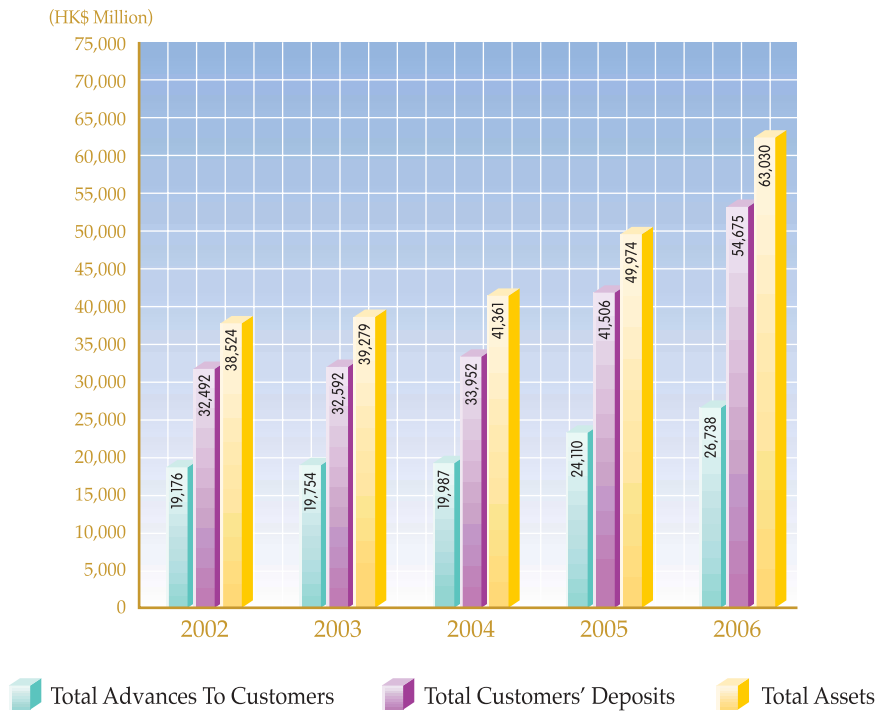


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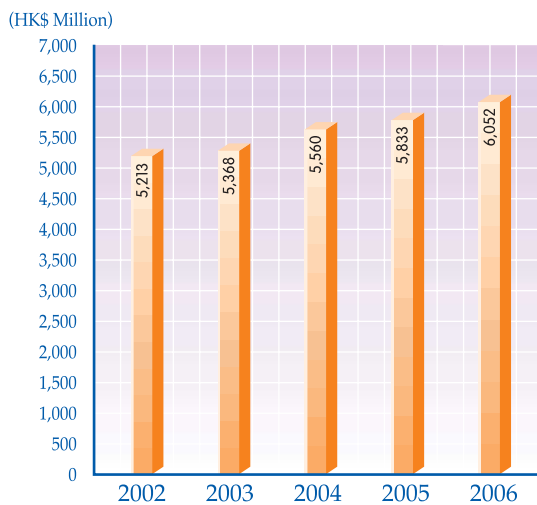
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FIVE-YEAR FINANCIAL SUMMARY

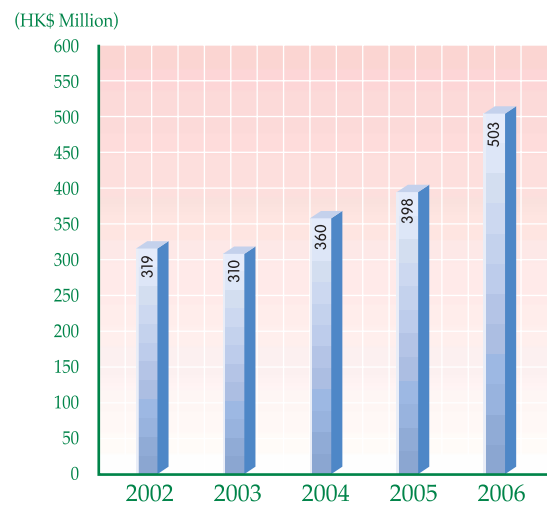
TOTAL ADVANCES TO CUSTOMERS / TOTAL CUSTOMERS' DEPOSITS / TOTAL ASSETS



CAPITAL RESOURCES



PROFIT ATTRIBUTABLE TO SHAREHOLDERS



Board of Directors

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA
(Executive Chairman)

Dr LIU Lit Mo, LLD, MBE, JP
(Vice Chairman)

Mr LIU Lit Chi
(Managing Director & Chief Executive Officer)

Mr Don Tit Shing LIU
(Deputy Chief Executive Officer)

Mr Wilfred Chun Ning LIU

Mr LAU Wai Man

Mr Frank Shui Sang JIN

Mr Andrew Chiu Wing TSANG

Mr George Har Kar WONG

Non-executive Directors

Mr Timothy George FRESHWATER

Mr Toshiaki ARAI

Mr Andrew LIU

Dr SUN Jiakang

Mr Christopher Kwun Shing LIU

Mr Alfred Cheuk Yu CHOW, JP

Mr WANG Zhi

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP

Mr Wanchai CHIRANAKHORN

Mr CHENG Yuk Wo

General Managers

Mr Frederick Hoi Kit CHAN

Mr Patrick Siu Cheung WAT

Senior Managers

Ms Rosa Kei Yan CHIU

Mr LO Yin Suen

Company Secretary & Legal Counsel

Mr Michael Kin Wah YEUNG

Registered Office

Ground Floor, Chong Hing Bank Centre
24 Des Voeux Road Central, Hong Kong

Telephone : (852) 3768 1111

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Telex : 75700 LCHB HX

SWIFT BIC : LCHB HK HH

Website : <http://www.chbank.com>

E-mail : info@chbank.com

Principal Legal Advisers

Anthony Chiang & Partners

Deacons

K C Ho & Fong

Kwan & Chow

Slaughter and May

Auditors

Deloitte Touche Tohmatsu

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Stock Codes and Short Names

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (i) shares and (ii) subordinated notes due 2016 are (i) 1111 (CHONG HING BANK) and (ii) 1510 (CH BANK N1612), respectively.

CORPORATE INFORMATION

BIOGRAPHICAL DATA ABOUT DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA

aged 77, is the Executive Chairman of the Bank. He joined the Bank in 1950 and has been its Director since 1955. He is also the Chairman of both Liu Chong Hing Investment Limited and Chong Hing Insurance Company Limited. His other directorships include those in The Hong Kong and China Gas Company Limited and COSCO Pacific Limited. He was a Director of Tung Wah Group of Hospitals, the President of the Hong Kong Chiu Chow Chamber of Commerce (presently Permanent Honorary President), a founder and a Permanent Honorary Chairman of the Chiu Chow Association Building (Property Holding) Limited, as well as the founder and the first Chairman of Teochew International Convention (now Permanent Honorary Chairman). Presently he is a Permanent Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong. Mr Liu is also a founder and a Manager of Liu Po Shan Memorial College, a Director of New Asia College of The Chinese University of Hong Kong, and the founder of Chiu Chow Association Secondary School. In 1975, he was appointed a Justice of the Peace and was elected Fellow of the International Banker Association. He had been a Member of the Consultative Committee for the Basic Law from 1985 to 1990 and was a Member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. He was a Member of the First Election Committee constituted under the Chief Executive Election Ordinance. Mr Liu was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in July 2001.

Dr LIU Lit Mo, LLD, MBE, JP

aged 69, is the Vice Chairman and an Executive Director of the Bank. He was appointed a Director in 1958 and was a Deputy Managing Director of the Bank from 1961 to 1973. Dr Liu is also the Managing Director of Liu Chong Hing Investment Limited and a Director of China Motor Bus Company Limited. As for community service, Dr Liu was the Chairman of Tung Wah Group of Hospitals in 1967 and is now serving as an Adviser of the Group. He had also been President of the Hong Kong Chiu Chow Chamber of Commerce, Chairman of Hong Kong Football Association and District Governor of District 3450, Rotary International. Presently, he is a member of the Board of Trustees of United College, The Chinese University of Hong Kong and a Manager of Liu Po Shan Memorial College. He was awarded Silver Jubilee medal by Her Majesty the Queen in 1977. Dr Liu was conferred an Honorary Doctor's Degree in Laws by the Lingnan University in 2005.

Mr LIU Lit Chi

aged 67, is the Managing Director and Chief Executive Officer of the Bank. Mr Liu, who was educated in Hong Kong and the United Kingdom, was appointed as a Director since 1958 and an Executive Director since 1961. Mr Liu is also an Executive Director of Liu Chong Hing Investment Limited since 1972 and holds directorship in a number of companies in Hong Kong and elsewhere.

Mr Don Tit Shing LIU

aged 45, is an Executive Director and the Deputy Chief Executive Officer of the Bank. He graduated from Oxford University and is an associate member of the Institute of Chartered Accountants in England & Wales and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Liu joined the Bank in 1992.

Mr Wilfred Chun Ning LIU

aged 45, is an Executive Director in charge of the Securities Business Division of the Bank. He holds a Bachelor's degree in Economics from University of Newcastle-upon-Tyne (UK). He joined the Bank in 1993 and became a Director in 1998.

Mr LAU Wai Man

aged 49, is an Executive Director in charge of the Retail Banking Division of the Bank. He holds a Bachelor of Law degree and a Master of Business Administration degree. Mr Lau is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and a Certified Financial Planner^{CM}. He was a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988 and became a Director of the Bank in August 2001. Before joining the Bank, he had worked for an international bank and an international accounting firm.

Mr Frank Shui Sang JIN

aged 49, is an Executive Director in charge of the Finance and Treasury Management Division of the Bank. He holds a Master of Business Administration degree from the City University in London, and is a certified public accountant (practising) registered in Hong Kong. Mr Jin joined the Bank in 1997 and became a Director of the Bank in August 2001. Before joining the Bank, he held senior positions in an international accounting firm and a listed company.

Mr Andrew Chiu Wing TSANG

aged 49, is an Executive Director in charge of the Information Technology Division of the Bank. He holds a Master of Science degree in Electronic Commerce and Internet Computing from the University of Hong Kong, and is a member of the Institute of Chartered Accountants in England & Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr Tsang joined the Bank in 2000 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

Mr George Har Kar WONG

aged 54, is an Executive Director in charge of the Credit Risk Management Division of the Bank. He is a member of the Institute of Chartered Accountants in England & Wales and the Hong Kong Institute of Certified Public Accountants. Mr Wong joined the Bank in 2002 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

CORPORATE INFORMATION

Non-executive Directors

Mr Timothy George FRESHWATER

aged 62, was redesignated from independent non-executive director, an office that he had held since April 1997, to non-executive director of the Bank in September 2004. He is a solicitor in the UK and Hong Kong and is a past President of the Law Society of Hong Kong. After graduating from Cambridge University, he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years, leaving in July 1996 to join Jardine Fleming. He became Chairman of Jardine Fleming in 1999. In 2001, Mr Freshwater joined Goldman Sachs (Asia) L.L.C. and is now Vice Chairman.

Mr Toshiaki ARAI

aged 53, is Director, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Ltd, Hong Kong Branch. He joined The Bank of Tokyo, Ltd in 1977 and has more than 29 years of experience in banking. Mr Arai's expertise lies in the area of Corporate Banking and Corporate Banking Planning activities. During this period, Mr Arai has been appointed to work in The Bank of Tokyo Trust Co in New York and also the London Branch of The Bank of Tokyo, Ltd. He is currently a Committee Member of The Hong Kong Association of Banks. Mr Arai graduated from Hitotsubashi University in 1977 with a Bachelor's degree in Commerce and Management. He was appointed a Non-executive Director of the Bank in November 2003.

Mr Andrew LIU

aged 51, a member of the Board since 1977, was redesignated from executive director to non-executive director of the Bank in May 1999. Mr Liu is also a director of Liu Chong Hing Investment Limited. He is the Chief Executive Officer of CCMP Capital Asia Pte Ltd (formerly known as "JP Morgan Partners Asia Pte Ltd"). Mr Liu, holder of a Master of Arts degree from the Oxford University in England, was a solicitor with Slaughter and May in London before joining Morgan Stanley & Co Inc in New York in 1981. Mr Liu was promoted to Managing Director in 1990 before relocating to Morgan Stanley Asia Limited in Hong Kong, where he assumed the position of President and Managing Director until his resignation in September 1997. Mr Liu remains associated with Morgan Stanley as an Advisory Director. He is a son of Mr Liu Lit Man.

Dr SUN Jiakang

aged 46, has been a member of the Board since November 2002. He is currently the Executive Vice President of China COSCO Holdings Company Limited, a Managing Director of COSCO Container Lines Company Limited, a director of China International Marine Containers (Group) Co., Ltd., and a director of COSCO Pacific Investment Holdings Limited. He was the Vice Chairman and Managing Director of COSCO Pacific Limited. Dr Sun is a fellow member of the Hong Kong Institute of Directors and a member of International WHO's WHO of Professionals and a visiting professor at Dalian Maritime University. Dr Sun graduated from the Faculty of Navigation of Dalian Maritime Transportation Institute with a bachelor degree in shipping management in 1982 and obtained a bachelor degree in economic management of industrial enterprises from the People's University of China in 1987, a master degree in management from Dalian Maritime University in 2001 and a doctor of philosophy (PhD) degree in management from Preston University, USA in 2005. After graduating from university in 1982, Dr Sun joined COSCO Group and had been the Assistant to the President and Spokesman of China Ocean Shipping (Group) Company. For the past 24 years, Dr Sun has been committed to shipping management and has accumulated rich experiences in international shipping and logistics operations and has demonstrated excellent management skills. Dr Sun joined COSCO Pacific Limited in September 2002 and was responsible for the overall strategic planning, corporate development, management and administration of COSCO Pacific Limited.

Mr Christopher Kwun Shing LIU

aged 31, is a qualified solicitor in both England & Wales and Hong Kong. A holder of a Master of Arts degree in Jurisprudence from the University of Oxford, Mr Liu is currently a practising solicitor and partner of Deacons in Hong Kong. Mr Liu served as alternate director to Dr Liu Lit Chung, a former director of the Bank, from July 2000 to July 2002. He became a director of the Bank in July 2002.

Mr Alfred Cheuk Yu CHOW, JP

aged 56, a member of the Board since February 2003, was redesignated from independent non-executive director to non-executive director of the Bank in September 2004. He graduated from the University of Hong Kong with a Bachelor of Laws Degree and a Master of Social Sciences (Public Administration) Degree. With 17 years working experience in the civil service and over 20 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors, a law firm in Hong Kong. He is also a China-Appointed Attesting Officer.

Mr WANG Zhi

aged 44, has been a member of the Board since November 2005. He is also a Deputy Managing Director of COSCO Pacific Limited ("COSCO Pacific") and the President & CEO of Florens Container Services Company Limited, a wholly owned subsidiary of COSCO Pacific. He joined COSCO Pacific in April 2001 and was appointed as an Executive Director of COSCO Pacific in July 2005. He graduated from Jimei Navigation College in 1980. He then further his studies in Shanghai Maritime University and obtained an International Executive Master of Business Administration degree from International School of Management in Paris in 2000. Prior to joining COSCO Pacific, he worked in COSCO Guangzhou in 1980 and gained more than 13 years of working experience in shipping industries there. Since 1993, he had been the Deputy Chief Executive Officer of COSCO (UK) Limited, the Managing Director of Crystal Logistics Ltd and the Managing Director of COSCO France S A. Mr Wang is now responsible for the management and investment of the container terminals and container-related industrial businesses of COSCO Pacific.

CORPORATE INFORMATION

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP

aged 74, a member of the Board since October 1981, was redesignated from non-executive director to independent non-executive director of the Bank in April 2005. He is a Deputy to the Chinese National People's Congress and the Ex-officio Life Honorary Chairman of the Chinese General Chamber of Commerce, Hong Kong. Dr Chan, the Chairman of Asia Financial Holdings Limited, also serves as an independent non-executive director for certain other listed companies.

Mr Wanchai CHIRANAKHORN

aged 67, an Independent Non-executive Director since September 1998, is the Chairman of Executive Board of Directors of C Wans Assets Co, Ltd. He has more than 25 years of experience as an international banker. Upon graduation from Baptist College, Hong Kong in 1964, he served in banks in Hong Kong, London, Bangkok and Malaysia. He joined the Bank in 1985 and became a Director in 1987. Before his departure in May 1995, Mr Chiranakhorn served as an Executive Director in charge of the Overseas Business Development Department. He was a Non-executive Director from May 1995 to September 1998.

Mr CHENG Yuk Wo

aged 46, has been an Independent Non-executive Director of the Bank since September 2004. Mr Cheng is also a member of the Bank's Audit Committee and Remuneration Committee. Mr Cheng, a co-founder of a Hong Kong merchant banking firm as well as consultant to several listed companies, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England & Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr Cheng has more than 20 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies. Mr Cheng also serves as an independent non-executive director for certain other listed companies.

General Managers

Mr Frederick Hoi Kit CHAN

aged 46, General Manager, is the head of the Finance Department and the Business Development and Coordination Department. He graduated from Imperial College, University of London in Computing Science and obtained a Master of Business Administration degree from Henley Management College, U.K. He is a member of the Institute of Chartered Accountants in England & Wales, a member of the British Computer Society and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Chan has more than 20 years of experience in the financial services industry and worked for an international accounting firm and major international banks in London and Hong Kong in financial reporting and strategic management before joining the Bank in 2004.

Mr Patrick Siu Cheung WAT

aged 53, General Manager, is the head of Operations Division. He holds a Bachelor of Arts degree from the University of Hong Kong in 1975. He has held senior positions in Finance, Business Development, Operations, Internal Control and Quality functions with major US banks in Hong Kong and UK. He has been trained in TQM (Total Quality Management) and as Black Belt in Six Sigma quality programs. Mr Wat is also responsible for change management and productivity improvements since joining the Bank in 2003.

Senior Managers

Ms Rosa Kei Yan CHIU

aged 48, Senior Manager, is the head of the Human Resources Division. She obtained a Bachelor of Arts degree in Business Administration from Ottawa University, USA, and a Master degree in Human Resource Management from Macquarie University, Australia. Ms Chiu is a member of Hong Kong Institute of Human Resource Management, and an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Ms Chiu has more than 20 years of experience in financial services industry. She held senior positions in a global financial institution, and asset management organizations in Hong Kong in human resources management and office operations before joining the Bank in 2005.

