



創興銀行有限公司

Chong Hing Bank Limited

(a Hong Kong-incorporated limited liability company)

(Stock Code: 1111)

SUMMARY OF RESULTS

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the audited consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2007, together with the comparative figures for the corresponding year in 2006.

CONSOLIDATED INCOME STATEMENT

	NOTES	2007 HK\$'000	2006 HK\$'000	Variance %
Interest income		3,310,484	2,740,518	+ 20.80
Interest expense		(2,339,871)	(1,911,979)	+ 22.38
Net interest income	3	970,613	828,539	+ 17.15
Fee and commission income		326,641	172,301	+ 89.58
Fee and commission expense		(43,229)	(4,166)	+ 937.66
Net fee and commission income	4	283,412	168,135	+ 68.56
Other operating income	5	166,669	133,554	+ 24.80
Operating expenses	6	(642,894)	(591,537)	+ 8.68
		777,800	538,691	+ 44.39
Impairment allowances on loans and advances	13	(82,922)	(59,801)	+ 38.66
Net loss on disposal of property and equipment		(64)	(913)	– 92.99
Net gain on disposal of land		2,591	–	–
Net gain on disposal of investment properties		14,420	–	–
Net gain on disposal of available-for-sale securities		177,351	54,001	+ 228.42
Fair value adjustment on investment properties	14	14,391	5,390	+ 166.99
Impairment loss on available-for-sale securities	22	(369,627)	–	–
Impairment loss on goodwill	21	(30,000)	–	–
Profit from operations		503,940	537,368	– 6.22
Share of profit of jointly controlled entities		66,074	33,546	+ 96.97
Profit before taxation		570,014	570,914	– 0.16
Taxation	7	(64,982)	(67,770)	– 4.11
Profit for the year		505,032	503,144	+ 0.38
Dividends	8	282,750	265,350	+ 6.56
Earnings per share, basic and diluted	9	HK\$1.16	HK\$1.16	–

CONSOLIDATED BALANCE SHEET

	NOTES	2007 HK\$'000	2006 HK\$'000	Variance %
Assets				
Cash and short-term funds	10	14,763,977	16,256,859	– 9.18
Placements with banks and other financial institutions maturing between one to twelve months		3,084,147	2,638,461	+ 16.89
Derivative financial instruments	11	60	4,962	– 98.79
Financial assets at fair value through profit or loss	12	1,134,422	610,811	+ 85.72
Available-for-sale securities	12	876,661	1,098,141	– 20.17
Held-to-maturity securities	12	15,607,980	13,903,173	+ 12.26
Advances and other accounts	13	32,495,890	27,497,020	+ 18.18
Tax recoverable		19,816	–	–
Interests in jointly controlled entities		142,230	99,256	+ 43.30
Loan to a jointly controlled entity		5,267	31,000	– 83.01
Investment properties	14	60,241	82,250	– 26.76
Property and equipment	15	446,873	380,825	+ 17.34
Prepaid lease payments for land	16	334,231	316,535	+ 5.59
Goodwill	21	80,606	110,606	– 27.12
Total assets		<u>69,052,401</u>	<u>63,029,899</u>	+ 9.55
Liabilities				
Deposits and balances of banks and other financial institutions		456,858	528,993	– 13.64
Deposits from customers	17	60,327,437	54,675,232	+ 10.34
Derivative financial instruments	11	114,546	1,716	+ 6,575.17
Other accounts and accruals		861,619	754,550	+ 14.19
Current tax liabilities		35,008	22,463	+ 55.85
Loan capital	18	970,871	967,376	+ 0.36
Deferred tax liabilities	20	15,274	27,839	– 45.13
Total liabilities		<u>62,781,613</u>	<u>56,978,169</u>	+ 10.19
Shareholders' equity				
Share capital	19	217,500	217,500	–
Reserves		6,053,288	5,834,230	+ 3.75
Shareholders' funds		<u>6,270,788</u>	<u>6,051,730</u>	+ 3.62
Total liabilities and shareholders' equity		<u>69,052,401</u>	<u>63,029,899</u>	+ 9.55

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2007		217,500	1,542,817	(182)	142,386	1,388,500	(152)	165,000	2,595,861	6,051,730
Revaluation losses, net		-	-	-	(206,538)	-	-	-	-	(206,538)
Exchange differences arising from translation of foreign operations		-	-	-	-	-	482	-	-	482
Deferred taxation arising from revaluation movement	20	-	-	-	10,556	-	-	-	-	10,556
Net expense recognised directly in equity		-	-	-	(195,982)	-	482	-	-	(195,500)
Profit for the year		-	-	-	-	-	-	-	505,032	505,032
Reversal of reserve upon impairment		-	-	-	369,627	-	-	-	-	369,627
Reversal of reserve upon disposal		-	-	-	(177,351)	-	-	-	-	(177,351)
Total recognised income for the year		-	-	-	(3,706)	-	482	-	505,032	501,808
Interim dividend paid for financial year 2007	8	-	-	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid for financial year 2006	8	-	-	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	191,000	(191,000)	-
At 31 December 2007		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>138,680</u>	<u>1,388,500</u>	<u>330</u>	<u>356,000</u>	<u>2,627,143</u>	<u>6,270,788</u>
At 1 January 2006		217,500	1,542,817	(182)	163,125	1,388,500	(1,691)	122,837	2,400,230	5,833,136
Revaluation gains, net		-	-	-	60,387	-	-	-	-	60,387
Exchange differences arising from translation of foreign operations		-	-	-	-	-	1,539	-	-	1,539
Deferred taxation arising from revaluation movement	20	-	-	-	(27,125)	-	-	-	-	(27,125)
Net income recognised directly in equity		-	-	-	33,262	-	1,539	-	-	34,801
Profit for the year		-	-	-	-	-	-	-	503,144	503,144
Reversal of reserve upon disposal		-	-	-	(54,001)	-	-	-	-	(54,001)
Total recognised income for the year		-	-	-	(20,739)	-	1,539	-	503,144	483,944
Interim dividend paid for financial year 2006	8	-	-	-	-	-	-	-	(82,650)	(82,650)
Final dividend paid for financial year 2005	8	-	-	-	-	-	-	-	(182,700)	(182,700)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	42,163	(42,163)	-
At 31 December 2006		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>142,386</u>	<u>1,388,500</u>	<u>(152)</u>	<u>165,000</u>	<u>2,595,861</u>	<u>6,051,730</u>

The retained profits of the Group included accumulated profits of HK\$84,571,000 (2006: accumulated profits of HK\$18,497,000) retained by the jointly controlled entities of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority (the “HKMA”)’s requirements and is distributable to shareholders of the Bank subject to consultation with the HKMA.

The general reserve comprises transfers from previous years’ retained profits.

CONSOLIDATED CASH FLOW STATEMENT

	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	570,014	570,914
Adjustments for:		
Net loss on disposal of property and equipment	64	913
Net gain on disposal of investment properties	(14,420)	–
Net gain on disposal of land	(2,591)	–
Net gain on disposal of available-for-sale securities	(177,351)	(54,001)
Impairment allowances on loans and advances	82,922	59,801
Impairment loss on goodwill	30,000	–
Impairment loss on available-for-sale securities	369,627	–
Dividend income from investments	(11,859)	(13,543)
Share of profit of jointly controlled entities	(66,074)	(33,546)
Fair value adjustment on investment properties	(14,391)	(5,390)
Depreciation	36,846	30,535
Amortisation of prepaid lease payments for land	5,710	5,114
Interest income from held-to-maturity securities and available-for-sale securities	(702,669)	(455,581)
Interest expense on loan capital	63,971	2,952
Exchange adjustments	2,871	1,873
Operating cash flows before movements in operating assets and liabilities	172,670	110,041
Increase in interest receivable and other accounts	(153,985)	(322,242)
Increase in other accounts and accruals	107,551	411,166
Increase in placements with banks and other financial institutions with original maturity over three months	(850,625)	(777,531)
Decrease (increase) in exchange fund bills with original maturity over three months	155,580	(127,460)
Decrease (increase) in money at call and short notice with original maturity over three months	624,478	(1,753,156)
Increase in bills receivable	(25,354)	(154,655)
Increase in trade bills	(26,220)	(9,788)
Increase in other advances to customers	(4,880,739)	(2,523,220)
Decrease (increase) in advances to banks and other financial institutions	341	(216)
Decrease in deposits and balances of banks and other financial institutions with original maturity over three months	(79,162)	(19,177)
(Increase) decrease in financial assets at fair value through profit or loss	(523,611)	198,349
Decrease in derivative financial instruments	117,732	42,361
Increase in deposits from customers	5,652,205	13,168,940
Cash generated from operations	290,861	8,243,412
Hong Kong Profits Tax paid	(71,290)	(67,618)
Overseas tax paid	(2,972)	(850)
NET CASH GENERATED FROM OPERATING ACTIVITIES	216,599	8,174,944

