Wing Hang Bank, Limited

(incorporated with limited liability in Hong Kong)

US$2,000,000,000
Medium Term Note Subordinated Programme

Under this US$2,000,000,000 Medium Term Note Subordinated Programme (the **Programme**), Wing Hang Bank, Limited (the **Issuer** or the **Bank**), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**) and may be dated or undated. No senior notes may be issued under the Programme. The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for the listing and quotation of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Permission for such listing and quotation will be granted when such notes have been admitted to the official list of the SGX-ST (the **Official List**). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, and the admission of any Notes to the Official List of, the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or the Notes. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the SGX-ST, will be delivered to the SGX-ST on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**), and are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*".

The Issuer may agree with any Dealer and the Trustee (as defined herein) that the Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes intended to be listed on the SGX-ST) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

See "Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Arrangers

ABN AMRO	**Deutsche Bank**	**HSBC**

Dealers

ABN AMRO	**Citi**	**Deutsche Bank**
HSBC	**JPMorgan**	**Merrill Lynch International**
Morgan Stanley	**The Royal Bank of Scotland**	**UBS Investment Bank**

The date of this Offering Circular is 31 July 2008

To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything that would make the statements therein, in light of the circumstances which they were made, misleading. The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issue and offering of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

No person is or has been authorised by the Issuer or the Trustee to give any information or to make any representations other than those contained in this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Dealers or the Trustee.

Neither the Arrangers (as specified under "*Summary of the Programme*"), the Dealers nor the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers, the Trustee or any of them as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Arrangers, the Dealers or the Trustee that any recipient of this Offering Circular should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, any of the Arrangers or the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arrangers, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Arrangers, the Dealers and the Trustee represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arrangers, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and

regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom), Singapore, Japan and the Hong Kong Special Administrative Region (Hong Kong). See "***Subscription and Sale***"**.**

CERTAIN DEFINED TERMS, CONVENTIONS AND CURRENCY OF PRESENTATION

The Bank and the Bank's consolidated subsidiaries (the **Group**) publishes its financial statements in Hong Kong dollars. References to **HK$**, **HK dollars** and **Hong Kong dollars** are to the currency of the Hong Kong Special Administrative Region of the People's Republic of China. References to **MOP** and **Macau Patacas** are to the currency of the Macau Special Administrative Region of the People's Republic of China (**Macau**). References to **US$** or **US dollars** are to the currency of the United States of America (the **United States or U.S.**). References to **Renminbi** and **RMB** are to the currency of the People's Republic of China (excluding Hong Kong and Macau) (**Mainland China**). References to **Greater China** are to the People's Republic of China including Hong Kong and Macau. References to the **HKMA** are to the Hong Kong Monetary Authority. References to the **Hong Kong Government** are to the government of Hong Kong. Any discrepancies in the tables in this Offering Circular between the amounts listed and the totals thereof are due to rounding. Unless otherwise specified, the financial information in this Offering Circular is presented on a consolidated basis for the Bank and its consolidated subsidiaries. Certain figures in this Offering Circular for the years ended 31 December 2006 and 31 December 2005 have been reclassified to conform with the presentation for the year ended 31 December 2007 in order to assist with comparisons made between the figures for different years. Unless otherwise specified, all conversions of Macau Patacas into US dollars were made at the rate of MOP8.0113 and MOP8.0364 to US$1.00, in respect of amounts stated as of or for the years ended 31 December 2006 and 31 December 2007 respectively. Unless otherwise specified, all conversions of Hong Kong dollars into US dollars were made at the rate of HK$7.778 to US$1.00 in respect of amounts stated as of or for the year ended 31 December 2006, and all conversions of Hong Kong dollars into US dollars in respect of amounts stated as of or for the year ended 31 December 2007 were made at the rate of HK$7.8023 to US$1.00. These translations were made for the sole purpose of the reader's convenience and have not been audited. No representation is made that the Hong Kong dollar or US dollar amounts referred therein could have been or could be converted into Hong Kong dollars or US dollars, as the case may be, at any particular rate or at all.

FORWARD-LOOKING STATEMENTS

The Bank has included statements in this Offering Circular which contain words or phrases such as **will, would, aim, aimed, will likely result, is likely, are likely, believe, expect, expected to, will continue, will achieve, anticipate, estimate, estimating, intend, plan, contemplate, seek to, seeking to, trying to, target, propose to, future, objective, goal, project, should, can, could, may, will pursue** and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Bank's expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to market risks and the market acceptance of and demand for Internet banking services. The information contained in this Offering Circular, including without limitation the information under "*Investment Considerations*" and "*Description of the Issuer*", identifies important factors that might cause the forward-looking statements not to be realised.

TABLE OF CONTENTS

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT (PROVIDED THAT, IN THE CASE OF ANY TRANCHE OF NOTES TO BE ADMITTED TO TRADING ON A REGULATED MARKET IN THE EUROPEAN ECONOMIC AREA, THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT OF THE AGGREGATE PRINCIPAL AMOUNT OF THE RELEVANT TRANCHE) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES OF THE SERIES (AS DEFINED BELOW) OF WHICH SUCH TRANCHE FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT

TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(a) the most recently published audited financial statements of the Issuer and the most recently published unaudited interim financial results of the Issuer; and

(b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office at 40th Floor, One Canada Square, London E14 5AL, United Kingdom of The Bank of New York Mellon (the **Principal Paying Agent**).

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject to as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

The aggregate nominal amount of Notes issued under the Programme will not, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, exceed US$2,000,000,000 or its equivalent in other currencies. For the purpose of calculating the US dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(a) the US dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in Hong Kong, in each case on the basis of the spot rate for the sale of the US dollar against the purchase of such Specified Currency in the Hong Kong foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;

(b) the US dollar equivalent of Dual Currency Notes and Index Linked Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes; and

(c) the US dollar equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY FINANCIAL AND OTHER INFORMATION

Summary consolidated financial and other information relating to the Group

The following table sets forth the summary consolidated financial and other information relating to the Group as of and for the periods indicated. The summary consolidated historical financial data as of and for the years ended 31 December 2005, 31 December 2006 and 31 December 2007 set forth below are derived from the Group's audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group and the notes thereto included elsewhere in this Offering Circular. The Group's consolidated financial statements are prepared and presented in accordance with all applicable Hong Kong Financial Reporting Standards (**HKFRSs**).

For details of the principal accounting policies for the years ended 31 December 2005, 31 December 2006 and 31 December 2007, please refer to pages F-91 to F-103 and pages F-10 to F-23.

	Year ended 31 December		
	2007	2006 (restated)[1]	2005 (restated)[1]
	(Expressed in thousands of Hong Kong dollars)		
CONSOLIDATED INCOME STATEMENT			
Interest income	7,323,415	6,159,000	4,332,095
Interest expense	(4,905,881)	(4,033,102)	(2,467,095)
Net interest income	2,417,534	2,125,898	1,865,000
Other operating income	1,120,427	793,717	663,201
Net (losses)/gains from financial instruments held for trading and measured at fair value through profit or loss	(246,302)	17,832	92,569
Non-interest income	874,125	811,549	755,770
Operating income	3,291,659	2,937,447	2,620,770
Operating expenses	(1,305,724)	(1,074,369)	(975,789)
Operating profit before impairment losses and allowances charged on loans and advances	1,985,935	1,863,078	1,644,981
Impairment losses and allowances charged on loans and advances	(1,530)	(773)	(54,056)
Operating profit	1,984,405	1,862,305	1,590,925
Gains on revaluation of investment properties and disposal of tangible fixed assets	204,932	54,222	22,680
Gains/(losses) on disposal of available-for-sale financial assets	39,708	13,773	(9,048)
Share of net profits of associated companies	115,178	50,951	11,249
Profit before taxation	2,344,223	1,981,251	1,615,806
Taxation	(310,982)	(319,138)	(264,861)
Profit after taxation	2,033,241	1,662,113	1,350,945
Profit attributable to:			
Shareholders of the Bank	2,030,564	1,660,716	1,348,718
Minority interests	2,677	1,397	2,227
Profit after taxation	2,033,241	1,662,113	1,350,945

	As of 31 December		
	2007	2006 (restated)[(1)]	2005 (restated)[(1)]
	(Expressed in thousands of Hong Kong dollars, except percentages)		
CONSOLIDATED BALANCE SHEET			
ASSETS			
Cash and balances with banks, central banks and other financial institutions	3,306,767	2,253,725	1,781,679
Placements with banks, central banks and other financial institutions	28,942,740	27,525,225	19,655,405
Trade bills	363,545	370,549	652,375
Trading assets	1,034,757	738,392	911,264
Financial assets measured at fair value through profit or loss	6,700,285	5,382,956	5,924,424
Advances to customers and other accounts	76,775,985	60,704,258	55,472,883
Held-to-maturity and available-for-sale financial assets	18,891,888	22,218,593	17,183,524
Investments in associated companies	298,189	197,906	146,955
Tangible fixed assets			
— Investment properties	286,898	258,390	231,447
— Other properties, plants and equipment	1,742,570	1,635,398	1,506,041
Goodwill	1,306,430	847,422	847,422
Current tax recoverable	151	1,074	1,211
Deferred tax assets	7,057	16,679	7,986
TOTAL ASSETS	139,657,262	122,150,567	104,322,616
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	2,817,714	1,692,887	1,703,026
Deposits from customers	113,968,986	102,066,947	85,673,452
Certificates of deposit issued	3,309,204	3,715,303	3,824,339
Trading liabilities	765,344	590,899	865,962
Current tax payable	153,879	152,706	102,798
Deferred tax liabilities	188,564	105,274	91,570
Other accounts and provisions	2,286,646	1,981,978	1,203,530
Subordinated liabilities	5,658,889	2,527,850	2,519,888
Total liabilities	129,149,226	112,833,844	95,984,565
Share capital	294,964	294,221	294,021
Reserves	10,190,387	9,002,494	8,021,919
Shareholders' funds	10,485,351	9,296,715	8,315,940
Minority interests	22,685	20,008	22,111
Total equity	10,508,036	9,316,723	8,338,051
TOTAL EQUITY AND LIABILITIES	139,657,262	122,150,567	104,322,616

Note:

(1) Comparative figures for the years ended 31 December 2006 and 31 December 2005 have been reclassified to conform with the presentation for the year ended 31 December 2007. For details of the reclassification, see "Index to the Financial Statements — Exhibit A — Notes to the Financial Statements — Note 4"

TIER I AND TIER II CAPITAL BASE[1]

	As of 31 December		
	2007	2006	2005
	(Expressed in thousands of Hong Kong dollars)		
Core capital			
Paid-up ordinary share capital	294,964	294,221	294,021
Share premium	456,329	378,421	359,929
Published reserves	7,110,192	6,541,502	5,838,021
Profit and loss account	458,498	694,038	623,129
Less: Goodwill	(1,306,430)	(847,422)	(847,422)
Total core capital before deductions	7,013,553	7,060,760	6,267,678
Less: deductions from core capital	(134,544)	—	—
Total core capital after deductions	6,879,009	7,060,760	6,267,678
Supplementary capital			
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	196,124	191,836	190,993
Reserves attributable to fair value (losses)/gains on revaluation of holdings of available-for-sale equities and debt securities	—	(88,791)	5,699
Regulatory reserve for general banking risks	722,615	417,665	336,176
Collective impairment allowances	136,263	169,002	208,498
Perpetual subordinated debt	3,120,920	—	—
Term subordinated debt	2,535,747	2,527,850	2,519,888
Total supplementary capital before deductions	6,711,669	3,217,562	3,261,254
Less: deductions from supplementary capital	(134,544)	—	—
Total supplementary capital after deductions	6,577,125	3,217,562	3,261,254
Total capital base before deductions	—	10,278,322	9,528,932
Total deductions from total capital base	—	(405,324)	(405,324)
Total capital base after deductions	13,456,134	9,872,998	9,123,608
Total deductions from the core capital and supplementary capital	269,088	405,324	405,324

OTHER SELECTED FINANCIAL DATA

	2007	2006	2005
Loan to Deposit Ratio	62.1	54.6	59.7
Capital Adequacy Ratio[1]	16.7	15.2	14.9
Average Liquidity Ratio	50.4	51.6	50.8
Return on Average Assets	1.53	1.47	1.35
Return on Average Shareholders' Funds	20.5	18.9	17.1

Note:

(1) The capital adequacy ratio and the capital base as at 31 December 2007 are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority (**HKMA**) for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007. The capital adequacy ratios and the capital base as at 31 December 2006 and 31 December 2005 were computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance and adjusted in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. Accordingly, the capital adequacy ratio and the capital base as at 31 December 2007 are not directly comparable to the capital adequacy ratios and the capital base as at 31 December 2006 and 31 December 2005.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this summary.

Issuer:	Wing Hang Bank, Limited, a company incorporated with limited liability in Hong Kong.
Description:	Medium Term Note Subordinated Programme
Arrangers:	ABN AMRO Bank N.V., Deutsche Bank AG, Singapore Branch and The Hongkong and Shanghai Banking Corporation Limited
Dealers:	ABN AMRO Bank N.V., Citigroup Global Markets Limited, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities Ltd., Merrill Lynch International, Morgan Stanley & Co. International plc, The Royal Bank of Scotland plc and UBS AG and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular.
Trustee:	The Bank of New York Mellon, acting through its London branch
Principal Paying Agent and Agent Bank:	The Bank of New York Mellon, acting through its London branch
Transfer Agent:	The Bank of New York Mellon, acting through its London branch
Registrar:	The Bank of New York Mellon, acting through its New York branch
CMU Lodging Agent:	The Bank of New York Mellon, acting through its Hong Kong branch
Programme Size:.	Up to US$2,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies:	Subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount, or offered and sold at their nominal amount and redeemed at a premium, and will not bear interest.
Redemption:	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or subject to the terms of the relevant Notes following an Event of Default) or that such Notes will be redeemable at the option of the Issuer upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.
Denomination of Notes:.	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above.
Taxation:	All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made without deduction for or on account of withholding taxes imposed by Hong Kong, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Status, Events of Default and other terms of the Notes:	The Notes will be Dated Notes or Undated Notes as indicated in the applicable Pricing Supplement. The status of the Notes and events of default applicable to the Notes are set out in Conditions 3 and 10.1, respectively.
Listing:	Approval in-principle has been received from the SGX-ST for the listing and quotation of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Permission for such listing and quotation will be granted when such Notes have been admitted to the Official List. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000 (or its equivalent in other currencies). Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).
Governing Law:	The Notes and the Trust Deed will be governed by, and construed in accordance with, English law, except that the provisions of the Notes and the Trust Deed relating to subordination shall be governed by, and construed in accordance with, the laws of Hong Kong.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Singapore, Japan and Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".
United States Selling Restrictions: .	Regulation S, Category 1 or 2, as specified in the applicable Pricing Supplement. TEFRA C or D/TEFRA not applicable, as specified in the applicable Pricing Supplement.
Clearing Systems:	The CMU Service, Clearstream, Luxembourg, Euroclear and/or any other clearing system as specified in the applicable Pricing Supplement, see "*Form of the Notes*".

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. The Notes will be issued outside the United States to non-U.S. persons in reliance on Regulation S. The Notes to be listed on the SGX-ST will be accepted for clearance through Euroclear Bank S.A./N.V. (**Euroclear**) and Cleanstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and may also by accepted for clearance through the CMU Service (as defined below).

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a temporary bearer global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Pricing Supplement, a permanent bearer global note (a **Permanent Bearer Global Note**, together with any Temporary Bearer Global Note, the **Bearer Global Notes**) which, in either case, will be delivered on or prior to the issue date of the relevant Tranche to either (i) a common depositary (the **Common Depositary**) for, Euroclear Bank and Clearstream, Luxembourg or (ii) a sub-custodian for the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority (the **CMU Service**).

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and/or the CMU Lodging Agent and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream, Luxembourg) Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent (as defined in "*Terms and Conditions of the Notes*").

On and after the date (the **Exchange Date**) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after such issue, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that the purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU Service may require that any such exchange for a Permanent Global Bearer Note is made in whole and not in part and, in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) have so certified.

The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU Service, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU Service) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice (i) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (ii) in the case of Notes held through the CMU Service, from the relevant account holders therein to the CMU Lodging Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have, or in the case of Notes cleared through the CMU Service, the CMU Service has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Luxembourg, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through the CMU Service, the relevant account holders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg or the CMU Service, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a **Registered Global Note**, together with any Bearer Global Note, the **Global Notes**). Prior to expiry of the distribution compliance period (as defined in Regulation S), if any, applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg or the CMU Service and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Registered Global Notes will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear, Clearstream, Luxembourg and the CMU Service (if applicable), as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Notes in fully registered form.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Issuer, the Trustee, the Principal Paying Agent, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Notes in definitive form or (iii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and, in the case of Notes cleared through the CMU Service, the CMU Service have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) of the definition of such, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg or the CMU Service, in each case to the extent applicable.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent or, as the case may be, the CMU Lodging Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act), if any, applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg or the CMU Service, each person (other than Euroclear and/or Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear and/or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purposes the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder (as defined under "*Terms and Conditions of the Notes*") shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for Definitive Notes. In addition, in the event that any of the Global Notes is exchanged for Definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the paying agent in Singapore.