Mr LO Yin Suen

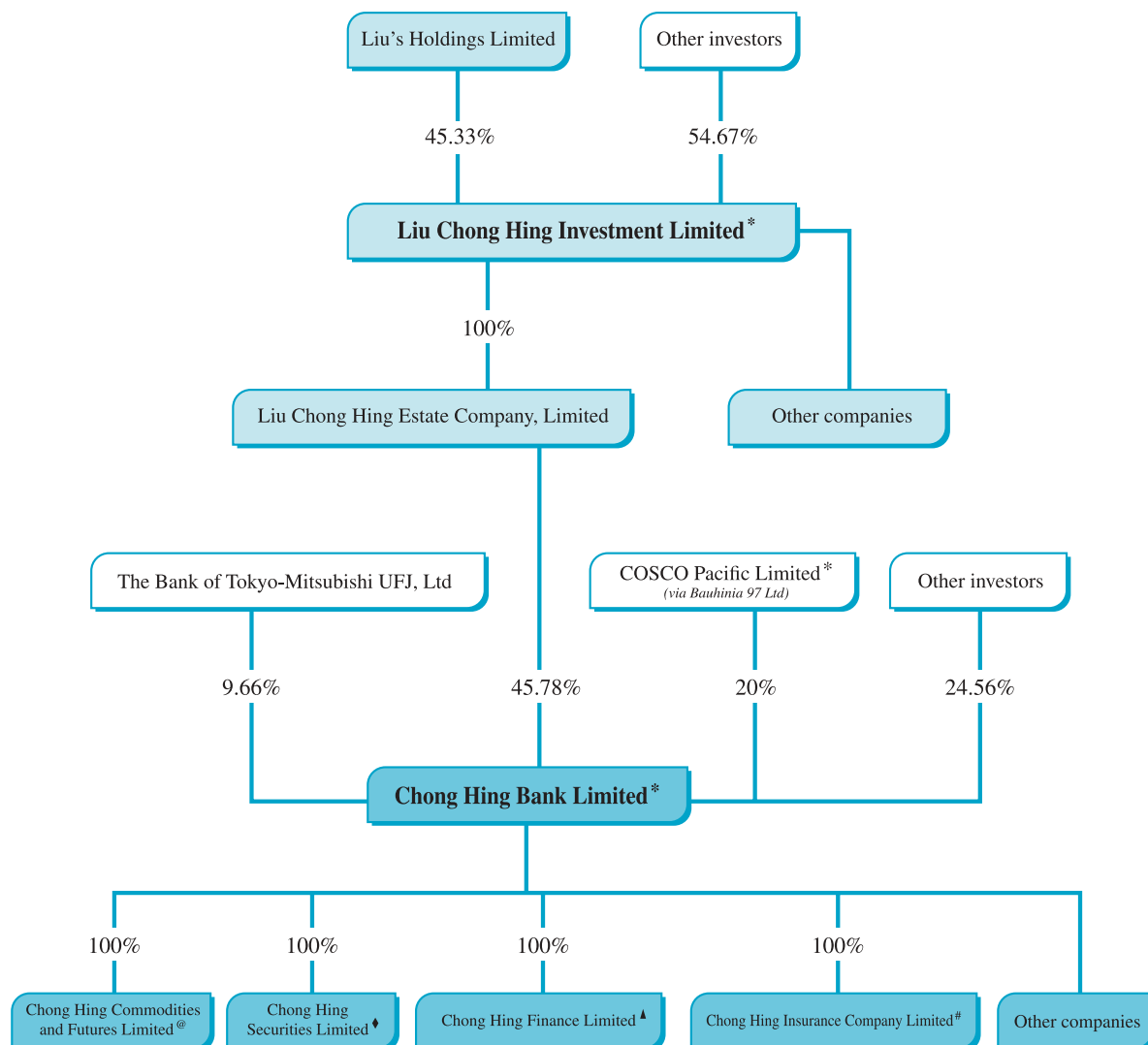
aged 60, is a Senior Manager with over 40 years of banking experience. He joined the Bank in 1960 and is presently in charge of the General Administration Division of the Bank.

Company Secretary & Legal Counsel

Mr Michael Kin Wah YEUNG

aged 50, obtained a Bachelor of Arts degree in legal studies, political science and philosophy from Rice University (Texas, USA) in 1980 and a Doctor of Jurisprudence degree from the School of Law of The University of Texas at Austin (Texas, USA) in 1983. Mr Yeung, a United States lawyer, had served as the company secretary of FPB Bank Holding Company Limited (the then Hong Kong-listed banking arm of the First Pacific Group) and South China Morning Post (Holdings) Limited (now known as SCMP Group Limited) before resuming his position as the company secretary of the Bank in 1997.

Member of the Liu's family



* Listed on The Stock Exchange of Hong Kong Limited

@ Registered with The Hong Kong Futures Exchange Limited as a participant

♦ Registered with The Stock Exchange of Hong Kong Limited as a participant

▲ Licensed under the Banking Ordinance as a deposit-taking company

Licensed under the Insurance Companies Ordinance as an insurance company

SHARE TRADING SUMMARY

Trading of shares in Chong Hing Bank Limited*, a constituent stock of the Hang Seng Composite Index Series, on The Stock Exchange of Hong Kong Limited (“HKSE”) during 2006

Month	Unit Price (HK\$) (average for the month)				Monthly Turnover		Hang Seng Index# (average for the month)
	Open	High	Low	Close	Number of Shares	HK\$	Close
January	12.426	12.532	12.392	12.479	3,594,552	44,925,000	15,525.92
February	14.943	15.280	14.630	15.008	13,856,286	210,437,000	15,581.12
March	15.696	15.876	15.533	15.734	9,837,468	155,948,000	15,728.88
April	17.468	17.756	17.259	17.609	4,930,713	86,810,000	16,557.00
May	16.970	17.140	16.755	16.970	3,422,549	57,858,000	16,472.89
June	15.445	15.627	15.216	15.370	2,911,825	44,795,000	15,725.09
July	16.138	16.326	16.069	16.250	1,540,128	25,083,000	16,456.61
August	17.052	17.181	16.914	17.029	3,725,807	64,241,000	17,138.55
September	17.024	17.103	16.926	17.044	4,902,720	82,394,000	17,354.71
October	17.056	17.129	16.899	17.028	2,394,751	40,910,000	17,991.05
November	16.659	16.785	16.535	16.666	2,690,477	45,025,000	18,952.28
December	17.186	17.277	17.064	17.176	2,030,658	33,083,000	19,113.71
Average for the year	16.172	16.334	16.016	16.197	4,653,161	74,292,417	16,883.15

* Authorized	: 600,000,000 shares	Par value	: HK\$0.500 per share
Issued and fully-paid	: 435,000,000 shares	Board lot	: 1,000 shares
HKSE stock code	: 1111		
Year high	: HK\$18.650 (12 April)	Historic high	: HK\$27.600 (15 July 1997)
Year low	: HK\$12.200 (3 January)	Historic low	: HK\$3.650 (24 August 1998)

# Year high	: 20,049.03 (29 December)	Historic high	: 20,049.03 (29 December 2006)
Year low	: 14,843.97 (3 January)	Base value	: 100.00 (31 July 1964)

16 August 2006	Interim results for the first half of 2006 announced.
30 August 2006	Interim Report 2006 despatched.
13 through 15 September 2006 (both days inclusive)	Register of Members closed for the purpose of ascertaining dividend entitlements.
21 September 2006	Interim dividend for 2006 of HK\$0.19 per share paid.
7 March 2007	Final results for the year of 2006 announced.
30 March 2007	Annual Report 2006 will be despatched.
18 through 20 April 2007 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining dividend entitlements.
25 April 2007	2007 Annual General Meeting will be held.
26 April 2007	If approved by shareholders at the 2007 Annual General Meeting, the final dividend for 2006 of HK\$0.44 per share will be paid.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Chong Hing Bank Limited (the “Bank”) for the year of 2007 will be held on the 28th Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong on Wednesday, 25 April 2007 at 11:30 am for the purposes of conducting the following items of ordinary and special business:

Ordinary business

- (1) To receive and adopt the Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2006.
- (2) To declare the final dividend for the year ended 31 December 2006.
- (3) To re-elect directors and fix their and the other directors’ remuneration.
- (4) To re-appoint auditors and authorise the directors to fix the auditors’ remuneration.

Special business

As special business, to consider and, if thought fit, pass, with or without modification, the following ordinary resolutions:

- (5) **THAT**
 - (a) the exercise by the directors during the Relevant Period of all the powers of the Bank to purchase Shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of Shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of Shares in issue at the date of the passing of this resolution, and the said approval be and is hereby limited accordingly; and
 - (c) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

 - (i) the conclusion of the next annual general meeting of the Bank;
 - (ii) the expiration of the period within which the next annual general meeting of the Bank is required by law to be held; or
 - (iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

“Shares” means shares of all classes in the capital of the Bank including, without limitation, shares of HK\$0.50 each of the Bank.

NOTICE OF ANNUAL GENERAL MEETING

(6) **THAT**

- (a) subject to paragraph (c), the exercise by the directors of the Bank during the Relevant Period of all the powers of the Bank to allot, issue and deal with additional shares in the capital of the Bank and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Bank during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Bank pursuant to the approval in paragraph (a), otherwise than pursuant to (i) any Rights Issue, (ii) any scrip dividend or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Bank in accordance with the Articles of Association of the Bank, or (iii) any exercise of options granted under the share option scheme of the Bank adopted on 25 April 2002, shall not exceed the aggregate of:
 - (aa) 20 per cent of the aggregate nominal amount of the shares in the capital of the Bank in issue at the date of the passing of this resolution; and
 - (bb) (if the directors are so authorised by a separate ordinary resolution of the shareholders of the Bank) the nominal amount of any share capital of the Bank repurchased by the Bank subsequent to the passing of this resolution,

and the said approval be and is hereby limited accordingly; and

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Bank;
- (ii) the expiration of the period within which the next annual general meeting of the Bank is required by law to be held; or
- (iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Bank to holders of shares of the Bank or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the directors of the Bank may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).

NOTICE OF ANNUAL GENERAL MEETING

- (7) **THAT** the directors of the Bank be and are hereby authorised to exercise the powers of the Bank referred to in paragraph (a) of the resolution set out as Resolution 6 in the notice convening this meeting in respect of the share capital of the Bank referred to in sub-paragraph (bb) of paragraph (c) of that resolution.

Any other ordinary business

- (8) To transact any other ordinary business.

By Order of the Board
Michael K W Yeung
Company Secretary

30 March 2007

Notes:

- (i) A shareholder entitled to attend and vote at the annual general meeting in question is entitled to appoint a proxy to attend and vote in his stead. A proxy does not have to be a shareholder of the Bank. Forms of proxy are to be lodged with the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong not later than 48 hours before the time for the holding of the annual general meeting in question and any adjournment thereof.
- (ii) The Register of Members of the Bank will be closed from Wednesday, 18 April 2007 to Friday, 20 April 2007 (both days inclusive), during which period no transfer of shares can be registered. In order 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, 17 April 2007.
- (iii) The Bank's Annual Report 2006 includes an Explanatory Statement on Resolutions 5 through 7 in question, information on the retiring directors to be re-elected at the 2007 annual general meeting of the shareholders, and the procedures for demanding and conducting a poll.

EXECUTIVE CHAIRMAN'S STATEMENT



Mr Liu Lit Man GBS, JP, FIBA

Executive Chairman

Economic Review

In 2006, the global economy kept growing. The World Bank and the International Monetary Fund estimated the annual economic growth rate at 3.9 percent and 5.1 percent respectively. Under the new backdrop of the global economy, economic expansion was not solely driven by the United States. Europe, with slackening growth over the past

few years, experienced a turning point in the economy and its economic growth set a record for the recent years. The economy of Japan demonstrated a promising surge with the decision to increase interest rate for the first time within the recent six years, marking the ultimate return of its economy to the right track. The rates of economic growth of various emerging markets and developing countries, particularly China and India, were all higher than the average growth rate of the global economy. Asian countries have played increasingly important roles in the growth of the global economy. Meanwhile, Europe and Asia have grown into a predominant driving force promoting global economic growth.

The Hong Kong economy was on a steady upward trend for the year. Strong internal demand was a major booster for economic growth, driving gross domestic product up by 6.8 percent in 2006. Optimistic consumption sentiment of and investment incentives for the local people strengthened the operating confidence of enterprises. All sectors continued to expand and increase recruitment, resulting in a substantial fall in unemployment rate to the latest six-year low figure of 4.4 percent. Reduced oil prices, advanced productivity together with growing expansion in production scale contributed to Hong Kong's mild inflation. The annual inflation rate of 2 percent enabled Hong Kong to maintain high growth and low inflation, creating a desirable environment. In addition, benefiting from the favourable influences of China such as its enormous support and wealth effect, the performance of the stock market was exceptional this year. Stimulated by an influx of capital tracking H-share stocks and a tide of initial public offerings, Hang Seng Index rose by more than 30 percent over the year while Hong Kong's stock market value, which has set record after record, amounted to over HK\$13 trillion. Driven by the prosperous financial market, the actual growth rate of the financial industry outstripped all the other sectors. Moreover, the growth of exports of finance, business and other services also surpassed the overall growth level of the entire service exports. However, the development of the property market was polarized with steady prices for small and medium residential properties but substantial selling prices for certain pieces of land for the development of luxurious residential properties. Such a development reflected a strong market preference for luxurious residential properties.

EXECUTIVE CHAIRMAN'S STATEMENT

As to the local banking industry, since the Federal Reserve Board temporarily suspended interest rate hiking in August 2006, this cycle of raising interest rate of HK dollar has also ended. With the continuous capital inflow, the banks' decision of not following the trend of US dollar interest in last November and taking the lead to reduce interest rate, together with the prosperous stock market, among other banking services, new subscription financing and margin financing have acquired great benefits. Competition for business in such areas as mortgage financing remained fierce, resulting in thin actual profit. Banking operations were confronted with difficulties and opportunities. Hence, greater efforts had to be exerted to make further improvements.

Results Announcement

The Bank's results for 2006 show a rather satisfactory improvement. For the financial year of 2006, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$503.144 million, an increase of 26.42 percent over that for the year before. Total customers' deposits increased 31.73 percent to HK\$54.675 billion. Total loans to customers (after accounting for impairment allowances) increased 11.10 percent to HK\$27.005 billion. On 31 December 2006, the Bank's loan portfolios were made up as follows: property developments and investments (28.46 percent), personal real estate purchases (15.45 percent), financial and securities concerns (7.35 percent), trade finance (3.06 percent), wholesale and retail trade (2.86 percent), manufacturing, transportation and other businesses (23.53 percent), loans outside Hong Kong (13.91 percent), and others (5.38 percent). Adjusted capital adequacy ratio rose 2.63 percent to 15.59 percent at the end of 2006, while average liquidity ratio for 2006 increased 13.27 percent to 55.65 percent. Loan-to-deposit ratio decreased 11.69 percent to 44.93 percent. Total assets, having increased 26.13 percent to HK\$63.03 billion. Shareholders' funds (before final dividend), compared with the shareholders' funds for the previous year, increased 3.75 percent to HK\$6.052 billion.

Your board has recommended paying the final dividend of HK\$0.44 per share for the financial year of 2006 to shareholders whose names appear in the Register of Members at the close of business on Friday, 20 April 2007. Total dividends for the financial year of 2006 (including the interim dividend of HK\$0.19 per share paid earlier) amounted to HK\$0.63 per share.



Jordan Branch commenced business on 11 January 2007 at the Bank's self-owned premises. Eight additional branches were opened in 2006, namely, Kwai Chung Estate Branch, Fu Tai Estate Branch, Cheung Fat Estate Branch, Tin Chak Estate Branch, On Ting Estate Branch, Butterfly Estate Branch, Hoi Lai Estate Branch and Yat Tung Estate Branch to provide banking services to the public.

EXECUTIVE CHAIRMAN'S STATEMENT

Profit Analysis

On an audited, consolidated basis, net interest income rose 10.05 percent from that of 2005 to HK\$828.539 million in 2006. Interest spread decreased 8.48 percent to 1.51 percent. After accounting for the other operating income, which amounted to HK\$301.69 million, total operating income was HK\$1,130.23 million and total operating expenditure was HK\$591.54 million. Cost-to-income ratio rose 2.95 percent to 52.34 percent. Operating profit before impairment allowances, fair value adjustments and net (loss) gain on disposal increased 12.97 percent to HK\$538.691 million. The Bank made impairment allowances in the amount of HK\$59.801 million for 2006, a decrease of 11.81 percent against those made for 2005. After accounting for the impairment allowances as well as the charge for taxation, profit attributable to shareholders amounted to HK\$503.144 million (an increase of 26.42 percent), 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 3.75 percent to HK\$13.91.

Change of Company Name

On 29 November 2006, the Bank's shareholders unanimously approved a resolution to change its name to "Chong Hing Bank Limited (創興銀行有限公司)" at an extraordinary general meeting. The change of company name has become effective from 23 December 2006 upon the issuance of the Certificate of Change of Name by the Registrar of Companies in Hong Kong on that same day. The reasons for the change of company name are, among others, to rejuvenate the corporate image of the Bank to make it more appealing to a younger generation, and to facilitate further development of the Bank's various business lines in the mainland China market under the auspices of the Mainland and Hong Kong Closer Economic Partnership Arrangement.



Promotion of various banking products to customers by Customer Services Department

EXECUTIVE CHAIRMAN'S STATEMENT

New Headquarters

The redevelopment of the Bank's headquarters at 24 Des Voeux Road Central had already been completed and the new building was renamed as "Chong Hing Bank Centre". The Bank relocated its head office operations to the new headquarters on 27 December 2006. In celebration of the renaming of the Bank and the grand opening of its new headquarters, the Bank held a cocktail reception with a ribbon-cutting ceremony at the new headquarters on 23 January 2007. The Honourable Henry Y Y Tang, GBS, JP, Financial Secretary of the HKSAR, The Honourable Frederick S H Ma, JP, Secretary for Financial Services and the Treasury of the HKSAR and Mr Joseph C K Yam, GBS, JP, Chief Executive of the Hong Kong Monetary Authority attended as guests of honour. Many other dignitaries from the political and the commercial fields and so forth, as well as many banking counterparts and customers, participated in the joyous and epochal celebration.



Cocktail reception commemorating the Bank's renaming and the grand opening of its new headquarters on 23 January 2007, officiated by the Financial Secretary of the HKSAR, the Hon Henry Tang Ying-yen, GBS, JP (6th from left), Secretary for Financial Services and the Treasury of the HKSAR, the Hon Frederick Ma Si-hang, JP (7th from left), and the Chief Executive of Hong Kong Monetary Authority, Mr Joseph Yam Chi-kwong, GBS, JP (4th from left).

EXECUTIVE CHAIRMAN'S STATEMENT

Credit Rating

For the very first time, the Bank had received credit ratings from Moody's and Fitch. The Bank received a Baa2 long-term foreign currency and local currency deposit rating and a C- financial strength rating from Moody's, and a BBB+ long-term foreign currency issuer default rating and a C individual rating from Fitch. The ratings reflect the sound quality of the Bank's assets, credit level and management. It is also a recognition of the development and potential of the Bank.

Issue of Subordinated Notes

On 8 December 2006, the Bank completed a US\$125,000,000 subordinated notes offering, witnessing the very first issue in the international debt market by the Bank. Strong support was received from investors after roadshows in both Singapore and Hong Kong. The order book was substantially oversubscribed. The capital base of the Bank was further strengthened for future business growth after this successful issue of subordinated notes.

Corporate Responsibility

The Bank strives to fulfil its corporate responsibility by expanding its branch network to provide comprehensive banking services to the community, in particular the residents in public housing estates. During the year, the Bank has opened a total of eight branches in Kwai Chung, Tsing Yi, Tuen Mun, Tin Shui Wai, Tung Chung and Sham Shui Po, six of which are located in shopping malls managed by The Link Management Limited. The new branches offer both retail and commercial banking services. Satisfactory results have been recorded since the opening of such branches.



Provision of updated securities information to customers by Securities Business Department

The Bank hosted a cocktail reception to celebrate its renaming and the grand opening of its new headquarters and received congratulations from numerous well-wishing guests. Instead of sending flower bouquets, guests made donations for charitable educational purposes as recommended by the Bank. The Bank has also contributed an amount equivalent to the overall donations on a dollar-for-dollar basis, bringing the total amount to over HK\$1,760,000 for donation to charitable educational projects in the impoverished areas in mainland China.

EXECUTIVE CHAIRMAN'S STATEMENT

Economic Prospects

It is anticipated that Hong Kong's economic growth will continue to be driven by internal demand this year. The healthy upward trend of domestic consumption will improve the labour market, thereby triggering increase in salaries and decrease of unemployment rate. Due to the positive wealth effect caused by the general improvement in the stock and the property markets, the consumer market will maintain its momentum. As one of the core industries of Hong Kong, the financial sector will continue to benefit from the rapid economic growth and liberalisation of the financial market in mainland China. In addition, the position of Hong Kong as a key financial centre in the Asia-Pacific region will be further enhanced upon implementation of the "Action Agenda" proposed by the HKSAR Government for further improving its financial infrastructure during the Economic Summit on "China's 11th Five-Year Plan" and the Development of Hong Kong. With the continued influx of funds, Hong Kong stock market saw a strong surge last year and accumulated a substantial adjustment pressure. It is generally believed that the stock market will experience major fluctuations this year and the upward movement will be moderate. Dealing in and leasing of commercial properties will increase as a result of business expansion. Residential property market will be dominated by end-users. Property prices will remain stable as supply and demand will be kept in equilibrium.