	2007	2006
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
Interest received on held-to-maturity securities and available-for-sale securities	706,817	416,922
Dividends received on investments	11,859	13,543
Dividend income from jointly controlled entities	23,100	–
Purchase of held-to-maturity securities	(26,184,962)	(15,680,153)
Purchase of available-for-sale securities	(364,551)	(340,798)
Purchase of property and equipment	(103,050)	(215,748)
Lease prepayment for land	(28,171)	(20,680)
Proceeds from redemption of held-to-maturity securities	24,480,155	10,969,886
Proceeds from sale and redemption of available-for-sale securities	379,493	104,813
Proceeds from disposals of property and equipment	95	233
Proceeds from disposal of land	7,356	–
Proceeds from disposal of investment properties	50,820	–
Repayment of loan from a jointly controlled entity	25,733	–
NET CASH USED IN INVESTING ACTIVITIES	<u>(995,306)</u>	<u>(4,751,982)</u>
CASH USED IN FINANCING ACTIVITIES		
Interest paid on loan capital	(63,333)	–
Net proceeds from issue of loan capital	–	967,000
Dividends paid	(282,750)	(265,350)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(346,083)</u>	<u>701,650</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(1,124,790)</u>	<u>4,124,612</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>14,115,214</u>	<u>9,990,602</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by		
Cash and balances with banks and other financial institutions	1,833,309	997,461
Money at call and short notice	9,776,851	14,744,553
Exchange fund bills	3,153,817	514,845
Placements with banks and other financial institutions maturing between one to twelve months	3,084,147	2,638,461
Deposits and balances of banks and other financial institutions	(456,858)	(528,993)
Less: Amounts with original maturity over three months	<u>(4,400,842)</u>	<u>(4,251,113)</u>
	<u><u>12,990,424</u></u>	<u><u>14,115,214</u></u>

NOTES:

1. STATUTORY FINANCIAL STATEMENTS

The financial information in this final results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2007 but is derived from those financial statements.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory financial statements for the year ended 31 December 2006 except that the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - INT 9	Reassessment of embedded derivatives
HK(IFRIC) - INT 10	Interim financial reporting and impairment

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior years under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Bank anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions ²
HK(IFRIC) - INT 12	Service concession arrangements ³
HK(IFRIC) - INT 13	Customer loyalty programmes ⁴
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

⁴ Effective for annual periods beginning on or after 1 July 2008.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into the following operating divisions - corporate and retail banking, treasury, securities dealing and other banking-related services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides fully automated telephone and internet banking services to its customers. Other banking-related services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Treasury activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Other banking-related services of the Group include investment holding, insurance, other investment advisory services and property investments.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (i) Segment information about these businesses for the year ended 31 December 2007 is presented below:

INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,626,540	1,675,038	8,906	-	-	3,310,484
Interest expense to external customers	(2,228,507)	(111,364)	-	-	-	(2,339,871)
Inter-segment interest income (<i>note</i>)	1,156,760	-	-	-	(1,156,760)	-
Inter-segment interest expense (<i>note</i>)	-	(1,156,760)	-	-	1,156,760	-
Net interest income	554,793	406,914	8,906	-	-	970,613
Fee and commission income	76,659	-	202,794	47,188	-	326,641
Fee and commission expense	(37,162)	-	(1,672)	(4,395)	-	(43,229)
Other operating income	91,384	17,840	(60)	57,505	-	166,669
Total operating income	685,674	424,754	209,968	100,298	-	1,420,694
Operating expenses	(366,304)	(27,222)	(51,471)	(21,919)	-	(466,916)
Impairment allowances on loans and advances	(82,922)	-	-	-	-	(82,922)
Net loss on disposal of property and equipment	(64)	-	-	-	-	(64)
Net gain on disposal of land	2,591	-	-	-	-	2,591
Net gain on disposal of investment properties	-	-	-	14,420	-	14,420
Net gain on disposal of available-for-sale securities	-	-	-	177,351	-	177,351
Fair value adjustment on investment properties	-	-	-	14,391	-	14,391
Impairment loss on available-for-sale securities	-	(369,627)	-	-	-	(369,627)
Impairment loss on goodwill	-	-	-	(30,000)	-	(30,000)
Segment profit	<u>238,975</u>	<u>27,905</u>	<u>158,497</u>	<u>254,541</u>	<u>-</u>	<u>679,918</u>
Unallocated corporate expenses						(175,978)
Profit from operations						503,940
Share of profits of jointly controlled entities				<u>66,074</u>		<u>66,074</u>
Profit before taxation						570,014
Taxation						(64,982)
Profit for the year						<u>505,032</u>

Note: Inter-segment pricing is charged at prevailing customer deposit interest rates.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (i) Segment information about these businesses for the year ended 31 December 2007 is presented below: - continued

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	34,309,585	33,100,358	433,174	803,642	68,646,759
Interests in jointly controlled entities	-	-	-	142,230	142,230
Loan to a jointly controlled entity	-	-	-	5,267	5,267
Unallocated corporate assets					258,145
Consolidated total assets					<u>69,052,401</u>
Liabilities					
Segment liabilities	60,666,292	1,559,890	366,359	37,096	62,629,637
Unallocated corporate liabilities					151,976
Consolidated total liabilities					<u>62,781,613</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	75,166	2,355	28,007	2,528	23,165	131,221
Depreciation	22,446	836	1,819	751	10,994	36,846
Amortisation	<u>2,599</u>	<u>247</u>	<u>373</u>	<u>3</u>	<u>2,488</u>	<u>5,710</u>

2. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (ii) Segment information about these businesses for the year ended 31 December 2006 is presented below:

INCOME STATEMENT

	Corporate and retail banking	Treasury activities	Securities dealing	Other banking- related services	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from external customers	1,477,181	1,258,559	4,778	–	–	2,740,518
Interest expenses to external customers	(1,852,569)	(59,410)	–	–	–	(1,911,979)
Inter-segment interest income <i>(note)</i>	868,714	–	–	–	(868,714)	–
Inter-segment interest expense <i>(note)</i>	–	(868,714)	–	–	868,714	–
Net interest income	493,326	330,435	4,778	–	–	828,539
Fee and commission income	63,146	–	79,247	29,908	–	172,301
Fee and commission expense	(723)	–	(644)	(2,799)	–	(4,166)
Other operating income	62,812	41,682	–	29,060	–	133,554
Total operating income	618,561	372,117	83,381	56,169	–	1,130,228
Operating expenses	(343,071)	(24,472)	(30,748)	(19,977)	–	(418,268)
Impairment allowances on loans and advances	(59,801)	–	–	–	–	(59,801)
Net loss on disposal of property and equipment	(913)	–	–	–	–	(913)
Net gain on disposal of available-for-sale securities	–	–	–	54,001	–	54,001
Fair value adjustment on investment properties	–	–	–	5,390	–	5,390
Segment profit	<u>214,776</u>	<u>347,645</u>	<u>52,633</u>	<u>95,583</u>	<u>–</u>	<u>710,637</u>
Unallocated corporate expenses						<u>(173,269)</u>
Profit from operations						537,368
Share of profit of jointly controlled entities				<u>33,546</u>		<u>33,546</u>
Profit before taxation						570,914
Taxation						<u>(67,770)</u>
Profit for the year						<u>503,144</u>