APPLICABLE PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

Wing Hang Bank, Limited

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the US$2,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 31 July 2008. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated 31 July 2008, save in respect of the Conditions which are extracted from the Offering Circular dated [*original date*] and are attached hereto.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement*]

1.	Issuer:		Wing Hang Bank, Limited
2.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[●]
	(b)	Tranche:	[●]
5.	[(a)]	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(b)	Net Proceeds:	[●] (*required only for listed issues*)]

6.	(a) Specified Denominations:	[●] (*Note — where multiple denominations above [€ 50,000] or equivalent are being used with respect to Bearer Notes, the following sample wording should be followed:* *"[€ 50,000] and integral multiples of [€ 1,000] in excess thereof up to and including [€ 99,000]. No Notes in definitive form will be issued with a denomination above [€ 99,000]."*) (*N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the minimum denomination is not required.*) *(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made.)*
	(b) Calculation Amount:	[●] (*If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.*)
7.	(a) Issue Date:	[●]
	(b) Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
8.	Maturity Date:	[*Fixed rate - specify date/Floating rate - Interest Payment Date falling on or about* [*specify month and year*]][1]
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Instalment] [*specify other*]
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Call Option:	[Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	[Dated/Undated]
	(b) Date Board approval for issuance of Notes obtained:	[●] [and [●], respectively] [None required] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)

1 Note that for Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

14.	Listing:	[Singapore/*specify other*/None]
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/*specify other*] in arrear] (*If payable other than annually, consider amending Condition 5*)
	(b)	Interest Payment Date(s):	[[●] in each year[2] up to and including the Maturity Date]/[*specify other*] (*N.B. This will need to be amended in the case of long or short coupons*)
	(c)	Fixed Coupon Amount(s): (Applicable to Notes in definitive form)	[●] per Calculation Amount [3]
	(d)	Broken Amount(s): (Applicable to Notes in definitive form)	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]
	(f)	[Determination Date(s):	[●] in each year (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon[2] N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration[2] N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]*
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*Give details*]
17.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(b)	First Interest Payment Date:	[●]
	(c)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]

2 Note that for certain Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [●]."

3 For Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest HK$0.01, HK$0.005 being rounded upwards."

	(d)	Additional Business Centre(s):	[●]
	(e)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(f)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[●] *(The Principal Paying Agent will not act as Calculation Agent for Floating Rate Notes where ISDA Determination is specified in sub-paragraph 17(e))*
	(g)	Screen Rate Determination:	
		• Reference Rate:	[●] (*Either LIBOR, EURIBOR, HIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement*)
		• Interest Determination Date(s):	[●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
		• Relevant Screen Page:	[●] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
	(h)	ISDA Determination:	
		• Floating Rate Option:	[●]
		• Designated Maturity:	[●]
		• Reset Date:	[●]
	(i)	Margin(s):	[+/-] [●] per cent. per annum
	(j)	Minimum Rate of Interest:	[●] per cent. per annum
	(k)	Maximum Rate of Interest:	[●] per cent. per annum
	(l)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) *Other*] (*See Condition 5 for alternatives*)
	(m)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
18.	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[●] per cent. per annum

	(b)	Reference Price:	[●]
	(c)	Any other formula/basis of determining amount payable:	[●]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 7.4(c) and 7.8 apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
19.	Index Linked Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Index/Formula:	[*Give or annex details*]
	(b)	Calculation Agent:	[*give name*]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[●]
	(d)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(e)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(g)	Additional Business Centre(s):	[●]
	(h)	Minimum Rate of Interest:	[●] per cent. per annum
	(i)	Maximum Rate of Interest:	[●] per cent. per annum
	(j)	Day Count Fraction:	[●]
20.	Dual Currency Interest Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*Give or annex details*]
	(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the Principal Paying Agent):	[●]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[●]
	(b) Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*]
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	[●] per Calculation Amount
	(ii) Maximum Redemption Amount:	[●] per Calculation Amount
	(d) Notice period (if other than as set out in the Conditions):	[●] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee*)
22.	Final Redemption Amount:	[●] per Calculation Amount/*specify other*/see Appendix]
23.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.4):	[●] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	[Bearer Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Bearer Notes: Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Bearer Notes: Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Registered Notes: Registered Global Note ([●] nominal amount)]

		(*Ensure that this is consistent with the wording in the "Form of the Notes" section in the Offering Circular and the Notes themselves. N.B. The exchange upon notice/at any time options for Bearer Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€] and integral multiples of [€] in excess thereof up to and including [€].*" Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)
25.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details*] (*Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 17(d) and 19(g) relate*)
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Details relating to Instalment Notes:	
	(a) Instalment Amount(s):	[Not Applicable/*give details*]
	(b) Instalment Date(s):	[Not Applicable/*give details*]
28.	Redenomination applicable:	Redenomination [not] applicable *(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
29.	Other terms:	[Not Applicable/*give details*]

DISTRIBUTION

30.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
31.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
32.	U.S. Selling Restrictions:	[Reg. S Category 1/2]; TEFRA D/TEFRA C/TEFRA not applicable]
33.	Additional selling restrictions:	[Not Applicable/give details]

Operational Information

34.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[CMU/Not Applicable/*give name(s) and number(s)*]
35.	Delivery:	Delivery [against/free of] payment

36. Additional Paying Agent(s) (if any): [●]

ISIN: [●]

Common Code: [●]

(insert here any other relevant codes such as a CMU instrument number)

[LISTING APPLICATION

This Pricing Supplement comprises the pricing supplement required to list the issue of Notes described herein pursuant to the US$2,000,000,000 Medium Term Note Programme of Wing Hang Bank, Limited.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

The Singapore Exchange Securities Trading Limited (the **SGX-ST**) assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Pricing Supplement. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Programme or the Notes.

Signed on behalf of the Issuer:

By:

Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each Definitive Note (as defined below), in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and Definitive Note. Reference should be made to "Form of the Pricing Supplement" for a description of the contents of the applicable Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Wing Hang Bank, Limited (the **Issuer**) pursuant to and constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 31 July 2008 made between the Issuer and The Bank of New York Mellon, acting through its London branch (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the currency specified herein or, if none is specified, the currency in which the Notes are denominated (the **Specified Currency**);

(b) any Global Note in bearer form (each a **Bearer Global Note**);

(c) any Global Note in registered form (each a **Registered Global Note**);

(d) any Definitive Notes in bearer form (**Definitive Bearer Notes**, together with the Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Global Note in bearer form; and

(e) any Definitive Notes in registered form (**Definitive Registered Notes**, together with the Registered Global Notes, the **Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 31 July 2008 and made between the Issuer, the Trustee, The Bank of New York Mellon, acting through its London branch as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor principal paying agent), The Bank of New York Mellon, acting through its Hong Kong branch as CMU lodging agent (the **CMU Lodging Agent**, which expression shall include any successor CMU lodging agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), The Bank of New York Mellon, acting through its New York branch as registrar (the **Registrar**, which expression shall include any successor registrar) and The Bank of New York Mellon, acting through its London branch as transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions (the **Conditions**), all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

Interest bearing Definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Definitive Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in the Pricing Supplement attached to or endorsed on this Note which supplement the Conditions and, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Definitive Bearer Notes) the holders of the Notes and (in the case of Definitive Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

The Trustee acts for the benefit of the Noteholders, the Receiptholders and the Couponholders in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices (as set out in the applicable Pricing Supplement).

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 40th Floor, One Canada Square, London, E14 5AL, United Kingdom and at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable during normal business hours at the specified office of each of the Paying Agents and the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of Definitive Bearer Notes or Definitive Registered Notes (together, **Definitive Notes**), serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Notes in bearer form may not be exchanged for Notes in registered form and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be an Undated Note or a Dated Note, as indicated in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to Definitive Bearer Notes, Receipts and Coupons will pass by delivery and title to Definitive Registered Notes will pass upon registration of transfers in the register which is kept by the Registrar in accordance with the provisions of the Trust Deed and the Agency Agreement. The Issuer, the Paying Agents, the Trustee, the Registrar and the Transfer Agents will (except as otherwise required by law) deem and treat the bearer of any Definitive Bearer Note, Receipt or Coupon and the registered holder of any Definitive Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes, but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and/or a sub-custodian for the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the **CMU Service**), each person (other than Euroclear or Clearstream, Luxembourg or the CMU Service) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg or the CMU Service as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or the CMU Service as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrar, the Trustee and the Transfer Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, any Paying Agent, the Registrar, the Trustee and any Transfer Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg and the CMU Service, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg and/or the CMU Service shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, or the CMU Service, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing system acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Registered Notes or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream, Luxembourg or the CMU Service and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear, Clearstream, Luxembourg or the CMU Service shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear, Clearstream, Luxembourg or the CMU Service or to a successor of Euroclear, Clearstream, Luxembourg or the CMU Service or such successor's nominee.

2.2 Transfers of Definitive Registered Notes

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Definitive Registered Note in definitive form of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Definitive Registered Note, or part of a Definitive Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of (i) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note and (ii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 6.4).

2.6 Exchanges and transfers of Definitive Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

3. STATUS OF THE NOTES

3.1 Provisions relating to Dated Notes

If the Notes are specified as Dated Notes in the applicable Pricing Supplement, the Dated Notes and the relative Receipts and Coupons constitute direct, unsecured and, in accordance with this Condition 3.1, subordinated obligations of the Issuer, ranking *pari passu* without any preference among themselves.

In the event of the Winding-Up (as defined in Condition 10.1) of the Issuer, the claims of the Trustee, the Noteholders, the Receiptholders and the Couponholders against the Issuer in respect of the Dated Notes and the relative Receipts and Coupons will be subordinated in right of payment in the manner provided in the Trust Deed to the claims of depositors and all other unsubordinated creditors of the Issuer and will rank, in the event of the Winding-Up of the Issuer, at least *pari passu* in right of payment with all other Subordinated Indebtedness, present and future, of the Issuer in the manner provided in the Trust Deed. Claims in respect of the Dated Notes and the relative Receipts and Coupons will rank in priority to the rights and claims of holders of subordinated liabilities which by their terms rank or are expressed to rank in right of payment junior to the Dated Notes and of all classes of equity securities of the Issuer, including holders of preference shares, if any. Any amounts paid to the Trustee in the Winding-Up of the Issuer as aforesaid will be held on trust for distribution in satisfaction of the claims of unsubordinated creditors to the extent (if any) not fully paid and thereafter in or towards payment of the amounts due under the Dated Notes and the relative Receipts and Coupons. For these purposes, **Subordinated Indebtedness** means all indebtedness of the Issuer which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer, and for this purpose indebtedness shall include all liabilities, whether actual or contingent.

The provisions of this Condition 3.1 apply only to the principal and interest in respect of the Dated Notes and nothing in this Condition 3.1 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

3.2 Provisions relating to Undated Notes

If the Notes are specified as Undated Notes in the applicable Pricing Supplement, the Undated Notes and any relative Receipts and Coupons are direct, unsecured and subordinated obligations of the Issuer, conditional as described below and rank *pari passu* without any preference among themselves.

The rights of the holders of the Undated Notes and any relative Receipts and Coupons will, in the event of the Winding-Up (as defined in Condition 10.1) of the Issuer, be subordinated in right of payment to the claims of Prior Creditors. In the event of the Winding-Up of the Issuer, there shall be payable by the Issuer in respect of each Undated Note (in lieu of any other payment by the Issuer), but subject as provided in this Condition, such amount, if any, as would have been payable to the holder thereof if, at the close of business on the day prior to the commencement of the Winding-Up of the Issuer and thereafter, such Noteholder were the holder of the highest ranking fully paid and validly issued preference share in the capital of the Issuer having a preferential right to a return of assets in the Winding-Up of the Issuer over the holders of all other classes of issued shares (including for this purpose other preference shares issued, but excluding any preference shares which are classified as "Supplementary Capital" for the purpose of capital adequacy under Part XVII of the Banking Ordinance (Cap. 155) of the laws of Hong Kong (the **Banking Ordinance**)) for the time being in the Issuer's capital on the assumption that such preference share was entitled to receive on a return of assets in such Winding-Up of the Issuer an amount (disregarding any tax credit which would have been given in relation to dividends payable on such preference share) equal to the principal amount of such Undated Note together with Arrears of Interest (as defined in Condition 5.5), if any, and accrued interest (other than Arrears of Interest) up to, but excluding, the date of repayment in respect thereof.

The Issuer's obligation to make any payment of interest and, where applicable, any repayment of principal in respect of any Undated Notes is conditional upon the Issuer being able to make such payment and remain Solvent at the time of such payment and immediately thereafter.

For the purposes of this Condition, **Solvent** and **Solvency** means that the Issuer:

(1) is able to pay its debts as they fall due; and

(2) has Assets that exceed its Liabilities (other than its Liabilities to persons in respect of Primary Capital Indebtedness).

The Trust Deed contains provisions requiring a certificate as to the Solvency of the Issuer to be signed by (i) two directors of the Issuer or, (ii) in certain circumstances as provided in the Trust Deed, the Auditors or, (iii) if the Issuer is in Winding-Up, the liquidator of the Issuer, to be delivered to the Trustee prior to any payment of principal or interest. Any such certificate or report shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, the Noteholders and the Couponholders as correct and sufficient evidence of such Solvency.

The obligations of the Issuer in respect of Undated Notes are conditional upon the Issuer being Solvent for the purposes of this Condition 3.2 immediately before and after payment by the Issuer. If this Condition 3.2 is not satisfied, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of Undated Notes may be used to absorb losses without the Issuer being obliged to cease trading.

In the Conditions, the following expressions have the following meanings:

Assets means the unconsolidated gross assets of the Issuer and **Liabilities** means the unconsolidated gross liabilities (including contingent liabilities) of the Issuer, all as shown in the latest published balance sheet having the benefit of an unqualified Auditors' report, but with such adjustments as the Auditors or, if the Issuer is in Winding-Up, the liquidator shall determine to be appropriate;

Auditors means the independent auditor for the time being of the Issuer or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to the provisions of the Conditions and/or the Trust Deed, such other firm of accountants or such financial advisers of recognised standing as may be nominated by the Issuer and approved by the Trustee or, failing such nomination and/or approval, nominated by the Trustee;

Issuer Subordinated Indebtedness means any liability of the Issuer howsoever arising for the payment of money (including (i) the principal and interest payable in respect of dated subordinated notes and (ii) the principal and interest payable in respect of undated subordinated notes) the right to payment of which by the Issuer by the terms whereof is, or is expressed to be, subordinated in the event of a Winding-Up of the Issuer to the claims of all or any of the creditors of the Issuer;

Primary Capital Indebtedness means (i) any money payable under the Undated Notes and (ii) Issuer Subordinated Indebtedness, the right to payment by the Issuer by the terms whereof is, or is expressed to be, subordinated in the event of a Winding-Up of the Issuer to the claims of all or any of the creditors of the Issuer (including all or any of the creditors in respect of any other Issuer Subordinated Indebtedness) so that it ranks *pari passu* with, or junior to, claims against the Issuer in respect of the Undated Notes or is required by the terms of any agreement herebefore or hereafter entered into by the Issuer to be so subordinated but is not so subordinated;

Prior Creditors means creditors of the Issuer (including creditors in respect of the principal and interest payable in respect of notes issued by the Issuer which do not constitute Primary Capital Indebtedness) except creditors in respect of Primary Capital Indebtedness; and

Subsidiary a subsidiary or subsidiary undertaking of the Issuer whose affairs are for the time being required to be fully consolidated in the consolidated financial statements of the Issuer.

3.3 Set-off

Subject to applicable law, no Noteholder, Receiptholder or Couponholder may exercise, claim or plead any right of set-off, compensation, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes, the relative Receipts or the Coupons and each Noteholder, Receiptholder and Couponholder shall, by virtue of being the holder of any Note, Receipt or Coupon, be deemed to have waived all such rights of such set-off, compensation, counter-claim or retention.

In the event that any Noteholder, Receiptholder or Couponholder nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Notes, other than in accordance with this Condition 3, such Noteholder, Receiptholder or Couponholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the Winding Up of the Issuer for distribution by the liquidator and each Noteholder, Receiptholder or Couponholder, by virtue of becoming a holder of any Note, Receipt or Coupon, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

4. REDENOMINATION

4.1 Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders but upon prior notification to the Trustee, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and/or as applicable, the CMU Service and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(c) if Definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent and the Trustee may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:

   (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and

   (ii) in the case of Definitive Notes, by applying the Rate of Interest to the Calculation Amount;

   and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding;

(g) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and

(h) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Principal Paying Agent and the Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

4.2 Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

Treaty means the Treaty establishing the European Community, as amended.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Pricing Supplement:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

(b) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; and

(c) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365.

