b>
<b>Interest sensitivity gap</b>	<b>216,230</b>	<b>3,863,982</b>	<b>(343,122)</b>	<b>583,864</b>	<b>29,376</b>	<b>(241,747)</b>



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.2 Market Risk (continued)

##### Interest rate risk (continued)

At 31 December 2007							
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>							
Cash and balances with banks and other financial institutions	9,243,843	-	-	-	-	507,675	9,751,518
Placements with banks and other financial institutions maturing between one and twelve months	-	5,754,544	1,487,848	-	-	-	7,242,392
Financial assets designated at fair value through profit or loss	868,509	53,031	71,452	43,430	-	-	1,036,422
Derivative financial instruments	-	-	-	-	-	176,682	176,682
Advances and other accounts	10,935,660	526,442	975,356	830,232	86,368	-	13,354,058
Investment in securities							
- Available-for-sale securities	-	-	-	89,771	-	30,225	119,996
- Held-to-maturity securities	1,209,462	1,609,934	1,094,971	751,881	-	-	4,666,248
- Loans and receivables	-	-	1,007,472	-	-	-	1,007,472
Investment properties	-	-	-	-	-	64,450	64,450
Properties, plant and equipment	-	-	-	-	-	571,328	571,328
Other assets (including deferred tax assets)	-	-	-	-	-	1,049,398	1,049,398
<b>Total assets</b>	<b>22,257,474</b>	<b>7,943,951</b>	<b>4,637,099</b>	<b>1,715,314</b>	<b>86,368</b>	<b>2,399,758</b>	<b>39,039,964</b>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	656,635	82,078	247,679	-	-	99,203	1,085,595
Financial liabilities designated at fair value through profit or loss	2,066,221	50,753	368,218	-	-	-	2,485,192
Derivative financial instruments	-	-	-	-	-	51,124	51,124
Deposits from customers	22,817,178	3,511,636	1,458,057	59,464	-	1,481,693	29,328,028
Other accounts and provisions (including current and deferred tax liabilities)	326,256	-	-	-	-	1,478,628	1,804,884
<b>Total liabilities</b>	<b>25,866,290</b>	<b>3,644,467</b>	<b>2,073,954</b>	<b>59,464</b>	<b>-</b>	<b>3,110,648</b>	<b>34,754,823</b>
<b>Interest sensitivity gap</b>	<b>(3,608,816)</b>	<b>4,299,484</b>	<b>2,563,145</b>	<b>1,655,850</b>	<b>86,368</b>	<b>(710,890)</b>	<b>4,285,141</b>



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.3 Liquidity Risk

Tables below analyse assets and liabilities of the Group as at 30 June 2008 and 31 December 2007 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	At 30 June 2008							Total
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Assets</b>								
Cash and balances with banks and other financial institutions	1,517,369	8,117,949	-	-	-	-	-	9,635,318
Placements with banks and other financial institutions maturing between one and twelve months	-	-	5,056,641	277,052	-	-	-	5,333,693
Financial assets designated at fair value through profit or loss								
- debt securities - certificates of deposit held	-	-	-	-	58,350	-	-	58,350
- others	-	-	-	-	143,162	240,639	-	383,801
Derivative financial instruments	202,226	1,484	5,129	14,636	272	-	-	223,747
Advances and other accounts								
- advances to customers	1,258,052	981,302	1,337,818	2,894,768	5,158,959	4,414,796	18,578	16,064,273
- trade bills	3,411	353,869	289,300	62,076	-	-	-	708,656
Investment in securities								
- debt securities held for available-for-sales								
- others	-	-	-	-	96,243	-	-	96,243
- equity securities held for available-for-sale	-	-	-	-	-	-	40,915	40,915
- debt securities held for held-to-maturity								
- certificates of deposit held	-	-	-	100,133	-	-	-	100,133
- others	-	99,937	-	1,487,267	2,125,726	-	-	3,712,930
- debt securities held for loans and receivables	-	-	-	274,052	-	-	-	274,052
Investment properties	-	-	-	-	-	-	86,400	86,400
Properties, plant and equipment	-	-	-	-	-	-	640,588	640,588
Other assets (including deferred tax assets)	485,222	194,981	-	12,324	3,912	-	439	696,878
<b>Total assets</b>	<b>3,466,280</b>	<b>9,749,522</b>	<b>6,688,888</b>	<b>5,122,308</b>	<b>7,586,624</b>	<b>4,655,435</b>	<b>786,920</b>	<b>38,055,977</b>

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.3 Liquidity Risk (continued)

	At 30 June 2008							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Liabilities</b>								
<b>Deposits and balances of banks and other financial institutions</b>	189,587	957,145	154,122	23,082	-	-	-	1,323,936
<b>Financial liabilities designated at fair value through profit or loss</b>								
– certificates of deposit issued	-	-	183,602	-	-	-	-	183,602
– others	-	-	-	113,264	440,375	282,741	-	836,380
<b>Derivative financial instruments</b>	53,922	804	482	15,599	19,393	4,022	-	94,222
<b>Deposits from customers</b>	13,267,251	10,198,919	3,683,620	2,094,740	138,011	-	-	29,382,541
<b>Other accounts and provisions (including current and deferred tax liabilities)</b>	862,503	354,995	678,404	147,358	83,453	-	-	2,126,713
<b>Total liabilities</b>	14,373,263	11,511,863	4,700,230	2,394,043	681,232	286,763	-	33,947,394
<b>Net liquidity gap</b>	(10,906,983)	(1,762,341)	1,988,658	2,728,265	6,905,392	4,368,672	786,920	4,108,583



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.3 Liquidity Risk (continued)