The recession in the American economy will certainly affect Hong Kong's exports. However, some of the unfavourable effects will be offset by the new emerging economies, the Chinese economy in particular, maintaining rapid growth. It is predicted that Hong Kong's export will maintain respectable performance. In addition, with a prosperous financial market, service exports will only experience limited recession. If there are no major threats, such as geopolitical conflicts or outbreaks of avian flu, causing unexpected and adverse effects on other regional economies, the overall prospect for Hong Kong is optimistic.

The Hong Kong banking industry which is being nurtured in a healthy local economy, the rapid growth of the Chinese economy, and the further liberalisation of the Chinese financial industry all present unlimited opportunities. On the other hand, the banking industry faces various challenges, such as fierce interbank competition, increasing operating costs and the implementation of the Basel II Accord. The Bank will continue to take a proactive approach, take advantage of new opportunities, expand business lines, develop new products, improve service quality and maximize the returns for its shareholders.

Finally, on behalf of your board, I would like to wholeheartedly thank our customers, business partners and shareholders for their long-standing trust in 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.

By Order of the Board

Liu Lit Man

Executive Chairman

7 March 2007

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Bank is engaged in the provision of banking and related financial services. The principal activities of its subsidiaries are set out in note 19 to the consolidated financial statements.

BUSINESS

The Group's total operating income (net of interest expense) is analysed and reported by significant business classes as follows:

	2006	2005
	HK\$'000	HK\$'000
Corporate and retail banking	618,561	491,035
Treasury activities	372,117	364,499
Securities dealing activities	83,381	45,683
Other financial services business activities	56,169	68,764
	<u>1,130,228</u>	<u>969,981</u>

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 financial 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 principally 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 financial services business activities of the Group include investment holding, insurance, other investment advisory services and property investment.

MAJOR CUSTOMERS

The directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group for the year.

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 41.

The state of affairs of the Group and the Bank as at 31 December 2006 are set out in the balance sheets on pages 42 and 43 respectively.

DIVIDENDS

An interim dividend of HK\$0.19 per share amounting to HK\$82,650,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend for the year ended 31 December 2006 of HK\$0.44 per share amounting to HK\$191,400,000 to the shareholders on the Register of Members on 20 April 2007 and the retention of the remaining profit for the year.

SHARE CAPITAL

Details of the Bank's share capital are set out in note 26 to the consolidated financial statements. There was no movement in the Bank's share capital during the year.

SUBORDINATED NOTES DUE 2016

The Bank issued callable floating rate subordinated notes (the "Notes") qualifying as tier 2 capital with the principal amount of US\$125,000,000 on 15 December 2006. The Notes will mature on 16 December 2016 and are redeemable at the option of the Bank in December 2011 at their principal amount. The net proceeds from the issue of the Notes were HK\$967,000,000, after deducting the cost of issue. The net proceeds from the notes will be used for the general funding purposes of the Group. Details of the Notes are set out in note 25 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in the consolidated statement of changes in equity on pages 44 to 45 and note 27 to the financial statements, respectively.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2006. The net increase in fair value arising on the revaluation, which has been credited directly to the consolidated income statement, amounted to HK\$5,390,000. Details of the investment properties of the Group and the Bank are set out in note 21 to the consolidated financial statements.

PROPERTY AND EQUIPMENT

Details of the movements in the property and equipment of the Group and the Bank are set out in note 22 to the consolidated financial statements.

During the year, a property under development located at 24 Des Voeux Road Central, Hong Kong was completed and transferred from construction in progress to buildings.

SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002. Particulars of the Scheme are set out in note 29 to the consolidated financial statements. No options have been granted under the above-mentioned Scheme since the Scheme was adopted.

DIRECTORS' REPORT

DIRECTORS

The directors of the Bank at the date of this report are:

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA	<i>(Executive Chairman)</i>
Dr LIU Lit Mo, LLD, MBE, JP	<i>(Vice Chairman)</i>
Mr LIU Lit Chi	<i>(Managing Director and Chief Executive Officer)</i>
Mr Don Tit Shing LIU	<i>(Deputy Chief Executive Officer)</i>
Mr Wilfred Chun Ning LIU	
Mr LAU Wai Man	
Mr Frank Shui Sang JIN	
Mr Andrew Chiu Wing TSANG	
Mr George Har Kar WONG	

Non-executive Directors

Mr Timothy George FRESHWATER
Mr Toshiaki ARAI
Mr Andrew LIU
Dr SUN Jiakang
Mr Christopher Kwun Shing LIU
Mr Alfred Cheuk Yu CHOW, JP
Mr WANG Zhi

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP
Mr Wanchai CHIRANAKHORN
Mr CHENG Yuk Wo

DIRECTORS - continued

Article 101 of the Bank's Articles of Association stipulates that, among other things, 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 of the shareholders. Accordingly, Dr Liu Lit Mo, Mr Liu Lit Chi, Mr Don Tit Shing Liu, Mr Toshiaki Arai, Mr Andrew Liu and Mr Wanchai Chiranakhorn shall retire and offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting of the shareholders has a service contract, which is not determinable by the Bank within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2006, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

Interests in securities

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Man	3,447,928	—	239,145,628 <i>Note (1)</i>	242,593,556	55.76863
Liu Lit Mo	1,009,650	—	239,145,628 <i>Note (1)</i>	240,155,278	55.20811
Liu Lit Chi	313,248	—	241,408,839 <i>Notes (1) & (2)</i>	241,722,087	55.56830
Don T S Liu	15,000	—	—	15,000	0.00345
Robin Y H Chan	48,400	—	1,018,000 <i>Note (3)</i>	1,066,400	0.24515
Timothy G Freshwater	396	—	—	396	0.00009
Andrew Liu	60,000	—	—	60,000	0.01379

Notes:

- (1) 239,145,628 shares in the Bank are attributed as follows:
 - (i) 199,145,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45 percent of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
 - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,018,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES - continued

Other interests and short positions in securities

Under the SFO, other than those interests disclosed above, as at 31 December 2006, none of the directors (including the chief executive officer), nor their respective associates, had any other interests (nor any short positions) in any securities (nor in any underlying securities) in the Bank and its associated corporations. Moreover, as at 31 December 2006, none of the directors (including the chief executive officer), nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities in the Bank and its associated corporations, much less had any such rights exercised.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2006, the register maintained under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors (including the chief executive officer), the following parties had interests and short positions in the securities and underlying securities in the Bank:

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Liu Chong Hing Estate Company, Limited	Beneficial owner	199,145,628 <i>Notes (1) and (3)</i>	45.78
Liu Chong Hing Investment Limited	Interest of a controlled corporation	199,145,628 <i>Notes (1) and (3)</i>	45.78
Liu's Holdings Limited	Interest of a controlled corporation	199,145,628 <i>Notes (1) and (3)</i>	45.78
Bauhinia 97 Ltd	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Investment Holdings Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China COSCO Holdings Company Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66
Third Avenue Management LLC	Investment manager	26,241,000 <i>Note (4)</i>	6.03

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES - continued

Notes:

- (1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Liu's Holdings Limited, a private company, has interest in about 45 percent of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 199,145,628 shares in question all relate to the same block of 199,145,628 shares held by Liu Chong Hing Estate.

- (2) China Ocean Shipping (Group) Company has a 63.83 percent interest in China COSCO Holdings Company Limited ("COSCO Holdings"), which in turn wholly owns COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment Holdings"). COSCO Pacific Investment Holdings has a 51.34 percent interest in COSCO Pacific Limited ("COSCO Pacific"). Both COSCO Holdings and COSCO Pacific are public companies listed on the Stock Exchange. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Ltd, which is a company wholly-owned by COSCO Pacific.

- (3) The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ") is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. The references to the 42,000,000 shares in question both relate to the same block of 42,000,000 shares registered in the name of Bank of Tokyo-Mitsubishi UFJ.

Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase 40,000,000 of the 42,000,000 shares in question and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such 40,000,000 shares to Liu Chong Hing Estate in certain circumstances.

- (4) Third Avenue Management LLC ("Third Avenue Management"), a United States based Registered Investment Adviser, acts as an adviser to various portfolios held for the benefit of mutual funds, private partnerships, institutions, and individuals, etc. Third Avenue Management has investment advisory authority over portfolios holding in the aggregate of 26,241,000 shares in the Bank.

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as at 31 December 2006.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than those interests disclosed below under the heading "CONNECTED TRANSACTIONS", no contracts of significance to which the Bank or any of its subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The connected transactions between the Group, Liu Chong Hing Investment Limited and its subsidiaries ("Liu Chong Hing Investment Group") and COSCO Pacific Limited, its subsidiaries, its holding companies and/or its fellow subsidiaries ("COSCO Group") during the year are as follows:

- A. The Bank handled routine banking transactions for the members of the Liu Chong Hing Investment Group. Services provided by the Bank are cheque clearing, current, savings and deposit accounts, remittances, and other banking facilities.
- B. Members of the Group provided securities and futures brokerage, nominee and data processing services to members of the Liu Chong Hing Investment Group.
- C. Liu Chong Hing Investment Limited through its wholly-owned subsidiary, Liu Chong Hing Property Management and Agency Limited, provided property management, property consultancy and property maintenance services to the Bank.
- D. The Bank leased office premises of the Western Harbour Centre, a property owned by the Liu Chong Hing Investment Group. On the other hand, Liu Chong Hing Investment Limited subleased office premises of the Chong Hing Bank Centre from the Bank.
- E. The Bank and its subsidiaries provided banking and related financial services to the COSCO Group including cheque clearing, current and savings accounts and fixed deposits in a number of currencies, foreign exchange, remittances, stockbroking and nominee services. The Bank also provided loan facilities to the COSCO Group on a bilateral basis or through participation in syndicated loans.
- F. In accordance with a sale and purchase agreement dated 16 March 2006 between the Bank and Bonsun Enterprises Limited, a wholly-owned subsidiary of Liu Chong Hing Investment Limited, the Bank acquired a property in Hong Kong from Bonsun Enterprises Limited for a total cash consideration of approximately HK\$13.8 million. The purpose of the transaction was to obtain additional warehousing space for the Bank. The transaction is entered into under normal commercial terms and priced based on relevant market rates at the time of the transaction and is under the same terms as those available to unrelated third parties.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS - continued

Messrs Liu Lit Man, Liu Lit Mo, Liu Lit Chi, Don Tit Shing Liu, Robin Yau Hing Chan, Timothy George Freshwater and Andrew Liu are interested, directly or indirectly, in the respective share capital of Liu Chong Hing Investment Limited and/or the Bank.

The independent non-executive directors confirm that the transactions have been entered into by the Bank in the ordinary course of its business, on normal commercial terms, and in accordance with the terms which are fair and reasonable and in the interests of shareholders of the Bank as a whole.

Pursuant to Rule 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the board of directors engaged the auditors of the Bank to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Bank in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of shareholders of the Bank as a whole.

DECLARATION OF INTERESTS

No directors (other than the independent non-executive directors and Mr Toshiaki Arai, a non-executive director) are interested in any business which may or may not compete, either directly or indirectly, with the business of the Bank.

Mr Toshiaki Arai is the Director, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Limited, Hong Kong Branch.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme disclosed in note 29 to the consolidated financial statements, at no time during the year was the Bank or any of its subsidiaries a party to any arrangements to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$800,000 (2005: HK\$910,000).

COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL FD-1 “FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS”

The Bank has fully complied with the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorised Institutions” which was issued by the Hong Kong Monetary Authority.

EMOLUMENT POLICY

The Bank has set up a Remuneration Committee, responsibilities of which include the reviewing and approving the performance-based remuneration packages payable to directors and senior management, if any, by reference to the Bank’s corporate goals and objectives.

SUFFICIENCY OF PUBLIC FLOAT

The Group has maintained a sufficient public float throughout the year ended 31 December 2006.

AUDITORS

Messrs Deloitte Touche Tohmatsu shall retire at the conclusion of the Bank’s forthcoming annual general meeting. Being eligible, they shall offer themselves for re-appointment as the Bank’s auditors at that meeting.

On behalf of the Board

Liu Lit Man

Executive Chairman

7 March 2007

Corporate Governance Practices

The board of directors of the Bank (the “Board”) is well aware that maintaining good corporate governance standards is important to the effective and efficient operation of the Bank. The Board has therefore adopted and implemented various measures to ensure that a high standard of corporate governance practices is maintained. The directors confirm that, for the financial year ended 31 December 2006, the Bank has complied with 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, 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.

Board and Senior Management Oversight and Risk Management

The Bank, an authorized institution under the Banking Ordinance, is under the supervision of the Hong Kong Monetary Authority. Board and senior management oversight and risk management are key to attaining good standards of corporate governance practices in a banking environment. The Board oversees the Group’s policies, procedures and controls of measuring, monitoring and controlling risks arising from the banking and related financial service businesses. The day-to-day supervision of major functional areas is delegated to various specialised committees comprising directors and senior management members of the Bank. The unaudited supplementary financial information regarding corporate governance, risk management and other financial information disclosed pursuant to the Supervisory Policy Manual FD-1 “Financial Disclosure By Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority provides a detailed report on the Board and senior management oversight and the risk management process.

Directors’ Securities Transactions

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 2006, 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.

CORPORATE GOVERNANCE REPORT

Board of Directors

The Board is composed of the following directors. During the year of 2006, six board meetings were held and the attendance of each director is set out as follows:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Executive Directors		
Mr LIU Lit Man, GBS, JP, FIBA <i>(Executive Chairman)</i>	6 / 6	100%
Dr LIU Lit Mo, LLD, MBE, JP <i>(Vice Chairman)</i>	6 / 6	100%
Mr LIU Lit Chi <i>(Managing Director and Chief Executive Officer)</i>	6 / 6	100%
Mr Don Tit Shing LIU <i>(Deputy Chief Executive Officer)</i>	5 / 6	83.33%
Mr Wilfred Chun Ning LIU	3 / 6	50%
Mr LAU Wai Man	6 / 6	100%
Mr Frank Shui Sang JIN	6 / 6	100%
Mr Andrew Chiu Wing TSANG	6 / 6	100%
Mr George Har Kar WONG	6 / 6	100%
Non-executive Directors		
Mr Timothy George FRESHWATER	5 / 6	83.33%
Mr Toshiaki ARAI	4 / 6	66.67%
Mr Andrew LIU	3 / 6	50%
Dr SUN Jiakang	5 / 6	83.33%
Mr Christopher Kwun Shing LIU	5 / 6	83.33%
Mr Alfred Cheuk Yu CHOW, JP	5 / 6	83.33%
Mr WANG Zhi	4 / 6	66.67%
Independent Non-executive Directors		
Dr Robin Yau Hing CHAN, GBS, LLD, JP	5 / 6	83.33%
Mr Wanchai CHIRANAKHORN	6 / 6	100%
Mr CHENG Yuk Wo	5 / 6	83.33%

CORPORATE GOVERNANCE REPORT

The Board, constituted in accordance with the Bank's Articles of Associations for the time being in force, is the ultimate governing body of the Bank responsible for setting the Bank's strategic goals and policies; monitoring management performance against the achievement of such goals and the compliance with such policies; filling senior management positions and reviewing succession plans for such positions; ensuring that a proper system of internal controls exists; and accounting for the Bank's operations.

The day-to-day operations of the Bank are mainly managed by various specialised committees, as well as different divisions and departments reporting to the Managing Director and Chief Executive Officer, while the Board remains ultimately responsible for the Bank's operations and affairs.

Board meetings are usually scheduled a year in advance. At least 7 days' notice of board meetings is normally given to directors. The Executive Chairman sets the agenda for board meetings. The views of the directors, as expressed in the board meetings, on matters brought to their attention are duly minuted. Minutes of every board meeting are circulated to all directors for comment before they are confirmed at the next board meeting.

Directors are entitled to have access to board papers and any other related materials, and may seek external professional advice, as they see fit, so as to keep themselves abreast of the latest relevant development of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other applicable rules and regulations with an eye to ensuring better compliance and meeting better corporate governance standards.

The Bank has received, from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Bank considers all of its independent non-executive directors to be independent.

As to the nomination of candidates for appointment to the Board, instead of having a nomination committee in place, any director is entitled to recommend for the consideration and, if thought fit, approval of the Board suitable candidates who can contribute to the Bank, discharge their responsibilities in the interests of the Bank and its shareholders as a whole, and meet the requirements of The Stock Exchange of Hong Kong Limited and the Hong Kong Monetary Authority for appointment as directors.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Mr Liu Lit Man is the Executive Chairman of the Bank and Mr Liu Lit Chi is its Managing Director and Chief Executive Officer. The roles and responsibilities of the Executive Chairman and the Managing Director and Chief Executive Officer are separate. They are assumed by two different individuals. The Executive Chairman is responsible for the management of the Board, while the Managing Director and Chief Executive Officer is charged with the responsibilities to manage the day-to-day business of the Bank.

Auditors' Remuneration

The remuneration paid and payable to the Group's auditors, Messrs. Deloitte Touche Tohmatsu, for 2006 amounted to:

	HKD
Audit services	3,200,000
Interim review	353,346
Tax, information technology and regulatory consulting	120,000
Corporate finance	<u>703,107</u>
Total	<u><u>4,376,453</u></u>

Remuneration Committee

The Remuneration Committee comprises two independent non-executive directors and one non-executive director appointed by the Board.

The Remuneration Committee reviews and makes recommendations to the Board on the remuneration policy applicable to directors and senior management of the Bank, and ensures that the Bank is able to attract, retain, and motivate a high-calibre team of senior executives which is essential to the success of the Bank. The terms of reference of the Remuneration Committee sets out its roles.

The Remuneration Committee meets at least twice a year. During the year of 2006, two meetings were held and the attendance of each member is set out as follows:

Name of Member	Number of Committee	
	Meetings Attended	Attendance Rate
Mr Wanchai CHIRANAKHORN (Chairman)	2 / 2	100%
Mr CHENG Yuk Wo	2 / 2	100%
Mr Alfred Cheuk Yu CHOW, JP	2 / 2	100%

CORPORATE GOVERNANCE REPORT

The Remuneration Committee is provided with sufficient resources to discharge its duties and the following is a summary of the work of the Remuneration Committee during 2006:

- (i) discussion and review of the current remuneration policy and structure applicable to all employees as a whole;
- (ii) discussion and review of the directors' fees;
- (iii) discussion and review of the benefits in kind, including housing benefits and the use of Bank-owned motor vehicle with provision of drivers, applicable to the Chairman, Managing Director and Chief Executive Director, and Deputy Chief Executive Officer; and
- (iv) discussion and study the possibility of applying performance based incentive reward scheme to motivate the performing staff.

The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 11 to the financial statements.

Audit Committee

The Audit Committee comprises two independent non-executive directors and one non-executive director who possess the appropriate professional expertise and experience in financial management and business. The Audit Committee is chaired by Mr Cheng Yuk Wo and the other members are Mr Wanchai Chiranakhorn and Mr Alfred Cheuk Yu Chow.

Under its terms of reference, the Audit Committee is required, among other things, to oversee the relationship with the external auditors, to advise the Board on the appointment and retention of the external auditors, to review the external auditors' independence and objectivity, to oversee the relationship with the external auditors, to review the half-yearly and annual reports and accounts, to review the external auditors' management letter, to hold meetings with the Hong Kong Monetary Authority, to assess the adequacy and effectiveness of the Bank's systems of internal control, to review the internal audit function, and to review and recommend internal procedures to ensure compliance with regulatory requirements and generally accepted accounting standards.