Note: Inter-segment pricing is charged at prevailing customer deposit interest rates.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (ii) Segment information about these businesses for the year ended 31 December 2006 is presented below: - continued

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	28,544,911	32,929,054	295,609	833,071	62,602,645
Interests in jointly controlled entities	–	–	–	99,256	99,256
Loan to a jointly controlled entity	–	–	–	31,000	31,000
Unallocated corporate assets					296,998
Consolidated total assets					<u>63,029,899</u>
Liabilities					
Segment liabilities	55,006,716	1,498,085	281,035	36,214	56,822,050
Unallocated corporate liabilities					156,119
Consolidated total liabilities					<u>56,978,169</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	139,351	19,729	9,499	2,362	65,487	236,428
Depreciation	16,121	306	1,007	697	12,404	30,535
Amortisation	<u>3,490</u>	<u>–</u>	<u>113</u>	<u>5</u>	<u>1,506</u>	<u>5,114</u>

(b) Geographical segments

Geographical segmentation is analysed based on the locations of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. For both years 2006 and 2007, around 90% of the Group's revenue were generated by customers located in Hong Kong and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiary companies located in Hong Kong. More than 90% of assets were located in Hong Kong and the remaining assets were extended to branches outside Hong Kong, mainly in the Mainland China and America.

2. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(b) Geographical segments - continued

Details of geographical segmentation are set out below.

2007						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,358,206	485,868	67,041,552	61,410,227	17,442,739	122,962
Asia Pacific (excluding Hong Kong)	39,243	67,039	1,541,043	1,134,006	325,076	8,231
America	23,245	17,107	469,806	237,380	176,433	28
Total	<u>1,420,694</u>	<u>570,014</u>	<u>69,052,401</u>	<u>62,781,613</u>	<u>17,944,248</u>	<u>131,221</u>

2006						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,061,372	496,045	60,581,313	55,640,229	11,729,612	235,115
Asia Pacific (excluding Hong Kong)	43,248	55,139	1,935,345	1,113,537	274,869	705
America	25,608	19,730	513,241	224,403	147,388	608
Total	<u>1,130,228</u>	<u>570,914</u>	<u>63,029,899</u>	<u>56,978,169</u>	<u>12,151,869</u>	<u>236,428</u>

Note: Total operating income consists of net interest income, net fee and commission income and other operating income.

3. NET INTEREST INCOME

	2007 HK\$'000	2006 HK\$'000
Interest income		
Short term funds and placements	978,648	802,350
Investments in securities	718,519	470,184
Loans and advances	<u>1,613,317</u>	<u>1,467,984</u>
	3,310,484	2,740,518
Interest expense		
Deposits and balances from banks and customers	(2,275,900)	(1,909,027)
Loan capital in issue	<u>(63,971)</u>	<u>(2,952)</u>
	<u>(2,339,871)</u>	<u>(1,911,979)</u>
Net interest income	<u>970,613</u>	<u>828,539</u>
Included within interest income		
Interest income on impaired loans and advances	<u>19,417</u>	<u>3,061</u>

Included within interest income and interest expense are HK\$3,294,634,000 (2006: HK\$2,725,915,000) and HK\$2,339,871,000 (2006: HK\$1,911,979,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

4. NET FEE AND COMMISSION INCOME

	2007 HK\$'000	2006 HK\$'000
Fees and commission income		
Securities dealings	202,794	79,247
Credit lines	7,618	7,845
Trade finance	15,397	14,042
Credit card services	42,106	30,358
Agency services	47,187	29,908
Others	11,539	10,901
Total fees and commission income	326,641	172,301
Less: Fees and commission expense	(43,229)	(4,166)
Net fees and commission income	<u>283,412</u>	<u>168,135</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value		
- fee income	70,936	58,410
- fee expense	(37,051)	(25,462)
	<u>33,885</u>	<u>32,948</u>

5. OTHER OPERATING INCOME

	2007 HK\$'000	2006 HK\$'000
Dividend income		
Listed investments	8,979	10,538
Unlisted investments	2,880	3,005
Net gains on dealing in foreign currencies	29,859	26,589
Net gains on financial assets at fair value through profit or loss		
- designated at fair value through profit or loss	127,980	12,348
- deemed held for trading	(117,608)	192
Gross rents from properties	11,910	4,550
Less: Outgoings	(961)	(992)
Net rental income	10,949	3,558
Safe deposit box rentals	25,064	23,431
Insurance underwriting profit	10,130	12,190
Other banking services income	41,595	39,460
Actuarial gain on retirement scheme	21,914	—
Others	4,927	2,243
	<u>166,669</u>	<u>133,554</u>

6. OPERATING EXPENSES

	2007 HK\$'000	2006 HK\$'000
Amortisation of prepaid lease payments for land	5,710	5,114
Auditor's remuneration	3,579	3,291
Staff costs		
Salaries and other costs	355,624	299,992
Retirement benefits scheme contributions	26,620	22,609
Total staff costs	382,244	322,601
Depreciation	36,846	30,535
Premises and equipment expenses, excluding depreciation/amortisation		
Rentals and rates for premises	35,747	46,610
Others	17,842	16,177
Other operating expenses	160,926	167,209
	<u>642,894</u>	<u>591,537</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$31,246,000 (2006: HK\$42,455,000).

7. TAXATION

	2007 HK\$'000	2006 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	63,824	68,831
- overprovision in prior years	(557)	(10,797)
	<u>63,267</u>	<u>58,034</u>
Overseas taxation	3,724	2,573
Deferred tax (<i>Note 20</i>)	(2,009)	7,163
	<u>64,982</u>	<u>67,770</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the Group's profit per the consolidated income statement as follows:

	2007 HK\$'000	2006 HK\$'000
Profit before taxation	570,014	570,914
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	99,752	99,910
Tax effect of share of profit of jointly controlled entities	(11,563)	(5,871)
Tax effect of expenses not deductible for tax purpose	6,316	94
Tax effect of income not taxable for tax purpose	(27,133)	(14,273)
Utilisation of tax losses previously not recognised	(437)	(510)
Overprovision in prior years	(557)	(10,797)
Effect of different tax rates of subsidiaries		
operating in other jurisdictions	(1,541)	(221)
Others	145	(562)
Tax charge for the year	<u>64,982</u>	<u>67,770</u>

8. DIVIDENDS

	2007	2006
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
2007 Interim - HK\$0.21 (2006: HK\$0.19) per share	91,350	82,650
2006 Final - HK\$0.44 (2005: HK\$0.42) per share	191,400	182,700
	<u>282,750</u>	<u>265,350</u>

The final dividend of HK\$0.44 in respect of the current financial year (2006: HK\$0.44) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of HK\$505,032,000 (2006: HK\$503,144,000) and on 435,000,000 (2006: 435,000,000) ordinary shares in issue during the year.

10. CASH AND SHORT-TERM FUNDS

	2007	2006
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	1,833,309	997,461
Money at call and short notice	9,776,851	14,744,553
Exchange fund bills	3,153,817	514,845
	<u>14,763,977</u>	<u>16,256,859</u>

11. DERIVATIVE FINANCIAL INSTRUMENTS

	2007			2006		
	Notional amount HK\$'000	Fair values		Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency related contracts	36,051	60	276	513,269	1,726	128
- Interest rate swaps	1,019,568	-	112,746	345,014	1,553	1,588
- Currency swaps	55,840	-	1,524	52,240	1,683	-
		<u>60</u>	<u>114,546</u>		<u>4,962</u>	<u>1,716</u>

The replacement costs and credit risk weighted amounts of the derivatives exposures are as follows:

	2007			2006		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Exchange rate contracts	91,891	60	626	565,509	3,409	2,195
Interest rate contracts	1,019,568	-	1,529	345,014	1,553	710
		<u>60</u>	<u>2,155</u>		<u>4,962</u>	<u>2,905</u>

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised on balance sheet at fair value.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates.