At 31 December 2007								
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>								
Cash and balances with banks and other financial institutions	820,585	8,930,933	-	-	-	-	-	9,751,518
Placements with banks and other financial institutions maturing between one and twelve months	-	-	5,754,544	1,487,848	-	-	-	7,242,392
Financial assets designated at fair value through profit or loss								
– debt securities								
– certificates of deposit held	-	-	-	119,207	205,738	-	-	324,945
– others	-	-	113,932	-	289,362	308,183	-	711,477
Derivative financial instruments	149,236	434	371	7,904	18,737	-	-	176,682
Advances and other accounts								
– advances to customers	1,263,494	723,060	1,072,182	2,366,444	3,752,135	3,860,954	49,529	13,087,798
– trade bills	1,835	111,795	150,886	1,744	-	-	-	266,260
Investment in securities								
– debt securities held for available-for-sales								
– others	-	-	-	-	89,771	-	-	89,771
– equity securities held for available-for-sale	-	-	-	-	-	-	30,225	30,225
– debt securities held for held-to-maturity								
– certificates of deposit held	-	-	-	21,045	-	-	-	21,045
– others	-	552,852	997,441	2,343,029	751,881	-	-	4,645,203
– debt securities held for loans and receivables	-	-	-	1,007,472	-	-	-	1,007,472
Investment properties	-	-	-	-	-	-	64,450	64,450
Properties, plant and equipment	-	-	-	-	-	-	571,328	571,328
Other assets (including deferred tax assets)	347,805	697,107	-	560	3,487	-	439	1,049,398
<b>Total assets</b>	<b>2,582,955</b>	<b>11,016,181</b>	<b>8,089,356</b>	<b>7,355,253</b>	<b>5,111,111</b>	<b>4,169,137</b>	<b>715,971</b>	<b>39,039,964</b>



## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.3 Liquidity Risk (continued)

At 31 December 2007

	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Deposits and balances of banks and other financial institutions	111,715	644,123	82,078	247,679	-	-	-	1,085,595
Financial liabilities designated at fair value through profit or loss								
– certificates of deposit issued	-	-	-	295,740	-	-	-	295,740
– others	-	69,552	379,017	676,438	755,495	308,950	-	2,189,452
Derivative financial instruments	25,286	578	765	13,397	11,098	-	-	51,124
Deposits from customers	13,910,579	10,388,292	3,511,636	1,458,057	59,464	-	-	29,328,028
Other accounts and provisions (including current and deferred tax liabilities)	650,685	733,337	270,404	79,927	70,531	-	-	1,804,884
Total liabilities	14,698,265	11,835,882	4,243,900	2,771,238	896,588	308,950	-	34,754,823
Net liquidity gap	(12,115,310)	(819,701)	3,845,456	4,584,015	4,214,523	3,860,187	715,971	4,285,141

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.3 Liquidity Risk (continued)

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

#### 3.4 Capital Management

##### (a) Capital adequacy ratio

	<b>At 30 June 2008</b>	At 31 December 2007
Capital adequacy ratio	<b>17.07%</b>	19.97%
Core capital ratio	<b>15.98%</b>	18.92%

The capital ratios are computed on the combined basis that comprises the positions of the Bank’s local offices and oversea branches specified by the HKMA for its regulatory purposes and in accordance with the Banking (Capital) Rules.

The differences between the basis of consolidation for accounting and regulatory purposes are described in “Additional information – Subsidiaries of the Bank” on page 78.

## Notes to the Interim Financial Information (continued)

### 3. Financial risk management (continued)

#### 3.4 Capital Management (continued)

##### (b) 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 2008 and 31 December 2007 and reported to the HKMA is analysed as follows:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Core capital:		
Paid up ordinary share capital	300,000	300,000
Reserves	3,368,276	3,064,743
Profit and loss account	(285,257)	327,277
	<u>3,383,019</u>	<u>3,692,020</u>
Deductions from core capital	<u>(13,282)</u>	<u>(13,181)</u>
Core capital	<u>3,369,737</u>	<u>3,678,839</u>
Supplementary capital:		
Reserves on revaluation of premises and investment properties	224	224
Fair value gains arising from revaluation of holdings of available-for-sale securities	952	562
Collective loan impairment allowances	45,488	43,555
Regulatory reserve	197,904	172,274
	<u>244,568</u>	<u>216,615</u>
Deductions from supplementary capital	<u>(13,282)</u>	<u>(13,181)</u>
Supplementary capital	<u>231,286</u>	<u>203,434</u>
Total capital base after deductions	<u>3,601,023</u>	<u>3,882,273</u>

Subsidiaries which are not included in the consolidation group for the calculation of capital adequacy ratios are denoted in "Additional information – Subsidiaries of the Bank" on page 78. Investment costs in such subsidiaries are deducted from the capital base.

## Notes to the Interim Financial Information (continued)

### 4. Net interest income

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
<b>Interest income</b>		
Cash and due from banks and other financial institutions	258,130	297,531
Advances to customers	317,766	361,347
Listed investments	1,010	1,160
Unlisted investments	114,607	165,013
Others	10,948	6,624
	<b>702,461</b>	<b>831,675</b>
<b>Interest expense</b>		
Due to banks, customers and other financial institutions	(249,291)	(446,263)
Debt securities in issue	(4,123)	(4,748)
Others	(3,488)	(15,114)
	<b>(256,902)</b>	<b>(466,125)</b>
<b>Net interest income</b>	<b>445,559</b>	<b>365,550</b>

Included within interest income is HK\$1,092,000 (first half of 2007: HK\$2,010,000) of interest recognised on advances classified as impaired for the first half of 2008.

Included within interest income and interest expense are HK\$684,479,000 (first half of 2007: HK\$808,770,000) and HK\$244,612,000 (first half of 2007: HK\$401,873,000) for financial assets and financial liabilities that are not at fair value through profit or loss respectively.





## Notes to the Interim Financial Information (continued)

### 5. Net fees and commission income

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
<b>Fees and commission income</b>		
Securities brokerage		
- Stockbroking	69,631	80,466
- Bonds	27,397	7,879
Credit cards	124	119
Bills commissions	22,920	18,464
Loan commissions	12,919	6,629
Payment services	10,146	9,478
Insurance	10,130	4,660
Asset management	3,160	13,496
Guarantees	1,489	1,046
Others		
- safe deposit box	5,694	5,742
- information search	1,254	1,024
- correspondent banking	796	1,049
- postage and telegrams	627	1,047
- low deposit balance accounts	543	666
- BOC cards	517	525
- dormant accounts	401	446
- currency exchange	152	137
- agency services	117	228
- sundries	7,730	8,722
	<b>175,747</b>	<b>161,823</b>
<b>Fees and commission expenses</b>	<b>(26,850)</b>	<b>(27,523)</b>
<b>Net fees and commission income</b>	<b>148,897</b>	<b>134,300</b>
Of which arise from		
- financial assets or financial liabilities not at fair value through profit or loss		
- Fees and commission income	13,971	7,785
- Fees and commission expenses	(80)	(686)
	<b>13,891</b>	<b>7,099</b>
- trust and other fiduciary activities		
- Fees and commission income	2,802	2,455
- Fees and commission expenses	(1,501)	(1,756)
	<b>1,301</b>	<b>699</b>



## Notes to the Interim Financial Information (continued)

### 6. Net trading income

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Net gain from:		
- foreign exchange and foreign exchange products	43,404	29,986
- interest rate instruments	(25,119)	(1,646)
- commodities	2	(6)
	<u>18,287</u>	<u>28,334</u>

### 7. Net gain on investment in securities

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Net gain from redemption of held-to-maturity securities	<u>131</u>	<u>-</u>

### 8. Other operating income

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Dividend income from investment in securities		
- unlisted investments	2,593	1,659
Gross rental income from investment properties	1,412	1,292
Less: Outgoings in respect of investment properties	(40)	(24)
Others	<u>150</u>	<u>129</u>
	<u>4,115</u>	<u>3,056</u>

No direct operating expenses related to investment properties that were not let during the period is included in the "Outgoings in respect of investment properties" (first half of 2007: Nil).