In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) ***Interest Payment Dates***

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each **Interest Period** (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

In the Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply mutatis mutandis or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Hong Kong and each Additional Business Centre specified in the applicable Pricing Supplement; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified

Currency (if other than London, Hong Kong and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) ***Rate of Interest***

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and

(C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) on the Euro-zone interbank offered rate (**EURIBOR**) or on the Hong Kong interbank offered rate (**HIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR, or Hong Kong time, in the case of HIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the

Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR or HIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(c) ***Minimum Rate of Interest and/or Maximum Rate of Interest***

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) ***Determination of Rate of Interest and calculation of Interest Amounts***

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent or the Calculation Agent (as the case may be) will calculate the amount of interest (the **Interest Amount**) on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "30E/360 (ISDA)" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(e) ***Notification of Rate of Interest and Interest Amounts***

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed by no later than the first day of each Interest Period and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index

Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) ***Determination or Calculation by Trustee***

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest (or shall, at the expense of the Issuer, appoint an agent on its behalf to do so) at such rate as, in its absolute discretion (having such regard to the foregoing provisions of this Condition and the terms of the applicable Pricing Supplement, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(g) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or, if applicable, the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

5.4 Accrual of interest

Each interest-bearing Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

5.5 Deferral of interest on Undated Notes

Where during the 12 calendar months preceding a date on which interest is due to be paid in respect of the Undated Notes no dividend has been declared or paid on any class of share capital of the Issuer, such due date shall be referred to as an **Optional Interest Payment Date**.

The Issuer may if it so elects, but shall not be obliged to, pay on any Optional Interest Payment Date the interest that is due to be paid on such date in respect of the Undated Notes and any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest not paid on an Optional Interest Payment Date shall (except to the extent such interest shall subsequently have been paid) constitute **Arrears of Interest**.

In relation to the Undated Notes, Arrears of Interest may, prior to the commencement of the Winding-Up of the Issuer, be paid in whole or in part upon the expiration of not less than seven days' notice given to the holders of the Notes in accordance with Condition 14, but payment in respect of Interest Periods during which Arrears of Interest have accrued shall be made taking the earliest Interest Period first. Arrears of Interest shall otherwise only become payable on (i) the due date for repayment of the Undated Notes to which such Arrears of Interest relate, (ii) the date on which any declaration or payment of any dividend on any class of share capital of the Issuer is made or (iii) the commencement of the Winding-Up of the Issuer (except for the purposes of a reconstruction, amalgamation or otherwise the terms of which have previously been approved by the Trustee or by an Extraordinary Resolution of Noteholders or which is permitted under Condition 15.3 or Condition 16). If notice is given by the Issuer of its intention to pay any Arrears of Interest, the Issuer shall be obliged to do so upon the expiration of such notice. Arrears of Interest shall not themselves bear interest.

The Issuer shall give notice in accordance with Condition 14:

(1) not more than 30 days nor less than seven days prior to any Optional Interest Payment Date in respect of which it will elect not to make any payment of interest in accordance with the above provisions, of such election; and

(2) of any date on which Arrears of Interest shall have become payable.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

6.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes not held in CMU will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes not held in CMU, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form not held in CMU (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form not held in CMU becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of Definitive Bearer Notes held in CMU, payment will be made to the person(s) for whose account(s) interests in the relevant Definitive Bearer Note are credited as being held with CMU in accordance with the CMU Rules at the relevant time as notified to the CMU Lodging Agent by the CMU in a relevant CMU Instrument Position Report or any relevant notification by CMU, which notification shall be conclusive evidence of the records of CMU (save in the case of manifest error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

6.2A Presentation of Undated Notes

In relation to any Undated Note in definitive form, if any payment is to be made in respect of interest the Interest Payment Date for which falls on or after the date on which the Winding-Up of the Issuer is deemed to have commenced, such payment shall be made only against presentation of the relevant Note, Receipt and the Coupon for any such Interest Payment Date. In addition, any Undated Note in definitive form presented for payment after an order is made or an effective resolution is passed for the Winding-Up of the Issuer must be presented together with all Coupons in respect of Arrears of Interest relating to Interest Payment Dates falling prior to such commencement of the Winding-Up of the Issuer, failing which there shall be withheld from any payment otherwise due to the holder of such Undated Note such proportion thereof as the Arrears of Interest due in respect of any such missing Coupon bears to the total of the principal amount of the relevant Undated Note, all Arrears of Interest in respect thereof and interest (other than Arrears of Interest) accrued on such Undated Note in respect of the Interest Period current at the date of the commencement of the Winding-Up.

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes and otherwise in the manner specified in the relevant Bearer Global Note (i) in the case of a Bearer Global Note lodged with CMU, to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited as being held by CMU in accordance with the CMU Rules, or (ii) in the case of a Bearer Global Note not lodged with CMU, against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made (in the case of a Global Note not lodged with CMU) on such Bearer Global Note by the Paying Agent to which it was presented or (in the case of a Global Note lodged with CMU) on withdrawal of the Bearer Global Note by the CMU Lodging Agent, and in each such case such record shall be prima facie evidence that the payment in question has been made.

6.4 Payments in respect of Definitive Registered Notes and Registered Global Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Definitive Registered Note and each Registered Global Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Definitive Registered Note or Registered Global Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes in registered form maintained by the Registrar (the **Register**) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than US$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne or Wellington, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Definitive Registered Note and each Registered Global Note will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Note in registered form appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Note in registered form, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Notes in registered form which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Note in registered form on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Note.

Holders of Notes in registered form will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note in registered form as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holder by the Registrar in respect of any payments of principal or interest in respect of Notes in registered form.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.5 General provisions applicable to payments

The holder of a Global Note (if the Global Note is not lodged with CMU) or (if the Global Note is lodged with CMU) the person(s) for whose account(s) interests in such Global Note are credited as being held in CMU in accordance with the CMU Rules as notified to the CMU Lodging Agent by CMU in a relevant CMU Instrument Position Report or any other relevant notification by CMU (which notification, in either case, shall be conclusive evidence of the records of CMU save in the case of manifest error), shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note or such person(s) for whose account(s) interests in such Global Note are credited as being held in CMU (as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or the CMU Service, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or the CMU Lodging Agent, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Definitive Bearer or Bearer Global Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (i) the relevant place of presentation;

  (ii) London;

  (iii) Hong Kong; and

  (iv) each Additional Financial Centre specified in the applicable Pricing Supplement; and

(b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London, Hong Kong and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

6.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.4); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed, and any Arrears of Interest (if applicable).

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) which is not an Undated Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date. If this Note is an Undated Note, it has no final maturity and is only redeemable in accordance with the following provisions of this Condition 7 or Condition 10.

7.2 Redemption for tax reasons

Subject to Condition 7.9, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due.

Prior to giving any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) a copy of the written consent of the HKMA as referred to in Condition 7.9; and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.4 below together (if appropriate) with interest accrued to (but excluding) the date of redemption and, in the case of Undated Notes, all Arrears of Interest (if any) as provided in Condition 5.5.

7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement and subject to Condition 7.9, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date and, in the case of Undated Notes, all Arrears of Interest (if any) as provided in Condition 5.5. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by Definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or the CMU Service (as appropriate), (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by Definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by Definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of Definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Calculation Amount. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10.1, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note (other than a Zero Coupon Note and an Instalment Note) with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = $RP \times (1+AY)^{y}$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

7.5 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.4.

7.6 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Notes (provided that, in the case of Definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise.

7.7 Cancellation

All Notes which are redeemed or purchased by the Issuer or any of its Subsidiaries will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

7.8 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2 or 7.3 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.4(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent, the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

7.9 Conditions for Redemption and Purchase in respect of the Notes

Notwithstanding any other provision in the Conditions, the Notes may not be redeemed (other than pursuant to Condition 7.1 or Condition 10.1) or purchased and cancelled by the Issuer or any of its Subsidiaries without the prior written consent of the Hong Kong Monetary Authority or any successor thereto (the **HKMA**). Accordingly, the Issuer shall not redeem any of the Notes (other than pursuant to Condition 7.1 or Condition 10.1) and the Issuer or any of its Subsidiaries shall not purchase and cancel any of the Notes unless the prior written consent of the HKMA thereto shall have been obtained, provided however, that if from time to time the consent of the HKMA is not a requirement of any such Notes to constitute Supplementary Capital (or equivalent) of the Issuer for the purposes of, and as defined in, the Banking (Capital) Rules (Cap. 155L) of Hong Kong, or any successor legislation, then the condition to the redemption or purchase and cancellation of the relevant Notes set out in this Condition 7.9 shall not apply for so long as such consent is not required.

For the avoidance of doubt, this provision shall not apply to the Issuer or any of its Subsidiaries holding the Notes in a purely nominee capacity.

Holders of the Notes should note that it is intended that the Notes should constitute Supplementary Capital (for the purpose of capital adequacy under the Banking Ordinance) of the Issuer and accordingly any redemption or purchase and cancellation of the Notes is subject to the prior consent of the HKMA at the relevant time for so long as such consent of the HKMA is a requirement for such Notes to constitute Supplementary Capital of the Issuer for the purpose of capital adequacy.

8. TAXATION

All payments of principal, premium and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of the withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with Hong Kong other than the mere holding of such Note, Receipt or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or

(c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or

(d) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Payment Day (as defined in Condition 6.6).

As used in the Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent, the Trustee or the Registrar on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect is duly given to the Noteholders by the Issuer in accordance with Condition 14.

9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or Condition 6.2A or any Talon which would be void pursuant to Condition 6.2 or Condition 6.2A.

10. EVENTS OF DEFAULT AND ENFORCEMENT

10.1 Events of Default relating to the Notes

If default is made in the payment of any amount of principal or interest in respect of the Notes or any of them on the due date for payment thereof and (in the case of interest) such default continues for a period of seven days after the due date for payment thereof (which, in the case of the Undated Notes, shall be the date upon which the payment of interest is compulsory pursuant to Condition 5.5) (each, an **Event of Default**) then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute Winding-Up Proceedings against the Issuer but may take no further action in respect of such default (but without prejudice to the following paragraph).

If an order is made or an effective resolution is passed for the Winding-Up of the Issuer (whether or not an Event of Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Redemption Amount together with accrued interest and all Arrears of Interest without further action or formality.

In these Conditions:

Winding-Up shall mean, with respect to the Issuer, a final and effective order or resolution for the bankruptcy, winding-up, liquidation, receivership or similar proceeding in respect of the Issuer; and

Winding-Up Proceedings shall mean, with respect to the Issuer, proceedings in Hong Kong in respect of the Issuer for the bankruptcy, liquidation, winding-up, receivership, or other similar proceeding of the Issuer.

10.2 Enforcement

(a) Without prejudice to Condition 10.1, the Trustee may at any time if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Notes binding on it under the Conditions or the Trust Deed (other than an Event of Default), subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce such obligation, condition or provision, provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it.

(b) The Trustee shall not be bound to take action as referred to in Conditions 10.1 and 10.2(a) or any other action under these Conditions or the Trust Deed unless (i) it shall have been so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and (ii) it shall have been indemnified and/or secured and/or put in funds to its satisfaction. No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

(c) Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 10.1 and Conditions 10.2(a) and (b) above or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Noteholders, Receiptholders or Couponholders.

(d) Neither the Trustee nor the Noteholders, Receiptholders or Couponholders shall:

   (i) have any right to institute any Winding-Up Proceedings against the Issuer to enforce any obligation, condition or provision in respect of the Notes (other than an Event of Default); or

(ii) be entitled to enforce any award of monetary damages or other restitution made by a court against the Issuer in respect of any breach of any obligation, condition or provision relating to the Notes until after the commencement of Winding-Up Proceedings of the Issuer and the payment of such money, damages or other restitution shall be subject to the provisions of Condition 3.

(e) No Noteholder, Receiptholder or Couponholder shall be entitled either to institute proceedings for the Winding-Up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Noteholder or Couponholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PRINCIPAL PAYING AGENT, REGISTRAR, PAYING AND TRANSFER AGENTS

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar and the other initial Transfer Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through any of the same acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Notes in bearer form) and a Registrar and Transfer Agent (in the case of Notes in registered form) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Principal Paying Agent, the Paying Agents, the Registrar or the Transfer Agent act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding Notes in bearer forms will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong by the Issuer in consultation with the Trustee. It is expected that such publication will be made in the *South China Morning Post* in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

All notices regarding Notes in registered form will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the third day after mailing and (b) if and for so long as the Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published as required by those rules.

Until such time as any Definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of (i) Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes or (ii) the CMU Service, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note and, in addition, in the case of both (i) and (ii) above, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published as required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or the persons shown in the relevant CMU Instrument Position Report.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case if Notes in bearer form) or the Registrar (in the case of Notes in registered form). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, and/or, in the case of Notes lodged with the CMU

Service, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent, the Registrar, the CMU Lodging Agent and Euroclear and/or Clearstream, Luxembourg and/or the CMU Service, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this condition.

15. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

15.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting (i) may be convened by the Issuer at any time and (ii) shall be convened by the Issuer upon the requisition of Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons, as more particularly described in the Trust Deed) the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

15.2 Modifications and Waivers

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, but with the prior written consent of the HKMA, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Notification Event (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification, waiver, authorisation or determination shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

15.3 Consolidation, Merger and Sale of Assets

Except as provided in Condition 16, the Issuer shall not consolidate with or merge into any other company or entity, and the Issuer may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:

(a) the company or other entity (if other than the Issuer) formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer shall expressly assume by way of supplemental trust deed the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Notes, the Trust Deed and the Agency Agreement on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event, which after notice or lapse of time, or both, would become an Event of Default with respect to the Notes, shall have happened and be continuing; and

(c) the Issuer has delivered to the Trustee (in form and substance satisfactory to the Trustee) (i) a certificate signed by two directors of the Issuer and (ii) an opinion of independent legal advisers of recognised standing (acceptable to the Trustee) stating that such consolidation, merger, conveyance, transfer or lease and any such supplemental trust deed comply with this Condition 15.3.

15.4 Exercise of Trustee's Powers etc.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

16. SUBSTITUTION

The Trustee may, at any time, subject to the prior written approval of the HKMA (if and to the extent then required) but without the consent of the Noteholders, Receiptholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed (on a subordinated basis equivalent to that set out in Condition 3) of any other company being a subsidiary of the Issuer, subject to:

(a) the Notes being unconditionally and irrevocably guaranteed by the Issuer (provided that the obligations of the Issuer under such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that described in Condition 3);

(b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and

(c) certain other conditions set out in the Trust Deed being complied with.

17. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

17.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or put in funds to its satisfaction.

17.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes which are to form a single series with the outstanding notes of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders, the Receiptholders, the Couponholders and the holders of notes of other series in certain circumstances where the Trustee so decides.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW

(a) **Governing law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law, except that the subordination provisions set out in Condition 3 (Status of the Notes) and Clause 7 of the Trust Deed shall be governed by and construed in accordance with the laws of Hong Kong.

(b) **Jurisdiction**: The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("**Proceedings**") may be brought in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum. This submission is made for the benefit of each of the Trustee and the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for service of process**: The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom as its agent in England to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its funding and general corporate purposes.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully take into account the considerations described below, in addition to the other information contained herein, before investing in the Notes issued under the Programme. The occurrence of one or more events described below could have an adverse effect on the Group's business, financial condition, or results of operations. Additional considerations and uncertainties not presently known to the Bank, or which the Bank currently deems immaterial, may also have an adverse effect on an investment in the Notes issued under the Programme.

Considerations relating to the Group

Competition

The Group is subject to significant competition from many other Hong Kong incorporated banks and branches of international banks, including competitors which have significantly greater financial and other resources, greater market share and greater name recognition than the Group. In addition, the banking industry in Hong Kong is a mature market and a number of competitors of the Group have enjoyed a longer presence in this market. In particular, competition in the credit card, home mortgage loans and transport lending businesses is very aggressive. There can be no assurance that increased competition will not have a material adverse effect on the Group's business, financial condition or results of operations. Increased competition may make it difficult for the Group to increase the size of its loan portfolio and deposit base and may cause increased pricing competition, which could have an adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial condition.

In recent years, certain banks in Hong Kong, including the Group, lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong Government (**Mortgage Interest Rates**). In many cases, Mortgage Interest Rates charged by banks in Hong Kong have been reduced to as low as approximately 3.45% below the prime rate. For the year ended 31 December 2007, the Group charged an average of 2.82% below the prime rate on its home mortgage loans. Competition among banks in Hong Kong for home mortgage loans could result in further reductions in Mortgage Interest Rates. There can be no assurance that such reductions would not have an adverse effect on the Group's business, financial condition or results of operations.

The banking industry in Mainland China is becoming increasingly competitive. The Group expects competition from foreign commercial banks to increase significantly in the future as previous restrictions on their geographical presence, customer base and operating licences in Mainland China were removed in December 2006 pursuant to Mainland China's World Trade Organisation (**WTO**) commitments. In addition, Mainland China's Closer Economic Partnership Arrangement (**CEPA**) arrangements with Hong Kong and Macau allow smaller banks from these jurisdictions to operate in Mainland China, and since April 2007 the Mainland China government has begun granting approvals for locally incorporated banking licences for a number of foreign banks which allow them to compete with Mainland China domestic banks on equal footing. These measures have also increased competition in the banking industry in Mainland China. Many of these banks compete with the Group for the same customer base and some of them may have greater financial, management and technical resources than the Group. The increased competition from other banks may result in an increase in the amount of the Group's loans made at a discount to the People's Bank of China benchmark rate, which may reduce the average yield on the Group's loans.