As at 31 December 2007, the credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules, (the "Capital Rules"), which came into operation on 1 January 2007, and the guidelines issued by the HKMA.

As at 31 December 2006, the credit risk weighted amounts are the amounts that have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

12. INVESTMENTS IN SECURITIES

	2007				
	Financial assets at fair value through profit or loss				
	Deemed held for trading	Designated at fair value	Held-to-maturity securities	Available-for-sale securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:					
Listed in Hong Kong	264	–	–	220,255	220,519
Listed overseas	–	–	–	8,614	8,614
	<u>264</u>	<u>–</u>	<u>–</u>	<u>228,869</u>	<u>229,133</u>
Unlisted	–	–	–	408,750	408,750
	<u>264</u>	<u>–</u>	<u>–</u>	<u>637,619</u>	<u>637,883</u>
Debt securities:					
Certificates of deposit	–	–	1,484,139	–	1,484,139
Other debt securities - Unlisted	–	1,134,158	14,123,841	239,042	15,497,041
	<u>–</u>	<u>1,134,158</u>	<u>15,607,980</u>	<u>239,042</u>	<u>16,981,180</u>
Total:					
Listed in Hong Kong	264	–	–	220,255	220,519
Listed overseas	–	–	–	8,614	8,614
Unlisted	–	1,134,158	15,607,980	647,792	17,389,930
	<u>264</u>	<u>1,134,158</u>	<u>15,607,980</u>	<u>876,661</u>	<u>17,619,063</u>
Market value of listed securities:					
Listed in Hong Kong	264	–	–	220,255	220,519
Listed overseas	–	–	–	8,614	8,614
	<u>264</u>	<u>–</u>	<u>–</u>	<u>228,869</u>	<u>229,133</u>
As analysed by issuing entities:					
Central government and central banks	–	118,393	534,442	–	652,835
Public sector entities	–	–	11,245	–	11,245
Bank and other financial institutions	56	475,282	15,060,293	272,315	15,807,946
Corporate entities	208	535,484	2,000	198,204	735,896
Others	–	4,999	–	406,142	411,141
	<u>264</u>	<u>1,134,158</u>	<u>15,607,980</u>	<u>876,661</u>	<u>17,619,063</u>

Included in financial assets designated at fair value through profit or loss are primarily:

- i) bonds (classified as “other debt securities” above) which contain embedded derivatives that would otherwise have been separately accounted for; and
- ii) bond funds (classified as “other debt securities” above) are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis, in accordance with investment strategy. Information about the bond funds is provide internally on that basis to the Group’s key management personnel.

12. INVESTMENTS IN SECURITIES - continued

Certain held-to-maturity certificates of deposit of approximately HK\$25,170,000 (2006: HK\$24,479,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

	2006				
	Financial assets at fair value through profit or loss				
	Deemed held for trading	Designated at fair value	Held-to-maturity securities	Available-for-sale securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:					
Listed in Hong Kong	423	–	–	359,134	359,557
Listed overseas	–	–	–	6,991	6,991
	423	–	–	366,125	366,548
Unlisted	–	–	–	259,940	259,940
	423	–	–	626,065	626,488
Debt securities:					
Certificates of deposit	–	–	1,863,937	–	1,863,937
Other debt securities - Unlisted	–	610,388	12,039,236	472,076	13,121,700
	–	610,388	13,903,173	472,076	14,985,637
Total:					
Listed in Hong Kong	423	–	–	359,134	359,557
Listed overseas	–	–	–	6,991	6,991
Unlisted	–	610,388	13,903,173	732,016	15,245,577
	423	610,388	13,903,173	1,098,141	15,612,125
Market value of listed securities:					
Listed in Hong Kong	423	–	–	359,134	359,557
Listed overseas	–	–	–	6,991	6,991
	423	–	–	366,125	366,548
As analysed by issuing entities:					
Central government and central banks	–	–	359,143	–	359,143
Public sector entities	–	–	18,508	–	18,508
Banks and other financial institutions	53	372,463	13,384,170	85,518	13,842,204
Corporate entities	199	50,679	141,352	246,749	438,979
Others	171	187,246	–	765,874	953,291
	423	610,388	13,903,173	1,098,141	15,612,125

13. ADVANCES AND OTHER ACCOUNTS

	2007 HK\$'000	2006 HK\$'000
Advances to customers		
Bills receivable	509,729	484,375
Trade bills	164,557	138,337
Other advances to customers	31,047,597	26,251,826
	<u>31,721,883</u>	<u>26,874,538</u>
Interest receivable	286,187	267,337
Impairment allowances		
- Individually assessed	(17,876)	(32,161)
- Collectively assessed	(116,720)	(104,464)
	<u>31,873,474</u>	<u>27,005,250</u>
Advances to banks and other financial institutions	57,084	57,425
	<u>31,930,558</u>	<u>27,062,675</u>
Other accounts	565,332	434,345
	<u><u>32,495,890</u></u>	<u><u>27,497,020</u></u>

Included in the “Advances to customers” of the Group are aggregate amounts of approximately HK\$Nil (2006: HK\$77,785,000) due from companies having significant influence on the Group.

Included in the “Advances to banks and other financial institutions” of the Group is an amount of approximately HK\$57,084,000 (2006: HK\$57,425,000) placed as reserve funds with the financial institutions in the People’s Republic of China by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the People’s Republic of China.

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2007	32,161	104,464	136,625
Increase in impairment allowances	99,889	12,238	112,127
Amounts reversed	(29,205)	–	(29,205)
Recoveries of advances written off in previous years	21,458	–	21,458
Unwinding effect of discount rate	(19,417)	–	(19,417)
Amounts written off	(87,010)	–	(87,010)
Exchange difference	–	18	18
Balance at 31 December 2007	<u>17,876</u>	<u>116,720</u>	<u>134,596</u>

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2006	54,640	131,933	186,573
Increase in impairment allowances	141,403	–	141,403
Amounts reversed	(54,115)	(27,487)	(81,602)
Recoveries of advances written off in previous years	47,453	–	47,453
Unwinding effect of discount rate	(3,061)	–	(3,061)
Amounts written off	(154,159)	–	(154,159)
Exchange difference	–	18	18
Balance at 31 December 2006	<u>32,161</u>	<u>104,464</u>	<u>136,625</u>

13. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

	2007 HK\$'000	2006 HK\$'000
Gross impaired loans	215,820	329,660
Less: Impairment allowances under individual assessment	(17,876)	(32,161)
Net impaired loans	<u>197,944</u>	<u>297,499</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.68%</u>	<u>1.23%</u>

In addition to the individually assessed loan impairment allowance, the Group has also provided collectively assessed loan impairment allowance for loans that are individually insignificant or advances where no impairment has been identified individually.

Advances to customers of the Group include receivables under finance leases as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Within one year	–	97	–	94
In the second to fifth year inclusive	–	–	–	–
	–	97	–	94
Less: Unearned finance income	–	(4)	–	–
Present value of minimum lease payments receivable	<u>–</u>	<u>93</u>	<u>–</u>	<u>94</u>
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)			–	–
Current finance lease receivables (recoverable within 12 months)			–	94
			<u>–</u>	<u>94</u>

14. INVESTMENT PROPERTIES

	2007 HK\$'000	2006 HK\$'000
At 1 January	82,250	76,860
Net increase in fair value recognised in the income statement	14,391	5,390
Disposals	(36,400)	–
At 31 December	<u>60,241</u>	<u>82,250</u>

Investment properties owned by the Group was revalued at 31 December 2007 on an open market value basis by Vigers Hong Kong Limited, independent professionally qualified valuers.