## Notes to the Interim Financial Information (continued)

### 9. Net reversal/(charge) of impairment allowances

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
<b>Advances to customers</b>		
Individually assessed		
- new allowances	(1,076)	(13,716)
- releases	2,633	1,291
- recoveries	3,090	9,015
Net reversal/(charge) of individually assessed loan impairment allowances	4,647	(3,410)
Collectively assessed		
- new allowances	(3,593)	(15,310)
- releases	271	-
Net charge of collectively assessed loan impairment allowances	(3,322)	(15,310)
Net reversal/(charge) of loan impairment allowances	1,325	(18,720)
<b>Others</b>	24	-
<b>Net reversal/(charge) of impairment allowances</b>	<b>1,349</b>	<b>(18,720)</b>

## Notes to the Interim Financial Information (continued)

### 10. Operating expenses

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Staff costs (including directors' emoluments)		
- salaries and other costs	90,611	73,574
- pension cost	7,038	4,923
	<b>97,649</b>	<b>78,497</b>
Premises and equipment expenses (excluding depreciation)		
- rental of premises	9,101	8,265
- information technology	14,681	13,961
- others	2,170	2,270
	<b>25,952</b>	<b>24,496</b>
Depreciation (Note 23)	6,609	6,444
Auditor's remuneration		
- audit services	500	555
- non-audit services	5	-
Other operating expenses	19,649	15,267
	<b>150,364</b>	<b>125,259</b>

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

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Net gain on disposal of investment properties	-	1,391
Net gain on fair value adjustments on investment properties	8,450	3,680
	<b>8,450</b>	<b>5,071</b>

### 12. Net loss from disposal of properties, plant and equipment

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Net loss on disposal of other fixed assets	4	8

## Notes to the Interim Financial Information (continued)

### 13. Taxation

Taxation in the condensed consolidated income statement represents:

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Hong Kong profits tax		
- current period taxation	72,000	63,500
Deferred tax charge/(credit)	3,149	(1,187)
Hong Kong profits tax	75,149	62,313
Overseas taxation	11,298	6,640
	<b>86,447</b>	<b>68,953</b>

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the first half of 2008. Taxation on overseas profits has been calculated on the estimated assessable profits for the first half of 2008 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 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Profit before taxation	502,700	394,258
Calculated at a taxation rate of 16.5% (2007: 17.5%)	82,946	68,995
Effect of different taxation rates in other countries	335	15
Income not subject to taxation	(2,100)	(1,590)
Expenses not deductible for taxation purposes	5,266	1,533
Taxation charge	<b>86,447</b>	<b>68,953</b>
Effective tax rate	<b>17.20%</b>	<b>17.49%</b>

## Notes to the Interim Financial Information (continued)

### 14. Dividends

	Half-year ended 30 June 2008		Half-year ended 30 June 2007	
	Per share HK\$	Total HK\$'000	Per share HK\$	Total HK\$'000
Interim dividend	<b>226</b>	<b>678,000</b>	74	222,000

At a meeting held on 11 June 2008, the Board declared an interim dividend of HK\$226 per ordinary share for the first half of 2008 amounting to approximately HK\$678,000,000.

### 15. Retirement benefit costs

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

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

The Group's total contributions made to the ORSO schemes for the first half of 2008 amounted to approximately HK\$5,662,000 (first half of 2007 approximately HK\$4,743,000), after a deduction of forfeited contributions of approximately HK\$337,000 (first half of 2007: approximately HK\$530,000). For the MPF Scheme, the Group contributed approximately HK\$671,000 (first half of 2007: approximately HK\$487,000) for the first half of 2008.

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## Notes to the Interim Financial Information (continued)

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

The purpose of the Sharesave Plan is to encourage broad-based employee ownership of the shares of 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 2008 (first half of 2007: Nil).

#### (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.



## Notes to the Interim Financial Information (continued)

### 16. Share option schemes (continued)

#### (b) Pre-Listing Share Option Scheme (continued)

Details of the share options outstanding as at 30 June 2008 are disclosed as follows:

	Total number of share options to Directors of the Group	Average Exercise price (HK\$ per share)
At 1 January 2008	934,300	
Less: Share options exercised during the period	<u>(60,000)</u>	8.5
At 30 June 2008	<u>874,300</u>	
Exercisable at 30 June 2008	<u>874,300</u>	
	Total number of share options to Directors of the Group	Average Exercise price (HK\$ per share)
At 1 January 2007	1,534,300	
Less: Share options exercised during the year	<u>(600,000)</u>	8.5
At 31 December 2007	<u>934,300</u>	
Exercisable at 31 December 2007	<u>934,300</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 2007: HK\$18.89).