The increased competition in the markets where the Group operates may adversely affect the Group's business and prospects, the effectiveness of its strategies, its results of operations and financial condition by potentially:

- reducing the Group's market share in its principal products and services;
- reducing the growth of the Group's loan and deposit portfolios and other products and services;
- reducing the Group's interest income and decreasing its net interest margin;
- reducing the Group's fee and commission income;

- increasing the Group's non-interest expenses; and
- increasing competition for qualified managers and employees.

Maturity of the Hong Kong banking sector

The Group focuses principally on the Hong Kong market for retail and corporate customers. The banking sector in Hong Kong is extremely competitive, with approximately 144 licensed banks, both international and local, competing for a population of approximately seven million people. There is a limited market, especially for retail banking products such as home mortgage advances, credit cards and personal advances. The Group's main markets for retail and corporate advances are Hong Kong and Mainland China. Due to the maturity of the Hong Kong banking sector, the Group intends to continue to expand its retail and corporate lending portfolio by growing its Mainland China-related business. However, the Group is likely to face increased competition in the Mainland China market from existing local Mainland China banks and other foreign banks entering the market. See "*Competition*". There can be no assurance that the Group can further expand or maintain its market share in Hong Kong or that it can successfully increase its Mainland China retail or corporate lending portfolios, and its failure to do so could have an adverse effect on the financial condition and results of operations of the Group.

Expansion in Hong Kong, Macau and Mainland China

The Group's strategy involves expansion of its business in the Hong Kong, Macau and Mainland China markets through organic growth and through mergers, acquisitions and alliances, if suitable opportunities arise. In May 2007, the Group received approval from the China Banking Regulatory Commission (**CBRC**) to establish a locally incorporated bank in Mainland China. A wholly-owned subsidiary of the Bank, Wing Hang Bank (China) Limited, was established in Shenzhen in June 2007 to provide Renminbi retail banking services in Mainland China.

Further expansion into Mainland China may present the Group with new risks and challenges, such as new regulatory environments, different market practices and competition in such markets. Expansion and integration of new mergers, acquisitions and alliances may also require significant operational, administrative and management resources. The success of any mergers, acquisitions and alliances will depend in part on the ability of the Group's management to integrate the operations of newly acquired businesses with its existing operations and, where applicable, to integrate various departments, systems and processes. Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be affected due to demands placed on existing resources by the process. There can be no assurance that the acquired entities will achieve the level of performance that the Group anticipates or that the projected demand for and margins of the Group's products and services will be realised. The failure to manage expansion effectively could have an adverse effect on the Group's business, financial condition and results of operations.

Expanding range of products and services offered in Mainland China

In order to meet the needs of its customers and to expand its business, the Group intends to expand its range of products and services offered in Mainland China. Expansion of the Group's business in Mainland China is subject to certain risks and challenges, including:

- new products and services may not be accepted by customers or meet the Group's expectations for profitability;
- requirement to hire additional qualified personnel who may not be available;
- failure to obtain regulatory approval for new products or services; and
- inability to enhance risk management capabilities and information technology systems to support a broader range of products and services.

If the Group is not able to achieve the intended results with respect to its new products and services in Mainland China, this could have an adverse effect on the financial condition and results of operations of the Group.

Loan concentration; exposure to the property market

The Group has significant exposure to the property market due to its portfolio of home mortgage loans. As of 31 December 2007, home mortgage loans and loans for property development and investment in Hong Kong accounted for 25.5% and 17.7%, respectively, of the Group's total advances to customers. The Hong Kong property market is highly cyclical and property prices in general have been volatile. Property prices are affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in Hong Kong, political and economic developments in Mainland China, and the relationship between Mainland China, Hong Kong and other countries. Accordingly, any decreases in property values and/or liquidity of the Hong Kong property market could adversely affect the Group's business, financial condition and results of operations.

Property prices in Macau have increased substantially in recent years, but there is no assurance that prices will not decline in the future or be subject to a high degree of volatility. Any decline or volatility in property values could adversely affect the Group's business, financial condition and results of operations.

The property market in Mainland China is subject to policies implemented by the Mainland China government from time to time. In recent years, the Mainland China government has introduced measures designed to discourage excessive growth of Mainland China's high-end residential property sector and encourage the development of mass market residential property projects with a higher degree of affordability. These policies and measures may have a material impact on property prices which could adversely affect the Group's business, financial condition and results of operations.

The Group has significant committed exposure to a relatively few number of borrowers

As at 31 December 2007, the Group's 20 largest performing borrowers (including groups of individuals and companies) accounted for approximately HK$12,555.6 million (US$1,609.2 million) or 13.5% of the Group's committed exposure (**committed exposure**). As at 31 December 2007, the Group's five largest borrowers (including groups of individuals and companies) accounted for approximately HK$4,768.1 million (US$611.1 million) or 5.1% of the Group's committed exposure, with the largest borrower accounting for HK$1,100.3 million (US$141.0 million) or 1.2% of the Group's committed exposure. The non-performance of loans held by one or more of these customers could have a material adverse effect on the Group's business, financial condition or results of operations.

Classification of loans; adequacy of allowance for loan losses

In accordance with guidelines set by the HKMA, the Bank classifies its problem loans into one of three categories corresponding to levels of risks; "sub-standard," "doubtful" and "loss". See "*Selected Statistical and Other Information Relating to the Group — Asset Quality — Loan Classification*". The classification of loans into one of these categories depends on various quantitative and qualitative factors, including the number of months payment is in arrears, the type of loan, the tenor of the loan and the level of collateral coverage. Prior to 1 January 2005, the Group used to designate as "non-performing" those advances on which it had ceased or suspended accruing interest. However, from 1 January 2005, following the coming into effect of Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" (**HKAS 39**), interest cessation or suspension is no longer permitted. The laws, regulations and guidelines governing banking in Hong Kong differ from those applicable in certain other countries in certain respects and may result in particular loans being classified at a different time or being classified in a category reflecting a different degree of risk than would be required in certain other countries. In addition, the typical procedures for writing off loans in Hong Kong may result in loans being written-off later than would be the case for banks in certain other countries. Banks in Hong Kong may accrue interest on "impaired" loans in situations where such interest would not be accrued by banks in certain other countries.

While the Bank believes that its loan policies are more prudent than those which are required under Hong Kong laws and regulations, the Bank is not required to maintain such policies at levels above those generally applicable to banks in Hong Kong. For a description of the banking regulations that apply to banks in Hong Kong, see "*Regulation and Supervision*".

Liquidity; short-term funding

Most of the Group's funding requirements are met through short-term funding sources, primarily in the form of customer and interbank deposits. As of 31 December 2007, 95.5% of the Group's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits have been rolled over upon maturity and these deposits have been, in essence, a stable source of long-term funding. However, no assurance can be given that this pattern will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity, the Group's liquidity position would be adversely affected and it may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than current deposits.

The HKMA acts as a lender of last resort to all authorised institutions in Hong Kong to provide support for liquidity needs in the banking system generally as well as to specific institutions. Although the Hong Kong Government has in the past taken measures on a case-by-case basis to maintain or restore public confidence in individual banks with an isolated liquidity crisis, there can be no assurance that the HKMA will provide such assistance in the future or that it would elect to provide such assistance in the event of a liquidity crisis within the Group.

Deposit insurance has been introduced in Hong Kong. Following the enactment of the Deposit Protection Scheme Ordinance (Cap. 581) of the laws of Hong Kong (the **DPS Ordinance**) in 2004, the Hong Kong Deposit Protection Board (the **DP Board**) was formed in July 2004 to oversee the project for establishing the Deposit Protection Scheme (the **Scheme**). The HKMA issued a circular in February 2005 requesting all Scheme members to complete an annual return for the assessment of contributions under the Scheme. The legislation came into operation on 25 September 2006 and the Scheme began providing deposit protection and collecting contributions from such date. Pursuant to the Scheme, the Bank is required to pay contributions to the HKMA to fund the Scheme. The implementation of the Scheme only slightly increases the costs of funding of the Bank. However, there can be no assurance that the HKMA will not require Scheme members to pay increased or additional contributions to replenish the Scheme fund if there is a bank failure and the Scheme fund is used to pay compensation to depositors. A significant increase in the contributions that the Bank is required to pay to the HKMA pursuant to the Scheme could have a material adverse affect on the Bank's business, financial condition or results of operations. See also "*Description of Issuer — Insurance*".

Currency risks

As with most banks in Hong Kong, the Group undertakes various foreign exchange transactions as part of its treasury business and in providing hedging solutions to its corporate and retail customers. Therefore, a significant change in the exchange rate between the relevant foreign currency and the Hong Kong dollar may result in the Group incurring foreign exchange related losses, which in turn could have a material adverse effect on the Group's business, financial condition or results of operations.

The majority of the Group's revenues are generated in Hong Kong dollars. Although the Hong Kong dollar has been linked to the US dollar since 1983, there can be no assurance that such linkage will be maintained in the future. In order to ensure continued liquidity of the Hong Kong dollar, the HKMA has entered into bilateral repurchase agreements with the central banks of Australia, Mainland China, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong Government has in the past expressed a commitment to maintain exchange rate stability under the Linked Exchange Rate System, an automatic interest rate adjustment mechanism. No assurance can be given that the Hong Kong dollar will continue to be linked to the US dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or automatic interest rate adjustment mechanism will help to maintain adequate liquidity for the Hong Kong dollar. The Group's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the US dollar or any devaluation of the Hong Kong dollar, Macau Patacas or Renminbi.

Interest rate risk and market risk

As with most banks, the Group's net interest income is a significant factor in determining its overall financial performance. For the years ended 31 December 2006 and 2007, the Group's net interest income represented approximately 72.4% and 73.4%, respectively, of its operating income. Interest rates in Hong Kong have remained relatively low and steady in recent years, however there can be no assurance that interest rates will not be raised or that increases in interest rates will not be frequent. The Group realises income from the margin between income earned on its assets and interest paid on its liabilities. Changes in market interest rates affect the interest received on the Group's interest-earning assets and the interest paid on the Group's interest-bearing liabilities. The differences in timing and level of changes in interest rates can result in an increase in interest expense relative to its interest income, which may lead to a reduction in its net interest income. Interest rates in Hong Kong are sensitive to factors over which the Group has no control, including, among others:

- the trend of interest rates in the United States;
- liquidity of the domestic inter-bank market and the international capital markets;
- domestic and international economic and political conditions; and
- competition for loan demand.

Any volatility in interest rates could have an adverse effect on the Group's financial condition, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities and loans in the Group's fixed rate portfolio. A sustained increase in interest rates could also raise the Group's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates would therefore require the Group to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in Hong Kong, Macau or Mainland China and the financial condition and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration in the Group's credit portfolio.

The uncertainty in the credit and capital market could lead to a decline in the value of debt securities in the Group's investment portfolio.

Different corporate disclosure, accounting and regulatory requirements

The Bank's issued shares are listed on The Stock Exchange of Hong Kong Limited (the **Hong Kong Stock Exchange**) and, as such, the Bank is required to publish annual audited and semi-annual unaudited financial information of the Group. The amount of information publicly available for issuers in Hong Kong is less than that publicly available for comparable banks in certain other countries. In addition, all Hong Kong Stock Exchange listed companies incorporated in Hong Kong must prepare their financial statements in accordance with HKFRSs, which differs in certain significant respects from generally accepted accounting principles in the United States (**US GAAP**). Thus, the accounting presentation of reported earnings of the Group may differ from those of companies in certain other countries. This Offering Circular does not include a reconciliation of the Group's financial statements to US GAAP, and there can be no assurance that such a reconciliation would not identify material qualitative or quantitative differences.

Under the Banking Ordinance, the HKMA regulates the business activities and operations of commercial banks and has the ability to influence banking and financial markets generally. Potential investors should be aware that regulatory requirements in Hong Kong may differ from those which prevail in other countries. See "*Regulation and Supervision*". Because the Group operates in the highly regulated banking and securities industries in Hong Kong, potential investors should also be aware that the regulatory authorities have been consistently imposing higher standards and developing new guidelines and regulatory requirements. For example, the Basel II Accord capital adequacy standards have been adopted by the HKMA in Hong Kong since the beginning of 2007. The new standards require banks to disclose key pieces of information on capital, risk exposures, risk assessment processes and hence capital adequacy. The aim of the new standards is to encourage banks to demonstrate to the market participants that their risk management systems are robust and that all relevant risks have been identified and controlled. These changes may result in the incurrence of substantial compliance and monitoring costs and there is no assurance that any breach of applicable laws and regulations will not adversely affect the Group's reputation or its business, financial condition and results of operations. In addition, there can be no assurance that any future changes in the regulatory environment for banks in Hong Kong will not adversely affect the Group's business, financial condition or results of operations in the future.

Apart from the above, certain products and services provided by the Group are regulated by other regulators including the Securities and Futures Commission in Hong Kong. The Group carefully manages legal and compliance risks, including in relation to the sale of financial products and money laundering regulations. However, there can be no assurance that breaches of legislation or regulations by the Group will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

Information technology systems

The Group is highly dependent on the ability of its information technology systems to accurately process a large number of transactions across numerous and diverse markets and its broad range of products in a timely manner. The proper functioning of its financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between its various branches and sub-branches and its main data processing centres, are critical to its business and its ability to compete effectively. Although there is backup data for key data processing systems and the Group has established a backup system to carry on principal functions in the event of a catastrophe or a failure of its primary systems, there can be no assurance that the Group's operations will not be materially disrupted if there is a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could have a material adverse effect on the Group's business, reputation, results of operations and financial condition.

In addition, the Group's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. Additionally, the information available to and received by the Group through its existing information technology systems may not be timely or sufficient for the Group to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. The Group is making, and intends to continue to make, investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade its information technology systems effectively or on a timely basis could have a material adverse effect on its competitiveness, financial condition and results of operations.

Internet banking services

The Group relies on its Internet banking services such as its eBanking and Online Trading services as a means of providing customers with greater access to its products and services and attracting new customers. The Group's business may be adversely affected if the use of its Internet banking services does not continue to grow or grows more slowly than anticipated. Usage of the Group's Internet banking services may be adversely affected for a number of reasons, including inadequate network infrastructure, security concerns, inconsistent quality of service and unavailability of high-speed access to the Internet. If the market for Internet-based banking services fails to grow, grows more slowly than anticipated or becomes saturated with competitors, the Group's financial condition and results of operations may be adversely affected.

To the extent that the Group's Internet banking activities involve the storage and transmission of confidential information, security breaches could expose the Group to possible liability and damage the Group's reputation. The Group's networks may be vulnerable to unauthorised access, computer viruses and other disruptive problems. Costs incurred in rectifying any of such disruptive problems may be high and may adversely affect the Group's financial condition and results of operations. Concerns regarding security risks may deter the Group's existing and potential customers from using its Internet banking products and services. Eliminating computer viruses and alleviating other security problems may result in interruptions, delays or termination of service to users accessing the Group's eBanking services. Undetected defects in software products that the Group uses in its products and the Group's inability to sustain a high volume of traffic may materially and adversely affect the Group's Internet banking business.

Dependence on key personnel and recruitment

The Group's business and operations are substantially dependent upon key members of the Group's management. Although the Group has succeeded in maintaining the core of its senior management team over the recent years, the loss of the services of members of the Group's senior management could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's ability to sustain its growth and meet future business demands depends on its ability to attract and recruit suitably skilled and qualified staff. There can be no assurance that the Group will be able to recruit staff in sufficient numbers or of sufficient quality, or that pressure on recruitment will not lead to significant increases in the Group's employment costs. Competition for suitably skilled and qualified staff is particularly acute in Mainland China. Any of these factors could adversely affect the Group's business, financial condition and results of operations.

Major shareholders

The Bank was founded by the late Mr. Y. K. Fung, and members of his family (the **Fung Family**) together presently own 22.2% of the issued capital of the Bank. The Bank of New York Company, Inc. (**BONY**) merged with Mellon Financial Corporation in July 2007 to form The Bank of New York Mellon Corporation. The Bank of New York Mellon Corporation, through BNY International Financing Corp. (the **BNY Mellon Group**), presently owns 20.3% of the issued share capital of the Bank. BNY International Financing Corp. has been a shareholder of the Bank since 1988 and has in the past reduced its shareholding in the Bank (down to its present 20.3% shareholding). There is no guarantee that the Fung Family and/or BNY International Financing Corp. will not dispose of or reduce or further reduce (as the case may be) their respective shareholdings in the Bank in the future. If such disposal or reduction were to take place there can be no assurance that it will not adversely affect the market price in the secondary market of the Notes issued under the Programme. See "*Principal Shareholders*" and "*Relationship with the BNY Mellon Group*".

Further issuance of securities

The Group's financial condition, results of operations and capital position are affected by a range of factors such as economic conditions, interest rates, the credit environment, asset quality, operating income and level of provisioning. A slowdown in the economy could lead to a deterioration in the Group's asset quality and an increase in impairment losses and allowances charged on loans and advances, which may result in a deterioration of the Group's capital adequacy position or breach capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA).

In order to strengthen its capital adequacy position or to ensure that it remains in compliance with applicable capital requirements under Hong Kong law, rules and regulations (including guidelines issued by the HKMA), the Group may from time to time raise additional capital through such means and in such manner as it may consider appropriate including, without limitation, the issue of further subordinated notes (whether on terms similar to the Notes issued under the Programme or otherwise) or other hybrid capital instruments, subject to any regulatory approval that may be required. There can be no assurance that such future capital raising activities will not adversely affect the market price of the Notes issued under the Programme in the secondary market.