CORPORATE GOVERNANCE REPORT

The Audit Committee shall meet at least twice a year. During the year of 2006, the Audit Committee held four meetings and record of individual attendance of members is set out as follows:

Name of Member	Number of Committee Meetings Attended	Attendance Rate
Mr CHENG Yuk Wo <i>(Chairman)</i>	4 / 4	100%
Mr Wanchai CHIRANAKHORN	4 / 4	100%
Mr Alfred Cheuk Yu CHOW, JP	4 / 4	100%

To discharge its responsibilities, the Audit Committee performed the following major reviews in 2006:

Financial Statements

The Audit Committee met with the external auditors and the executive director in charge of Finance and Treasury Management Division to discuss the accounts for the year ended 31 December 2005 and for the six months ended 30 June 2006. The Audit Committee reviewed and discussed with the external auditors to ensure that the Bank's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

Relationship with the External Auditors

The Audit Committee reviewed the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors for the Board's approval. Moreover, the Audit Committee met and discussed with the external auditors on their audit strategy and assessment of the sufficiency of the internal control of the Bank.

Internal Control Review

The Audit Committee also reviewed the internal control issues and the internal audit function of the Bank, covering the annual audit plan, the staffing and resources of Internal Audit Department, the audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations.

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF CHONG HING BANK LIMITED
(FORMERLY KNOWN AS LIU CHONG HING BANK LIMITED)
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Chong Hing Bank Limited (the “Bank”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 41 to 110, which comprise the consolidated and Bank balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2006 and of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

7 March 2007

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CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	2006 HK\$'000	2005 HK\$'000
Interest income		2,740,518	1,719,338
Interest expense		<u>(1,911,979)</u>	<u>(966,486)</u>
Net interest income	8	828,539	752,852
Other operating income	9	<u>301,689</u>	<u>217,129</u>
Operating income		1,130,228	969,981
Operating expenses	10	<u>(591,537)</u>	<u>(493,129)</u>
Operating profit before impairment allowances, fair value adjustments and net (loss) gain on disposal		538,691	476,852
Impairment allowances on loans and advances	18	(59,801)	(67,807)
Net (loss) gain on disposal of property and equipment		(913)	1,150
Net gain on disposal of available-for-sale securities		54,001	47,534
Net gain on fair value adjustment on investment properties	21	5,390	7,500
Net loss on liquidation of a subsidiary	32	<u>–</u>	<u>(4)</u>
Profit from operations		537,368	465,225
Share of profit of jointly controlled entities		<u>33,546</u>	<u>3,576</u>
Profit before taxation		570,914	468,801
Taxation	12	<u>(67,770)</u>	<u>(70,818)</u>
Profit for the year		<u>503,144</u>	<u>397,983</u>
Dividends	13	<u>265,350</u>	<u>252,300</u>
Earnings per share, basic and diluted	14	<u>HK\$1.16</u>	<u>HK\$0.91</u>

CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Assets			
Cash and short-term funds	15	16,256,859	11,798,479
Placements with banks and other financial institutions maturing between one to twelve months		2,638,461	2,029,416
Derivative financial instruments	16	4,962	45,607
Financial assets at fair value through profit or loss	17	610,811	809,160
Available-for-sale securities	17	1,098,141	801,769
Held-to-maturity securities	17	13,903,173	9,192,906
Advances and other accounts	18	27,497,020	24,508,061
Interests in jointly controlled entities	20(i)	99,256	65,710
Loan to a jointly controlled entity	20(ii)	31,000	31,000
Investment properties	21	82,250	76,860
Property and equipment	22	380,825	196,760
Prepaid lease payments for land	23	316,535	300,969
Deferred tax assets	28	–	6,449
Goodwill	33	110,606	110,606
Total assets		63,029,899	49,973,752
Liabilities			
Deposits and balances of banks and other financial institutions		528,993	2,263,504
Deposits from customers	24	54,675,232	41,506,292
Derivative financial instruments	16	1,716	–
Other accounts and accruals		754,550	340,496
Current tax liabilities		22,463	30,324
Loan capital	25	967,376	–
Deferred tax liabilities	28	27,839	–
Total liabilities		56,978,169	44,140,616
Shareholders' equity			
Share capital	26	217,500	217,500
Reserves		5,834,230	5,615,636
Shareholders' funds		6,051,730	5,833,136
Total liabilities and shareholders' equity		63,029,899	49,973,752

The consolidated financial statements on pages 41 to 110 were approved and authorised for issue by the Board of Directors on 7 March 2007 and signed on its behalf by:

Liu Lit Man, *Executive Chairman*

Liu Lit Mo, *Vice Chairman-Executive Director*

Frank S S Jin, *Executive Director*

Michael K W Yeung, *Company Secretary*

	Note	2006 HK\$'000	2005 HK\$'000
Assets			
Cash and short-term funds	15	16,208,174	11,761,605
Placements with banks and other financial institutions maturing between one to twelve months		2,638,461	2,029,416
Derivative financial instruments	16	4,962	45,607
Financial assets at fair value through profit or loss	17	610,388	808,598
Available-for-sale securities	17	916,433	676,491
Held-to-maturity securities	17	13,903,173	9,192,906
Advances and other accounts	18	27,201,853	24,427,040
Investments in subsidiaries	19(i)	363,323	792,484
Amounts due from subsidiaries	19(ii)	4,677	33,305
Interests in jointly controlled entities	20(i)	56,500	56,500
Loan to a jointly controlled entity	20(ii)	31,000	31,000
Investment properties	21	64,250	58,860
Property and equipment	22	372,115	152,107
Prepaid lease payments for land	23	842,475	217,931
Deferred tax assets	28	–	6,443
Total assets		63,217,784	50,290,293
Liabilities			
Deposits and balances of banks and other financial institutions		528,993	2,263,504
Deposits from customers	24	54,671,174	41,502,136
Amounts due to subsidiaries	36	616,592	426,081
Derivative financial instruments	16	1,716	–
Other accounts and accruals		435,963	247,827
Current tax liabilities		14,497	31,365
Loan capital	25	967,376	–
Deferred tax liabilities	28	13,317	–
Total liabilities		57,249,628	44,470,913
Shareholders' equity			
Share capital	26	217,500	217,500
Reserves	27	5,750,656	5,601,880
Shareholders' funds		5,968,156	5,819,380
Total liabilities and shareholders' equity		63,217,784	50,290,293

Approved and authorised for issue by the Board of Directors on 7 March 2007 and signed on its behalf by:

Liu Lit Man, *Executive Chairman*

Liu Lit Mo, *Vice Chairman-Executive Director*

Frank S S Jin, *Executive Director*

Michael K W Yeung, *Company Secretary*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

	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
THE GROUP									
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 (<i>Note 28</i>)	-	-	-	(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 reserves 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	-	-	-	-	-	-	-	(82,650)	(82,650)
Final dividend paid for financial year 2005	-	-	-	-	-	-	-	(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>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

	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
THE GROUP									
At 1 January 2005	217,500	1,542,817	(182)	130,689	1,388,500	(26)	103,883	2,273,501	5,656,682
Revaluation gains, net	-	-	-	79,970	-	-	-	-	79,970
Exchange differences arising from translation of foreign operations	-	-	-	-	-	(1,665)	-	-	(1,665)
Net income recognised directly in equity	-	-	-	79,970	-	(1,665)	-	-	78,305
Profit for the year	-	-	-	-	-	-	-	397,983	397,983
Reversal of reserves upon disposal	-	-	-	(47,534)	-	-	-	-	(47,534)
Total recognised income for the year	-	-	-	32,436	-	(1,665)	-	397,983	428,754
Interim dividend paid for financial year 2005	-	-	-	-	-	-	-	(78,300)	(78,300)
Final dividend paid for financial year 2004	-	-	-	-	-	-	-	(174,000)	(174,000)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	18,954	(18,954)	-
At 31 December 2005	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>163,125</u>	<u>1,388,500</u>	<u>(1,691)</u>	<u>122,837</u>	<u>2,400,230</u>	<u>5,833,136</u>

The retained profits of the Group included accumulated profits of HK\$18,497,000 (2005: accumulated losses of HK\$15,049,000) retained by the jointly controlled entities of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority.

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

	2006 HK\$'000	2005 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	570,914	468,801
Adjustments for:		
Net loss (gain) on disposal of property and equipment	913	(1,150)
Net loss on liquidation of a subsidiary	–	4
Net gain on disposal of available-for-sale securities	(54,001)	(47,534)
Impairment allowances on loans and advances	59,801	67,807
Dividend income	(13,543)	(10,243)
Share of profit of jointly controlled entities	(33,546)	(3,576)
Net gain from fair value adjustment on investment properties	(5,390)	(7,500)
Depreciation	30,535	35,605
Amortisation of prepaid lease payments for land	5,114	5,063
Interest income from held-to-maturity securities and available-for-sale securities	(455,581)	(223,118)
Interest expense on loan capital	2,952	–
Exchange adjustments	1,873	(1,665)
Operating cash flows before movements in operating assets and liabilities	110,041	282,494
Increase in interest receivable and other accounts	(322,242)	(15,765)
Increase in other accounts and accruals	411,166	33,426
Increase in placements with banks and other financial institutions with original maturity over three months	(777,531)	(347,769)
(Increase) decrease in exchange fund bills with original maturity over three months	(127,460)	110,559
(Increase) decrease in money at call and short notice with original maturity over three months	(1,753,156)	130,932
(Increase) decrease in bills receivable	(154,655)	79,011
Increase in trade bills	(9,788)	(42,183)
Increase in other advances to customers	(2,523,220)	(4,155,297)
(Increase) decrease in advances to banks and other financial institutions	(216)	1,003
(Decrease) increase in deposits and balances of banks and other financial institutions with original maturity over three months	(19,177)	99,219
Decrease (increase) in financial assets at fair value through profit or loss	198,349	(111,817)
Decrease in derivative financial instruments	42,361	–
Increase in deposits from customers	13,168,940	7,554,661
Cash generated from operations	8,243,412	3,618,474
Hong Kong Profits Tax paid	(67,618)	(56,549)
Overseas tax paid	(850)	(797)
NET CASH GENERATED FROM OPERATING ACTIVITIES	8,174,944	3,561,128

CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	2006 HK\$'000	2005 HK\$'000
INVESTING ACTIVITIES			
Interest received on held-to-maturity securities and available-for-sale securities		416,922	146,285
Dividends received on equity securities		13,543	10,243
Purchase of held-to-maturity securities		(15,680,153)	(8,419,804)
Purchase of available-for-sale securities		(340,798)	(191,591)
Purchase of property and equipment		(215,748)	(44,633)
Lease prepayment for land		(20,680)	–
Purchase of a subsidiary	31	–	(122,959)
Cash outflow on liquidation of a subsidiary	32	–	(46)
Proceeds from redemption of held-to-maturity securities		10,969,886	3,205,017
Proceeds from sale and redemption of available-for-sale securities		104,813	69,785
Proceeds from disposals of property and equipment		233	4,198
NET CASH GENERATED USED IN INVESTING ACTIVITIES		(4,751,982)	(5,343,505)
CASH USED IN FINANCING ACTIVITIES			
Net proceeds from issue of loan capital		967,000	–
Dividends paid		(265,350)	(252,300)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		701,650	(252,300)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,124,612	(2,034,677)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		9,990,602	12,025,279
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by			
Cash and balances with banks and other financial institutions		997,461	1,010,669
Money at call and short notice		14,744,553	10,301,297
Exchange fund bills		514,845	486,513
Placements with banks and other financial institutions maturing between one to twelve months		2,638,461	2,029,416
Deposits and balances of banks and other financial institutions		(528,993)	(2,263,504)
Less: Amounts with original maturity over three months		(4,251,113)	(1,573,789)
		14,115,214	9,990,602

1. GENERAL

The Bank is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited. The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is disclosed in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Bank.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group and the Bank have applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) - INT 8	Scope of HKFRS 2 ³
HK(IFRIC) - INT 9	Reassessment of embedded derivatives ⁴
HK(IFRIC) - INT 10	Interim financial reporting and impairment ⁵
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions ⁶

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiary companies are companies in which the Group has the power to govern the financial and operating policies to obtain benefits from its activities and this is generally accompanied by a shareholding of more than one half of the voting rights.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries are stated in the Bank's balance sheet at cost less provision for impairment losses. The results of subsidiary companies are accounted for by the Bank on the basis of dividends received or receivable.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2005 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. Such goodwill (net of cumulative amortisation as at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which goodwill relates may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill - continued

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Interest income and expenses

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Fees and commission income are accounted for in the period when earned, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

Premium income

Premium income from insurance underwriting is recognised as income when the risk of an insurance policy is inception.

Dividend income

Dividend income from investments in equity securities is recognised when the Group's right to receive payment has been established.

Property and equipment

Leasehold buildings and equipment are stated at cost less subsequent depreciation and impairment losses.

Depreciation is provided to write off the cost of leasehold buildings and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment - continued

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised on a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments for land

Leasehold premises held for own use is split into a lease of land and building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prepaid lease payments are stated at cost and amortised over the period of the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Bank's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out with sufficient regularity. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

All borrowing costs are recognised as an included in interest expenses in the consolidated income statement in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's and the Bank's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including cash and short term funds, placements with and advances to banks and other financial institutions, interest receivable, bills receivables, trade bills and loans and advances to customers, loan to a jointly controlled entity and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in profit or loss when there is objective evidence of impairment as a result of the occurrence of loss events that will impact on the estimated future cash flows.

Individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables - continued

On collective impairment, individually insignificant advances or advances where no impairment has been identified individually are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment allowances are reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement.

When a loan is uncollectable, it is written off against the related allowances for loan impairment when all collateral has been realised and further recoveries are considered unlikely. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities, including deposits and balances of banks and other financial institutions and deposits from customers, amounts due to subsidiaries and loan capital are subsequently measured at amortised cost, using the effective interest rate method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other Standard.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Fiduciary assets

The assets held in trust in a fiduciary capacity are not assets of the Group and accordingly are not included in the financial statements.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, balances with banks and other financial institutions, treasury bills and other eligible bills.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY

Key sources of estimation

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

(a) Impairment allowances on loans and advances

The Group establishes, through charges against profit, impairment allowances in respect of estimated incurred loss in loans and advances. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances represent the aggregate amount by which management considers necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated net recoverable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation - continued

(a) Impairment allowances on loans and advances - continued

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. (see note 18)

(b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

(c) Estimated impairment of goodwill

According to HKAS 36, impairment loss is made when the carrying amount of an asset exceeds its recoverable amount, which is calculated at the higher of the fair value less costs to sell and value in use.

For 2006, management reviewed goodwill by comparing its carrying amount and fair value less costs to sell. The fair value was determined by reference to the average price to earnings ratio of other insurance companies listed on The Stock Exchange of Hong Kong Limited.

In the opinion of management, no impairment loss has arisen on the goodwill as at the balance sheet date as the fair value less costs to sell exceeds its carrying amount. (see note 33)

(d) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. (see note 17)

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY - continued

Key sources of judgment

In the process of applying the Group's accounting policies which are described in note 4, management has made the following judgments that have significant effect on the amounts recognised in the financial statements.

Held-to-maturity investments

The Group classified certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

6. 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 financial services business. 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 financial 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 financial services business activities of the Group include investment holding, insurance, other investment advisory services and property investment.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued**(a) Business segments - continued**

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

INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities HK\$'000	Eliminations HK\$'000	Consolidated 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 income (note)	868,714	-	-	-	(868,714)	-
Inter-segment expenses (note)	-	(868,714)	-	-	868,714	-
Net interest income	493,326	330,435	4,778	-	-	828,539
Other operating income	125,235	41,682	78,603	56,169	-	301,689
Operating income	618,561	372,117	83,381	56,169	-	1,130,228
Impairment allowances on loans and advances	(59,801)	-	-	-	-	(59,801)
Net loss on disposals of property and equipment	(913)	-	-	-	-	(913)
Net gain on disposals of available-for-sale securities	-	-	-	54,001	-	54,001
Net gain on fair value adjustment on investment properties	-	-	-	5,390	-	5,390
Operating expenses	(343,071)	(24,472)	(30,748)	(19,977)	-	(418,268)
Segment profit	214,776	347,645	52,633	95,583	-	710,637
Unallocated corporate expenses						(173,269)
Profit from operations						537,368
Share of profit of jointly controlled entities				33,546		33,546
Profit before taxation						570,914
Taxation						(67,770)
Profit for the year						503,144

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

(i) Segment information about these businesses as at 31 December 2006 is presented below:

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities 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 financial services business activities 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	3,490	-	113	5	1,506	5,114

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued**(a) Business segments - continued**

(ii) Segment information about these businesses for the year ended 31 December 2005 is presented below:

INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	997,780	721,558	-	-	-	1,719,338
Interest expenses to external customers	(914,949)	(51,537)	-	-	-	(966,486)
Inter-segment income (note)	333,259	-	-	-	(333,259)	-
Inter-segment expenses (note)	-	(333,259)	-	-	333,259	-
Net interest income	416,090	336,762	-	-	-	752,852
Other operating income	74,945	27,737	45,683	68,764	-	217,129
Operating income	491,035	364,499	45,683	68,764	-	969,981
Impairment allowances on loans and advances	(67,807)	-	-	-	-	(67,807)
Net (loss) gain on disposals of property and equipment	(909)	-	-	2,059	-	1,150
Net gain on disposals of available-for-sale securities	-	-	-	47,534	-	47,534
Net loss on liquidation of a subsidiary	-	-	-	(4)	-	(4)
Net gain on fair value adjustment on investment properties	-	-	-	7,500	-	7,500
Operating expenses	(324,108)	(19,445)	(26,719)	(1,171)	-	(371,443)
Segment profit	98,211	345,054	18,964	124,682	-	586,911
Unallocated corporate expenses						(121,686)
Profit from operations						465,225
Share of profit of jointly controlled entities				3,576		3,576
Profit before taxation						468,801
Taxation						(70,818)
Profit for the year						397,983

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

(ii) Segment information about these businesses as at 31 December 2005 is presented below:

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	25,043,584	23,035,716	46,804	1,521,304	49,647,408
Interests in jointly controlled entities	–	–	–	65,710	65,710
Loan to a jointly controlled entity	–	–	–	31,000	31,000
Unallocated corporate assets					229,634
Consolidated total assets					<u>49,973,752</u>
Liabilities					
Segment liabilities	42,035,905	1,733,891	39,362	52,699	43,861,857
Unallocated corporate liabilities					278,759
Consolidated total liabilities					<u>44,140,616</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	17,092	118	372	1,583	26,236	45,401
Depreciation	18,438	312	193	1,816	14,846	35,605
Amortisation	3,751	–	–	–	1,312	5,063

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued**(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 2005 and 2006, around 90% of the Group's revenue 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.

Details of geographical segmentation are set out below.

	2006					
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Capital expenditure during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	1,130,228	570,914	63,029,899	56,978,169	12,151,869	236,428
	2005					
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Capital expenditure during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	921,944	448,116	46,976,330	41,530,478	9,515,592	44,823
Asia Pacific (excluding Hong Kong)	16,494	19,035	2,304,042	1,989,216	45,648	532
America	31,543	1,650	693,380	620,922	48,488	46
Total	969,981	468,801	49,973,752	44,140,616	9,609,728	45,401

7. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments, including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer period at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group also trades in financial instruments where it takes positions in traded instruments to take advantage of short-term market movements in equities. The Board of Directors places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. The Group's business activities involve the use of financial instruments, including derivatives. These activities expose the Group to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and credit commitment granted. Impairment allowances are made for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Group's lending policy sets out in detail the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established by reference to the requirements and provisions of the Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority.

Day-to-day credit management is performed by the Loan Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loan Committee are reviewed regularly by the Executive Loans Committee comprising executive directors.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a quarter or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Derivatives

The Group does not carry interest and foreign exchange rate positions on its trading book. The derivatives are used to manage the Group's own exposures to market risks as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are over-the-counter derivatives. Most of the Group's foreign exchange rate and interest rate contracts have been entered into to meet customer demand and manage the Group's own risk.