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 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 Interim Financial Information (continued)

### 17. Cash and balances with banks and other financial institutions

	At 30 June 2008	At 31 December 2007
	HK\$'000	HK\$'000
Cash	165,561	150,690
Balances with central banks	413,920	274,055
Balances with banks and other financial institutions	937,888	395,840
Placements with banks and other financial institutions maturing within one month	8,117,949	8,930,933
	<b>9,635,318</b>	<b>9,751,518</b>

### 18. Financial assets designated at fair value through profit or loss

	At 30 June 2008	At 31 December 2007
	HK\$'000	HK\$'000
At fair value		
Debt securities		
- Unlisted	442,151	1,036,422

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

	At 30 June 2008	At 31 December 2007
	HK\$'000	HK\$'000
Sovereigns	41,839	43,430
Banks and other financial institutions	400,312	992,992
	<b>442,151</b>	<b>1,036,422</b>

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

	At 30 June 2008	At 31 December 2007
	HK\$'000	HK\$'000
Certificates of deposit held	58,350	324,945
Other financial assets designated at fair value through profit or loss	383,801	711,477
	<b>442,151</b>	<b>1,036,422</b>

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## Notes to the Interim Financial Information (continued)

### 19. Derivative financial instruments

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

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

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

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the condensed 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 Interim Financial Information (continued)

### 19. Derivative financial instruments (continued)

The following tables summarise the contract/notional amounts of each significant type of derivative financial instrument as at 30 June 2008 and 31 December 2007:

	At 30 June 2008		
	Trading	Not qualified for hedge accounting*	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	3,588,290	-	3,588,290
Foreign currency option contracts			
- Options purchased	130,186	-	130,186
- Options written	130,186	-	130,186
	<u>3,848,662</u>	<u>-</u>	<u>3,848,662</u>
Interest rate contracts			
Swaps	-	931,608	931,608
	<u>-</u>	<u>931,608</u>	<u>931,608</u>
Equity contracts			
Equity option contracts			
- Options purchased	6,265	-	6,265
- Options written	6,265	-	6,265
	<u>12,530</u>	<u>-</u>	<u>12,530</u>
Total	<u>3,861,192</u>	<u>931,608</u>	<u>4,792,800</u>

\* Derivative transactions which do not qualify as hedged for accounting purposes but are managed in conjunction with the financial instruments designated at fair value through profit or loss are separately disclosed in compliance with the requirements set out in the Banking (Disclosure) Rules.



## Notes to the Interim Financial Information (continued)

### 19. Derivative financial instruments (continued)

	At 31 December 2007		
	Trading	Not qualified for hedge accounting*	Total
	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts			
Spot and forwards	2,945,219	-	2,945,219
Foreign currency option contracts			
- Options purchased	26,888	-	26,888
- Options written	26,888	-	26,888
	<u>2,998,995</u>	<u>-</u>	<u>2,998,995</u>
Interest rate contracts			
Swaps	-	1,611,033	1,611,033
	<u>-</u>	<u>1,611,033</u>	<u>1,611,033</u>
Equity contracts			
Equity option contracts			
- Options purchased	10,555	-	10,555
- Options written	10,555	-	10,555
	<u>21,110</u>	<u>-</u>	<u>21,110</u>
Total	<u>3,020,105</u>	<u>1,611,033</u>	<u>4,631,138</u>



## Notes to the Interim Financial Information (continued)

### 19. Derivative financial instruments (continued)

The following tables summarise the fair values of each class of derivative financial instrument as at 30 June 2008 and 31 December 2007:

	At 30 June 2008					
	Fair value assets			Fair value liabilities		
	Trading HK\$'000	Not qualified for hedge accounting HK\$'000	Total HK\$'000	Trading HK\$'000	Not qualified for hedge accounting HK\$'000	Total HK\$'000
Exchange rate contracts						
Spot and forwards	218,200	-	218,200	69,099	-	69,099
Foreign currency option contracts						
- Options purchased	146	-	146	-	-	-
- Options written	-	-	-	146	-	146
	<u>218,346</u>	<u>-</u>	<u>218,346</u>	<u>69,245</u>	<u>-</u>	<u>69,245</u>
Interest rate contracts						
Swaps	-	5,005	5,005	-	24,580	24,580
Equity contracts						
Equity option contracts						
- Options purchased	396	-	396	-	-	-
- Options written	-	-	-	397	-	397
	<u>396</u>	<u>-</u>	<u>396</u>	<u>397</u>	<u>-</u>	<u>397</u>
Total	<u>218,742</u>	<u>5,005</u>	<u>223,747</u>	<u>69,642</u>	<u>24,580</u>	<u>94,222</u>

  

	At 31 December 2007					
	Fair value assets			Fair value liabilities		
	Trading HK\$'000	Not qualified for hedge accounting HK\$'000	Total HK\$'000	Trading HK\$'000	Not qualified for hedge accounting HK\$'000	Total HK\$'000
Exchange rate contracts						
Spot and forwards	155,770	-	155,770	31,957	-	31,957
Foreign currency option contracts						
- Options purchased	174	-	174	-	-	-
- Options written	-	-	-	174	-	174
	<u>155,944</u>	<u>-</u>	<u>155,944</u>	<u>32,131</u>	<u>-</u>	<u>32,131</u>
Interest rate contracts						
Swaps	-	20,432	20,432	-	18,687	18,687
Equity contracts						
Equity option contracts						
- Options purchased	306	-	306	-	-	-
- Options written	-	-	-	306	-	306
	<u>306</u>	<u>-</u>	<u>306</u>	<u>306</u>	<u>-</u>	<u>306</u>
Total	<u>156,250</u>	<u>20,432</u>	<u>176,682</u>	<u>32,437</u>	<u>18,687</u>	<u>51,124</u>

## Notes to the Interim Financial Information (continued)

### 19. Derivative financial instruments (continued)

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

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Exchange rate contracts		
Forwards	15,895	10,654
Foreign currency option contracts		
- Options purchased	-	8
Interest rate contracts		
Swaps	809	2,468
	<b>16,704</b>	<b>13,130</b>

The credit risk weighted amounts are the amounts that have been calculated in accordance with 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 34% (31 December 2007: 44%) of the Group's transactions in derivative contracts are conducted with other financial institutions.

### 20. Advances and other accounts

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Personal loans and advances	4,447,100	4,178,843
Corporate loans and advances	11,670,449	8,963,494
Advances to customers	<b>16,117,549</b>	<b>13,142,337</b>
Loan impairment allowances		
- Individually assessed	(7,788)	(10,984)
- Collectively assessed	(45,488)	(43,555)
	<b>(53,276)</b>	<b>(54,539)</b>
Trade bills	<b>708,656</b>	266,260
Total	<b>16,772,929</b>	<b>13,354,058</b>

As at 30 June 2008, advances to customers include accrued interest on gross advances of HK\$34,792,000 (31 December 2007: HK\$34,339,000).

As at 30 June 2008 and 31 December 2007, no impairment allowance was made in respect of trade bills and advances to banks and other financial institutions.