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group comprises:

	2007 HK\$'000	2006 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	14,500	10,250
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	21,400	54,000
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	24,341	18,000
	<u>60,241</u>	<u>82,250</u>

15. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST			
At 1 January 2007	284,080	351,348	635,428
Additions	24,265	78,785	103,050
Disposals	–	(4,962)	(4,962)
Exchange adjustments	–	4	4
At 31 December 2007	308,345	425,175	733,520
ACCUMULATED DEPRECIATION			
At 1 January 2007	21,562	233,041	254,603
Provided for the year	6,079	30,767	36,846
Eliminated on disposals	–	(4,803)	(4,803)
Exchange adjustments	–	1	1
At 31 December 2007	27,641	259,006	286,647
CARRYING AMOUNTS			
At 31 December 2007	280,704	166,169	446,873

	Buildings HK\$'000	Equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST				
At 1 January 2006	80,511	308,643	40,454	429,608
Additions	14,407	52,633	148,708	215,748
Disposals	–	(9,924)	–	(9,924)
Transfer from construction in progress to buildings	189,162	–	(189,162)	–
Exchange adjustments	–	(4)	–	(4)
At 31 December 2006	<u>284,080</u>	<u>351,348</u>	<u>–</u>	<u>635,428</u>
ACCUMULATED DEPRECIATION				
At 1 January 2006	19,498	213,350	–	232,848
Provided for the year	2,064	28,471	–	30,535
Eliminated on disposals	–	(8,778)	–	(8,778)
Exchange adjustments	–	(2)	–	(2)
At 31 December 2006	<u>21,562</u>	<u>233,041</u>	<u>–</u>	<u>254,603</u>
CARRYING AMOUNTS				
At 31 December 2006	<u>262,518</u>	<u>118,307</u>	<u>–</u>	<u>380,825</u>

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold buildings	Over the shorter of the term of the lease or 2%
Equipment	10% -20%

15. PROPERTY AND EQUIPMENT - continued

The carrying amount of buildings shown above comprise:

	2007 HK\$'000	2006 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	212,036	201,337
Held in Hong Kong on medium-term lease (10-50 years unexpired)	65,450	60,299
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	3,218	882
	<u>280,704</u>	<u>262,518</u>

16. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments comprise:

	2007 HK\$'000	2006 HK\$'000
COST		
In Hong Kong held on:		
Leases of over 50 years	125,548	126,035
Leases of between 10 to 50 years	204,592	183,952
Outside Hong Kong held on:		
Leases of between 10 to 50 years	4,091	6,548
	<u>334,231</u>	<u>316,535</u>
Net book value at 1 January	316,535	300,969
Additions	28,171	20,680
Amortisation of prepaid operating lease payments	(5,710)	(5,114)
Disposals	<u>(4,765)</u>	<u>—</u>
	<u>334,231</u>	<u>316,535</u>
Analysed as:		
Current portion	5,710	5,114
Non-current portion	<u>328,521</u>	<u>311,421</u>
Total	<u>334,231</u>	<u>316,535</u>

The allocation of lease payments between leasehold land and building elements was performed by Vigers Hong Kong Limited, independent professionally qualified valuers.

17. DEPOSITS FROM CUSTOMERS

	2007	2006
	HK\$'000	HK\$'000
Demand deposits and current accounts	2,992,184	2,479,907
Savings deposits	12,584,043	9,377,813
Time, call and notice deposits	44,751,210	42,817,512
	<u>60,327,437</u>	<u>54,675,232</u>

Included in the balances is an aggregate amount of approximately HK\$174,430,000 (2006: HK\$127,187,000) representing deposits of companies and their subsidiaries having significant influence on the Bank.

18. LOAN CAPITAL

	2007	2006
	HK\$'000	HK\$'000
US\$125 million callable floating rate subordinated notes due 2016	<u>970,871</u>	<u>967,376</u>

On 15 December 2006 the Bank issued subordinated notes qualifying as tier 2 capital with face value of US\$125,000,000.

The above subordinated notes will mature on 16 December 2016 and are redeemable at the option of the Group in December 2011 at their principal amount.

The floating rate notes bear interest at the rate of three month LIBOR plus 0.93 per cent, payable quarterly from the issue date to the call option date. Thereafter, if the notes are not redeemed on the call option date, the interest rate will be reset to three month LIBOR plus 1.93 per cent, payable quarterly.

19. SHARE CAPITAL

	2007 & 2006
	HK\$'000
Authorised:	
600,000,000 shares of HK\$0.50 each	<u>300,000</u>
Issued and fully paid:	
435,000,000 shares of HK\$0.50 each	<u>217,500</u>

20. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Total HK\$'000
At 1 January 2007	10,403	(17,263)	7,574	27,125	27,839
Charge (credit) to consolidated income statement for the year (<i>Note 7</i>)	1,879	(2,463)	(1,425)	–	(2,009)
Credit to equity for the year	–	–	–	(10,556)	(10,556)
At 31 December 2007	<u>12,282</u>	<u>(19,726)</u>	<u>6,149</u>	<u>16,569</u>	<u>15,274</u>
At 1 January 2006	9,353	(22,433)	6,631	–	(6,449)
Charge to consolidated income statement for the year (<i>Note 7</i>)	1,050	5,170	943	–	7,163
Charge to equity for the year	–	–	–	27,125	27,125
At 31 December 2006	<u>10,403</u>	<u>(17,263)</u>	<u>7,574</u>	<u>27,125</u>	<u>27,839</u>

21. IMPAIRMENT LOSS ON GOODWILL

In prior years, the Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited. The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2007, management has reviewed the goodwill for impairment purposes. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on five year financial budgets approved by management and estimated terminal value at the end of the five year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and selection of discount rates.

Value in use is derived at by discounting the expected future cash flows at 12% discount rate. Management's financial model assumes an overall growth in gross written premium of 5% per annum during the first 5 years. Cash flows beyond five years are extrapolated using a terminal growth rate of 3.5%. A goodwill impairment loss of HK\$30,000,000 (2006: HK\$Nil), representing the excess of the carrying amount above the value in use, has been recognised for the year ended 31 December 2007.

22. IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE SECURITIES

As of 31 December 2007, the Group investment portfolio contained capital or income notes issued by Structured Investment Vehicles ("SIVs"), which were categorised as available-for-sale investments in 2006 and 2007.

These investments are considered illiquid based upon the fact that there were no open market bids for them as of 31 December 2007. As such, the fair value of these investments was estimated to approximate net asset value as reported by the SIVs investment managers unless market conditions warrant a different valuation method.

The total amounts invested in these SIVs are HK\$568,212,000 (2006 : HK\$433,131,000). The Group evaluates these available-for-sale investments for impairment on a regular basis. Impairment losses of HK\$369,627,000 (2006 : HK\$Nil) has been recognised for the year ended 31 December 2007 primarily due to downgrade of credit ratings and increase of funding costs for the SIVs.

23. CONTINGENT LIABILITIES AND COMMITMENTS

	2007 HK\$'000	2006 HK\$'000
Contingent liabilities and commitments		
- contractual amounts		
Direct credit substitutes	643,264	1,221,388
Trade - related contingencies	595,878	346,531
Forward asset purchases	32,926	227,967
Lease commitment	65,264	71,048
Other commitments which are:		
- Unconditionally cancellable without prior notice	5,761,482	4,082,935
- With an original maturity of one year and under	8,632,587	4,602,428
- With an original maturity of over one year	2,212,847	1,599,572
	<u>17,944,248</u>	<u>12,151,869</u>

At the balance sheet dates, the Group had commitments for future minimum lease payments under these non-cancellable operating leases which fall due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	28,150	25,975
In the second to fifth years inclusive	36,839	43,088
Over five years	<u>275</u>	<u>1,985</u>
	<u>65,264</u>	<u>71,048</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Capital commitments outstanding at the balance sheet dates are as follows:

	2007 HK\$'000	2006 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
- property and equipment	32,926	77,725
- investments in funds	<u>—</u>	<u>150,242</u>
	<u>32,926</u>	<u>227,967</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$3,321,625,000 (2006: HK\$3,329,570,000).