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which is generally only a small fraction of the nominal value of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

(b) Credit-related commitments - continued

Commitments to extend credit represent unused portions of authorisation to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Although the Group's business segments are managed on a worldwide basis, their operations are mainly in East Asia. The Group's exposure to credit risk is concentrated in these areas.

Hong Kong is the home territory of the Bank, which is also the main operating entity. The areas of operation include all the primary business segments. As a well-established bank in Hong Kong, the Group accounts for a significant share of credit exposure to many sectors of the economy. However, credit risk is spread over a diversity of personal and commercial customers.

With the exception of Hong Kong, no other individual location contributed more than 10% of consolidated income or assets.

Foreign exchange risk

The Group and the Bank do not have any significant foreign exchange risk as foreign exchange dealing is moderate. Structural foreign exchange exposure arising from investments in foreign branches and subsidiaries is accounted for in the translation reserve account. Day-to-day foreign exchange management is performed by the Treasury Management Department within approved limits.

The Group and the Bank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Off-balance sheet notional position represents the contractual amounts of foreign currencies bought and sold under foreign exchange contracts. Bought currency is represented by positive amount and sold currency is represented by negative amount.

7. FINANCIAL RISK MANAGEMENT - continued**Foreign exchange risk - continued**

The following table indicates the assets and liabilities denominated in the respective currencies at the balance sheet date:

THE GROUP

	HK\$	US\$	MOP	Others	Total
Hong Kong dollars equivalents (HK\$'000)					
At 31 December 2006					
Assets					
Cash and short term funds	8,954,099	4,007,904	71,684	3,223,172	16,256,859
Placements with banks and other financial institutions	2,140,000	388,925	–	109,536	2,638,461
Derivative financial instruments	4,962	–	–	–	4,962
Financial assets at fair value through profit or loss	251,962	358,849	–	–	610,811
Available-for-sale securities	362,256	595,024	–	140,861	1,098,141
Held-to-maturity securities	7,483,646	6,011,026	–	408,501	13,903,173
Advances to customers	24,963,656	1,529,678	35,964	345,240	26,874,538
Other assets	1,558,918	67,835	148	16,053	1,642,954
Total assets	<u>45,719,499</u>	<u>12,959,241</u>	<u>107,796</u>	<u>4,243,363</u>	<u>63,029,899</u>
Liabilities					
Deposits and balances of banks and other financial institutions	95,803	352,218	–	80,972	528,993
Deposits from customers	38,855,766	11,297,915	46,722	4,474,829	54,675,232
Derivative financial instruments	1,716	–	–	–	1,716
Loan capital	(4,624)	972,000	–	–	967,376
Other liabilities	720,559	62,909	3,107	18,277	804,852
Total liabilities	<u>39,669,220</u>	<u>12,685,042</u>	<u>49,829</u>	<u>4,574,078</u>	<u>56,978,169</u>
Net on-balance sheet position	<u>6,050,279</u>	<u>274,199</u>	<u>57,967</u>	<u>(330,715)</u>	<u>6,051,730</u>
Off-balance sheet notional position	<u>(76,456)</u>	<u>(270,227)</u>	<u>–</u>	<u>346,683</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. FINANCIAL RISK MANAGEMENT - continued

Foreign exchange risk - continued

THE GROUP

	HK\$	US\$	MOP	Others	Total
Hong Kong dollars equivalents (HK\$'000)					
At 31 December 2005					
Assets					
Cash and short term funds	5,251,903	2,506,891	87,567	3,952,118	11,798,479
Placements with banks and other financial institutions	1,310,000	391,633	–	327,783	2,029,416
Derivative financial instruments	45,607	–	–	–	45,607
Financial assets at fair value through profit or loss	418,003	391,157	–	–	809,160
Available-for-sale securities	358,900	315,839	–	127,030	801,769
Held-to-maturity securities	4,707,785	4,283,575	–	201,546	9,192,906
Advances to customers	22,538,378	1,408,392	44,955	304,919	24,296,644
Other assets	893,953	91,112	191	14,515	999,771
Total assets	<u>35,524,529</u>	<u>9,388,599</u>	<u>132,713</u>	<u>4,927,911</u>	<u>49,973,752</u>
Liabilities					
Deposits and balances of banks and other financial institutions	1,554,492	622,000	–	87,012	2,263,504
Deposits from customers	28,069,955	8,601,850	72,446	4,762,041	41,506,292
Other liabilities	295,027	28,071	1,559	46,163	370,820
Total liabilities	<u>29,919,474</u>	<u>9,251,921</u>	<u>74,005</u>	<u>4,895,216</u>	<u>44,140,616</u>
Net on-balance sheet position	<u>5,605,055</u>	<u>136,678</u>	<u>58,708</u>	<u>32,695</u>	<u>5,833,136</u>
Off-balance sheet notional position	<u>151,629</u>	<u>(129,072)</u>	<u>(4,004)</u>	<u>(18,553)</u>	<u>–</u>

7. FINANCIAL RISK MANAGEMENT - continued

Foreign exchange risk - continued

THE BANK

	HK\$	US\$	MOP	Others	Total
Hong Kong dollars equivalents (HK\$'000)					
At 31 December 2006					
Assets					
Cash and short term funds	8,905,413	4,007,904	71,684	3,223,173	16,208,174
Placements with banks and other financial institutions	2,140,000	388,925	–	109,536	2,638,461
Derivative financial instruments	4,962	–	–	–	4,962
Financial assets at fair value through profit or loss	251,539	358,849	–	–	610,388
Available-for-sale securities	180,547	595,024	–	140,862	916,433
Held-to-maturity securities	7,483,646	6,011,026	–	408,501	13,903,173
Advances to customers	24,961,935	1,529,678	35,964	345,241	26,872,818
Other assets	1,979,414	67,835	148	15,978	2,063,375
Total assets	<u>45,907,456</u>	<u>12,959,241</u>	<u>107,796</u>	<u>4,243,291</u>	<u>63,217,784</u>
Liabilities					
Deposits and balances of banks and other financial institutions	95,803	352,218	–	80,972	528,993
Deposits from customers	38,851,708	11,297,915	46,722	4,474,829	54,671,174
Derivative financial instruments	1,716	–	–	–	1,716
Loan capital	(4,624)	972,000	–	–	967,376
Other liabilities	996,148	62,909	3,107	18,205	1,080,369
Total liabilities	<u>39,940,751</u>	<u>12,685,042</u>	<u>49,829</u>	<u>4,574,006</u>	<u>57,249,628</u>
Net on-balance sheet position	<u>5,966,705</u>	<u>274,199</u>	<u>57,967</u>	<u>(330,715)</u>	<u>5,968,156</u>
Off-balance sheet notional position	<u>(76,456)</u>	<u>(270,227)</u>	<u>–</u>	<u>346,683</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. FINANCIAL RISK MANAGEMENT - continued

Foreign exchange risk - continued

THE BANK

	HK\$	US\$	MOP	Others	Total
At 31 December 2005					
Assets					
Cash and short term funds	5,215,029	2,506,891	87,567	3,952,118	11,761,605
Placements with banks and other financial institutions	1,310,000	391,633	–	327,783	2,029,416
Derivative financial instruments	45,607	–	–	–	45,607
Financial assets at fair value through profit or loss	417,440	391,158	–	–	808,598
Available-for-sale securities	233,622	315,839	–	127,030	676,491
Held-to-maturity securities	4,707,785	4,283,575	–	201,546	9,192,906
Advances to customers	22,535,404	1,408,392	44,955	304,919	24,293,670
Other assets	<u>1,376,184</u>	<u>91,112</u>	<u>191</u>	<u>14,513</u>	<u>1,482,000</u>
Total assets	<u>35,841,071</u>	<u>9,388,600</u>	<u>132,713</u>	<u>4,927,909</u>	<u>50,290,293</u>
Liabilities					
Deposits and balances of banks and other financial institutions	1,554,492	622,000	–	87,012	2,263,504
Deposits from customers	28,065,800	8,601,850	72,446	4,762,040	41,502,136
Other liabilities	<u>629,479</u>	<u>28,071</u>	<u>1,559</u>	<u>46,164</u>	<u>705,273</u>
Total liabilities	<u>30,249,771</u>	<u>9,251,921</u>	<u>74,005</u>	<u>4,895,216</u>	<u>44,470,913</u>
Net on-balance sheet position	<u>5,591,300</u>	<u>136,679</u>	<u>58,708</u>	<u>32,693</u>	<u>5,819,380</u>
Off-balance sheet notional position	<u>151,629</u>	<u>(129,072)</u>	<u>(4,004)</u>	<u>(18,553)</u>	<u>–</u>

7. FINANCIAL RISK MANAGEMENT - continued

Cash flow and fair value interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items - repricing analysis

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Bank take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The Group and the Bank do not carry interest rate positions on its trading book. Certain interest rate contracts entered into to manage the Group's and the Bank's own risk are classified as trading securities under the requirements of HKAS 39. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

The tables below summarise the Group's and the Bank's exposure to interest rate risks. Included in the tables are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. FINANCIAL RISK MANAGEMENT - continued

Cash flow and fair value interest rate risk - continued

THE GROUP

	Weighted average effective interest rate %	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
At 31 December 2006							
Assets							
Cash and short term funds	4.58	15,656,479	232,315	-	-	368,065	16,256,859
Placements with banks and other financial institutions	4.34	2,453,461	185,000	-	-	-	2,638,461
Derivative financial instruments	-	-	-	-	-	4,962	4,962
Financial assets at fair value through profit or loss	3.92	184,439	100,682	220,442	-	105,248	610,811
Available-for-sale securities	2.45	417,620	46,677	7,779	-	626,065	1,098,141
Held-to-maturity securities	4.60	8,515,698	1,839,437	3,545,844	-	2,194	13,903,173
Advances to customers	5.49	25,553,255	801,250	39,650	2,925	477,458	26,874,538
Other assets	4.03	56,000	-	-	-	1,586,954	1,642,954
Total assets		<u>52,836,952</u>	<u>3,205,361</u>	<u>3,813,715</u>	<u>2,925</u>	<u>3,170,946</u>	<u>63,029,899</u>
Liabilities							
Deposits and balances of banks and other financial institutions	4.25	516,125	-	-	-	12,868	528,993
Deposits from customers	3.77	49,081,782	2,911,570	194,021	-	2,487,859	54,675,232
Derivative financial instruments	-	-	-	-	-	1,716	1,716
Loan capital	6.32	967,376	-	-	-	-	967,376
Other liabilities	-	-	-	-	-	804,852	804,852
Total liabilities		<u>50,565,283</u>	<u>2,911,570</u>	<u>194,021</u>	<u>-</u>	<u>3,307,295</u>	<u>56,978,169</u>
Total interest sensitivity gap		<u>2,271,669</u>	<u>293,791</u>	<u>3,619,694</u>	<u>2,925</u>	<u>(136,349)</u>	<u>6,051,730</u>

7. FINANCIAL RISK MANAGEMENT - continued

Cash flow and fair value interest rate risk - continued

THE GROUP - continued

	Weighted average effective interest rate %	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
At 31 December 2005							
Assets							
Cash and short term funds	4.32	10,769,415	99,501	228,835	10,000	690,728	11,798,479
Placements with banks and other financial institutions	4.52	2,029,416	-	-	-	-	2,029,416
Derivative financial instruments	-	-	-	-	-	45,607	45,607
Financial assets at fair value through profit or loss	4.50	565,737	-	203,047	-	40,376	809,160
Available-for-sale securities	2.28	-	278,397	-	-	523,372	801,769
Held-to-maturity securities	4.15	5,947,792	1,124,606	2,118,410	98	2,000	9,192,906
Advances to customers	5.44	24,001,286	267,240	24,981	3,137	-	24,296,644
Other assets	-	-	-	-	-	999,771	999,771
Total assets		43,313,646	1,769,744	2,575,273	13,235	2,301,854	49,973,752
Liabilities							
Deposits and balances of banks and other financial institutions	4.14	2,256,977	-	-	-	6,527	2,263,504
Deposits from customers	3.64	37,413,235	1,676,101	267,837	-	2,149,119	41,506,292
Other liabilities	-	-	-	-	-	370,820	370,820
Total liabilities		39,670,212	1,676,101	267,837	-	2,526,466	44,140,616
Total interest sensitivity gap		3,643,434	93,643	2,307,436	13,235	(224,612)	5,833,136

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. FINANCIAL RISK MANAGEMENT - continued

Cash flow and fair value interest rate risk - continued

THE BANK

	Weighted average effective interest rate %	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
At 31 December 2006							
Assets							
Cash and short term funds	4.57	15,607,834	232,315	-	-	368,025	16,208,174
Placements with banks and other financial institutions	4.34	2,453,461	185,000	-	-	-	2,638,461
Derivative financial instruments	-	-	-	-	-	4,962	4,962
Financial assets at fair value through profit or loss	3.92	184,439	100,682	220,442	-	104,825	610,388
Available-for-sale securities	2.94	417,620	46,677	7,779	-	444,357	916,433
Held-to-maturity securities	4.60	8,515,698	1,839,437	3,545,844	-	2,194	13,903,173
Advances to customers	5.49	25,551,535	801,250	39,650	2,925	477,458	26,872,818
Other assets	4.03	56,000	-	-	-	2,007,375	2,063,375
Total assets		<u>52,786,587</u>	<u>3,205,361</u>	<u>3,813,715</u>	<u>2,925</u>	<u>3,409,196</u>	<u>63,217,784</u>
Liabilities							
Deposits and balances of banks and other financial institutions	4.25	516,125	-	-	-	12,868	528,993
Deposits from customers	3.77	49,077,855	2,911,570	194,021	-	2,487,728	54,671,174
Derivative financial instruments	-	-	-	-	-	1,716	1,716
Amounts due to subsidiaries	1.94	609,382	-	-	-	7,210	616,592
Loan capital	6.32	967,376	-	-	-	-	967,376
Other liabilities	-	-	-	-	-	463,777	463,777
Total liabilities		<u>51,170,738</u>	<u>2,911,570</u>	<u>194,021</u>	<u>-</u>	<u>2,973,299</u>	<u>57,249,628</u>
Total interest sensitivity gap		<u>1,615,849</u>	<u>293,791</u>	<u>3,619,694</u>	<u>2,925</u>	<u>435,897</u>	<u>5,968,156</u>

7. FINANCIAL RISK MANAGEMENT - continued**Cash flow and fair value interest rate risk - continued****THE BANK - continued**

	Weighted average effective interest rate %	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
At 31 December 2005							
Assets							
Cash and short term funds	4.32	10,732,581	99,501	228,835	10,000	690,688	11,761,605
Placements with banks and other financial institutions	4.52	2,029,416	-	-	-	-	2,029,416
Derivative financial instruments	-	-	-	-	-	45,607	45,607
Financial assets at fair value through profit or loss	4.50	565,737	-	203,047	-	39,814	808,598
Available-for-sale securities	2.70	-	278,396	-	-	398,095	676,491
Held-to-maturity securities	4.15	5,947,791	1,124,607	2,118,410	98	2,000	9,192,906
Advances to customers	5.44	23,998,741	267,093	24,699	3,137	-	24,293,670
Other assets	-	-	-	-	-	1,482,000	1,482,000
Total assets		<u>43,274,266</u>	<u>1,769,597</u>	<u>2,574,991</u>	<u>13,235</u>	<u>2,658,204</u>	<u>50,290,293</u>
Liabilities							
Deposits and balances of banks and other financial institutions	4.14	2,256,976	-	-	-	6,528	2,263,504
Deposits from customers	3.64	37,409,345	1,675,966	267,837	-	2,148,988	41,502,136
Amounts due to subsidiaries	3.09	328,870	-	-	-	97,211	426,081
Other liabilities	-	-	-	-	-	279,192	279,192
Total liabilities		<u>39,995,191</u>	<u>1,675,966</u>	<u>267,837</u>	<u>-</u>	<u>2,531,919</u>	<u>44,470,913</u>
Total interest sensitivity gap		<u>3,279,075</u>	<u>93,631</u>	<u>2,307,154</u>	<u>13,235</u>	<u>126,285</u>	<u>5,819,380</u>

Liquidity risk

The Group and the Bank have laid down liquidity policy which is reviewed regularly by the Board. This policy requires the Group and the Bank to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group and the Bank.

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Limits are set on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

The tables below analyse the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	THE GROUP						Total HK\$'000
	Repayable on demand HK\$'000	Repayable within 3 months or less (except on those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated* HK\$'000	
As at 31 December 2006							
Assets							
Cash and short-term funds	1,145,253	14,879,291	232,315	-	-	-	16,256,859
Placements with banks and other financial institutions	-	2,453,461	185,000	-	-	-	2,638,461
Derivative financial instruments	-	-	-	-	-	4,962	4,962
Financial assets at fair value through profit or loss	-	104,825	79,083	426,480	-	423	610,811
Available-for-sale securities	-	76,209	38,897	194,482	162,488	626,065	1,098,141
Held-to-maturity securities	-	4,738,140	2,841,907	6,304,607	18,519	-	13,903,173
Advances to customers	1,486,391	4,410,927	4,243,045	9,007,982	7,349,957	376,236	26,874,538
Advances to banks and other financial institutions	-	19,425	38,000	-	-	-	57,425
Other assets	354,989	269,756	71,225	35,935	3,335	850,289	1,585,529
Total assets	<u>2,986,633</u>	<u>26,952,034</u>	<u>7,729,472</u>	<u>15,969,486</u>	<u>7,534,299</u>	<u>1,857,975</u>	<u>63,029,899</u>
Liabilities							
Deposits and balances of banks and other financial institutions	19,140	509,853	-	-	-	-	528,993
Deposits from customers	11,783,183	40,279,921	2,518,105	94,023	-	-	54,675,232
Derivative financial instruments	-	-	-	-	-	1,716	1,716
Loan capital	-	-	-	-	967,376	-	967,376
Other liabilities	504,266	178,467	66,565	50,375	-	5,179	804,852
Total liabilities	<u>12,306,589</u>	<u>40,968,241</u>	<u>2,584,670</u>	<u>144,398</u>	<u>967,376</u>	<u>6,895</u>	<u>56,978,169</u>
Net liquidity gap	<u>(9,319,956)</u>	<u>(14,016,207)</u>	<u>5,144,802</u>	<u>15,825,088</u>	<u>6,566,923</u>	<u>1,851,080</u>	<u>6,051,730</u>

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

	THE GROUP						
	Repayable on demand HK\$'000	Repayable within 3 months or less (except on those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated* HK\$'000	Total HK\$'000
As at 31 December 2005							
Assets							
Cash and short-term funds	1,140,954	10,319,189	99,501	228,835	10,000	–	11,798,479
Placements with banks and other financial institutions	–	2,029,416	–	–	–	–	2,029,416
Derivative financial instruments	–	–	–	–	–	45,607	45,607
Financial assets at fair value through profit or loss	16,024	164,920	54,286	540,598	32,770	562	809,160
Available-for-sale securities	–	–	38,388	144,857	95,151	523,373	801,769
Held-to-maturity securities	–	2,741,346	2,298,402	3,849,468	303,690	–	9,192,906
Advances to customers	1,615,723	4,635,235	3,254,009	8,116,115	6,087,700	587,862	24,296,644
Advances to banks and other financial institutions	–	19,209	38,000	–	–	–	57,209
Other assets	93,094	187,623	46,959	45,728	1,319	567,839	942,562
Total assets	2,865,795	20,096,938	5,829,545	12,925,601	6,530,630	1,725,243	49,973,752
Liabilities							
Deposits and balances of banks and other financial institutions	529,613	1,733,891	–	–	–	–	2,263,504
Deposits from customers	8,630,741	31,289,581	1,385,276	200,694	–	–	41,506,292
Other liabilities	193,149	100,185	54,139	23,347	–	–	370,820
Total liabilities	9,353,503	33,123,657	1,439,415	224,041	–	–	44,140,616
Net liquidity gap	(6,487,708)	(13,026,719)	4,390,130	12,701,560	6,530,630	1,725,243	5,833,136