## Notes to the Interim Financial Information (continued)

### 21. Investment in securities

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
<b>(a) Available-for-sale securities</b>		
Debt securities, at fair value		
- Unlisted	96,243	89,771
Equity securities, at fair value		
- Unlisted	40,915	30,225
	<b>137,158</b>	<b>119,996</b>
<b>(b) Held-to-maturity securities</b>		
Listed, at amortised cost		
- outside Hong Kong	157,967	78,306
Unlisted, at amortised cost	3,655,096	4,587,942
	<b>3,813,063</b>	<b>4,666,248</b>
<b>(c) Loans and receivables</b>		
Unlisted, at amortised cost	274,052	1,007,472
<b>Total</b>	<b>4,224,273</b>	<b>5,793,716</b>
Market value of listed held-to-maturity securities	<b>156,866</b>	<b>77,953</b>

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

	At 30 June 2008			
	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Sovereigns	-	99,937	-	99,937
Public sector entities	-	501,201	-	501,201
Banks and other financial institutions	96,243	3,211,925	274,052	3,582,220
Corporate entities	40,915	-	-	40,915
	<b>137,158</b>	<b>3,813,063</b>	<b>274,052</b>	<b>4,224,273</b>
	At 31 December 2007			
	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Loans and receivables HK\$'000	Total HK\$'000
Sovereigns	-	199,852	-	199,852
Public sector entities	-	708,507	-	708,507
Banks and other financial institutions	89,771	3,757,889	1,007,472	4,855,132
Corporate entities	30,225	-	-	30,225
	<b>119,996</b>	<b>4,666,248</b>	<b>1,007,472</b>	<b>5,793,716</b>

## Notes to the Interim Financial Information (continued)

### 21. Investment in securities (continued)

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

	Available-for-sale securities		Held-to-maturity securities	
	At 30 June 2008	At 31 December 2007	At 30 June 2008	At 31 December 2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Treasury bills	-	-	99,937	199,852
Certificates of deposit held	-	-	100,133	21,045
Others	137,158	119,996	3,612,993	4,445,351
	<b>137,158</b>	<b>119,996</b>	<b>3,813,063</b>	<b>4,666,248</b>

### 22. Investment properties

	At 30 June 2008	At 31 December 2007
	HK\$'000	HK\$'000
At 1 January	64,450	54,540
Disposals	-	(13,500)
Fair value gains (Note 11)	8,450	9,910
Reclassification from properties, plant and equipment (Note 23)	13,500	13,500
At period/year end	<b>86,400</b>	<b>64,450</b>



## Notes to the Interim Financial Information (continued)

### 23. Properties, plant and equipment

	Premises HK\$'000	Equipment, fixtures and fittings HK\$'000	Total HK\$'000
Net book value at 1 January 2008	541,130	30,198	571,328
Additions	-	5,707	5,707
Disposals	-	(4)	(4)
Revaluation	83,666	-	83,666
Depreciation for the period (Note 10)	(3,096)	(3,513)	(6,609)
Reclassification to investment properties (Note 22)	(13,500)	-	(13,500)
Net book value at 30 June 2008	608,200	32,388	640,588
At 30 June 2008			
Cost or valuation	608,200	106,944	715,144
Accumulated depreciation and impairment	-	(74,556)	(74,556)
Net book value at 30 June 2008	608,200	32,388	640,588
Net book value at 1 January 2007	502,570	26,273	528,843
Additions	-	11,433	11,433
Disposals	-	(11)	(11)
Revaluation	57,715	-	57,715
Depreciation for the year	(5,655)	(7,499)	(13,154)
Reclassification to investment properties (Note 22)	(13,500)	-	(13,500)
Exchange adjustments	-	2	2
Net book value at 31 December 2007	541,130	30,198	571,328
At 31 December 2007			
Cost or valuation	541,130	104,697	645,827
Accumulated depreciation and impairment	-	(74,499)	(74,499)
Net book value at 31 December 2007	541,130	30,198	571,328
The analysis of cost or valuation of the above assets is as follows:			
At 30 June 2008			
At cost	-	106,944	106,944
At valuation	608,200	-	608,200
	608,200	106,944	715,144
At 31 December 2007			
At cost	-	104,697	104,697
At valuation	541,130	-	541,130
	541,130	104,697	645,827

## Notes to the Interim Financial Information (continued)

### 24. Other assets

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Reposessed assets	8,990	7,543
Accounts receivable and prepayments	687,888	1,041,855
	<b>696,878</b>	<b>1,049,398</b>

### 25. Financial liabilities designated at fair value through profit or loss

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Structured deposits (Note 26)	836,380	2,189,452
Certificates of deposit issued	183,602	295,740
	<b>1,019,982</b>	<b>2,485,192</b>

The carrying amount of financial liabilities designated at fair value through profit or loss as at 30 June 2008 is less than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$20,045,000 (31 December 2007: HK\$7,982,000). The amount of change in the fair values of financial liabilities designated at fair value through profit or loss, during the period and cumulatively, attributable to changes in credit risk is insignificant.

## Notes to the Interim Financial Information (continued)

### 26. Deposits from customers

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Current, savings and other deposit accounts (per condensed consolidated balance sheet)	29,382,541	29,328,028
Structured deposits reported as financial liabilities designated at fair value through profit or loss (Note 25)	836,380	2,189,452
	<b>30,218,921</b>	<b>31,517,480</b>
Analysed by :		
Demand deposits and current accounts		
- corporate customers	1,472,662	1,270,123
- individual customers	349,962	306,926
	<b>1,822,624</b>	<b>1,577,049</b>
Savings deposits		
- corporate customers	2,107,809	3,117,766
- individual customers	9,245,319	9,169,330
	<b>11,353,128</b>	<b>12,287,096</b>
Time, call and notice deposits		
- corporate customers	4,599,887	3,663,655
- individual customers	11,606,902	11,800,228
	<b>16,206,789</b>	<b>15,463,883</b>
	<b>29,382,541</b>	<b>29,328,028</b>

### 27. Other accounts and provisions

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Other accounts payable	678,404	270,404
Provisions	1,243,875	1,388,663
	<b>1,922,279</b>	<b>1,659,067</b>

## Notes to the Interim Financial Information (continued)

### 28. 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 interim financial information in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax assets and liabilities recorded in the condensed consolidated balance sheet, and the movements during the first half of 2008 and the year ended 31 December 2007 are as follows:

At 30 June 2008					
	Accelerated tax depreciation	Asset revaluation	Tax losses	Provisions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	6,211	69,615	(375)	(8,115)	67,336
(Credited)/charged to income statement (Note 13)	(135)	2,080	21	1,183	3,149
Charged to equity	-	11,739	-	-	11,739
At 30 June 2008	<b>6,076</b>	<b>83,434</b>	<b>(354)</b>	<b>(6,932)</b>	<b>82,224</b>

  

At 31 December 2007					
	Accelerated tax depreciation	Asset revaluation	Tax losses	Provisions	Total
	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	376	1,733	(29)	(1,089)	991
Charged to equity	-	9,510	-	-	9,510
At 31 December 2007	<b>6,211</b>	<b>69,615</b>	<b>(375)</b>	<b>(8,115)</b>	<b>67,336</b>

## Notes to the Interim Financial Information (continued)

### 28. Deferred taxation (continued)

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 condensed consolidated balance sheet:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Deferred tax liabilities	<b>82,224</b>	67,336

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Deferred tax liabilities to be settled after more than twelve months	<b>78,753</b>	65,831

The deferred tax charged to equity during the first half of 2008 and the year ended 31 December 2007 are as follows:

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Fair value reserves in shareholders' equity:		
- premises	9,773	8,005
- available-for-sale securities	1,966	1,505
	<b>11,739</b>	9,510

### 29. Share capital

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Authorised: 3,000,000 ordinary shares of HK\$100 each	<b>300,000</b>	300,000
Issued and fully paid: 3,000,000 ordinary shares of HK\$100 each	<b>300,000</b>	300,000

### 30. Reserves

The Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity on pages 12 to 13.



## Notes to the Interim Financial Information (continued)

### 31. Notes to condensed consolidated cash flow statement

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

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Operating profit	494,254	389,195
Depreciation	6,609	6,444
(Reversal of)/charge for loan impairment allowances	(1,325)	18,720
Unwind of discount on impairment	(1,092)	527
Advances written off net of recoveries	1,154	8,121
Change in cash and balances with banks and other financial institutions with original maturity over three months	(358,780)	397,351
Change in placements with banks and other financial institutions with original maturity over three months	2,291,763	580,991
Change in financial assets designated at fair value through profit or loss	594,271	68,306
Change in derivative financial instruments	(3,967)	(1,309)
Change in advances and other accounts	(3,417,608)	(2,584,539)
Change in investment in securities	1,480,903	(173,956)
Change in other assets	352,520	135,583
Change in deposits and balances of banks and other financial institutions	238,341	1,732,952
Change in financial liabilities designated at fair value through profit or loss	(1,465,210)	(491,986)
Change in deposits from customers	54,513	1,906,949
Change in other accounts and provisions	(144,788)	128,945
Exchange difference	1,886	395
Operating cash inflow before taxation	123,444	2,122,689
Cash flows from operating activities included:		
- Interest received	824,881	828,234
- Interest paid	(306,677)	(459,595)
- Dividend received	2,593	1,659

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

	At 30 June 2008 HK\$'000	At 30 June 2007 HK\$'000
Cash and balances with banks and other financial institutions with original maturity within three months	8,929,913	5,142,704
Placements with banks and other financial institutions with original maturity within three months	3,427,875	4,226,238
Treasury bills with original maturity within three months	99,937	99,903
	12,457,725	9,468,845

## Notes to the Interim Financial Information (continued)

### 32. 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 2008 HK\$'000	At 31 December 2007 HK\$'000
Direct credit substitutes	18,631	20,100
Transaction-related contingencies	116,391	120,791
Trade-related contingencies	1,081,816	1,097,355
Other commitments with an original maturity of		
- up to one year	3,254,234	3,809,005
- over one year	555,529	667,929
	<b>5,026,601</b>	<b>5,715,180</b>
Credit risk weighted amount	<b>1,076,909</b>	<b>1,195,157</b>

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

### 33. Capital commitments

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

	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Authorised and contracted for but not provided for	1,842	-
Authorised but not contracted for	339	-
	<b>2,181</b>	<b>-</b>

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

## Notes to the Interim Financial Information (continued)

### 34. 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 2008 HK\$'000	At 31 December 2007 HK\$'000
Land and buildings		
- not later than one year	19,618	14,886
- later than one year but not later than five years	35,862	24,482
- later than five years	1,652	-
	<u>57,132</u>	<u>39,368</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 2008 HK\$'000	At 31 December 2007 HK\$'000
Land and buildings		
- not later than one year	2,246	1,252
- later than one year but not later than five years	2,866	90
	<u>5,112</u>	<u>1,342</u>

The Group leases its investment properties (Note 22) 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.



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## Notes to the Interim Financial Information (continued)

### 35. 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 and profits before tax are derived from the assets located in Hong Kong.

Information about the four business segments is provided in segmental reporting. They are Personal Banking, Corporate Banking, Treasury and Investment Activities.

Both Personal Banking and Corporate Banking segments provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group in addition to proprietary trades. Investment Activities include the Group's holdings of premises and investment properties. "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 based on market rates according to the areas occupied. For management overheads, allocations are made on reasonable bases. 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 Interim Financial Information (continued)

### 35. Segmental reporting (continued)

	Half-year ended 30 June 2008							
	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)								
- external	(98,276)	205,256	338,579	-	-	445,559	-	445,559
- inter-segment	258,217	(52,348)	(199,072)	(6,797)	-	-	-	-
	159,941	152,908	139,507	(6,797)	-	445,559	-	445,559
Net fees and commission income/(expenses)	104,154	44,961	(335)	-	117	148,897	-	148,897
Net trading income	17,490	20,500	(20,794)	1,091	-	18,287	-	18,287
Net gain on financial instruments designated at fair value through profit or loss	-	-	26,280	-	-	26,280	-	26,280
Net gain on investment in securities	-	-	131	-	-	131	-	131
Other operating income	153	192	-	15,411	-	15,756	(11,641)	4,115
Net operating income before impairment allowances	281,738	218,561	144,789	9,705	117	654,910	(11,641)	643,269
Net (charge)/reversal of impairment allowances	(384)	1,733	-	-	-	1,349	-	1,349
Net operating income	281,354	220,294	144,789	9,705	117	656,259	(11,641)	644,618
Operating expenses	(102,644)	(33,783)	(3,398)	(4,122)	(18,058)	(162,005)	11,641	(150,364)
Operating profit/(loss)	178,710	186,511	141,391	5,583	(17,941)	494,254	-	494,254
Net loss from disposal of properties, plant and equipment	-	-	-	(4)	-	(4)	-	(4)
Net gain from fair value adjustments on investment properties	-	-	-	8,450	-	8,450	-	8,450
Profit/(loss) before taxation	178,710	186,511	141,391	14,029	(17,941)	502,700	-	502,700
At 30 June 2008								
Assets								
Segment assets	6,190,733	12,625,830	18,521,968	710,564	6,882	38,055,977	-	38,055,977
Liabilities								
Segment liabilities	26,016,109	5,911,772	1,112,915	683,599	222,999	33,947,394	-	33,947,394
Half-year ended 30 June 2008								
Other information								
Additions of properties, plant and equipment	-	-	-	5,707	-	5,707	-	5,707
Depreciation	2,742	701	81	2,986	99	6,609	-	6,609
Amortisation of securities	-	-	34,951	-	-	34,951	-	34,951