At the balance sheet date, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2007 HK\$'000	2006 HK\$'000
Within one year	2	6
In the second to fifth years inclusive	<u>—</u>	<u>2</u>
	<u>2</u>	<u>8</u>

24. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest and rental expenses	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and their subsidiaries	<u>11,033</u>	<u>4,580</u>	<u>16,769</u>	<u>16,663</u>
Jointly controlled entities	<u>13,480</u>	<u>8,387</u>	<u>12,901</u>	<u>11,728</u>
Directors and their associates	<u>20,100</u>	<u>43,562</u>	<u>26,638</u>	<u>24,869</u>

The above transactions were carried out at market rates.

At the balance sheet date, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and subsidiaries	<u>–</u>	<u>77,785</u>	<u>174,430</u>	<u>127,187</u>
Jointly controlled entities	<u>5,267</u>	<u>31,000</u>	<u>277,015</u>	<u>147,701</u>
Directors and their associates	<u>991,440</u>	<u>1,006,461</u>	<u>603,806</u>	<u>618,282</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007	2006
	HK\$'000	HK\$'000
Short-term benefits	<u>49,787</u>	<u>44,048</u>
Post employment benefits	<u>3,324</u>	<u>2,892</u>
	<u>53,111</u>	<u>46,940</u>

The remuneration of directors and key management is reviewed by Remuneration Committee having regarding to the performance of individuals and market trends.

25. COMPARATIVE FIGURES

Net fee and commission income and other operating income have been reclassified to conform with the current year's presentation.

SUPPLEMENTARY INFORMATION

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and/or business activities of the borrowers as follows:

	31 December 2007				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances covered by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,134,798	14,652	–	614,626	–
- Property investment	6,506,746	2,333	–	5,992,508	19,262
- Financial concerns	2,523,724	–	–	888,553	–
- Stockbrokers	347,428	–	516	336,497	516
- Wholesale and retail trade	833,578	2,181	212	673,111	2,136
- Manufacturing	2,224,813	2,830	12,035	1,121,713	4,177
- Transport and transport equipment	630,345	69	–	34,651	–
- Recreational activities	45,335	–	–	1,602	–
- Information technology	187	–	–	184	–
- Others	4,829,971	10,467	84	2,125,324	58,383
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, and Tenants Purchase Scheme	680,384	–	430	680,262	3,950
- Loans for the purchase of other residential properties	4,704,769	4,864	284	4,690,081	284
- Credit card advances	133,586	7,475	308	–	353
- Others	1,677,388	9,243	3,003	1,588,352	9,335
	27,273,052	54,114	16,872	18,747,464	98,396
Trade finance	918,496	8,317	–	288,315	3,520
Loans for use outside Hong Kong	3,530,335	54,289	1,004	1,622,618	113,904
	<u>31,721,883</u>	<u>116,720</u>	<u>17,876</u>	<u>20,658,397</u>	<u>215,820</u>

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

31 December 2006

	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances covered by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,576,165	9,374	1,000	648,696	23,599
- Property investment	6,073,467	20,054	2,313	5,789,072	27,045
- Financial concerns	1,555,454	–	–	198,072	174
- Stockbrokers	420,851	–	–	307,898	–
- Wholesale and retail trade	768,422	4,143	619	637,609	6,017
- Manufacturing	1,114,492	2,888	87	483,248	2,045
- Transport and transport equipment	326,560	28	1	46,317	375
- Recreational activities	15,012	–	–	2,080	–
- Information technology	–	–	–	–	–
- Others	4,868,117	9,682	6,235	3,036,122	63,680
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, and Tenants Purchase Scheme	676,673	473	708	675,860	5,408
- Loans for the purchase of other residential properties	3,476,285	4,352	459	3,468,184	8,708
- Credit card advances	127,460	6,962	139	–	4,036
- Others	1,315,471	12,345	4,102	1,242,061	15,898
	22,314,429	70,301	15,663	16,535,219	156,985
Trade finance	823,153	804	3,498	325,366	10,348
Loans for use outside Hong Kong	3,736,956	33,359	13,000	2,328,549	162,327
	26,874,538	104,464	32,161	19,189,134	329,660

2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

31 December 2007					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	29,035,137	201,750	118,916	16,872	98,593
People's Republic of China	185,861	96,904	96,904	1,004	2,450
Macau	1,183,673	–	–	–	10,215
America	327,637	–	–	–	5,462
Others	989,575	–	–	–	–
	<u>31,721,883</u>	<u>298,654</u>	<u>215,820</u>	<u>17,876</u>	<u>116,720</u>

31 December 2006					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	24,417,811	320,852	204,854	31,161	82,383
People's Republic of China	271,592	124,806	124,806	1,000	1,447
Macau	1,460,076	–	–	–	13,684
America	356,916	–	–	–	5,518
Others	368,143	–	–	–	1,432
	<u>26,874,538</u>	<u>445,658</u>	<u>329,660</u>	<u>32,161</u>	<u>104,464</u>

3. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitutes 10% or more of the relevant disclosure item after taking into account any risk transfers are as follows:

	2007			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	11,066,557	83,332	1,288,720	12,438,609
- of which - Australia	3,550,345	1,625	1,888	3,553,858
North America	2,475,330	16,684	1,434,847	3,926,861
Europe	13,133,599	2,433	769,382	13,905,414
- of which - United Kingdom	2,753,192	1,008	307,940	3,062,140
- of which - Germany	<u>2,704,841</u>	<u>1,304</u>	<u>3,754</u>	<u>2,709,899</u>

	2006			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	10,101,438	65,696	1,339,099	11,506,233
- of which - Australia	3,929,675	2,138	995	3,932,808
North America	2,811,117	17,569	1,278,823	4,107,509
Europe	16,004,492	2,902	725,986	16,733,380
- of which - United Kingdom	3,741,074	1,478	310,507	4,053,059
- of which - Germany	<u>3,471,632</u>	<u>1,278</u>	<u>3,980</u>	<u>3,476,890</u>

4. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

		2007			
		US\$	AUD	Total	
Equivalent in thousands of HK\$					
Spot assets		14,600,807	2,475,049	17,075,856	
Spot liabilities		(14,571,481)	(2,475,105)	(17,046,586)	
Forward purchases		69,167	12,740	81,907	
Forward sales		<u>(78,616)</u>	<u>(9,297)</u>	<u>(87,913)</u>	
Net long position		<u>19,877</u>	<u>3,387</u>	<u>23,264</u>	
			RMB	MOP	
Net structural position			<u>107,230</u>	<u>48,545</u>	
		2006			
		US\$	MOP	RMB	Total
Equivalent in thousands of HK\$					
Spot assets	13,633,746	59,251	286,962	13,979,959	
Spot liabilities	(13,359,547)	(49,829)	(283,551)	(13,692,927)	
Forward purchases	185,772	–	2,192	187,964	
Forward sales	<u>(455,999)</u>	<u>–</u>	<u>–</u>	<u>(455,999)</u>	
Net long position	<u>3,972</u>	<u>9,422</u>	<u>5,603</u>	<u>18,997</u>	
					MOP
Net structural position				<u>48,545</u>	

5. OVERDUE AND RESCHEDULED ASSETS

	2007	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	22,180	0.1
- 1 year or less but over 6 months	12,697	0.1
- over 1 year	263,777	0.8
Total overdue advances	298,654	1.0
Rescheduled advances	183,825	0.6
Individual impairment allowances made in respect of overdue loans and advances	4,898	

	2006	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	59,715	0.2
- 1 year or less but over 6 months	29,325	0.1
- over 1 year	356,618	1.3
Total overdue advances	445,658	1.6
Rescheduled advances	257,203	1.0
Individual impairment allowances made in respect of overdue loans and advances	26,012	

The value of the security of the above overdue advances is analysed as follows:

	2007 HK\$'000	2006 HK\$'000
Covered portion of overdue loans and advances	290,558	430,789
Uncovered portion of overdue loans and advances	8,096	14,869
	298,654	445,658
Market value of collateral held against covered portion of overdue loans and advances	805,823	704,123

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 31 December 2007 and 31 December 2006, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2007 amounted to HK\$87,570,000 (2006: HK\$103,480,000).