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

	THE BANK						Total HK\$'000
	Repayable on demand HK\$'000	Repayable within 3 months or less (except on those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated* HK\$'000	
As at 31 December 2006							
Assets							
Cash and short-term funds	1,145,213	14,830,646	232,315	-	-	-	16,208,174
Placements with banks and other financial institutions	-	2,453,461	185,000	-	-	-	2,638,461
Derivative financial instruments	-	-	-	-	-	4,962	4,962
Financial assets at fair value through profit or loss	-	104,825	79,083	426,480	-	-	610,388
Available-for-sale securities	-	76,209	38,897	194,482	162,488	444,357	916,433
Held-to-maturity securities	-	4,738,140	2,841,907	6,304,607	18,519	-	13,903,173
Advances to customers	1,486,390	4,409,208	4,243,045	9,007,982	7,349,957	376,236	26,872,818
Advances to banks and other financial institutions	-	19,425	38,000	-	-	-	57,425
Other assets	66,018	266,921	69,969	35,932	3,335	1,563,775	2,005,950
Total assets	2,697,621	26,898,835	7,728,216	15,969,483	7,534,299	2,389,330	63,217,784
Liabilities							
Deposits and balances of banks and other financial institutions	19,140	509,853	-	-	-	-	528,993
Deposits from customers	11,783,183	40,275,863	2,518,105	94,023	-	-	54,671,174
Derivative financial instruments	-	-	-	-	-	1,716	1,716
Loan capital	-	-	-	-	967,376	-	967,376
Other liabilities	510,910	502,698	43,957	19,115	-	3,689	1,080,369
Total liabilities	12,313,233	41,288,414	2,562,062	113,138	967,376	5,405	57,249,628
Net liquidity gap	(9,615,612)	(14,389,579)	5,166,154	15,856,345	6,566,923	2,383,925	5,968,156

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

	THE BANK						
	Repayable on demand HK\$'000	Repayable within 3 months or less (except on those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated*	Total HK\$'000
As at 31 December 2005							
Assets							
Cash and short-term funds	1,140,914	10,282,355	99,501	228,835	10,000	–	11,761,605
Placements with banks and other financial institutions	–	2,029,416	–	–	–	–	2,029,416
Derivative financial instruments	–	–	–	–	–	45,607	45,607
Financial assets at fair value through profit or loss	16,024	164,920	54,286	540,598	32,770	–	808,598
Available-for-sale securities	–	–	38,388	144,857	95,151	398,095	676,491
Held-to-maturity securities	–	2,741,346	2,298,402	3,849,468	303,690	–	9,192,906
Advances to customers	1,615,723	4,635,003	3,253,395	8,115,019	6,086,694	587,836	24,293,670
Advances to banks and other financial institutions	–	19,209	38,000	–	–	–	57,209
Other assets	18,705	184,785	46,458	45,722	1,319	1,127,802	1,424,791
Total assets	2,791,366	20,057,034	5,828,430	12,924,499	6,529,624	2,159,340	50,290,293
Liabilities							
Deposits and balances of banks and other financial institutions	529,613	1,733,891	–	–	–	–	2,263,504
Deposits from customers	8,630,609	31,285,692	1,385,141	200,694	–	–	41,502,136
Other liabilities	229,417	100,237	372,964	2,655	–	–	705,273
Total liabilities	9,389,639	33,119,820	1,758,105	203,349	–	–	44,470,913
Net liquidity gap	(6,598,273)	(13,062,786)	4,070,325	12,721,150	6,529,624	2,159,340	5,819,380

* Other than those assets and liabilities that have been classified according to their maturity buckets, the undated amounts are expected to be recovered or settled after twelve months.

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Fair value of financial assets and liabilities

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

THE GROUP AND THE BANK

	Carrying value		Fair value	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
– Held-to-maturity securities	<u>13,903,173</u>	<u>9,192,906</u>	<u>13,945,888</u>	<u>9,172,671</u>
Financial liabilities				
– Loan capital	<u>967,376</u>	<u>–</u>	<u>985,384</u>	<u>–</u>

Where quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions. The principal ones are as follows:

The fair value of cash and short term funds, balances and placements with banks and other financial institutions and amounts due from related parties are considered to approximate their carrying values because most of them are mainly priced in market interest rate.

7. FINANCIAL RISK MANAGEMENT - continued**Fair value of financial assets and liabilities - continued****THE GROUP AND THE BANK - continued**

The Group and the Bank consider the carrying amount of loans and advances to customers, and other accounts, as a reasonable approximation of their fair values. Presently, market and observable prices do not exist as there is currently no ready market wherein exchanges between willing parties occur. In estimating the fair value, loans are categorised into homogeneous groups by products type, risk characteristic, maturity and pricing profile, and non-performing accounts. In evaluating the reasonableness of fair value, the Group and the Bank perform analysis on each of the homogeneous groups, taking into account various hypothetical credit spread and market interest rate scenarios, future expected loss experience and estimated forced sale values of collateral. Impairment allowance under collective assessment is also deducted in arriving at the fair value as a discount for credit risk inherent in the large portfolio of advances to customers.

The Group and the Bank consider the carrying amount of all their deposits, such as non-bank customers' deposits and deposits and balances of banks, amounts due to related parties and amounts due to subsidiaries, as reasonable approximation of their respective fair values given that these are mostly repayable on demand or in the shorter term, and the interest rates are re-priced at short intervals.

8. NET INTEREST INCOME

	2006	2005
	HK\$'000	HK\$'000
Interest income		
Cash and short term funds	802,350	498,440
Investments in securities	470,184	223,118
Loans and advances	1,467,984	997,780
	<u>2,740,518</u>	<u>1,719,338</u>
Interest expense		
Banks and customers	(1,909,027)	(966,486)
Loan capital in issue	(2,952)	-
Net interest income	<u>828,539</u>	<u>752,852</u>
Included within interest income		
Interest income on impaired loans and advances	<u>3,061</u>	<u>21,224</u>

Included within interest income and interest expense are HK\$2,725,915,000 (2005: HK\$1,697,518,000) and HK\$1,911,979,000 (2005: HK\$966,486,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

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9. OTHER OPERATING INCOME

	2006 HK\$'000	2005 HK\$'000
Fees and commission income		
Securities dealings	79,247	44,569
Credit lines	7,845	11,946
Trade finance	14,042	12,226
Credit card services	30,358	18,382
Agency services	29,908	21,050
Others	10,901	10,506
Total fees and commission income	172,301	118,679
Less: Fees and commission expense	(4,166)	(2,231)
Net fees and commission income	168,135	116,448
Dividend income		
Listed investments	10,538	7,238
Unlisted investments	3,005	3,005
Net gains on dealing in foreign currencies	26,589	27,737
Net gains on financial assets at fair value through profit or loss	12,540	651
Gross rents from properties	4,550	4,384
Less: Outgoings	(992)	(649)
Net rental income	3,558	3,735
Safe deposit box rentals	23,431	22,255
Insurance underwriting	12,190	5,671
Other banking services income	39,460	30,528
Others	2,243	(139)
	<u>301,689</u>	<u>217,129</u>

10. OPERATING EXPENSES

	2006 HK\$'000	2005 HK\$'000
Amortisation of prepaid lease payments for land	5,114	5,063
Auditors' remuneration	3,291	2,442
Staff costs		
Salaries and other costs	299,992	251,349
Retirement benefits scheme contributions	22,609	18,901
Total staff costs	322,601	270,250
Depreciation	30,535	35,605
Premises and equipment expenses, excluding depreciation/amortisation		
Rentals and rates for premises	46,610	42,054
Others	16,177	12,207
Other operating expenses	167,209	125,508
	<u>591,537</u>	<u>493,129</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$42,455,000 (2005: HK\$38,949,000).

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 19 (2005: 23) directors were as follows:

	2006				2005			
	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000
Executive directors (Hong Kong)								
Liu Lit Man	100	5,431	350	5,881	80	5,678	350	6,108
Liu Lit Mo	50	492	45	587	40	494	45	579
Liu Lit Chi	50	8,099	210	8,359	40	7,743	210	7,993
Don Tit Shing Liu	50	1,960	192	2,202	40	1,712	168	1,920
Wilfred Chun Ning Liu	50	2,150	157	2,357	40	1,914	137	2,091
Lau Wai Man	50	1,791	178	2,019	40	1,505	150	1,695
Frank Shui Sang Jin	50	1,762	166	1,978	40	1,715	143	1,898
Kevin Wai Hung Chu	-	-	-	-	22	693	46	761
Andrew Chiu Wing Tsang	50	1,621	128	1,799	15	633	47	695
George Har Kar Wong	50	1,643	109	1,802	15	707	39	761
Total for executive directors	500	24,949	1,535	26,984	372	22,794	1,335	24,501
Non-executive directors (Hong Kong)								
Robin Yau Hing Chan	-	-	-	-	12	-	-	12
Liu Guoyuan	-	-	-	-	35	-	-	35
Timothy George Freshwater	80	80	-	160	40	80	-	120
Toshiaki Arai	50	-	-	50	40	-	-	40
Andrew Liu	50	4	-	54	40	1	-	41
Sun Jiakang	50	-	-	50	40	-	-	40
Dominic Bing Hoi Lam	-	-	-	-	14	-	-	14
Christopher Kwun Shing Liu	50	-	-	50	40	-	-	40
Alfred Cheuk Yu Chow	80	-	-	80	60	-	-	60
Wang Zhi	50	-	-	50	5	-	-	5
Total for non-executive directors	410	84	-	494	326	81	-	407
Independent non-executive directors (Hong Kong)								
Peter Alan Lee Vine	-	-	-	-	23	-	-	23
Robin Yau Hing Chan	80	-	-	80	55	-	-	55
Wanchai Chiranakhorn	80	-	-	80	80	-	-	80
Cheng Yuk Wo	80	-	-	80	80	-	-	80
Total for independent non-executive directors	240	-	-	240	238	-	-	238
Total	1,150	25,033	1,535	27,718	936	22,875	1,335	25,146

The five highest paid individuals in the Group in 2006 and 2005 were all directors of the Bank and details of their emoluments are included in note 11 above.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

12. TAXATION

	2006 HK\$'000	2005 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	68,831	75,663
- overprovision in prior years	<u>(10,797)</u>	<u>(206)</u>
	58,034	75,457
Overseas taxation	2,573	727
Deferred tax (note 28)	<u>7,163</u>	<u>(5,366)</u>
	<u>67,770</u>	<u>70,818</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 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:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	<u>570,914</u>	<u>468,801</u>
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	99,910	82,040
Tax effect of share of profit of jointly controlled entities	(5,871)	(626)
Tax effect of expenses not deductible for tax purpose	94	3,653
Tax effect of income not taxable for tax purpose	(14,273)	(13,638)
Utilisation of tax losses previously not recognised	(510)	(398)
Overprovision in prior years	(10,797)	(206)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(221)	(291)
Others	<u>(562)</u>	<u>284</u>
Tax charge for the year	<u>67,770</u>	<u>70,818</u>

13. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Dividends recognised as distribution during the year:		
2006 Interim - HK\$0.19 (2005: HK\$0.18) per share	82,650	78,300
2005 Final - HK\$0.42 (2004: HK\$0.40) per share	<u>182,700</u>	<u>174,000</u>
	<u>265,350</u>	<u>252,300</u>

The final dividend of HK\$0.44 (2005: HK\$0.42) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of HK\$503,144,000 (2005: HK\$397,983,000) and on 435,000,000 (2005: 435,000,000) ordinary shares in issue during the year.

15. CASH AND SHORT-TERM FUNDS

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	997,461	1,010,669	997,421	1,010,629
Money at call and short notice	14,744,553	10,301,297	14,695,908	10,264,463
Exchange fund bills	514,845	486,513	514,845	486,513
	<u>16,256,859</u>	<u>11,798,479</u>	<u>16,208,174</u>	<u>11,761,605</u>

16. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP AND THE BANK					
	2006			2005		
	Notional amount	Fair values		Notional amount	Fair values	
HK\$'000	Assets	Liabilities	HK\$'000	Assets	Liabilities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives held for trading						
- Foreign currency related contracts	513,269	1,726	128	155,742	-	-
- Interest rate swaps	345,014	1,553	1,588	657,654	45,607	-
- Currency swaps	52,240	1,683	-	-	-	-
		<u>4,962</u>	<u>1,716</u>		<u>45,607</u>	<u>-</u>

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

	THE GROUP AND THE BANK					
	2006			2005		
	Notional amount	Replacement cost	Credit risk weighted amount	Notional amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts	565,509	3,409	2,195	155,742	451	514
Interest rate contracts	345,014	1,553	710	657,654	45,607	17,490
		<u>4,962</u>	<u>2,905</u>		<u>46,058</u>	<u>18,004</u>

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

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16. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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.

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 HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

17. INVESTMENTS IN SECURITIES

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Trading assets	Assets designated at fair value	Held-to-maturity securities	Available-for-sale securities	Total	Trading assets	Asset designated at fair value	Held-to-maturity securities	Available-for-sale securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2006										
Equity securities:										
Listed in Hong Kong	423	-	-	359,134	359,557	-	-	-	180,035	180,035
Listed overseas	-	-	-	6,991	6,991	-	-	-	6,991	6,991
	423	-	-	366,125	366,548	-	-	-	187,026	187,026
Unlisted	-	-	-	259,940	259,940	-	-	-	257,331	257,331
	423	-	-	626,065	626,488	-	-	-	444,357	444,357
Debt securities:										
Certificates of deposit	-	-	1,863,937	-	1,863,937	-	-	1,863,937	-	1,863,937
Other debt securities - Unlisted	-	610,388	12,039,236	472,076	13,121,700	-	610,388	12,039,236	472,076	13,121,700
	-	610,388	13,903,173	472,076	14,985,637	-	610,388	13,903,173	472,076	14,985,637
Total:										
Listed in Hong Kong	423	-	-	359,134	359,557	-	-	-	180,035	180,035
Listed overseas	-	-	-	6,991	6,991	-	-	-	6,991	6,991
Unlisted	-	610,388	13,903,173	732,016	15,245,577	-	610,388	13,903,173	729,407	15,242,968
	423	610,388	13,903,173	1,098,141	15,612,125	-	610,388	13,903,173	916,433	15,429,994
Market value of listed securities:										
Listed in Hong Kong	423	-	-	359,134	359,557	-	-	-	180,035	180,035
Listed overseas	-	-	-	6,991	6,991	-	-	-	6,991	6,991
	423	-	-	366,125	366,548	-	-	-	187,026	187,026
As analysed by issuing entities:										
Central government and central banks	-	-	359,143	-	359,143	-	-	359,143	-	359,143
Public sector entities	-	-	18,508	-	18,508	-	-	18,508	-	18,508
Banks and other financial institutions	53	372,463	13,384,170	85,518	13,842,204	-	372,463	13,384,170	66,083	13,822,716
Corporate entities	199	50,679	141,352	246,749	438,979	-	50,679	141,352	120,942	312,973
Others	171	187,246	-	765,874	953,291	-	187,246	-	729,408	916,654
	423	610,388	13,903,173	1,098,141	15,612,125	-	610,388	13,903,173	916,433	15,429,994

17. INVESTMENTS IN SECURITIES - continued

At the balance sheet date, all available-for-sale securities and financial assets at fair value through profit or loss are stated at fair value. Fair value of the investments have been determined by reference to bid prices quoted in active markets.

An active market is where price information is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and the price information is from actual and regularly occurring market transactions on an arm's length basis.

Where the markets for certain financial instruments are not active, fair values are established using valuation techniques commonly used by market participants and based on assumptions and data observable in the market.

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 provided internally on that basis to the Group's key management personnel.

Certain held-to-maturity certificates of deposit of approximately HK\$24,479,000 (2005: HK\$23,924,000) 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.

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17. INVESTMENTS IN SECURITIES - continued

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Trading assets	Assets designated at fair value	Held-to-maturity securities	Available-for-sale securities	Total	Trading assets	Asset designated at fair value	Held-to-maturity securities	Available-for-sale securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2005										
Equity securities:										
Listed in Hong Kong	562	-	-	268,756	269,318	-	-	-	146,087	146,087
Listed overseas	-	-	-	6,385	6,385	-	-	-	6,385	6,385
	562	-	-	275,141	275,703	-	-	-	152,472	152,472
Unlisted	-	-	-	248,232	248,232	-	-	-	245,623	245,623
	562	-	-	523,373	523,935	-	-	-	398,095	398,095
Debt securities:										
Certificates of deposit	-	-	1,960,915	278,396	2,239,311	-	-	1,960,915	278,396	2,239,311
Other debt securities - Unlisted	-	808,598	7,231,991	-	8,040,589	-	808,598	7,231,991	-	8,040,589
	-	808,598	9,192,906	278,396	10,279,900	-	808,598	9,192,906	278,396	10,279,900
Total:										
Listed in Hong Kong	562	-	-	268,756	269,318	-	-	-	146,087	146,087
Listed overseas	-	-	-	6,385	6,385	-	-	-	6,385	6,385
Unlisted	-	808,598	9,192,906	526,628	10,528,132	-	808,598	9,192,906	524,019	10,525,523
	562	808,598	9,192,906	801,769	10,803,835	-	808,598	9,192,906	676,491	10,677,995
Market value of listed securities:										
Listed in Hong Kong	562	-	-	268,756	269,318	-	-	-	146,087	146,087
Listed overseas	-	-	-	6,385	6,385	-	-	-	6,385	6,385
	562	-	-	275,141	275,703	-	-	-	152,472	152,472
As analysed by issuing entities:										
Central government and central banks	-	-	95,109	-	95,109	-	-	95,109	-	95,109
Public sector entities	-	-	25,274	2	25,276	-	-	25,274	-	25,274
Banks and other financial institutions	562	163,158	7,129,927	28,804	7,322,451	-	163,158	7,129,927	20,290	7,313,375
Corporate entities	-	-	1,942,596	227,121	2,169,717	-	-	1,942,596	132,182	2,074,778
Others	-	645,440	-	545,842	1,191,282	-	645,440	-	524,019	1,169,459
	562	808,598	9,192,906	801,769	10,803,835	-	808,598	9,192,906	676,491	10,677,995

18. ADVANCES AND OTHER ACCOUNTS

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Bills receivable	484,375	330,409	484,375	330,409
Trade bills	138,337	131,549	138,337	131,549
Other advances to customers	26,251,826	23,834,686	26,250,106	23,831,712
	<u>26,874,538</u>	<u>24,296,644</u>	<u>26,872,818</u>	<u>24,293,670</u>
Interest receivable	267,337	196,225	267,055	195,900
Impairment allowances				
- Individually assessed	(32,161)	(54,640)	(32,161)	(54,640)
- Collectively assessed	(104,464)	(131,933)	(104,447)	(131,901)
	<u>27,005,250</u>	<u>24,306,296</u>	<u>27,003,265</u>	<u>24,303,029</u>
Advances to banks and other financial institutions	57,425	57,209	57,425	57,209
	<u>27,062,675</u>	<u>24,363,505</u>	<u>27,060,690</u>	<u>24,360,238</u>
Other accounts	434,345	144,556	141,163	66,802
	<u>27,497,020</u>	<u>24,508,061</u>	<u>27,201,853</u>	<u>24,427,040</u>

Included in the “Advances to customers” of the Group and the Bank are aggregate amounts of approximately HK\$77,785,000 (2005: HK\$139,478,000) due from companies having significant influence on the Group.

Included in the “Advances to banks and other financial institutions” of the Group and the Bank is an amount of approximately HK\$57,425,000 (2005: HK\$57,209,000) 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.