Risks relating to Hong Kong and Overseas

Hong Kong

On 1 July 1997, Hong Kong ceased to be a Crown Colony of the United Kingdom and became a Special Administrative Region of Mainland China. Although Hong Kong has thus far enjoyed a high degree of legislative, judicial and economic autonomy since the handover, there can be no assurance that there will not be a change in regulatory oversight as a consequence of the exercise of Mainland China sovereignty over Hong Kong or, should such change occur, that the Group's business, financial condition and results of operations will not be adversely affected.

Most of the Group's revenues are derived from its operations conducted in Hong Kong. As a result, the Group's financial condition and results of operations are influenced by the general state of the Hong Kong economy (including the level of unemployment) and the political environment in Hong Kong. The economic and political environment in Hong Kong is, in turn, significantly affected by a variety of external factors, including the economic and political environment in Mainland China and throughout Asia and the rest of the world. The 1997 Asian financial crisis and the subsequent economic downturn in Hong Kong resulted in, among other things, increased provisions which negatively affected the Group's profitability. Hong Kong's economic growth was also affected by the Severe Acute Respiratory Syndrome (**SARS**) virus in the first half of 2003. See "*Recurrence of SARS*, *Avian Influenza or other highly contagious diseases in Asia and elsewhere*". Although economic conditions in Hong Kong have since improved, there can be no assurance that the Group's operations will not be affected by any future deterioration in the Hong Kong economy.

Although Hong Kong's gross domestic product rose by 7.0% in 2006 and 6.3% in 2007, and is forecasted by the Hong Kong Government to increase by 4.0% to 5.0% in 2008, the Group expects the continued growth in the Hong Kong economy to depend in part upon the economic performance of the United States and Mainland China, as well as certain other developed countries. There can be no assurance that future global events will not have an impact on the Hong Kong economy and the Group.

Overseas

The Bank's wholly-owned subsidiary in Mainland China, Wing Hang Bank (China) Limited, has three branches in Shenzhen, Guangzhou and Shanghai and two sub-branches in the Fumin district and the Longgang district of Shenzhen. The Bank also has a branch in Shenzhen and a representative office in Beijing. The Bank's wholly-owned subsidiary in Macau, Banco Weng Hang, S.A. (**Banco Weng Hang**), has been in operation since 1941 and has 13 branches. As of 31 December 2007, the Group's total advances to customers for use outside Hong Kong, which principally includes Macau and Mainland China, stood at HK$9,052.2 million (US$1,160.2 million) in Macau and HK$12,082.5 million (US$1,548.6 million) in Mainland China and other overseas areas comprising 12.1% and 16.2% of its total advances to customers. Although Macau experienced robust economic growth in 2007, the continuation of such growth is dependent on a number of external factors, including the economic and political environment in Mainland China. There can be no assurance that the Group's business in Macau will not be affected by any future downturn in the Macau economy. The Bank plans to continue to develop its business and operations in Mainland China in the future, and many of the Group's commercial customers are dependent in varying degrees on trade with Mainland China. The value of the Group's loans in Mainland China, as well as its loans to companies that have business interests in Mainland China, may be influenced by the general state of the Mainland China economy and may be affected by significant political, social or legal uncertainties or changes in Mainland China (including changes in political leadership, the rate of inflation, Renminbi interest rate, relaxation of the Renminbi exchange rate and the impact on the economy of Mainland China's accession to and implementation of the WTO). There can be no assurance that the economic and political environment in Mainland China will remain favourable to and will not have a negative impact on the Group's business in Mainland China in the future.

In 2003, the Mainland China government launched a macroeconomic tightening drive to slow Mainland China economic growth, particularly growth in fixed assets investment. Though the tightening drive has achieved some respectable effects, the country's economic and investment growth have continued to accelerate since then. GDP and fixed assets investment still grew by as high as year-on-year 11.4% and year-on-year 24.8% respectively in 2007. Therefore, the Mainland China government's tightening efforts are expected to strengthen in the coming months. New tightening measures may include further increases in interest rates, raising the bank deposit reserve ratio, issuing government bonds, and exercising "Window Direction" to banks. Efforts are expected also to be made to improve the workability of the tightening polices/measures already introduced. Reining in the excessive investment growth remains the major target of the tightening drive. Meanwhile the fiscal and monetary tightening is also expected to be targeted at fighting inflation and slowing export growth. While such tightening efforts are aimed at a soft landing of the economy, an over-tightening may lead to a more significant economic slowdown.

With the increased integration of the Mainland China and Hong Kong economies, Mainland China policies such as the recent fiscal and monetary measures to combat the overheated property and stock markets will have an impact on Hong Kong and Hong Kong companies conducting business in Mainland China. The Bank and its customers may also be affected accordingly.

Recurrence of SARS, Avian Influenza or other highly contagious diseases in Asia and elsewhere

During the first half of 2003, Hong Kong, along with many other countries in Asia, encountered an outbreak of SARS, a highly contagious and potentially deadly disease. In the last few years, there have also been outbreaks of avian influenza in parts of Asia, including Hong Kong. No assurance can be given that there will not be a recurrence of the outbreak of SARS or other epidemics, or that incidents of avian influenza will not increase. The SARS outbreak caused an adverse effect on the economies of the affected countries, including Hong Kong and Mainland China. Like other financial institutions, the Group's operations in those affected countries were influenced by a number of SARS-related factors including, but not limited to, a decline in demand for residential mortgage advances, a reduction in the number of customers visiting the Group's branches and an adverse impact on asset quality due to the weakened economy and higher unemployment rate. There can be no assurance that the Group's business and financial condition would not be adversely affected if another outbreak of SARS or another highly contagious disease occur.

Uncertainties and instability in global market conditions could adversely affect the Group's business, financial condition and results of operations

The U.S. credit and sub-prime residential mortgage markets have recently experienced, and may continue to experience, severe dislocations and liquidity disruptions. There is also uncertainty as to the potential for a downturn in the U.S. economy, a decrease in consumer demand and the impact of such downturns on the Asian economy. These and other related events have had a significant impact on the global capital markets associated not only with asset-backed securities but also with the global credit and financial markets as a whole.

The Group does not have any investments in securities that have direct exposure to the sub-prime lending market in the United States or elsewhere, nor does it have investments in any assets that could be classified as sub-prime residential mortgages. However, to the extent that the credit of the Group's borrowers is adversely affected by recent market conditions, the quality of the Group's assets could substantially deteriorate and could adversely affect the Group's business and results of operations.

In addition, the recent market volatility has also made the valuation of certain of the Group's securities assets more difficult as the Group's estimates of the value of these investments incorporates a combination of independent pricing agency and third-party dealer valuations as well as comparable sales transactions. Although the Group obtains quotations from the market on the investments on a regular basis and accordingly marks the value of such investments to market when the Group considers it necessary to do so (See "*Business — Holdings of collateralised debt obligations*"), there can be no assurance that the fair values of such investments as reflected in the Group's results of operations will reflect the prices that can be obtained by the Group if such investments were actually sold. Furthermore, due to the recent market events, the Group's investments may be subject to rapid changes in value caused by sudden developments which could still have a material adverse effect on the value of these investments.

Slowing down of global economy

A recession in the United States, together with the economic effects of the credit crunch, is likely to lead to an economic slowdown globally and in Hong Kong, and may result in a corresponding increase in personal and corporate bankruptcies. An economic downturn in Hong Kong could have a material adverse effect on the Group's retail and corporate customers. Declining customer demand for the Group's products and services would lead to excess capacity in the Group's operations, which could have a material impact on the Group's business, financial condition and results of operations.

Considerations relating to the Notes issued under the Programme

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Modification and waivers

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders (but with the prior written consent of the HKMA), agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed or (ii) determine without any such consent aforesaid that any Event of Default or Notification Event (as defined in the Trust Deed) shall not be treated as such where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or (iii) agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders.

Change of law

The Conditions of the Notes are based on English law and the law of Hong Kong (in respect of any subordination provisions) in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law, Hong Kong law or administrative practice after the date of this Offering Circular.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

No limitation on issuing senior or pari passu securities in respect of the Notes

There is no restriction on the amount of securities which the Issuer may issue and which rank senior to, or pari passu with, the Notes. The issue of any such securities may reduce the amount recoverable by holders of the Notes in case of a winding-up of the Issuer. The Notes are subordinated obligations of the Issuer. Accordingly, in the winding-up of the Issuer, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Notes.

If the Issuer does not satisfy the Issuer's obligations under the Notes, Noteholders' remedies will be limited

Payment of principal of the Notes may be accelerated only in the event of certain events involving the Issuer's bankruptcy, winding-up or dissolution or similar events or otherwise if certain conditions have been satisfied. See *"Terms and Conditions of the Notes — Events of Default and Enforcement"*.

The Issuer's obligations under the Notes are subordinated

Dated Notes constitute unsecured and, in accordance with Condition 3 of the Terms and Conditions of the Notes, subordinated obligations of the Issuer and rank pari passu without any preference among themselves. Undated Notes constitute unsecured and, in accordance with Condition 3 of the Terms and Conditions of the Notes, subordinated obligations of the Issuer and rank pari passu without any preference among themselves.

Payments of principal and interest in respect of the Undated Notes are conditional upon the Issuer being solvent. No such principal or interest will be payable in respect of the Undated Notes except to the extent that the Issuer could make such payment in whole or in part and still be solvent at the time of such payment and immediately thereafter.

See Conditions 3.1 and 3.2 of the Terms and Conditions of the Notes for a full description of subordination and the payment obligations of the Issuer under the Notes.

Any suspension of payments under the Undated Notes will likely have an adverse effect on the market price of the Undated Notes. In addition, as a result of the conditional payment provisions of the Undated Notes, the market price of the Undated Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination (as specified in the Pricing Supplement) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

CAPITALISATION

The following table sets forth the consolidated capitalisation of the Group as at 31 December 2007. The information as at 31 December 2007 has been derived from the audited consolidated financial statements of the Group as at 31 December 2007. This table should be read in conjunction with the audited consolidated financial statements of the Group as at 31 December 2007, including the notes thereto, included elsewhere in this Offering Circular. Except as disclosed below, there has been no material change in the consolidated capitalisation of the Group since 31 December 2007.

	As at 31 December 2007	
	HK$	US$
	(in thousands)	
Short-term liabilities:(1)		
Deposits and balances of banks, central banks and other financial institutions	2,739,754	351,147
Deposits from customers	113,375,443	14,531,028
Certificates of deposit issued, short-term portion	2,406,188	308,395
Total short-term liabilities	118,521,385	15,190,570
Long-term liabilities:(2)		
Deposits and balances of banks, central banks and other financial institutions	77,960	9,992
Deposits from customers	593,543	76,073
Certificates of deposit issued, long-term portion	903,016	115,737
Subordinated guaranteed notes(3)	2,535,747	325,000
Step-up perpetual subordinated notes(4)	3,123,142	400,285
Total long-term liabilities	7,233,408	927,087
Shareholders' funds:		
Share capital	294,964	37,805
Reserve	10,190,387	1,306,075
Total shareholders' funds	10,485,351	1,343,880
Minority interests:	22,685	2,907
Total capitalisation	17,741,444	2,273,874

Notes:

(1) Short-term liabilities represent borrowings with a remaining maturity of one year or less or borrowings that are repayable on demand.

(2) Long-term liabilities represent borrowings with a remaining maturity of more than one year.

(3) The aggregate principal amount of the subordinated guaranteed notes was converted from US dollars to Hong Kong dollars at the rate of US$1.00 = HK$7.8023.

(4) The aggregate principal amount of the step-up perpetual subordinated notes was converted from US dollars to Hong Kong dollars at the rate of US$1.00 = HK$7.8023.

DESCRIPTION OF THE ISSUER

Introduction

The Bank is listed on the Hong Kong Stock Exchange (Stock Code: 302). The Bank is the holding company and the principal operating company of the Group, which provides a full range of banking services, including corporate banking, retail banking, foreign exchange and treasury services. The Bank has a network of 40 branches and five wealth management centres located in Hong Kong, and its wholly-owned subsidiary, Wing Hang Bank (China) Limited (established in June 2007 in Shenzhen) has a network of three branches in Shenzhen, Guangzhou and Shanghai and two sub-branches in the Fumin district and the Longgang district of Shenzhen. The Bank also has a branch in Shenzhen and a representative office in Beijing. The Bank's wholly-owned subsidiary in Macau, Banco Weng Hang, has been in operation since 1941 and has 13 branches. In addition, through its subsidiaries and affiliated companies, the Group provides nominee, deposit-taking, offshore banking, hire purchase, consumer financing, insurance and share brokerage services.

As of 31 December 2007, the Group's total assets, shareholders' funds, advances to customers and total deposits were HK$139,657.3 million (US$17,899.5 million), HK$10,485.4 million (US$1,343.9 million), HK$74,573.8 million (US$9,557.9 million) and HK$120,095.9 million (US$15,392.4 million), respectively.

For the year ended 31 December 2007, the Group achieved a record net profit of HK$2,030.6 million (US$260.3 million), and a final dividend of HK$2.47 per share has been recommended by the Board of Directors of the Bank. As of 31 December 2007, the Group's capital adequacy ratio and loan to deposit ratio were 16.7% and 62.1% respectively. For the year ended 31 December 2007, the Group achieved a return on average assets of 1.53%, a return on average shareholders' funds of 20.5% and an average liquidity ratio of 50.4%.

As of 25 July 2008, the authorised share capital of the Bank was 450,000,000 ordinary shares of HK$1.00 each, of which 295,044,380 ordinary shares have been issued and are fully paid. Based on the closing price of the Bank's shares on the Hong Kong Stock Exchange on 25 July 2008, the Bank's equity market capitalisation was HK$30,035.5 million (US$3,850.6 million) (based on the noon buying rate in New York City for cable transfers on 25 July 2008).

For the year ended 31 December 2007, the Group's overseas operations, including Macau and Mainland China recorded a profit before taxation of HK$544.9 million (US$69.8 million) which accounted for 23.2% of its consolidated profit before taxation. As of 31 December 2007, the Group's total advances to customers for use outside Hong Kong, which principally includes Macau and Mainland China, were HK$9,052.2 million (US$1,160.2 million) in Macau and HK$12,082.5 million (US$1,548.6 million) in Mainland China and other overseas areas.

In May 2002, the Bank received approval from the People's Bank of China to provide Renminbi services to foreign-funded enterprises and foreigners in Mainland China. It also obtained approval to extend foreign currency services to domestic Chinese corporations operating in Mainland China. In May 2007, the Bank received approval from the CBRC to establish a locally incorporated subsidiary bank in Mainland China. The new bank, Wing Hang Bank (China) Limited, is a wholly-owned subsidiary of the Bank and formally commenced business on 1 June 2007.

History

The Bank was first founded in 1937 in Guangzhou by the late Mr. Y.K. Fung to carry on the business of a money changer. It moved from Guangzhou to Hong Kong in 1940 and subsequently to Cham Kiang following the outbreak of World War II.

The business was re-established in Hong Kong in 1946 with a staff of 19 and capital of HK$300,000 (US$38,450). In 1960, the Bank was incorporated in Hong Kong and was granted a banking licence in the same year. In January 1973, the Irving Trust Company of New York (**Irving Trust**), a major international bank from New York, acquired a 51% interest in the Bank. Through this affiliation, the Bank gained access to updated technology, expertise in international banking and a firm foundation for future growth. In 1984, the Bank acquired a 98.8% interest (which increased to 100% in 1990) in Banco Weng Hang, a licensed bank in Macau which provides banking and related services to local retail and corporate customers. The acquisition of Banco Weng Hang enabled the Group to increase its customer base and provided a geographical diversification for the Bank's loan portfolio and deposit base. In 1988, Irving Trust merged with BONY to become one of the major banking groups in the United States. In July 2007, BONY merged with Mellon Financial Corporation to form The Bank of New York Mellon Corporation, further increasing its financial strength and standing in the market. The BNY Mellon Group continues to be a shareholder of the Bank.

In 1991, the Bank expanded its overseas operations by establishing a representative office in Shenzhen. This was followed by the setting up of further representative offices in Guangzhou in 1997, Shanghai in 2000 and Beijing in 2005.

In July 1993, the Bank was publicly listed on the Hong Kong Stock Exchange.

In June 1994, the Bank established the Auto and Equipment Finance Division for the provision of hire-purchase financing to its customers for the acquisition of automobiles and equipment. The division is presently one of the leading hire-purchase financing operations in Hong Kong. In 1995, the Bank teamed up with Swire Insurance Holdings Ltd to acquire a 100% interest (of which 65% was acquired by the Bank) in London & Pacific Insurance Co Ltd in Hong Kong in order to engage in general insurance underwriting. After the acquisition, the company was renamed Wing Hang Swire Insurance Company Limited. Wing Hang Swire Insurance Co Ltd was subsequently renamed as Wing Hang Zurich Insurance Group in 1997 and focuses on non-life insurance products.

In 1996, the Bank established Wing Hang Credit Limited, a wholly-owned subsidiary, to provide consumer lending services in the form of unsecured personal loans and credit card loans to its customers.