## Notes to the Interim Financial Information (continued)

### 35. 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)								
- external	(250,087)	191,836	423,801	-	-	365,550	-	365,550
- inter-segment	409,459	(64,466)	(332,851)	(12,142)	-	-	-	-
	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 31 December 2007								
Assets								
Segment assets	5,999,026	9,104,001	23,308,905	621,613	6,419	39,039,964	-	39,039,964
Liabilities								
Segment liabilities	28,228,054	5,346,562	737,849	272,416	169,942	34,754,823	-	34,754,823
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 Interim Financial Information (continued)

### 36. 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.

The Group provides loans and credit facilities to related parties in the normal course of business. Such transactions are conducted with terms that are no more favourable than those contracted with third party customers of the Group.

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:

Half-year ended 30 June 2008			
Notes	Immediate and intermediate holding companies		Other related parties <sup>1</sup>
	HK\$'000		HK\$'000
Income statement items:			
Interest income (i)	57,558		2,630
Interest expense (ii)	(8,631)		(4,517)
Insurance commission received (net) (iii)	-		6,897
Administrative services fees paid/payable (iv)	(20,244)		(2,035)
Credit card commission received/receivable (net) (v)	-		124
Securities brokerage commission paid/payable (net) (v)	-		(7,932)
Rental, property management and letting agency fees paid/payable (v)	(707)		-
Funds selling commission received (vi)	-		1,155
Net trading gains	1,500		-
Half-year ended 30 June 2007			
Notes	Immediate and intermediate holding companies		Other related parties <sup>1</sup>
	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
Net trading gains	1,135		-

## Notes to the Interim Financial Information (continued)

### 36. 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 2008	
		Immediate and intermediate holding companies	Other related parties <sup>1</sup>
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and balances with banks and other financial institutions	(i)	2,070,829	34,909
Placements with banks and other financial institutions maturing between one and twelve months	(i)	1,493,719	34,708
Derivative financial instruments assets	(vii)	696	-
Advances and other accounts	(viii)	-	250,285
Investment in securities		22,929	-
Other assets	(viii)	361,963	59,305
Deposits and balances of banks and other financial institutions	(ii)	(824,701)	(400,000)
Deposits from customers	(ii)	-	(793,764)
Derivative financial instruments liabilities	(vii)	(3,134)	-
Other accounts and provisions	(viii)	(734,637)	(102,832)
Off-balance sheet items:			
Other accounts and provisions	(ix)	-	2,703

	Notes	At 31 December 2007	
		Immediate and intermediate holding companies	Other related parties <sup>1</sup>
		HK\$'000	HK\$'000
Balance sheet items:			
Cash and balances with banks and other financial institutions	(i)	1,061,458	272,160
Placements with banks and other financial institutions maturing between one and twelve months	(i)	1,969,313	-
Derivative financial instruments assets	(vii)	779	-
Advances and other accounts	(viii)	-	250,880
Investment in securities		21,711	-
Other assets	(viii)	214,264	303,845
Deposits and balances of banks and other financial institutions	(ii)	(677,461)	(335,127)
Deposits from customers	(ii)	-	(51,771)
Derivative financial instruments liabilities	(vii)	(10,266)	-
Other accounts and provisions	(viii)	(399,264)	(295,087)
Off-balance sheet items:			
Other accounts and provisions	(ix)	-	2,703

<sup>1</sup> 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.

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## Notes to the Interim Financial Information (continued)

### 36. 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

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 BOC group companies mainly on the basis of cost plus a margin of 5%.

## Notes to the Interim Financial Information (continued)

### 36. 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 group companies. The Group also pays rental fees to BOC group companies. 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, interest rate contracts and equity contracts with BOC group companies. As at 30 June 2008 the aggregate notional amount of such derivative transactions amounted to HK\$950,921,000 (31 December 2007: HK\$676,178,000) whilst the corresponding derivative financial instruments assets and liabilities amounted to HK\$12,859,000 (31 December 2007: HK\$779,000) and HK\$5,534,000 (31 December 2007: HK\$10,266,000) 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.

##### (ix) 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.



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## Notes to the Interim Financial Information (continued)

### 36. Significant related party transactions (continued)

#### (b) 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 2008 and 2007 is detailed as follows:

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Salaries and other short-term employee benefits	3,601	2,412



## Notes to the Interim Financial Information (continued)

### 36. Significant related party transactions (continued)

#### (c) Transactions with Central SAFE and other companies controlled by Central SAFE

Central SAFE Investments Limited ("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 or enter into any transactions with Central SAFE for the six months ended 30 June 2008 and 2007 (31 December 2007: Nil).

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:

#### Due from banks and other financial institutions

	Half-year ended 30 June 2008 HK\$'000	Half-year ended 30 June 2007 HK\$'000
Interest income	<u>2,497</u>	<u>5,761</u>
	At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Outstanding balance at beginning of the period/year	<u>136,383</u>	<u>217,734</u>
Outstanding balance at end of the period/year	<u>74,000</u>	<u>136,383</u>

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## Notes to the Interim Financial Information (continued)

### 36. Significant related party transactions (continued)

#### (d) Transactions with the Ministry of Finance and the People's Bank of China and other state-controlled entities

The Group enters into banking transactions with the Ministry of Finance and the People's Bank of China in the normal course of business. These include purchases and redemption of treasury bonds and money market transactions.

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 followings:

- 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 and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postal services.

## Notes to the Interim Financial Information (continued)

### 37. Liquidity ratio

	Half-year ended 30 June 2008	Half-year ended 30 June 2007
Average liquidity ratio	<b>39.08%</b>	45.41%

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

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

### 38. Currency concentrations

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions.