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18. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	THE GROUP			THE BANK		
	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2006	54,640	131,933	186,573	54,640	131,901	186,541
Increase in impairment allowances	141,403	-	141,403	141,376	-	141,376
Amounts reversed	(54,115)	(27,487)	(81,602)	(54,115)	(27,472)	(81,587)
Recoveries of advances written off in previous years	47,453	-	47,453	47,453	-	47,453
Effect on discounting	(3,061)	-	(3,061)	(3,061)	-	(3,061)
Amounts written off	(154,159)	-	(154,159)	(154,132)	-	(154,132)
Exchange difference	-	18	18	-	18	18
Balance at 31 December 2006	<u>32,161</u>	<u>104,464</u>	<u>136,625</u>	<u>32,161</u>	<u>104,447</u>	<u>136,608</u>

	THE GROUP			THE BANK		
	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2005	140,509	99,774	240,283	140,509	99,716	240,225
Increase in impairment allowances	61,550	48,515	110,065	61,550	48,515	110,065
Amounts reversed	(4,692)	(16,342)	(21,034)	(4,692)	(16,316)	(21,008)
Effect on discounting	(21,224)	-	(21,224)	(21,224)	-	(21,224)
Amounts written off	(121,503)	-	(121,503)	(121,503)	-	(121,503)
Exchange difference	-	(14)	(14)	-	(14)	(14)
Balance at 31 December 2005	<u>54,640</u>	<u>131,933</u>	<u>186,573</u>	<u>54,640</u>	<u>131,901</u>	<u>186,541</u>

Details of the impaired loans are as follows:

	THE GROUP		THE BANK	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Gross impaired loans	329,660	642,788	329,660	642,788
Less: Impairment allowances under individual assessment	<u>(32,161)</u>	<u>(54,640)</u>	<u>(32,161)</u>	<u>(54,640)</u>
Net impaired loans	<u>297,499</u>	<u>588,148</u>	<u>297,499</u>	<u>588,148</u>
Gross impaired loans as a percentage of gross advances to customers	<u>1.23%</u>	<u>2.65%</u>	<u>1.23%</u>	<u>2.65%</u>
Market value of collateral pledged	<u>313,786</u>	<u>617,345</u>	<u>313,786</u>	<u>617,345</u>

18. ADVANCES AND OTHER ACCOUNTS - continued

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		Present value	
	lease payments		of minimum	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	97	371	94	327
In the second to fifth year inclusive	—	403	—	377
	<u>97</u>	<u>774</u>	<u>94</u>	<u>704</u>
Less: Unearned finance income	<u>(4)</u>	<u>(70)</u>	<u>—</u>	<u>—</u>
Present value of minimum lease payments receivable	<u><u>93</u></u>	<u><u>704</u></u>	<u><u>94</u></u>	<u><u>704</u></u>
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)			—	377
Current finance lease receivables (recoverable within 12 months)			<u>94</u>	<u>327</u>
			<u><u>94</u></u>	<u><u>704</u></u>

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for the year ended 31 December 2006

19. INVESTMENTS IN SUBSIDIARIES

(i)	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>363,323</u>	<u>792,484</u>

Details of all the subsidiaries as at 31 December 2006 are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid ordinary share capital	Percentage of issued share capital directly held	Principal activities
Card Alliance Company Limited	Hong Kong	HK\$18,000,000	100%	Credit card management
Chong Hing Commodities and Futures Limited	Hong Kong	HK\$5,000,000	100%	Investment holding and commodities and futures broking
Chong Hing Finance Limited	Hong Kong	HK\$25,000,000	100%	Deposit-taking and lending
Chong Hing Information Technology Limited	Hong Kong	HK\$100,000	100%	Provision of electronic data processing services
Chong Hing Insurance Company Limited	Hong Kong	HK\$50,000,000	100%	Insurance underwriting
Chong Hing (Management) Limited	Hong Kong	HK\$100,000	100%	Inactive
Chong Hing (Nominees) Limited	Hong Kong	HK\$100,000	100%	Provision of nominee services
Chong Hing Securities Limited	Hong Kong	HK\$10,000,000	100%	Stockbroking
Gallbraith Limited	Hong Kong	HK\$16,550,000	100%	Property investment
Liu Chong Hing Banking Corporation, Cayman	Cayman Islands/ Hong Kong	US\$10,000,000	100%	General merchant banking
Right Way Investments Limited	Bermuda/ Hong Kong	US\$12,000	100%	Inactive

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

(ii) Amounts due from subsidiaries

	2006	2005
	HK\$'000	HK\$'000
Amounts due from subsidiaries	<u>4,677</u>	<u>33,305</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and, in the opinion of the directors, are repayable within three months.

The directors consider that the fair value of the above balances approximate their carrying amounts at the balance sheet dates.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

(i)	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	56,500	56,500
Share of net assets	99,256	65,710	–	–
	<u>99,256</u>	<u>65,710</u>	<u>56,500</u>	<u>56,500</u>

The directors consider the Bank has joint control over these jointly controlled entities.

As at 31 December 2006, the Group had interests in the following jointly controlled entities:

Name of company	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting
Net Alliance Co., Limited	Hong Kong	Ordinary	17.6%	15.0%	Provision of internet services

The summarised financial information in respect of Group's jointly controlled entities which are accounted for using equity method is set out below:

	2006	2005
	HK\$'000	HK\$'000
Assets	2,543,487	1,941,821
Liabilities	(1,748,020)	(1,336,529)
Income	421,432	709,247
Expense	<u>(224,746)</u>	<u>(659,132)</u>

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES - continued

(ii) Loan to a jointly controlled entity

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan to a jointly controlled entity	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>

The loan to a jointly controlled entity, Bank Consortium Holding Limited amounting to HK\$31,000,000 (2005: HK\$31,000,000) is unsecured, non-interest bearing, and will be repayable on 28 December 2008. The directors consider that the fair value of the above loan approximates its carrying amount at the balance sheet date.

21. INVESTMENT PROPERTIES

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	76,860	69,360	58,860	51,360
Net increase in fair value	<u>5,390</u>	<u>7,500</u>	<u>5,390</u>	<u>7,500</u>
At 31 December	<u>82,250</u>	<u>76,860</u>	<u>64,250</u>	<u>58,860</u>

Investment properties owned by the Group and by the Bank were revalued at 31 December 2006 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 and the Bank comprises:

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties				
Held in Hong Kong on long-term lease (over 50 years unexpired)	10,250	9,950	10,250	9,950
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	54,000	48,910	54,000	48,910
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	<u>18,000</u>	<u>18,000</u>	–	–
	<u>82,250</u>	<u>76,860</u>	<u>64,250</u>	<u>58,860</u>

22. PROPERTY AND EQUIPMENT

	THE GROUP				THE BANK			
	Buildings	Equipment	Construction in progress	Total	Buildings	Equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
At 1 January 2006	80,511	308,643	40,454	429,608	80,511	278,556	-	359,067
Additions	14,407	52,633	148,708	215,748	14,407	45,317	189,162	248,886
Disposals	-	(9,924)	-	(9,924)	-	(7,310)	-	(7,310)
Transfer from construction in progress to buildings	189,162	-	(189,162)	-	189,162	-	(189,162)	-
Exchange adjustments	-	(4)	-	(4)	-	(4)	-	(4)
At 31 December 2006	<u>284,080</u>	<u>351,348</u>	<u>-</u>	<u>635,428</u>	<u>284,080</u>	<u>316,559</u>	<u>-</u>	<u>600,639</u>
ACCUMULATED DEPRECIATION								
At 1 January 2006	19,498	213,350	-	232,848	19,498	187,462	-	206,960
Provided for the year	2,064	28,471	-	30,535	2,064	25,843	-	27,907
Eliminated on disposals	-	(8,778)	-	(8,778)	-	(6,341)	-	(6,341)
Exchange adjustments	-	(2)	-	(2)	-	(2)	-	(2)
At 31 December 2006	<u>21,562</u>	<u>233,041</u>	<u>-</u>	<u>254,603</u>	<u>21,562</u>	<u>206,962</u>	<u>-</u>	<u>228,524</u>
CARRYING AMOUNTS								
At 31 December 2006	<u>262,518</u>	<u>118,307</u>	<u>-</u>	<u>380,825</u>	<u>262,518</u>	<u>109,597</u>	<u>-</u>	<u>372,115</u>

	THE GROUP				THE BANK			
	Buildings	Equipment	Construction in progress	Total	Buildings	Equipment	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
COST								
At 1 January 2005		79,771	295,284	21,444	396,499	79,771	266,052	345,823
Additions		2,340	23,283	19,010	44,633	2,340	22,190	24,530
Acquired on acquisition of a subsidiary		-	768	-	768	-	-	-
Disposals		(1,600)	(10,690)	-	(12,290)	(1,600)	(9,684)	(11,284)
Exchange adjustments		-	(2)	-	(2)	-	(2)	(2)
At 31 December 2005		<u>80,511</u>	<u>308,643</u>	<u>40,454</u>	<u>429,608</u>	<u>80,511</u>	<u>278,556</u>	<u>359,067</u>
ACCUMULATED DEPRECIATION								
At 1 January 2005		17,925	188,569	-	206,494	17,925	166,889	184,814
Provided for the year		1,610	33,995	-	35,605	1,610	29,343	30,953
Eliminated on disposals		(37)	(9,212)	-	(9,249)	(37)	(8,768)	(8,805)
Exchange adjustments		-	(2)	-	(2)	-	(2)	(2)
At 31 December 2005		<u>19,498</u>	<u>213,350</u>	<u>-</u>	<u>232,848</u>	<u>19,498</u>	<u>187,462</u>	<u>206,960</u>
CARRYING AMOUNTS								
At 31 December 2005		<u>61,013</u>	<u>95,293</u>	<u>40,454</u>	<u>196,760</u>	<u>61,013</u>	<u>91,094</u>	<u>152,107</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%

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for the year ended 31 December 2006

22. PROPERTY AND EQUIPMENT - continued

The carrying amount of buildings and construction in progress shown above comprise:

	THE GROUP				THE BANK	
	Buildings		Construction in progress		Building	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties						
Held in Hong Kong on long-term lease (over 50 years unexpired)	201,337	12,542	-	40,454	201,337	12,542
Held in Hong Kong on medium-term lease (10-50 years unexpired)	60,299	47,568	-	-	60,299	47,568
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	882	903	-	-	882	903
	<u>262,518</u>	<u>61,013</u>	<u>-</u>	<u>40,454</u>	<u>262,518</u>	<u>61,013</u>

23. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments comprise:

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
In Hong Kong held on:				
Leases of over 50 years	126,035	126,447	651,975	43,409
Leases of between 10 to 50 years	183,952	167,841	183,952	167,841
Outside Hong Kong held on:				
Leases of between 10 to 50 years	6,548	6,681	6,548	6,681
	<u>316,535</u>	<u>300,969</u>	<u>842,475</u>	<u>217,931</u>
Net book value at 1st January	300,969	306,039	217,931	222,901
Additions	20,680	-	630,226	-
Amortisation of prepaid operating lease payments	(5,114)	(5,063)	(5,682)	(4,963)
Disposals	-	(7)	-	(7)
	<u>316,535</u>	<u>300,969</u>	<u>842,475</u>	<u>217,931</u>
Analysed as:				
Current portion	5,114	5,063	5,682	4,963
Non-current portion	311,421	295,906	836,793	212,968
Total	<u>316,535</u>	<u>300,969</u>	<u>842,475</u>	<u>217,931</u>

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

24. DEPOSITS FROM CUSTOMERS

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	2,479,907	2,144,820	2,479,907	2,144,820
Savings deposits	9,377,813	6,462,001	9,377,813	6,462,001
Time, call and notice deposits	42,817,512	32,899,471	42,813,454	32,895,315
	<u>54,675,232</u>	<u>41,506,292</u>	<u>54,671,174</u>	<u>41,502,136</u>

Included in the balances is an aggregate amount of approximately HK\$127,187,000 (2005: HK\$318,089,000) representing deposits of companies and their subsidiaries having significant influence on the Bank.

25. LOAN CAPITAL

	THE GROUP AND THE BANK	
	2006	2005
	HK\$'000	HK\$'000
US\$125 million callable floating rate subordinated notes due 2016	<u>967,376</u>	<u>—</u>

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

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.

26. SHARE CAPITAL

	2006 & 2005
	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>

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27. RESERVES

	Share premium	Land and buildings revaluation reserve	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE BANK								
At 1 January 2006	1,542,817	-	139,735	1,378,500	(127)	122,837	2,418,118	5,601,880
Revaluation losses, net	-	-	(23,787)	-	-	-	-	(23,787)
Exchange differences arising from translation of foreign operations	-	-	-	-	225	-	-	225
Deferred taxation arising from revaluation movement (Note 28)	-	-	(12,600)	-	-	-	-	(12,600)
Net expenses recognised directly in equity	-	-	(36,387)	-	225	-	-	(36,162)
Profit for the year	-	-	-	-	-	-	480,145	480,145
Reversal of reserves upon disposal	-	-	(29,857)	-	-	-	-	(29,857)
Total recognised income for the year	-	-	(66,244)	-	225	-	480,145	414,126
Interim dividend paid	-	-	-	-	-	-	(82,650)	(82,650)
Final dividend paid	-	-	-	-	-	-	(182,700)	(182,700)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	42,163	(42,163)	-
At 31 December 2006	<u>1,542,817</u>	<u>-</u>	<u>73,491</u>	<u>1,378,500</u>	<u>98</u>	<u>165,000</u>	<u>2,590,750</u>	<u>5,750,656</u>
At 1 January 2005	1,542,817	352,922	110,169	1,378,500	80	103,883	1,984,950	5,473,321
Revaluation gains, net	-	-	65,288	-	-	-	-	65,288
Exchange differences arising from translation of foreign operations	-	-	-	-	(207)	-	-	(207)
Net income recognised directly in equity	-	-	65,288	-	(207)	-	-	65,081
Transfer between reserves	-	(352,922)*	-	-	-	-	352,922	-
Profit for the year	-	-	-	-	-	-	351,500	351,500
Reversal of reserves upon disposal	-	-	(35,722)	-	-	-	-	(35,722)
Total recognised income for the year	-	(352,922)	29,566	-	(207)	-	704,422	380,859
Interim dividend paid	-	-	-	-	-	-	(78,300)	(78,300)
Final dividend paid	-	-	-	-	-	-	(174,000)	(174,000)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	18,954	(18,954)	-
At 31 December 2005	<u>1,542,817</u>	<u>-</u>	<u>139,735</u>	<u>1,378,500</u>	<u>(127)</u>	<u>122,837</u>	<u>2,418,118</u>	<u>5,601,880</u>

The Bank's reserves available for distribution to shareholders as at 31 December 2006 comprised retained profits of HK\$2,590,750,000 (2005: HK\$2,418,118,000) and general reserve of HK\$1,378,500,000 (2005: HK\$1,378,500,000).

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority.

The general reserve is comprised of transfers from previous years' retained profits.

* Amount represents the revaluation surplus which had been realised on disposal of the relevant land and buildings to a wholly-owned subsidiary several years ago.

28. 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
THE GROUP					
At 1 January 2006	9,353	(22,433)	6,631	–	(6,449)
Charge to income statement for the year (<i>Note 12</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>
At 1 January 2005	8,624	(15,025)	5,318	–	(1,083)
Charge (credit) to income statement for the year (<i>Note 12</i>)	729	(7,408)	1,313	–	(5,366)
At 31 December 2005	<u>9,353</u>	<u>(22,433)</u>	<u>6,631</u>	<u>–</u>	<u>(6,449)</u>
THE BANK					
At 1 January 2006	9,353	(22,427)	6,631	–	(6,443)
Charge to income statement for the year	1,050	5,167	943	–	7,160
Charge to equity for the year	–	–	–	12,600	12,600
At 31 December 2006	<u>10,403</u>	<u>(17,260)</u>	<u>7,574</u>	<u>12,600</u>	<u>13,317</u>
At 1 January 2005	8,392	(15,014)	5,318	–	(1,304)
Charge (credit) to income statement for the year	961	(7,413)	1,313	–	(5,139)
At 31 December 2005	<u>9,353</u>	<u>(22,427)</u>	<u>6,631</u>	<u>–</u>	<u>(6,443)</u>

29. SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24 April 2012. Under the Scheme, the Board of Directors of the Bank may grant options to eligible employees, including directors of the Bank and its subsidiaries, to subscribe for shares in the Bank. Additionally, the Bank may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Bank in issue at any point in time, without prior approval from the Bank's shareholders.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option. Options may be exercised at any time from the date of grant of the share option to the fifth anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five trading days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

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for the year ended 31 December 2006

30. LOANS TO OFFICERS

The aggregate relevant loans to officers disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

	THE GROUP AND THE BANK	
	2006	2005
	HK\$'000	HK\$'000
Aggregate balance of all relevant loans outstanding at the balance sheet date	<u>90,865</u>	<u>100,383</u>
Maximum aggregate balance of relevant loans during the year	<u>163,699</u>	<u>135,511</u>

The loans have no fixed repayment terms and the applicable interest rate ranges from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$89,369,000 (2005: HK\$94,208,000) with collateral.

31. ACQUISITION OF A SUBSIDIARY

In prior year, the Group acquired 100% of the issued share capital of Chong Hing Insurance Company Limited (formerly known as "Liu Chong Hing Insurance Company Limited") for consideration of HK\$213,369,000, including the legal cost of HK\$1,369,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$110,606,000.

The net assets acquired in the transaction, and the goodwill arising, were as follows:

	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	2005 Fair value HK\$'000
Net assets acquired			
Placements with banks and other financial institutions maturing between one and three months	90,410	–	90,410
Advances and other accounts less impairment	9,473	–	9,473
Available-for-sale securities	26,979	3,259	30,238
Property and equipment	768	–	768
Current tax liabilities	(299)	–	(299)
Other accounts and accruals	(27,827)	–	(27,827)
			<u>102,763</u>
Goodwill arising from acquisition			<u>110,606</u>
Total consideration			<u>213,369</u>
Net cash outflow arising from acquisition:			
Cash consideration			213,369
Cash and cash equivalents acquired			(90,410)
Net outflow of cash and cash equivalents in respect of the purchase of this subsidiary			<u>122,959</u>

The goodwill arising in the acquisition of Chong Hing Insurance Company Limited is attributable to the anticipated profitability of the acquired business and the anticipated future operating synergy from the combination.

32. LIQUIDATION OF A SUBSIDIARY

In prior year, the Group liquidated its subsidiary, Liu Chong Hing Finance (International) Limited. The amount of net assets of Liu Chong Hing Finance (International) Limited at the date of liquidation were as follows:

	2005 HK\$'000
NET ASSETS LIQUIDATED	
Cash and short term funds	2,824
Other accounts and accruals	<u>(42)</u>
	2,782
Loss on liquidation	<u>(4)</u>
Cash received on liquidation	<u>2,778</u>
NET CASH OUTFLOW ARISING FROM LIQUIDATION	
Cash and short-term fund disposed of	(2,824)
Cash received on liquidation	<u>2,778</u>
Cash outflow on liquidation	<u>(46)</u>

33. IMPAIRMENT TESTING ON GOODWILL

For the year ended 31 December 2006, the management has reviewed the purchased goodwill as set out in note 31 for impairment. The review comprised a comparison of the carrying amount and fair value less costs to sell of the acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. The directors estimate the fair value less costs to sell by reference to the average price earnings ratios of insurance companies listed on the Stock Exchange of Hong Kong Limited.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2006 as their fair value less costs to sell exceeds the carrying amount.

34. CONTINGENT LIABILITIES AND COMMITMENTS

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments				
– contractual amounts				
Direct credit substitutes	1,221,388	972,847	1,221,388	972,847
Trade - related contingencies	346,531	371,150	346,531	371,150
Capital commitments	227,967	369,588	227,967	369,588
Lease commitments	71,048	48,080	66,343	47,267
	<u>1,866,934</u>	<u>1,761,665</u>	<u>1,862,229</u>	<u>1,760,852</u>

Included under lease commitments are non-cancellable operating leases commitments in respect of rented premises. At the balance sheet date, the Group had commitments for future minimum lease payments under these non-cancellable operating leases which fall due as follows:

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	25,975	31,506	23,945	30,693
In the second to fifth years inclusive	43,088	16,574	40,413	16,574
Over five years	1,985	–	1,985	–
	<u>71,048</u>	<u>48,080</u>	<u>66,343</u>	<u>47,267</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.