6. NON-BANK MAINLAND EXPOSURES

31 December 2007				
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	746,276	390,346	1,136,622	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,490,540	1,591,485	4,082,025	1,000
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	2,221	–	2,221	–
	<u>3,239,037</u>	<u>1,981,831</u>	<u>5,220,868</u>	<u>1,000</u>

31 December 2006				
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	603,657	390,199	993,856	10,000
Companies and individuals outside Mainland where the credit is granted for use in Mainland	1,696,688	707,562	2,404,250	12,658
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	2,742	–	2,742	142
	<u>2,303,087</u>	<u>1,097,761</u>	<u>3,400,848</u>	<u>22,800</u>

7. LIQUIDITY RATIO

	2007 %	2006 %
Average liquidity ratio for the year	<u>55.82</u>	<u>55.65</u>

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month's average ratio, as specified in the Fourth Schedule of the Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited and Gallbraith Limited.

8. CAPITAL ADEQUACY RATIO

	2007 %	2006 %
Capital adequacy ratio	<u>14.22</u>	<u>15.59</u>

The core capital ratio as at 31 December 2007 calculated in accordance with the Capital Rules, which became effective on 1 January 2007, was 11.52%.

Capital adequacy ratio at 31 December 2007 was compiled in accordance with the Capital Rules under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord, which became effective on 1 January 2007. In accordance with the Capital Rules, the Bank has adopted the “standardized approach” for the calculation of the risk-weighted assets for credit risk and “basic indicator approach” for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Capital Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited and Card Alliance Company Limited.

The capital adequacy ratio at 31 December 2006 was compiled in accordance with the Third Schedule of the Banking Ordinance under the “Basel I” capital accord.

Capital base

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

	2007 HK\$'000	2006 HK\$'000
Core capital		
Paid up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,231,676	3,225,758
Profit and loss account	56,732	168,048
Less: Net deferred tax assets	(2,079)	–
Total core capital	<u>5,046,646</u>	<u>5,154,123</u>
Other deductions from core capital	(418,739)	–
Core capital after deductions	<u>4,627,907</u>	<u>5,154,123</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	5,755	27,835
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	10,062	39,572
Unrealized fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	45,807	2,796
Regulatory reserve for general banking risks	356,000	165,000
Collective impairment allowances	116,720	104,464
Term subordinated debt	970,871	967,376
Total supplementary capital	<u>1,505,215</u>	<u>1,307,043</u>
Other deductions from supplementary capital	(418,740)	–
Supplementary capital after deductions	<u>1,086,475</u>	<u>1,307,043</u>
Total deductions from capital base	–	(633,406)
Total capital base after deductions	<u>5,714,382</u>	<u>5,827,760</u>

The calculation of the capital base as at 31 December 2007 above is based on the Banking (Capital) Rules effective from 1 January 2007. The calculation of the capital base as at 31 December 2006 was based on Third Schedule of the Banking Ordinance. The comparatives of the components of the core capital and supplementary capital were not restated on the ground that different approaches were used to calculate its regulatory capital in the years ended 31 December 2007 and 2006.

STATEMENT OF COMPLIANCE

In preparing the accounts for 2007, the Bank has fully complied with the Banking (Disclosure) Rules, which have superseded the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority.

FINAL DIVIDEND

The Directors will recommend at the forthcoming annual general meeting of the shareholders to be held on Wednesday, 30 April 2008 the payment of the final cash dividend for 2007 of HK\$0.44 per share. This final dividend, if approved, will be paid on Friday, 2 May 2008 to shareholders whose names are listed in the register of members of the Bank on Friday, 25 April 2008.

REVIEW OF FINANCIAL REPORT

This financial report has been reviewed by the Bank’s Audit Committee.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Wednesday, 23 April 2008 to Friday, 25 April 2008 (both days inclusive), during which period no transfer of shares can be registered. In order to be entitled to attend and vote at the 2008 annual general meeting of the shareholders, and to qualify for the final dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 pm on Tuesday, 22 April 2008.

PURCHASE, SALE OR REDEMPTION OF THE BANK’S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank’s listed securities during the year.

CORPORATE GOVERNANCE

The directors confirm that, for the financial year ended 31 December 2007, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2007, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank’s own code in question.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK

The Bank’s Annual Report 2007, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

REVIEW AND PROSPECTS

Economic Review

In 2007, the Hong Kong economy maintained its upward trend. Strong internal demand was a major booster for economic growth. Employment market saw great improvement with unemployment rate dropped to a low level of 4%. Consumption sentiment and the performance of all sectors were strong on the back of increasing individual income. Stimulated by the tide of initial public offerings and a series of favourable developments such as the expansion of the investment scope of the Qualified Domestic Institutional Investors and the listing of red chip enterprises in the Mainland's A-share market, the stock market saw the Hang Seng Index hit its all-time high of 31,958 points with total market value exceeding HK\$23,000 billion. The Index's annual growth of 39% in the year was the highest ever since 1999. The growth of the property market has further picked up momentum. The transaction volume of property market skyrocketed by an annual rate of approximately 40% to over 140,000, an all-time high since 1997. Meanwhile, with the rising food prices, appreciation of Renminbi, the slumping US dollar and the surging oil price, Hong Kong's inflation has been intensified in the year. Exports recorded significant growth, due primarily to the prosperity of the mainland and emerging markets that substantially offset the negative impacts of the slackening US demand.

The global economy has been overshadowed by the worsening US subprime mortgage crisis. Resulting from such an uncertain market environment were volatile global financial markets and repeated stock market plunges. In September, the US Federal Reserve Board lowered the interest rate by 50 basis points, the first cut ever since June 2003, whereas a number of central banks sought to stabilise their financial markets by pumping funds into the market. On the threshold of 2008, the US Federal Reserve Board, out of the blue, cut the interest rate by 75 basis points in January, the most substantial slash in recent years, with a view to revitalising the economy. The market believes the US Federal Reserve Board will continue the cut following its five interest rate reductions of 225 basis points in total over the five months since September 2007.

Results Announcement

The Bank's results for 2007 show a slight improvement. For the financial year of 2007, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$505,032,000, an increase of 0.38% over that for the year before. Total customers' deposits increased 10.34% to HK\$60,327,437,000. Total loans to customers (after accounting for impairment allowances) increased 18.03% to 31,873,474,000. On 31 December 2007, the Bank's loan portfolios were made up as follows: property developments and investments (27.24%), personal real estate purchases (16.98%), financial and securities concerns (9.05%), trade finance (2.90%), wholesale and retail trade (2.63%), manufacturing, transportation and other businesses (24.36%), loans outside Hong Kong (11.13%), and others (5.71%). Capital adequacy ratio decreased 8.79% to 14.22% at the end of 2007, while average liquidity ratio for 2007 increased 0.31% to 55.82%. Loan-to-deposit ratio increased 7.5% to 48.15%. Total assets, having increased 9.55% to HK\$69,052,401,000. Shareholders' funds (before final dividend), compared with the shareholders' funds for the previous year, increased 3.62% to HK\$6,270,788,000. Your board has recommended paying the final cash dividend of HK\$0.44 per share for the financial year of 2007 to shareholders whose names appear in the Register of Members at the close of business on Friday, 25 April 2008. Total dividends for the financial year of 2007 (including the interim cash dividend of HK\$0.21 per share paid earlier) amounted to HK\$0.65 per share.