At 30 June 2008						
Equivalent in thousand of HK\$						
	US Dollars	Euro Dollars	Australian Dollars	New Zealand Dollars	Renminbi Yuan	Others
Spot assets	7,412,811	287,432	760,387	655,344	2,892,257	230,615
Spot liabilities	(6,788,494)	(302,954)	(808,851)	(639,898)	(2,779,909)	(700,928)
Forward purchases	680,450	65,149	66,105	2,088	463,377	538,941
Forward sales	(874,226)	(48,242)	(16,026)	(13,580)	(443,421)	(67,391)
Net long/(short) position	<b>430,541</b>	<b>1,385</b>	<b>1,615</b>	<b>3,954</b>	<b>132,304</b>	<b>1,237</b>
Net structural position	-	-	-	-	68,228	-

At 31 December 2007						
Equivalent in thousand of HK\$						
	US Dollars	Japanese Yen	Pound Sterling	Australian Dollars	New Zealand Dollars	Renminbi Yuan
Spot assets	8,889,950	73,258	166,282	806,708	347,922	1,540,365
Spot liabilities	(8,388,859)	(266,914)	(138,737)	(753,623)	(330,335)	(1,470,476)
Forward purchases	471,805	214,805	27,581	37,070	13,615	319,211
Forward sales	(543,499)	(34,441)	(51,661)	(88,721)	(32,652)	(261,326)
Net long/(short) position	<b>429,397</b>	<b>(13,292)</b>	<b>3,465</b>	<b>1,434</b>	<b>(1,450)</b>	<b>127,774</b>
Net structural position	-	-	-	-	-	64,082

## Notes to the Interim Financial Information (continued)

### 39. 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:

	<b>Banks</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>At 30 June 2008</b>				
<b>Asia, other than Hong Kong</b>				
- Mainland China	4,097,000	449,000	812,000	5,358,000
- Others	2,674,000	-	774,000	3,448,000
	<b>6,771,000</b>	<b>449,000</b>	<b>1,586,000</b>	<b>8,806,000</b>
<b>Western Europe</b>	<b>10,525,000</b>	<b>-</b>	<b>15,000</b>	<b>10,540,000</b>
<b>Total</b>	<b>17,296,000</b>	<b>449,000</b>	<b>1,601,000</b>	<b>19,346,000</b>

	<b>Banks</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>At 31 December 2007</b>				
<b>Asia, other than Hong Kong</b>				
- Mainland China	3,656,000	305,000	553,000	4,514,000
- Others	4,565,000	-	637,000	5,202,000
	<b>8,221,000</b>	<b>305,000</b>	<b>1,190,000</b>	<b>9,716,000</b>
<b>Western Europe</b>				
- Germany	2,923,000	-	-	2,923,000
- United Kingdom	2,537,000	-	17,000	2,554,000
- Others	6,811,000	-	37,000	6,848,000
	<b>12,271,000</b>	<b>-</b>	<b>54,000</b>	<b>12,325,000</b>
<b>Total</b>	<b>20,492,000</b>	<b>305,000</b>	<b>1,244,000</b>	<b>22,041,000</b>

## Notes to the Interim Financial Information (continued)

### 40. 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 to Mainland China arising from non-bank counterparties are summarised as follows:

	At 30 June 2008			
	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	2,825,470	655,973	3,481,443	-
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	2,168,023	688,298	2,856,321	4,455
Other non-bank Mainland China exposures	171,185	2,747	173,932	-
	<u>5,164,678</u>	<u>1,347,018</u>	<u>6,511,696</u>	<u>4,455</u>
	At 31 December 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	1,957,468	935,996	2,893,464	-
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	1,568,188	623,478	2,191,666	5,842
Other non-bank Mainland China exposures	130,971	68,425	199,396	-
	<u>3,656,627</u>	<u>1,627,899</u>	<u>5,284,526</u>	<u>5,842</u>

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## Notes to the Interim Financial Information (continued)

### 41. 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 Bank.

### 42. Compliance with HKAS 34

The interim report for the first half of 2008 complies with HKAS 34 "Interim Financial Reporting" issued by the HKICPA.

### 43. 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 2007 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 13 March 2008.

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## **Independent Review Report**

### **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHIYU BANKING CORPORATION LIMITED (incorporated in Hong Kong with limited liability)**

#### **Introduction**

We have reviewed the interim financial information set out on pages 10 to 75, which comprises the condensed consolidated balance sheet of Chiyu Banking Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**

**Certified Public Accountants**

Hong Kong, 20 August 2008

## Additional Information

### 1. Corporate Information

#### BOARD OF DIRECTORS

<b>Chairman</b>	He Guangbei #
<b>Vice Chairman</b>	Ng Leung Sing # Ng Man Kung
<b>Directors</b>	Chan Yiu Fai Chen Zhong Xin # Cheung Wai Hing * Chiu Ming Wah # Liu Yanfen # Mao Xiaowei # Ouyang Jian# Tan Wan Chye # To Chi Wing # Woo Chia Wei * Yu Kwok Chun *

# Non-executive Directors

\* Independent non-executive Directors

#### BOARD OF MANAGEMENT

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



## Additional Information (continued)

### 2. Subsidiaries of the Bank

The particulars of our subsidiaries are as follows:

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%	Nominee service and investment holding
Seng Sun Development Company Limited	Hong Kong	2,800 shares of HK\$1,000 each	100%	Investment holding and leasing of properties to group companies
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
Glister 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.

### 3. Compliance with the Banking (Disclosure) Rules

The unaudited interim report complies with the requirements set out in the Banking (Disclosure) Rules.

## 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.	Shop 3, G/F, Lee Fung Building, 315-349 Queen's Road Central, 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
Aberdeen Br.	G/F, 138-140, Aberdeen Main Road, Aberdeen, Hong Kong	2553 0603
<u>KOWLOON</u>		
Hung Hom Br.	23-25, Gillies Avenue, Hung Hom, Kowloon	2362 0051
Kwun Tong Br.	42-44, Mut Wah Street, Kwun Tong, Kowloon	2343 4174
Sham Shui Po Br.	235-237, Laichikok Road, Kowloon	2789 8668
San Po Kong Br.	61-63, Hong Keung Street, San Po Kong, Kowloon	2328 5691
Yau Ma Tei Br.	117-119, Shanghai Street, Yau Ma Tei, Kowloon	2332 2533
Castle Peak Road Br.	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