In 1999, the Bank founded The Bank Consortium Trust Company Limited with nine other local banks in Hong Kong with the objective of providing quality Mandatory Provident Fund (**MPF**) services to customers. In October 1999, the Group upgraded its MPF team into a full department focusing on preparations for the launch of the MPF in December 2000.

To provide a comprehensive range of life insurance products to take care of its customers, the Bank founded the Hong Kong Life Insurance Limited in 2001 with five other local banks in Hong Kong. With the strong support from the Hong Kong Life Insurance Limited, the Bank is able to offer a series of life insurance products, from coverage for individual life to group life and medical insurance.

In May 2002, the Bank received approval from the People's Bank of China to provide Renminbi services to foreign-funded enterprises and foreigners in Mainland China. It also obtained approval to extend foreign currency services to domestic Chinese corporations operating in Mainland China. The representative offices in Shenzhen, Shanghai and Guangzhou were upgraded to full branches in 1993, 2005 and 2006, respectively. In addition, the Bank opened a sub-branch in the Fumin district of Shenzhen in 2006. In May 2007, the Bank received approval from the CBRC to establish a locally incorporated subsidiary bank in Mainland China. The new bank, Wing Hang Bank (China) Limited, is a wholly-owned subsidiary of the Bank and was established in June 2007 in Shenzhen. After its establishment, the three branches in Shenzhen, Shanghai and Guangzhou and the sub-branch in the Fumin district of Shenzhen was transferred to Wing Hang Bank (China) Limited. A further sub-branch in the Longgang district in Shenzhen was opened in October 2007.

On 31 July 2003, the Bank entered into an agreement to acquire the entire issued share capital of Chekiang First Bank (**CFB**). The merger was successfully completed on 9 August 2004 and the operations of CFB have been fully integrated and merged with those of the Bank, providing the Bank with a larger operating platform and expanded customer base.

On 21 December 2006, the Bank entered into an agreement with BankAmerica International Financial Corporation, Inchcape Hong Kong Limited and Inchcape International Holdings Limited to acquire Inchroy Credit Corporation Limited (**Inchroy**) as a wholly owned subsidiary. The acquisition was completed on 31 January 2007. Inchroy is a Hong Kong registered deposit-taking company engaged in the hire purchase and lease financing business.

The following timeline shows major events since the Bank's establishment in 1937:

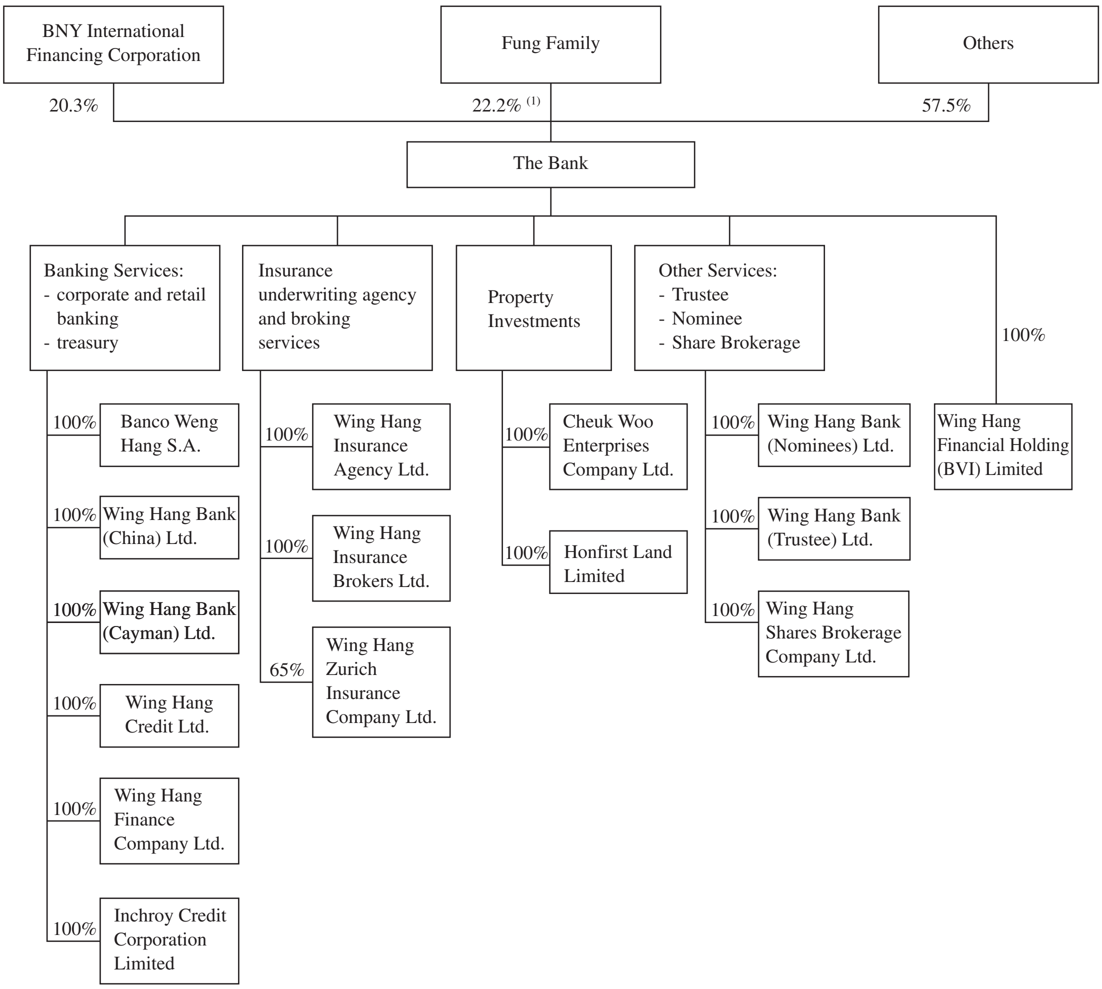
1937	— Founded as a money changer in Guangzhou by the late Mr. Y.K. Fung.
1940	— Business operations moved to Hong Kong.
WW II (onset)	— Business moved to Cham Kiang, a territory under French administration.
WW II (end)	— The Bank was re-established in Hong Kong.
1960	— The Bank was incorporated in Hong Kong and granted a banking licence.
1973	— Irving Trust purchased a 51% interest in the Bank.
1984	— The Bank acquired 98.8% (increased to 100% in 1990) interest in Banco Weng Hang, a licensed bank in Macau.
1988	— Irving Trust merged with BONY.
1991	— BONY sold 2% interest of the Bank to the Fung Family. — Opened a representative office in Shenzhen.
1993	— Listed on The Hong Kong Stock Exchange by offering 36,850,000 shares to the public. — Upgraded the Shenzhen representative office to a branch.
1994	— Established American Depositary Receipts programme for trading of the Bank's shares in the United States. — Established a new division to expand the Bank's automobile and equipment hire-purchase businesses.
1995	— Teamed up with Swire Insurance Holdings Ltd to acquire 100% stake of London & Pacific Insurance Co Ltd (renamed Wing Hang Swire Insurance Company Limited), of which 65% was acquired by the Bank. It was renamed Wing Hang Zurich Insurance Company Limited following the transfer of Swire's interest in it to Zurich Insurance Group in 1997.
1996	— Established Wing Hang Credit Limited to provide consumer loans services.
1997	— Opened a representative office in Guangzhou.
1999	— Formed The Bank Consortium Trust Company Limited with nine other local banks for the collective promotion of Mandatory Provident Fund related products in Hong Kong. Such services were launched in December 2000.
2000	— Opened a representative office in Shanghai.
2001	— Established Hong Kong Life Insurance Limited, a life insurance company, with five other local banks.
2002	— Received approval from the People's Bank of China to provide Renminbi services to foreign-funded enterprises and foreigners in Mainland China.
2003	— Acquired the entire issued share capital of CFB.
2004	— Completed merger with CFB.
2005	— Upgraded the Shanghai representative office to a branch. — Opened a representative office in Beijing.

2006	— Opened a sub-branch in the Fumin district of Shenzhen. — Upgraded the Guangzhou representative office to a branch.
2007	— Acquired the entire issued share capital of Inchroy Credit Corporation Limited. — Received approval from the CBRC to establish a locally-incorporated bank in Mainland China, known as Wing Hang Bank (China) Limited. — Transfer of three branches and one sub-branch to Wing Hang Bank (China) Limited — BONY merged with Mellon Financial Corporation. — Wing Hang Bank (China) Limited opened a sub-branch in the Longgang district of Shenzhen.

Group Structure

The Bank is the holding company and the principal operating company of the Group. The Bank's main subsidiaries are Banco Weng Hang and Wing Hang Bank (China) Limited. In addition, the Bank has a number of other wholly-owned operating subsidiaries which provide nominee, deposit-taking, offshore banking, insurance agency and broking, share brokerage, trustee, hire purchase and lease financing and consumer financing services.

The diagram below sets forth a summary of the Group's principal subsidiaries as of 25 July 2008:



Note:

(1) All shares are held either directly or through corporations or trusts in which Mr. Patrick Y.B. Fung, Mr. Michael Y.S. Fung and Mr. Louis C.W. Ho's spouse together with other parties are eligible beneficiaries.

Organisation

The Bank, Banco Weng Hang and Wing Hang Bank (China) Limited each has its own independent organisation structure.

The Bank's Chairman and Chief Executive, Mr. Patrick Y.B. Fung, is responsible for the day-to-day management of the Group and is accountable to the Board of Directors of the Bank. To assist the Board of Directors in managing the Group, four committees of Directors have been established. These are the Executive Committee, the Audit Committee, the Director Nomination Committee and the Remuneration Committee. The Executive Committee is responsible for reviewing the management and performance of the Group. The Audit Committee, whose members are all Non-Executive Directors, is responsible for reviewing and discussing the financial performance of the Group, considering the nature and scope of audit and the effectiveness of the systems of internal control, risk management and compliance and ensuring that all audit recommendations are implemented. The Director Nomination Committee comprises of three Independent Non-Executive Directors and is responsible for reviewing and recommending to the Board of Directors all new appointments of Directors, Chief Executive, Deputy Chief Executive and Group Executive. The Remuneration Committee comprises of two Independent Non-Executive Directors and meets once a year to make recommendations to the Board of Directors on the Bank's policy and structure for remuneration of all the Directors and Senior Management of the Bank.

In addition to the Audit Committee and the Executive Committee, the Bank has a number of other committees which assist management in the operation of the Bank. These include the Credit Committee, which is responsible for assisting the Board of Directors to formulate the Group's risk appetite and strategies for managing the credit risk, and for the implementation and maintenance of the Group's credit risk management framework; the Management Committee, which reviews and approves the financial and business plans and major business and operational initiatives; and the Asset and Liability Management Committee, which is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks, trading, funding and liquidity management across the Group's banking business. The members of each committee are generally senior managers of the Bank.

The Bank has eight business and eight control and support divisions, each of which is responsible for a specific business or operational function. The business divisions include Loans Division, Corporate Banking Division, Retail Banking Division, Consumer Finance Division, Auto and Equipment Finance Division, Financial Markets Division, Treasury Division and Insurance and Trust Division. The control and support divisions include Financial Management Division, Operations Division, Risk Management Division, Legal and Compliance Division, Central Loans Division, Credit Administration Division, Information Technology Division and Human Resources Division. The Bank's Chief Executive, assisted by three Executive Directors, oversees all 16 divisions. Each division is managed by a Division Head who in turn supervises a number of departmental managers. The Bank also has an Internal Audit Division which reports directly to the Audit Committee.

Banco Weng Hang has its own Board of Directors and management structure. The General Manager of Banco Weng Hang is responsible for the day-to-day management of Banco Weng Hang and reports to the Bank's Senior General Manager. Banco Weng Hang's Board of Directors is supported by a Supervisory Council consisting of an independent non-executive director of the Bank and two senior officers of the Bank.

Wing Hang Bank (China) Limited has its own Board of Directors and management structure. The General Manager of Wing Hang Bank (China) Limited reports to the Bank's General Manager. The Board of Directors of Wing Hang Bank (China) Limited consists of one Executive Director, two Independent Non-executive Directors and five senior officers of the Bank.

Strategy

The Bank's objective is to strengthen its position in the Hong Kong market, enhance its overall competitiveness and expand its international operations, particularly in Mainland China and Macau and provide its customers with quality products and excellent customer service.

The major components of the Bank's strategy are as follows:

- **Further strengthening the Bank's position in Hong Kong by enhancing and expanding core domestic businesses and concentrating on key market segments.** As competition in the Hong Kong banking industry increases, the Bank believes that to compete effectively it will need to increase its market share in its core retail and corporate banking operations and cross-sell its products to its enlarged customer base. In particular, the Bank will continue to focus on expanding its consumer lending business. The Bank is also continually seeking to provide a better service to its customers by selectively expanding and improving its Hong Kong branch network and broadening the scope of products and services it offers to its core retail and corporate customers. In addition, the Bank continues to evaluate additional opportunities through acquisitions, joint ventures or other forms of investments to further diversify its earnings base.

- **Expand its geographical coverage in particular in Mainland China.** The Bank plans to continue to capitalise on growing opportunities in Mainland China following the full liberalisation of the banking sector and of Renminbi business in Mainland China in 2007. In particular, it is focusing on the Pearl River Delta region and extending its retail banking business in this area. It believes that it has a competitive advantage in the area given its experience in operating in Hong Kong and Macau. In May 2002, the Bank received an approval from the People's Bank of China to provide Renminbi services to foreign-funded enterprises and foreigners in Mainland China. In addition, the Bank obtained approval to extend foreign currency services to domestic Chinese corporations operating in Mainland China. In May 2007, the Bank received approval from the CBRC to establish a locally incorporated bank in Mainland China. Following such approvals, Wing Hang Bank (China) Limited, a wholly-owned subsidiary of the Bank was established in Shenzhen and formally commenced business on 1 June 2007. This enables the Group to offer more comprehensive banking services to local residents and foreign enterprises in Mainland China and expand its customer base. Wing Hang Bank (China) Limited will focus on expanding its deposit base and increasing product variety in the wealth management business. The Group also intends to upgrade its Beijing representative office to a branch and increase the number of branches and sub-branches it has in Mainland China, particularly in Guangdong province. Accordingly, the Group intends to increase the number of employees it has in Mainland China.

- **To continue to diversify its income sources.** The Bank has focused its efforts on broadening fee and commission income. The Bank intends to continue to diversify its income sources and focus on increasing its non-collateral based lending activities such as consumer finance, credit card and trade finance and increasing its other fee-based income by offering a wide selection of wealth management investment instruments such as unit trust funds, certificates of deposit, bonds and notes to its customers. The total amount of unit trust funds, bonds and other investment instruments sold through the Bank during 2007 exceeded HK$20,901.0 million (US$2,678.8 million). For the year ended 31 December 2007, other operating income of the Group amounted to HK$1,120.4 million (US$143.6 million), representing 34.0% of the Group's operating income, supported by increases in share brokerage commissions, treasury dealing income and wealth management commissions. The Bank plans to provide enhanced services and more structured products to meet the needs and investment objectives of its high net-worth customers and thereby encourage further growth of the wealth management business. The Bank believes there are also opportunities to broaden its customer base across its network of branches and wealth management centres through cross-selling. The Bank also intends to increase the number of employees of the Group in Macau, in order to facilitate the growth of its wealth management business in Macau.

Business

The principal activities of the Group are organised into four segments, based on the types of products and services that it provides. These segments are corporate banking, retail banking, treasury services and others. The corporate banking segment includes the advance of commercial and industrial loans, trade financing and institutional banking. The retail banking segment includes the acceptance of deposits, residential mortgages, wealth management, hire purchase and consumer loans. The treasury segment includes providing foreign exchange services, management of investment securities and trading securities. Other business activities of the Group include share brokerage, insurance underwriting, insurance agency and broking, bullion, nominee and trustee services and MPF services.

The table below sets forth a summary of the Group's performance by business segment for the years ended 31 December 2006 and 2007.

	Operating income Year ended 31 December			Profit before taxation Year ended 31 December		
	2007	2006	Increase/ (decrease)	2007	2006	Increase/ (decrease)
	(Expressed in thousands of Hong Kong dollars, except percentages)			(Expressed in thousands of Hong Kong dollars, except percentages)		
Corporate Banking	605,083	551,816	9.7%	410,659	424,253	(3.2)%
Retail Banking	2,313,962	1,882,365	22.9%	1,411,325	1,110,074	27.1%
Treasury	(26,076)	148,253	(117.6)%	(63,814)	131,870	(148.4)%
Others(1)	195,649	102,333	91.2%	256,121	100,782	154.1%
Unallocated(2)	264,582	314,851	(16.0)%	329,932	214,272	54.0%
Inter-segment elimination	(61,541)	(62,171)	1.0%	—	—	—
Total	3,291,659	2,937,447	12.1%	2,344,223	1,981,251	18.3%

Notes:

(1) "Others" include insurance business, stockbroking activities, bullion, nominee and trustee services and services for retirement schemes.

(2) "Unallocated" mainly comprise shareholders' funds, investments in premises and investment property, and results of other activities which cannot be reasonably allocated to specific business segments.

The following table is a summary of the Group's operating income and profit before taxation by geographical location for the periods indicated.