Profit Analysis

On an audited, consolidated basis, net interest income rose 17.15% from that of 2006 to HK\$970,613,000 in 2007. Interest spread decreased 4.64% to 1.44%. After accounting for the net fee and commission income, which amounted to HK\$283,412,000, and the other operating income, which amounted to HK\$166,669,000, total operating income was HK\$1,420,694,000 and total operating expense was HK\$642,894,000. Cost-to-income ratio decreased 13.54% to 45.25%. Operating profit before impairment allowances, fair value adjustments and net (loss) gain on disposal increased 44.39% to HK\$777,800,000. The Bank made impairment allowances in the amount of HK\$82,922,000 for 2007, a increase of 38.66% against those made for 2006. As of 31 December 2007, the Bank's investment portfolio contained income notes issued by structured investment vehicles ("SIVs"), which were categorised as available-for-sale investments. The total amounts invested in these SIVs were HK\$568,212,000 (0.82% of total assets). The Bank evaluates such investments for impairment on a regular basis. Impairment losses of HK\$369,627,000 have been recognised for the year ended 31 December 2007 primarily due to downgrade of credit ratings and increase of funding costs for the SIVs. After accounting for the impairment allowances as well as the charge for taxation, profit attributable to shareholders amounted to HK\$505,032,000 (an increase of 0.38%), translating into earnings of HK\$1.16 per share. Net asset value per share (before final dividend), compared with the net asset value per share for the previous year, rose 3.62% to HK\$14.42.

Business Review

Loan Business

Property mortgage remained a focus of the Bank during the year. After the launch of preferential residential mortgage loan schemes, the Bank initiated the "Lowest Interest Rate Guarantee for Residential Property Valued at HK\$2 Million" in March. It boosted the number and total amount of successfully-approved mortgage loans by over 100% in the second quarter, which outperformed the market average. The new mortgage loans drawn down grew by around 160% during the year. With effective promotion campaigns and attractive product designs, newly-approved personal loan amount of the Bank increased by an annual rate of approximately 47%. Tax loan amount also recorded a twofold increase. The new online application channel for personal loan was proven effective in attracting young customers.

Card Business

The Bank is committed to continually launching new offers and improving its service for the development of its card business. It has cooperated with various organisations for launching affinity cards to diversify its customer base. In June, to celebrate the 10th anniversary of Hong Kong's handover, China UnionPay Co., Ltd and the Bank jointly launched the first-ever limited edition of "China Unionpay Gift Card" in Hong Kong. In September, the Bank presented an affinity card named "Wah Yan One Family VISA Card" jointly with Wah Yan One Family Foundation. In October, "The Link Credit Card" was introduced with The Link Management Limited to bring shopping privileges to The Link's tenants and the public. A six-week large-scale road show promotion campaign was held for the launch of "The Link Credit Card" at 34 locations, including selected branches of the Bank and shopping malls managed by the Link. The number of participation of our front-line and department staff in this event was over 2,000 and more than 20,000 applications for the credit card were received.

Securities Business

In 2007, Hang Seng Index reached its historic high and the local stock market was fueled by exuberant investment sentiment. To capture such a favourable opportunity, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, timely launched a series of privileges and services and established its first large-scale securities centre in Yuen Long. The centre, equipped with nearly 100 computers for customers to access real-time stock prices and other market information, commenced operation in September and the average daily utilisation rate of its quoting facilities exceeded 90%. In November, it opened another securities centre in Kwun Tong. The popularity of the centres was reflected in the significant growth of its overall business. Meanwhile, in order to attract young customers, it started to promote the online securities trading platform in the third quarter. Satisfactory results were achieved with prominent increase in the number of online securities accounts and transactions.

China Business

As the Hong Kong economy continued to tie in closely with that of the Mainland with increasingly frequent capital flows, China UnionPay Co., Ltd and the Bank worked together and initiated “CUP Remittance”, the first-ever instant remittance service between Hong Kong and the Mainland. The service reduced the time needed for fund transfer and satisfied the increasing demand of the customers. To further speed up the development of the China business, the Bank has set up a branch in each of Shantou and Macau and a representative office in each of Guangzhou and Shanghai. At the beginning of 2008, the Renminbi business of the Shantou Branch was approved by the relevant Chinese authorities, facilitating its further business expansion in mainland China.

Corporate Responsibility

In 2007, the Bank strived to fulfill its mission as a “community bank” and provided comprehensive and quality banking services to the community. To further expand its service network, the Bank has opened 5 new branches, one in each of Jordan, Chai Wan, Kowloon Bay, Sau Mau Ping and Ho Man Tin, during the year. As at the end of the year, the Bank operated one headquarters and 47 branches in Hong Kong. More new branches are expected to be opened during the second quarter of 2008. Moreover, the Bank continued to support community activities through donation to non-profit making charities, sponsorship and volunteer work and was rewarded the Caring Company Logo 2007/08 by the Hong Kong Council of Social Service. The Bank encouraged its guests to make cash donation instead of sending flower bouquets to celebrate its renaming and the grand opening of its new headquarters. With the guests’ overwhelming response, the Bank contributed an amount equivalent to the overall donations on a dollar-for-dollar basis to fund charitable educational projects in the impoverished areas in mainland China. During the year, part of the fund has been allocated to develop new teaching buildings for four rural primary schools in Kunming City and Baoshan City of Yunnan Province and Anlong County of Guizhou Province. On the other hand, the Bank has been supporting the development of small and medium enterprises in Hong Kong and providing flexible banking services which suited their needs. The Bank was rewarded the “SME’s Best Partner Award 2007” by the Hong Kong Chamber of Small and Medium Business for its contribution.

Directorate Changes

On 11 July 2007, Mr Lau Wai Man, Executive Director of the Bank, was appointed a Deputy Chief Executive Officer, and Mr Xu Minjie and Mr Eiichi Yoshikawa were appointed non-executive directors of the Bank by the board. Mr Toshiaki Arai resigned as a non-executive director of the Bank because of reallocation of duties within the Bank of Tokyo-Mitsubishi UFJ Group and Dr Sun Jiakang resigned as a non-executive director of the Bank because of reallocation of duties within the COSCO Group on that same day. Mr Andrew Chiu Cheung Ma was appointed an independent non-executive director of the Bank by the board on 9 August 2007. On 5 March 2008, Mr Xu Minjie and Mr Wang Zhi resigned as non-executive directors of the Bank because of the disposal of COSCO Pacific Limited’s 20 percent shareholding interest in the Bank to COSCO (Hong Kong) Group Limited, and Mr Wang Xiaoming and Mr Meng Qinghui were appointed non-executive directors of the Bank by the board on that same day.

Prospects

It is anticipated that Hong Kong's economic growth will continue to be driven by internal demand this year. With wealth effects resulted from the fall of interest rate and the surge of asset prices, domestic consumption will remain its healthy upward trend. The strong momentum of the economies of the Mainland and the emerging markets will continue to be the main support of Hong Kong's export sector. Under the pressure arising from the Renminbi appreciation and the weakening US dollar, inflation in Hong Kong is prone to intensify dramatically.

It is expected the development of the global economy will be in steady pace. Despite the concern about the spread of the US subprime mortgage crisis, 2008 is the US presidential election year and stabilising measures for addressing the financial crisis of the nation are expected to be introduced. This development will also be a focus of the world.

Intense competition is inevitable in the Hong Kong banking sector where challenges ahead include the introduction of the new regulations, rising cost and loss of human resources. Yet, the sound foundation of the Hong Kong economy, desirable business environment and the close linkage with the mainland market all favour the optimistic economic prospects of Hong Kong. Ushering in its 60th anniversary this year, the Bank will strive to provide better quality and more innovative services and products by leveraging on its continuous business growth. It will also be committed to both becoming the most popular community bank and maximising the returns for shareholders.

Finally, on behalf of the board, I would like to wholeheartedly thank our customers, business partners and shareholders for their long-standing trust and support for the Bank, not to mention my fellow directors for the exercise of their wise judgment and all of our staff members for their unfailing dedication.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Bank are Mr Liu Lit Man (Executive Chairman), Dr Liu Lit Mo (Vice Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Executive Director & Deputy Chief Executive Officer), Mr Lau Wai Man (Executive Director & Deputy Chief Executive Officer), Mr Wilfred Chun Ning Liu, Mr Frank Shui Sang Jin, Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong; the non-executive directors are Mr Timothy George Freshwater, Mr Wang Xiaoming, Mr Andrew Liu, Mr Eiichi Yoshikawa, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.

By Order of the Board

Liu Lit Man

Executive Chairman

5 March 2008