Additional disclosures as required by the Supervisory Policy Manual FD-1 “Financial Disclosure By Locally Incorporated Authorised Institutions” which do not fall under definition of commitments under HKAS 30: Disclosures in Financial Statements of Banks and Similar Financial Institutions.

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other commitments				
With an original maturity of under one year or which are unconditionally cancellable	5,798,306	4,238,580	5,798,306	4,238,580
With an original maturity of one year and over	4,486,629	3,609,483	4,486,629	3,609,483
	<u>10,284,935</u>	<u>7,848,063</u>	<u>10,284,935</u>	<u>7,848,063</u>

34. CONTINGENT LIABILITIES AND COMMITMENTS - continued

Included under “capital commitments” are as follows:

	THE GROUP		THE BANK	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– property and equipment	77,725	133,110	77,725	133,110
– investments in funds	150,242	236,478	150,242	236,478
	<u>227,967</u>	<u>369,588</u>	<u>227,967</u>	<u>369,588</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$3,329,570,000 (2005: HK\$2,820,689,000).

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

	THE GROUP AND THE BANK	
	2006	2005
	HK\$'000	HK\$'000
Within one year	6	500
In the second to fifth years inclusive	2	–
	<u>8</u>	<u>500</u>

35. RETIREMENT BENEFITS SCHEME

At the balance sheet date, the Group had two retirement schemes in operation, a non-contributory defined benefit scheme which was registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) in 1995 and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme stayed within the ORSO Scheme or switched to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the “participating members”). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The Group operates the ORSO Scheme (Defined Benefit) for qualifying employees. Under the ORSO Scheme (Defined Benefit), the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 55. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 50 percent of final salary depending on years of service completed at the time of retirement.

The most recent actuarial valuation of the ORSO Scheme was carried out as at 31 December 2004 by the qualified actuaries of Watson Wyatt Hong Kong Limited. The accrued liabilities and future costs were measured using the Projected Unit Credit method.

At the date of the latest formal independent actuarial valuation made at 31 December 2004, the market value of the ORSO Scheme (Defined Benefit) assets was HK\$37,262,000 which was sufficient to cover the Aggregate Vested Liability and Aggregate Past Service Liability on that date. The Bank carries out actuarial valuation with sufficient regularity and determines that the valuation made on 31 December 2004 does not differ materially from 31 December 2006, had a valuation been done on the later date.

The directors were of the opinion that the fair value of ORSO Scheme (Defined Benefit) assets did not differ materially from the present value of obligations on 31 December 2006 and 2005.

36. RELATED PARTY TRANSACTIONS

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

	Purchase of a subsidiary		Interest, commission and rental income		Interest and rental expenses	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and their subsidiaries	-	212,000	4,580	7,899	16,663	13,915
Jointly controlled entities	-	-	8,387	6,555	11,728	8,423
Directors and their associates	-	-	43,562	36,127	24,869	14,172

The above transactions were carried out at market rates.

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

	Amounts due from related parties		Amounts due to related parties	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and subsidiaries	77,785	139,478	127,187	318,089
Jointly controlled entities	31,000	31,000	147,701	188,594
Directors and their associates	1,006,461	1,255,108	618,282	537,559

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

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36. RELATED PARTY TRANSACTIONS - continued

During the year, the Bank entered into the following material transactions with subsidiaries:

	Interest, commission and rental income		Interest and rental expenses		Computer service expense		Dividend income		Purchase of land and building	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>2,773</u>	<u>479</u>	<u>19,102</u>	<u>15,928</u>	<u>26,877</u>	<u>27,133</u>	<u>100,000</u>	<u>-</u>	<u>650,000</u>	<u>-</u>

The above transactions were carried out at market rates.

At the balance sheet date, the Bank had the following material outstanding balances with subsidiaries:

	Amounts due from		Amounts due to	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>4,677</u>	<u>33,305</u>	<u>616,592</u>	<u>426,081</u>

The above outstanding balances are unsecured, non-interest bearing and, in the opinion of the directors, are repayable within three months.

Compensation of key management personnel

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

	THE GROUP AND THE BANK	
	2006	2005
	HK\$'000	HK\$'000
Short-term benefits	44,048	38,192
Post employment	<u>2,892</u>	<u>2,444</u>
	<u>46,940</u>	<u>40,636</u>

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

37. COMPARATIVE FIGURES

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

The unaudited supplementary financial information regarding corporate governance, risk management and other financial information disclosed pursuant to the Supervisory Policy Manual FD-1 “Financial Disclosure By Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority is as follows :

1. SPECIALISED COMMITTEES

The Board of Directors of the Bank (the “Board”) is constituted in accordance with the Bank’s Articles of Association and is the ultimate governing body. In order to ensure that matters arising between meetings of the Board are handled properly and timely, the Board delegates the day-to-day supervision of major functional areas to the following specialised committees. These committees are established with clearly defined objectives, authorities, responsibilities and tenure. Written terms of reference are approved by the Board and are up-dated appropriately.

(i) Executive Committee

The Executive Committee comprises all executive directors of the Bank.

It is authorised by the Board to exercise all such powers and do all such acts as may be exercised, done or approved by Board, thus relieving the full Board of detailed review of information and operational activities. The Executive Committee steers the Group’s policy and operational decisions on a day-to-day basis, and attends to matters that require the review and supervision of the Board between regular board meetings. Moreover, it also coordinates the work of other committees as it sees fit.

(ii) Executive Management Committee

Members of the Executive Management Committee, comprising the Managing Director and Chief Executive Officer and certain other executive directors and division heads, are responsible for managing the day-to-day business and the affairs of the Bank group. The Executive Management Committee holds regular meetings twice a week to discuss and formulate operation and management policies, discuss significant daily operational issues, review key business performance, and discuss business opportunities arising from changing market and competitive conditions. In performing its functions, the Executive Management Committee shall act in accordance with the directions and requirements as may from time to time be stipulated by the Board.

(iii) Executive Loans Committee

The Executive Loans Committee comprises all executive directors of the Bank.

The Executive Loans Committee is established to guide and review the operations of, and to delegate proper authorities as it deems appropriate from time to time to the Loans Committee. It also approves large and certain specific new loan applications and applications for renewal and amendment of existing loans, having due regard to the Group’s Lending Policy and the relevant laws and regulations.

1. SPECIALISED COMMITTEES - continued

(iv) Loans Committee

Members of the Loans Committee are appointed by the Board. It comprises senior staff members of the Bank including the executive director in charge of the Credit Control Division.

The Loans Committee ensures that the Group's Lending Policy is adequate, and issues guidelines from time to time to guide lending activities of the Group. It also directs the Credit Risk Management Department to monitor loans portfolio quality through identifying problems early and taking timely corrective actions such as implementing debt-restructuring schemes and maintaining adequate provisions for loan losses. The Loans Committee members meet regularly to evaluate loan applications and make credit decisions. The monitoring of compliance with statutory lending limits, the assessment and approval of new loan products, the implementation of policies and instructions set by the Executive Loans Committee are other key functions of the Loans Committee.

(v) The Asset and Liability Management Committee (the "ALCO")

Members of the ALCO are appointed by the Board. It comprises senior staff members representing major divisions of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets and liabilities of the Group from the perspective of containing the pertinent liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's balance sheet, the formulation of the corresponding strategies and plans, and the evaluation of non-credit related products also come under other key functions of the ALCO.

(vi) The Risk Management and Compliance Committee (the "RMCC")

Members of the RMCC are appointed by the Board. It comprises senior staff members who are responsible for risk management, compliance issues and operations of the Bank.

The RMCC is established to facilitate the oversight of the Board concerning risk management and compliance issues of the Bank. The RMCC discharges its responsibilities by identifying and analysing major risk management and compliance issues, and by approving and overseeing the implementation of the risk management and compliance policies and procedures. The RMCC also takes charge of coordinating and monitoring the implementation of the recommendations made by the regulators. Regular reports as prepared by the RMCC are submitted to the Board.

Details concerning composition and functions of Audit Committee and Remuneration Committee are set out in Corporate Governance Report.

In the opinion of the directors, the Bank has fully complied with the Supervisory Policy Manual CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" which was issued by the Hong Kong Monetary Authority.

2. RISK MANAGEMENT

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees and departments of the Group and are regularly reviewed by the Board. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the ALCO. The ALCO holds weekly meetings, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and RMCC policies are monitored by the Treasury Management and the Finance Departments with the assistance of various qualitative and quantitative analyses.

In addition to complementing the ALCO in the management of assets and liabilities, the RMCC also oversees the implementation of the policies and procedures established for managing the Group's operational, legal, and reputation risks and compliance requirements.

(i) Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio has remained well above the statutory minimum ratio of 8% for the past five financial years.

(ii) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures.

Executive directors, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

2. RISK MANAGEMENT - continued

(iii) Reputation risk

Reputation risk is the risk to earnings or capital rising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on our behalf do not jeopardise our reputation.

Details of the Group's credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in Note 7 to the financial statements.

3. SEGMENTAL INFORMATION

The Group's information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets.

	2006					
	Total	Profit	Total	Total	Total	Capital
	operating	before			contingent	
	income	taxation	assets	liabilities	liabilities and	expenditure
HK\$'000	HK\$'000	HK\$'000	HK\$'000	commitments	during the year	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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>

	2005					
	Total	Profit	Total	Total	Total	Capital
	operating	before			contingent	
	income	taxation	assets	liabilities	liabilities and	expenditure
HK\$'000	HK\$'000	HK\$'000	HK\$'000	commitments	during the year	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	921,944	448,116	46,976,330	41,530,478	9,515,592	44,823
Asia Pacific (excluding Hong Kong)	16,494	19,035	2,304,042	1,989,216	45,648	532
America	31,543	1,650	693,380	620,922	48,488	46
Total	<u>969,981</u>	<u>468,801</u>	<u>49,973,752</u>	<u>44,140,616</u>	<u>9,609,728</u>	<u>45,401</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

4. 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 the business activities of the borrowers as follows:

	2006 HK\$'000	2005 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	1,576,165	1,609,344
– Property investment	6,073,467	5,853,131
– Financial concerns	1,555,454	1,229,845
– Stockbrokers	420,851	321,693
– Wholesale and retail trade	768,422	569,231
– Manufacturing	1,114,492	839,950
– Transport and transport equipment	326,560	210,865
– Others	4,883,129	4,461,475
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	676,673	790,925
– Loans for the purchase of other residential properties	3,476,285	3,403,990
– Credit card advances	127,460	125,134
– Others	1,315,471	1,222,148
	<u>22,314,429</u>	<u>20,637,731</u>
Trade finance	823,153	653,624
Loans for use outside Hong Kong	3,736,956	3,005,289
	<u>26,874,538</u>	<u>24,296,644</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

5. 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:

	Total advances		Advances overdue for over three months	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	24,417,811	21,712,908	320,852	510,679
People's Republic of China	271,592	346,814	124,806	165,146
Macau	1,460,076	1,131,352	–	–
America	356,916	554,673	–	–
Others	368,143	550,897	–	–
Total	<u>26,874,538</u>	<u>24,296,644</u>	<u>445,658</u>	<u>675,825</u>

6. 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:

	2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	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	3,471,632	1,278	3,980	3,476,890
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	6,544,341	63,428	1,188,122	7,795,891
– of which – Australia	3,053,656	1,077	102,101	3,156,834
North America	1,490,869	16,235	991,315	2,498,419
Europe	11,244,111	2,259	383,957	11,630,327
– of which – United Kingdom	2,696,447	1,099	356,529	3,054,075
– of which – Germany	3,666,446	999	8,603	3,676,048
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

7. 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:

	2006			Total
	US\$	MOP	RMB	
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	(455,999)	–	–	(455,999)
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>
	2005			Total
	US\$	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	10,218,181	84,168	302,187	10,604,536
Spot liabilities	(10,120,222)	(74,005)	(294,232)	(10,488,459)
Forward purchases	72,533	–	–	72,533
Forward sales	(156,901)	(4,004)	–	(160,905)
Net long position	<u>13,591</u>	<u>6,159</u>	<u>7,955</u>	<u>27,705</u>
				MOP
Net structural position				<u>48,545</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

8. OVERDUE AND RESCHEDULED ASSETS

	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	<u>356,618</u>	<u>1.3</u>
Total overdue advances	<u><u>445,658</u></u>	<u><u>1.6</u></u>
Rescheduled advances	<u><u>257,203</u></u>	<u><u>1.0</u></u>
	2005	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
– 6 months or less but over 3 months	62,520	0.3
– 1 year or less but over 6 months	24,381	0.1
– over 1 year	<u>588,924</u>	<u>2.4</u>
Total overdue advances	<u><u>675,825</u></u>	<u><u>2.8</u></u>
Rescheduled advances	<u><u>300,473</u></u>	<u><u>1.2</u></u>

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

	2006 HK\$'000	2005 HK\$'000
Total overdue advances	<u><u>445,658</u></u>	<u><u>675,825</u></u>
Secured amount	430,789	655,448
Unsecured amount	<u>14,869</u>	<u>20,377</u>
	<u><u>445,658</u></u>	<u><u>675,825</u></u>
Market value of security	<u><u>704,123</u></u>	<u><u>977,315</u></u>

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 31 December 2006 and 31 December 2005, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 31 December 2006 amounted to HK\$103,480,000 (2005: HK\$146,822,000).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

9. CAPITAL ADEQUACY AND LIQUIDITY RATIO

	2006	2005
	%	%
Capital adequacy ratio at 31 December		
– Unadjusted	<u>15.60</u>	<u>15.20</u>
– Adjusted	<u>15.59</u>	<u>15.19</u>
Average liquidity ratio for the year	<u>55.65</u>	<u>49.13</u>

The capital adequacy ratio is calculated as the ratio, expressed as a percentage, of the capital base to the risk assets, as specified in the Third 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.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is calculated on the same basis as the unadjusted capital adequacy ratio and in accordance with the Guideline “Maintenance of Adequate Capital Against Market Risks” issued by the Hong Kong Monetary Authority.

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.

10. OTHER FINANCIAL INFORMATION

The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return are as follows:

	2006	2005
	HK\$’000	HK\$’000
Core capital		
Paid up ordinary share capital	217,500	217,500
Share premium account	1,542,817	1,542,817
Reserves (eligible for inclusion in core capital)	<u>3,393,806</u>	<u>3,266,501</u>
	5,154,123	5,026,818
Eligible supplemental capital		
Reserves on revaluation of land and interests in land	27,835	24,722
Reserves on revaluation of holding of securities not held for trading purposes	42,368	40,646
Impairment allowance under collective assessment and regulatory reserve	269,464	254,770
Subordinated debt	<u>967,376</u>	–
Total capital base before deductions	6,461,166	5,346,956
Deductions from total capital base	<u>(633,406)</u>	<u>(493,223)</u>
Total capital base after deductions	<u>5,827,760</u>	<u>4,853,733</u>

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as at 7 March 2007

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HEAD OFFICE	24 Des Voeux Road Central, Hong Kong	3768 1111
HONG KONG ISLAND BRANCHES		
Aberdeen	166-168 Aberdeen Main Road	2553 9472
Causeway Bay	488 Jaffe Road	2893 6225
Happy Valley	1-9 Yuk Sau Street	2575 3201
North Point	376 King's Road	2570 0585
Sai Ying Pun	81-85 Des Voeux Road West	2547 6513
Shau Kei Wan	203-205 Shau Kei Wan Road	2560 6277
Sheung Wan	163 Wing Lok Street	2543 0653
Wan Chai	265-267 Hennessy Road	2511 3931
Western	347-349 Des Voeux Road West	2547 3809
KOWLOON BRANCHES		
Castle Peak Road	285-287 Castle Peak Road	2387 2421
Cho Yiu Chuen	G/F, Block C, King Cho Road	2742 2211
Hoi Lai Estate	Shop No. 112, Hoi Lai Shopping Centre Hoi Lai Estate, Sham Shui Po	3514 6477
How Ming Street	114 How Ming Street	2342 6386
Jordan	G/F, 120 Woosung Street, Jordan	2735 8559
Kowloon City	31-33 Nga Tsing Wai Road	2382 7392
Kwong Tin Estate	No. 205, Shopping Centre, Kwong Tin Estate	2717 2414
Kwun Tong	31-33 Mut Wah Street	2342 7328
Lai Chi Kok Road	139 Lai Chi Kok Road	2391 1573
Lei Yue Mun	LG1, Lower Ground Floor, Lei Yue Mun Plaza Yau Tong	2772 6320
Mongkok	591 Nathan Road	3768 0001
San Po Kong	55-57 Yin Hing Street	2325 5303
Sham Shui Po	144-148 Tai Po Road	2777 4441
Shun Lee Estate	Lee Yat House, Shun Lee Estate	2342 7141
Tak Tin Estate	No. 207, Shopping Centre, Tak Tin Estate	2775 1175
To Kwa Wan	34-34A Tam Kung Road	2711 4404
Tsim Sha Tsui	16 Granville Road	2369 4091
Tsz Wan Shan	60-64 Sheung Fung Street	2327 0913

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NEW TERRITORIES BRANCHES		
Butterfly Estate	Shop Nos. 131-134, Level 1, Tip Ling House Butterfly Shopping Centre, Butterfly Estate Tuen Mun	2463 9263
Cheung Fat Estate	Shop Nos. 304 & 311, Level 3 Cheung Fat Shopping Centre Cheung Fat Estate, Tsing Yi	2495 7697
Fanling	2 Wo Lung Street, Luen Wo Market, Fanling	2675 6203
Fu Tai Estate	Shop 101, Level 1, Fu Tai Shopping Centre Fu Tai Estate, Tuen Mun	2453 7630
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Sha Tin	2641 1911
Kwai Chung Estate	Shop 111, Podium Level 1 Kwai Chung Shopping Centre Kwai Chung Estate, Kwai Chung	2279 4161
On Ting Estate	Shop No. 103, Level 1, Restaurant Block On Ting Shopping Centre, On Ting Estate Tuen Mun	2441 7117
Sheung Shui	71 San Fung Avenue, Sheung Shui	2670 6295
Sheung Tak Estate	Shop No. 237, Sheung Tak Shopping Centre Sheung Tak Estate, Tseung Kwan O	2178 1203
Tin Chak Estate	Shop 112, Level 1, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	2486 3423
Tin Tsz Estate	Shop No. 110, 1/F, Tin Tsz Shopping Centre Tin Tsz Estate, Tin Shui Wai	2616 4618
Tsuen Wan	Jade Plaza, 298 Sha Tsui Road, Tsuen Wan	2408 7481
Tuen Mun Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	2453 0181
Wan Tau Tong Estate	Shop Nos. 11-12A, Wan Loi House Wan Tau Tong Estate, Tai Po	2656 4313
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3141 7115
Yuen Long	99-109 Castle Peak Road, Yuen Long	2475 5307

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SUBSIDIARIES	
Card Alliance Company Limited	
Chong Hing Commodities and Futures Limited	
Chong Hing Finance Limited	
Chong Hing Information Technology Limited (formerly known as “Liu Chong Hing Data Processing Limited”)	
Chong Hing Insurance Company Limited	
Chong Hing (Management) Limited (formerly known as “Liu Chong Hing (Management) Limited”)	
Chong Hing (Nominees) Limited (formerly known as “Liu Chong Hing (Nominees) Limited”)	
Chong Hing Securities Limited	
Gallbraith Limited	
Liu Chong Hing Banking Corporation, Cayman	
Right Way Investments Limited	
AFFILIATES	
Liu Chong Hing Investment Limited	
COSCO Pacific Limited	
The Bank of Tokyo-Mitsubishi UFJ, Ltd	