	Operating income Year ended 31 December			Profit before taxation Year ended 31 December		
	2007	2006	Increase	2007	2006	Increase/ (decrease)
	(Expressed in thousands of Hong Kong dollars, except percentages)			(Expressed in thousands of Hong Kong dollars, except percentages)		
Hong Kong	2,627,092	2,406,726	9.2%	1,908,135	1,652,911	15.4%
Macau	546,152	416,198	31.2%	372,087	276,285	34.7%
Mainland China	292,715	169,581	72.6%	156,651	63,759	145.7%
Others(1)	18,900	21,375	(11.6)%	16,150	18,283	(11.7)%
Inter-segment elimination	(193,200)	(76,433)	(152.8)%	(108,800)	(29,987)	(262.8)%
Total	3,291,659	2,937,447	12.1%	2,344,223	1,981,251	18.3%

Note:

(1) "Others" include other overseas locations.

Hong Kong

Corporate banking

The following table sets forth information concerning the corporate lending, before any impairment allowances, provided by the Group by sector as of the dates indicated.

	31 December 2007	**31 December 2006**	**Increase/ (decrease)**
	(Expressed in thousands of Hong Kong dollars, except percentages)		
Property Development and Investment	13,219,919	11,306,638	16.9%
SME and Trade Finance	5,298,741	5,098,154	3.9%
Transport and Transport Equipment	5,837,444	2,416,631	141.6%
Other general corporate loans	5,299,476	4,488,457	18.1%
Total	29,655,580	23,309,880	27.2%

The Group's corporate banking customers are primarily small to medium-sized enterprises (**SMEs**) engaged in businesses in a broad range of industries in Hong Kong, Macau and the Pearl River Delta region. The Group's corporate banking philosophy places a particular emphasis on "relationship banking" and as a result, the customer base includes many long-standing customers. Many of the Bank's traditional customers have established operations in Mainland China and the Bank has continued to support these customers in connection with their activities. The Bank has also continued to participate actively in the Hong Kong Government's SME Loan Guarantee Scheme.

For the year ended 31 December 2007, the Group's corporate banking division recorded a 9.7% increase in operating income to HK$605.1 million (US$77.6 million), compared with HK$551.8 million (US$70.9 million) for the year ended 31 December 2006.

The Group provides a wide range of services to its corporate clients, the most important of which are listed below:

(i) *Corporate loan and other services*

Corporate loans are extended to customers for a variety of purposes including financing for working capital and for investment projects. The Group's major areas of corporate lending are:

<u>Property development and investment</u>

The Group provides mortgage loan facilities to corporate customers to facilitate the purchase of residential, office or commercial properties, for their own use or for investment purposes. For the year ended 31 December 2007, the Group's advances to customers for property development and investment increased by 16.9% from HK$11,306.6 million (US$1,453.7 million) as of 31 December 2006 to HK$13,219.9 million (US$1,694.4 million) as of 31 December 2007.

<u>SME and trade finance services</u>

The Group provides its customers with personalised and customised trade finance services to meet their particular requirements. Trade finance customers of the Group include a wide range of manufacturing and trading companies in Hong Kong and Macau. In addition, the Group also provides working capital to SMEs and manufacturers, wholesalers and retail trade. The trade finance services are divided into import trade services, export trade services and other services. Import trade services include the issuance and negotiation of letters of credit, inward bills collections, shipping guarantee, storage of goods, import loans and trust receipt facilities. Export trade services include negotiation of bills under documentary credits, purchase of documents against acceptance and documents against payment bills, outward bills collection and arranging pre-export finance services. Other services include foreign exchange forward contracts, comprehensive insurance services, provision of overseas trade and credit information, financial and credit enquiry on overseas customers and introducing potential traders to the Group's clients and vice versa. In addition, a receivables financing service was introduced in 2007 to boost the trade business. For the year ended 31 December 2007, the Group recorded a 3.9% increase in SME and trade finance advances from HK$5,098.2 million (US$655.5 million) as of 31 December 2006 to HK$5,298.7 million (US$679.1 million) as of 31 December 2007.

Transport and transport equipment finance services

The Bank, through its wholly-owned subsidiary, Wing Hang Finance Company Limited, has achieved consistent growth in its vehicle and equipment financing provided to Hong Kong manufacturers with their operations in the Pearl River Delta region. For the year ended 31 December 2007, transport and transport equipment financing recorded a 141.6% increase from HK$2,416.6 million (US$310.7 million) as of 31 December 2006 to HK$5,837.4 million (US$748.2 million) as of 31 December 2007 mainly due to the acquisition of Inchroy in January 2007. Inchroy was able to maintain a stable business portfolio and contributed better-than-expected returns.

Other general corporate loans

The Group provides loans to companies for general operating purposes. Such loans are usually supported by collateral of various types and have short maturities. For the year ended 31 December 2007, the Group's general corporate loans increased by 18.1% from HK$4,488.5 million (US$577.1 million) as of 31 December 2006 to HK$5,299.5 million (US$679.2 million) as of 31 December 2007. In addition, the Group provides margin loans to stockbrokers to finance their trading activities as well as to enable them to extend margin facilities to their own customers. During 2007, the Bank's corporate banking division in Hong Kong, in co-operation with its Shenzhen branch and, following its establishment, Wing Hang Bank (China) Limited, provided credit facilities to Hong Kong manufacturers that have shifted their operations to Mainland China, resulting in advances to customers for use in Mainland China for the year ended 31 December 2007 increasing by 30.5% in comparison to the year ended 31 December 2006. The Bank also offers project financing to Hong Kong developers that are diversifying their investments across the border.

(ii) *Corporate deposits*

The Group accepts deposits in Hong Kong dollars, Chinese Renminbi, Macau Patacas and 16 other currencies from corporate customers.

(iii) *International banking*

The Group maintains correspondent banking relationships with over 1,100 banks worldwide and provides Hong Kong dollar clearing services for foreign banks that maintain Hong Kong dollar accounts with the Group. The Group also provides trade finance services to foreign banks, including the confirmation of and advising on letters of credit.

Retail banking

The following table sets forth a summary of the retail lending, before any impairment allowances, provided by the Group by sector as of the dates indicated.

	31 December 2007	31 December 2006	Increase/ (decrease)
	(Expressed in thousands of Hong Kong dollars, except percentages)		
Loans for residential properties	19,012,618	16,284,115	16.8%
Credit card advances, personal loans and other loans to individuals	4,760,957	3,561,986	33.7%
Total	23,773,575	19,846,101	19.8%

Retail banking services provided by the Group include chequing account facilities as well as the provision of deposit accounts in Hong Kong dollars, Chinese Renminbi, Macau Patacas and 16 other currencies. In addition, the Group also provides retail customers with services such as foreign remittances, telegraphic transfers, issuance of bank drafts, cashiers' orders, travellers cheques, gift cheques, payment of utility bills and automated teller machine services. In the first quarter of 2006, the Bank launched a real-time Hong Kong-Macau remittance service enabling its customers to switch their funds between Hong Kong and Macau instantly.

For the year ended 31 December 2007, the Group's retail banking division recorded a 27.1% increase in profit before taxation to HK$1,411.3 million (US$180.9 million), compared with HK$1,110.1 million (US$142.7 million) for the year ended 31 December 2006, largely resulting from solid loan growth, higher stock trading commissions, and a strong performance in wealth management services.

(i) *Loans for residential properties*

The Group's retail lending business is centered around the provision of residential mortgages to customers. Its general policy in relation to new residential mortgages in Hong Kong is in line with the guidelines established by the HKMA. Such lending business is conducted through the Bank's branch network.

The types of residential mortgages offered by the Group are mainly divided into three types: (a) loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme launched by the Hong Kong Government; (b) loans for the purchase of other residential properties and (c) loans for refinancing mortgages. Despite strong market competition in the second half of 2007, strategic planning resulted in total loans for residential properties for the year ended 31 December 2007 increasing by 16.8% from HK$16,284.1 million (US$2,093.6 million) as of 31 December 2006 to HK$19,012.6 million (US$2,436.8 million) as of 31 December 2007.

(ii) *Consumer finance*

The Group also engages in consumer lending in the form of unsecured personal loans and credit card loans.

During 2007, the Group continued to expand its personal loan activities through the Bank's wholly-owned subsidiary Wing Hang Credit Limited with the introduction of a series of tax and revolving loan products. For the year ended 31 December 2007, Wing Hang Credit Limited's consumer loan portfolio increased by 12.9%, from HK$1,379.4 million (US$177.3 million) as of 31 December 2006 to HK$1,557.5 million (US$199.6 million) as of 31 December 2007.

The Bank has continued to offer innovative programmes to attract customers of strong credit standing. Credit card receivables increased by 15.6% from HK$323.1 million (US$41.5 million) as of 31 December 2006 to HK$373.6 million (US$47.9 million) as of 31 December 2007. For the year ended 31 December 2007, annualised charge-offs for credit cards decreased to 1.30% of credit card receivables from 1.52% for the year ended 31 December 2006.

(iii) *Deposits*

The wide range of deposit services provided to customers include savings and current accounts denominated in Hong Kong dollars as well as other foreign currencies and Hong Kong dollar and foreign currency time deposits. The Group is constantly seeking to improve and widen its range of deposit services in order to give customers maximum flexibility, high returns and the ultimate in modern banking convenience such as the introduction of the "eDeposit" service and "Currency-Linked Deposit". The "eDeposit" service allows customers to enjoy real-time fund transfer from other banks in Hong Kong to their bank accounts held with the Bank and provide fixed deposit placement, stock trading and foreign currency investment through the Internet. The "Currency-linked Deposit" is a combination of time deposit and foreign currency options in which customers are able to enjoy a fixed deposit with a higher interest rate, multiple choices of currencies and a flexible tenor ranging from seven days to three months.

Total deposits and customer deposits both registered increases of 11.7% from HK$107,475.1 million (US$13,817.8 million) and HK$102,066.9 million (US$13,122.5 million), respectively, as of 31 December 2006 to HK$120,095.9 million (US$15,392.4 million) and HK$113,969.0 million (US$14,607.1 million), respectively, as of 31 December 2007, with a substantial increase in demand and savings deposits. Foreign currency deposits for the year ended 31 December 2007 grew by 12.4% as compared to the year ended 31 December 2006. Deposit growth was partly supported by increased turnover on the stock market, an expanded branch network and the successful promotion of the "Elite Gold Banking" concept aimed at high net-worth customers.

(iv) *Wealth management*

The wealth management business continued to grow in 2007 as favourable economic conditions together with buoyant equity market sentiment led to strong demand for wealth management products offering higher returns. This resulted in private placements and investments being bought by high-net-worth customers whilst the introduction of the "Elite Gold Banking" service helped to expand the Bank's customer base. The Bank currently operates five wealth management centres in Hong Kong.

Responding to rising demand for wealth management services and the growing sophistication of the Bank's customers, during 2007, the wealth management operation offered its customers a wider range of investment instruments including unit trust funds, third-party equity-linked or credit-linked note products and retail callable certificates of deposit. For the year ended 31 December 2007, the total amount of investment instruments sold through the Bank on an agency basis, including bonds, mutual funds and callable certificates of deposit, exceeded HK$20,901.0 million (US$2,678.8 million). In addition, the wealth management operation offers share brokerage services and insurance underwriting, agency and broking services to its customers. See *"Other businesses — Share brokerage services; — Insurance underwriting, agency and broking services and MPF services"*.

In keeping with its efforts to boost customer loyalty, the Group has continued to take steps to improve the quality of its service. During 2007, the Bank increased the number of customer service staff in the branches. In addition, continued on-the-job training has equipped employees to market new services and more structured products to meet the needs and investment objectives of the Bank's high-net-worth clients. Upgraded skills have also enhanced job satisfaction and career prospects for the Bank's employees.

The Group's ongoing service commitment is to offer a multi-channel one-stop solution to meet the various financial needs of its growing customer base. There continues to be a positive response to the "Elite Banking" concept introduced to selected customers in 2001. This service targets customers with higher deposits and net assets (but who do not qualify for the "Elite Gold Banking" service), and offers them value-added services, such as preferential interest rates for residential mortgage loans, waiver of certain transaction fees, discounts on handling charges for the subscription of bonds and remittance services.

(v) *Internet banking services*

Internet banking services provided by the Group include its eBanking and Online Trading services. The Group's eBanking service allows customers to perform banking transactions and access information using various electronic channels including the Internet and fixed-line telephones. The Group's eBanking service offers a wide variety of banking functions, including account enquiry, funds transfer, stock trading, credit card payment, bill payment, rate enquiry, change of user ID, change of PIN and personal information, cheque book requisition, account statement requisition, time deposit services, gold trading and exchange transaction. As of 31 December 2007, the Group had over 120,000 eBanking accounts and currently executes close to 25,000 transactions daily.

The Group's Online Trading service was launched in 2002. The service allows customers to trade stocks and warrants via the Internet and fixed-line telephones. As of 31 December 2007, trades completed by using the Online Trading service accounted for approximately 36.7% of the Group's total trade volume.

It is the Group's intention to continue to expand its eBanking and Online Trading services to offer more extensive Internet banking and brokerage services to its customers.

Treasury services

(i) *Foreign exchange services*

The Group's major source of foreign exchange income is generated from services provided to customers such as foreign exchange trading, forward contracts and foreign exchange margin trading. The Group's foreign exchange trading hours run until approximately 3:00 a.m. to allow trading in the New York foreign exchange market. In addition to providing foreign exchange services in most major foreign currencies, the Group's services also include the buying and selling of Renminbi banknotes, mainly for retail customers. For the year ended 31 December 2007, foreign currency deposits grew by 12.4% as compared to the year ended 31 December 2006.

The Group also takes positions for its own account in foreign exchange and treasury trading transactions. The Group adopts a conservative approach to proprietary trading and places strict limits on dealer positions. Compliance with these limits is regularly monitored by senior executives of the Group.

(ii) *Investment securities*

During the second half of 2002, the Bank established the Financial Markets Division responsible for the enhancement of yields for the Group's surplus funds by investing excess liquidity in high grade investment bonds and debt securities.

Trading securities and financial assets measured at fair value through profit or loss increased by 28.0% from HK$5,516.7 million (US$709.3 million) as of 31 December 2006 to HK$7,060.0 million (US$904.9 million) as of 31 December 2007. Held-to-maturity and available-for-sale financial assets decreased by 15.0% from HK$22,218.6 million (US$2,856.6 million) as of 31 December 2006 to HK$18,891.9 million (US$2,421.3 million) as of 31 December 2007, mainly as a result of certain of such debt securities reaching maturity. See "*Selected Statistical and Other Information relating to the Group — Investments in securities*".

In 2007 the debt investment market experienced a difficult year as a result of unrealised losses on financial instruments held for trading and measured at fair value. Partially offsetting these mark-to-market losses was an increase in net interest income on the Bank's fixed-rate debt investments. The lower interest rate environment should continue to benefit the Bank's fixed rate portfolio. It is the Bank's intention to continue to enhance and expand treasury capabilities to invest its surplus funds efficiently and prudently.

Other businesses

The Group's other businesses include the provision of finance-related services to corporate and retail customers in the form of share brokerage, insurance underwriting, insurance agency and broking, bullion, nominee and trustee services and MPF services.

For the year ended 31 December 2007, the Group's insurance business, stockbroking activities and services for retirement schemes recorded a 154.1% increase to HK$256.1 million (US$32.8 million) in profit before taxation compared with HK$100.8 million (US$13.0 million) for the year ended 31 December 2006.

(i) *Share brokerage services*

The Group's share brokerage subsidiaries own four seats on the Hong Kong Stock Exchange. Securities trading transactions are executed through these companies and orders can be placed through any of the Group's branches in Hong Kong. The Bank also provides financing to individual customers and stockbrokers to fund share purchases. The company introduced an IVR (Interactive Voice Response) automated share trading system in 2002 which has been well received by customers.

For the year ended 31 December 2007, the Group's shares brokerage subsidiaries recorded a 141.1% increase to HK$254.1 million (US$32.6 million) in stockbroking fees compared with HK$105.4 million (US$13.6 million) for the year ended 31 December 2006, mainly due to active trading on the stock market and pro-active promotion of the Bank's services to customers.

The Group's Online Trading service was launched in 2002 and allows customers to trade stocks and warrants via the Internet and fixed-line telephone. As of 31 December 2007, trades completed by using the Online Trading service accounted for approximately 36.7% of the Group's total trade volume. To further improve efficiency, the brokerage division will continue to upgrade its trading capacity and encourage retail investors to execute transactions through automatic channels including the Internet trading platform.

(ii) *Insurance underwriting, agency and broking services and MPF services*

The Group provides agency and broking insurance services through Wing Hang Insurance Agency Limited and Wing Hang Insurance Brokers Limited, both of which are wholly-owned subsidiaries of the Bank. The Group also provides general insurance underwriting services through Wing Hang Zurich Insurance Company Limited, which is 65% owned by the Bank. The Bank's insurance agency department was set up in Shenzhen in 2007 to enable the Group to provide a comprehensive range of insurance services to customers in Mainland China.

In May 1999, the Bank founded The Bank Consortium Trust Company Ltd (**BCT**) with other local banks in Hong Kong with the objective of providing quality MPF services to customers. In October 1999, the Group upgraded its MPF team into a full department focusing on preparation for the launch of the MPF in December 2000. BCT manages assets worth over HK$17,800.0 million (US$2,281.4 million), providing services to more than 470,000 members. With the advanced technology, professional expertise and wide network of BCT, the Group is able to offer a comprehensive range of MPF services, including trustee, scheme administration, investment management and custody services, to employers, employees and the self-employed.

Despite keen competition, Wing Hang Insurance Agency Limited and Wing Hang Insurance Brokers Limited achieved a modest growth in business volume during 2007. Hong Kong Life Insurance Limited, an associated company which is 33% owned by the Bank and which offers life insurance to the Bank's customers, Wing Hang Zurich Insurance Company Limited and BCT achieved excellent returns for the year 2007.

(iii) *Bullion services*

Bullion services are provided by the Group to its customers and include the trading of gold bullion through the Chinese Gold and Silver Exchange Society (the **Society**) and other world markets. The Bank is a member of the Society and is also one of a limited number of members of that exchange which are licensed to produce and stamp gold bars in their own name. The Bank is the sole settlement bank for the Society and acts as custodian for many international bullion dealers. The Bank also provides customers with gold passbook accounts and over-the-counter retail sales of gold bars and coins.

(iv) *Nominee services*

Wing Hang Bank (Nominees) Limited, a wholly-owned subsidiary of the Bank, provides nominee, custodian and share brokerage services to the customers of the Group.

(v) *Trustee services*

The Group also provides on-shore and off-shore trustee services through its wholly-owned subsidiary Wing Hang Bank (Trustee) Limited.

Branches

The Group currently has 40 branches in Hong Kong (including one branch which is located at the Bank's head office), 13 branches in Macau (including one branch located at Banco Weng Hang's head office) and four branches in Shenzhen, Guangzhou and Shanghai (including one branch located at Wing Hang Bank (China) Limited's head office), two sub-branches in the Fumin district and the Longgang district of Shenzhen and a representative office in Beijing. The Group owns the Bank's head office building located at 161 Queen's Road Central, as well as 26 of its branch premises in Hong Kong. In addition, the Group owns the majority of its premises in Macau and Shenzhen. The Group's ownership of a large percentage of its branch premises has allowed the Group to minimise and control increases in occupancy expenses. The Group intends to expand its branch network if suitable strategic locations are identified and to continue its strategy of purchasing the premises needed for new branches whenever possible. The Group also intends to open additional branches and sub-branches in other cities in Mainland China, such as Shenzhen and Guangzhou.

Banco Weng Hang

Banco Weng Hang, a wholly-owned subsidiary of the Bank, has been in operation since 1941 and has 13 branches located in Macau. Banco Weng Hang was the fifth-largest bank in Macau in terms of total assets as at the end of 2007. Banco Weng Hang is regulated by the HKMA as well as the Monetary Authority of Macau. Banco Weng Hang is one of the 24 retail banks in Macau with a full banking licence. Banco Weng Hang provides a wide range of banking services including corporate banking, retail banking and foreign exchange and treasury services to corporate and retail customers in Macau. The banking services offered by Banco Weng Hang include many of those offered by the Bank in Hong Kong such as:

(i) Corporate banking — general corporate loans, credit facilities to SMEs and trade finance services.

(ii) Retail banking — personal loans, credit card loans, residential mortgages, customer deposits and wealth management services.

(iii) Foreign exchange services and insurance and share brokerage services.

For the year ended 31 December 2007, Banco Weng Hang recorded a 34.7% increase in profit before taxation from MOP284.6 million (US$35.5 million) for the year ended 31 December 2006 to MOP383.2 million (US$47.7 million) for the year ended 31 December 2007, with steady growth in loans of 43.6% from MOP6,605.3 million (US$824.5 million) as of 31 December 2006 to MOP9,488.6 million (US$1,180.7 million) as of 31 December 2007. For the year ended 31 December 2007, Banco Weng Hang accounted for 15.9% of the Group's profit before taxation.

As of 31 December 2007, Banco Weng Hang's total assets, shareholders' funds, advances to customers and total deposits were MOP21,207.5 million (US$2,638.9 million), MOP1,354.2 million (US$168.5 million), MOP9,488.6 million (US$1,180.7 million) and MOP17,431.2 million (US$2,169.0 million), respectively.

Business in Mainland China

The Group currently has four branch offices in Mainland China, located in Shenzhen, Guangzhou and Shanghai. In addition, the Group has two sub-branches in the Fumin district and the Longgang district of Shenzhen and a representative office in Beijing. It is the Group's intention to upgrade its Beijing representative office to a branch and open further branches and sub-branches in other cities in Mainland China, such as Shenzhen and Guangzhou.

In May 2002, the Bank, through its Shenzhen branch, received approval from the People's Bank of China to provide Renminbi services to foreign-funded enterprises and foreigners in Mainland China as well as to extend foreign currency services to domestic Chinese corporations operating in Mainland China. The ability to lend in Renminbi enables the Group to broaden the scope of its banking activities in Mainland China and to better serve its existing and potential customers. In making Renminbi denominated loans, the Bank usually requires that the borrower has sufficient Renminbi cashflow to service such loans. In May 2007, the Bank received approval to establish a locally incorporated bank in Mainland China. Wing Hang Bank (China) Limited, a wholly-owned subsidiary of the Bank, was established in Shenzhen and formally commenced business on 1 June 2007. This enables the Bank to offer a full range of Renminbi services to domestic Chinese residents and better serve its expanding customer base. In addition, the Bank will continue to target its Hong Kong customers with new operations in Mainland China. For the year ended 31 December 2007, the Group's operations in Mainland China accounted for approximately 6.7% of the Group's total profit before taxation.

Impaired Loans and Credit Risk Management

Due to the continued improvement in the economy and rising property prices in Hong Kong, the level of impaired loans decreased to 0.44% of total loans and advances to customers outstanding, or HK$325.1 million (US$41.7 million), as of 31 December 2007, compared with HK$364.1 million (US$46.8 million) as of 31 December 2006. Impairment allowances on loans and advances increased by 97.9% from HK$0.8 million (US$0.1 million) for the year ended 31 December 2006 to HK$1.5 million (US$0.2 million) for the year ended 31 December 2007.

Due to growth in demand for residential and investment mortgages, consumer financing and share financing, as of 31 December 2007 the Group's total loans outstanding to customers increased to HK$74,573.8 million (US$9,557.9 million), representing a 27.2% increase from 31 December 2006. The Group's residential mortgages, which accounted for 25.5% of the total loan portfolio as of 31 December 2007 (compared with 27.8% as of 31 December 2006), increased by 16.8%. The net interest income of the Group for the year ended 31 December 2007 increased by 13.7% to HK$2,417.5 million (US$309.8 million) compared with HK$2,125.9 million (US$273.3 million) for the year ended 31 December 2006 as an increase in loan volumes offset lower interest margins. Net interest income also grew as a result of increased activities in Mainland China and Macau, which saw loans advanced by the Group grow by 30.5% and 45.7%, respectively, in 2007.

The Group maintains a conservative credit policy and has established a number of controls to ensure adherence to this policy. The Group's credit policy guidelines are reviewed and updated on a regular basis by the Bank's Credit Committee. The Bank, Banco Weng Hang and Wing Hang Bank (China) Limited each have their own Credit Committees. The Bank's Credit Committee comprises the Chief Executive, Executive Directors and certain senior members of the Bank while Banco Weng Hang's Credit Committee comprises the General Manager and senior managers of Banco Weng Hang. Wing Hang Bank (China) Limited's Credit Committee comprises the General Manager and senior managers of Wing Hang Bank (China) Limited. The main responsibilities of the Credit Committees are to assist the Board of Directors to formulate the Group's risk appetite and strategies for managing the credit risk, and to implement and maintain the Group's credit risk management framework. The Credit Committees also participate in evaluating large credit applications and making credit decisions.

The Credit Committees will review the respective banks' loan portfolio's "past due" positions and their composition by industry, approve material credit applications and conduct annual reviews on such credit facilities granted to existing customers. Credit applications that exceed Banco Weng Hang's Credit Committee's authorised credit limit are required to be approved by at least two Executive Directors from the Board of Banco Weng Hang.

In addition to the three Credit Committees, the Group has in place further controls to maintain the credit quality of the Group's loans. All loan officers are given lending limits and each loan must be approved by two loan officers, one of whom must have adequate lending authority to approve the loan.

The Group follows a prudent impairment allowance policy and, as of 31 December 2007, impairment losses and allowances on loans and advances amounted to 0.32% of the Group's total portfolio.

As of 31 December 2007, impaired loans represented HK$325.1 million (US$41.7 million) or 0.44% of total loans outstanding. The following outlines the impairment allowances on loans and advances:

	Individual	Collective	Total
	(Expressed in thousands of Hong Kong dollars)		
As of 31 December 2007			
Advances to customers	105,976	135,987	241,963
As of 31 December 2006			
Advances to customers	92,317	168,717	261,034

The Group sets its own prudent guidelines with regard to collateral for loans. A significant proportion of the Group's loan portfolio by value is supported by collateral such as properties and vehicles.

Implementation of the Basel II Accord in Hong Kong

The HKMA has adopted the Basel II Accord capital adequacy standards in Hong Kong from the beginning of 2007. Currently, the Bank adopts the standardised approach for credit risk and market risk, and the basic indicator approach for operational risk.

In order to enhance the Bank's credit risk management and ensure compliance with Basel II requirements, including moving in the future to foundation internal ratings-based approach for credit risk, the Bank joined a consortium of banks to engage an external consultant in late 2003 to devise a credit risk solution (the **Solution**) on a pooled credit data basis. The Bank completed its implementation of the Solution in April 2005 and has since been using the resultant systems. The Solution, which comprises the establishment of an internal rating framework and credit risk rating tools for major asset classes of the Bank, is intended to enhance the ability of portfolio and capital management through improved evaluation of risk and return.

Furthermore, the Bank has set up a steering committee chaired by the Deputy Chief Executive for the purpose of complying with Basel II requirements and implementing best market practices for risk management within the Bank. The Bank has also engaged an external consultant in early 2008 to devise a solution to comply with foundation internal ratings-based approach requirements.

Holdings of collateralised debt obligations (CDOs)

As at 31 December 2007, the carrying value of CDOs held by the Group amounted to HK$774,113,000. On 2 January 2008, the Group sold a CDO at carrying value for HK$63,589,000. As a result of uncertainties in the credit and capital markets, the fair value of CDOs held by the Group further decreased by HK$176,048,000 for the two months ended 29 February 2008. However, the unrealised loss on revaluation can be fully offset by the unrealised gain arising from the change in credit risk of the Bank's perpetual subordinated liabilities measured at fair value through profit or loss of approximately HK$256,324,000. Consequently, there has been no material impact on the Group's capital or financial position. As at 29 February 2008, the Group had an accumulated unrealised loss of 42% of the notional amount of its CDO investments.

Funding

The Group's main sources of funding for its assets are shareholders' funds, subordinated debt, certificates of deposit issued and customer deposits. As of 31 December 2007, 95.5% of the Group's customer deposits had a remaining maturity of three months or less.

Subordinated debt in the form of US$325 million 5.25% subordinated notes qualifying as tier two capital was issued during 2003 by Wing Hang Financial Holdings (BVI) Limited, a single purpose wholly-owned finance subsidiary of the Bank. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes. The notes are listed on the SGX-ST and will mature on 10 October 2013.

In 2007, the Bank issued additional subordinated debt in the form of US$400 million 6.00% step-up perpetual subordinated notes qualifying as tier two capital. The notes are listed on the SGX-ST.

The Group offers deposit services through the Bank, Banco Weng Hang, Wing Hang Bank (China) Limited, Wing Hang Bank (Cayman) Limited, Wing Hang Finance Company Limited and Inchroy. Wing Hang Bank (Cayman) Limited is a Cayman Islands incorporated company which provides offshore banking and deposit-taking services for the Group's customers. Wing Hang Finance Company Limited is a Hong Kong deposit-taking company which is able to accept deposits of not less than HK$l00,000 (US$12,817) with maturities of not less than three months. Inchroy is a Hong Kong registered deposit-taking company, the entire issued share capital of which was acquired by the Bank in January 2007. Through these five companies, the Group is able to offer its corporate and retail customers competitive deposit rates.

The Group has developed an extensive customer deposit base in Hong Kong, Mainland China and Macau comprising both individual and corporate depositors. Total deposits and customer deposits of the Group both increased by 11.7%, from HK$107,475.1 million (US$13,817.8 million) and HK$102,066.9 million (US$13,122.5 million), respectively as of 31 December 2006 to HK$120,095.9 million (US$15,392.4 million) and HK$113,969.0 million (US$14,607.1 million) respectively as of 31 December 2007, with a substantial increase in demand and savings deposits. Deposit growth was partly supported by higher turnover in the stock market, an expanded branch network and the successful promotion of the "Elite Gold Banking" concept aimed at high-net-worth customers.

The Bank's Financial Markets and Treasury Divisions help to stabilise the Group's funding operations through the interbank market, and seeks the best return for the Group's excess funds in the local and international markets.

Over the years, the Group has diversified and further supplemented its medium-term funding through the issuance of floating rate certificates of deposit in Hong Kong.

The Group has a policy of minimising its interest rate exposure by matching its floating rate liabilities with its floating rate assets.

Relationship with the BNY Mellon Group

The Bank of New York Mellon Corporation, through BNY International Financing Corp., presently owns 20.3% of the issued share capital of the Bank. BNY International Financing Corp. is incorporated in the United States under the Federal Reserve Act and operates under Federal Reserve Regulations.

The BNY Mellon Group's present shareholding in the Bank entitles the BNY Mellon Group to representation on the Bank's Board of Directors through two director seats, although it is currently represented on the Board of Directors through one director seat only. No candidate has yet been formally nominated to fill the vacant director seat but it is expected that the vacancy will be filled shortly. The BNY Mellon Group continues to provide information to the Group for credit evaluation of customers outside Hong Kong, Macau and Mainland China. Furthermore, the BNY Mellon Group exchanges information with the Group on the latest developments in bank computer systems and makes available its facilities in New York for middle and senior management training.

Recent disposals

On 14 September 2007, the Bank entered into a formal sale and purchase agreement with Hong Kong Life Insurance Limited to sell the 15th floor of High Block (Cosco Tower) of Grand Millennium Plaza in the Central district of Hong Kong (the **15th Floor Property**) to Hong Kong Life Insurance Limited for a cash consideration of HK$143 million. The sale of the 15th Floor Property was completed on 5 October 2007.

On 21 September 2007, the Bank entered into a formal sale and purchase agreement with Bank Consortium Trust Company Limited to sell the 17th and 18th floors of High Block (Cosco Tower) of Grand Millennium Plaza in the Central district of Hong Kong (the **17/18th Floor Property**) to Bank Consortium Trust Company Limited for a cash consideration of HK$293.2 million. The sale of the 17/18th Floor Property was completed on 31 December 2007.

The 15th Floor Property and the 17/18th Floor Property are commercial properties which had previously been used for certain operations of the Bank and its subsidiaries. The Bank decided to relocate these operations in 2007 to lower cost properties in Shau Kei Wan in Hong Kong and to sell the 15th Floor Property and the 17/18th Floor Property, using the net sale proceeds as working capital of the Bank.

Insurance

The Bank maintains insurance coverage which includes an "all risks" insurance for its money, properties and computers, public liability insurance and directors' and officers' liability insurance. The Bank generally requires borrowers to obtain appropriate insurance coverage for certain types of security, such as residential premises, provided by them.

The Bank is now a member of the Deposit Protection Scheme (the **Scheme**), which was launched in September 2006. Accordingly, all eligible depositors of the Bank are automatically protected under the Scheme. The implementation of the Scheme only slightly increases the costs of funding of the Bank.

Litigation

Neither the Bank nor any of its subsidiaries is currently involved in any material litigation or similar proceedings and the Bank is not aware of any circumstances under which any of the same is pending or threatened.

Intellectual Property

The Group relies on domain name registrations to establish and protect its Internet domain names. The Group has registered over 50 Internet domain names, including "www.whbhk.com" and "www.whbmac.com".

As at the date of this Offering Circular, there have not been any significant infringements by the Group or by third parties against the Group.

Employees

As of 31 December 2007, the Group had a total of 2,833 employees as set forth in the following table.

	No. of employees
Corporate and retail banking	1,234
Head office and operational support	855
Overseas (Mainland China and Macau)	744
Total	2,833

As of 31 December 2007, approximately 24.8% of the Group's employees performed supervisory and management functions, while the remaining 75.2% performed business and operational support functions.

The Group believes that investment in human resources is critical to its growth. As a result, the Group has increased emphasis on benchmarking its remuneration structure to market standards. Management believes that the Group maintains a good relationship with its employees. None of the Group's employees are members of a trade union. The Group provides subsidised mortgages, low-interest housing loans and life and medical insurance benefits to its employees. The Group also maintains a Mandatory Provident Fund scheme for its employees. As of 31 December 2007, loans to directors totaled HK$264.1 million (US$33.8 million).

On 9 June 1993, the Group adopted a share option scheme (the **Share Option Scheme**) under which senior executives and directors of the Bank are eligible for grants of share options for subscription of shares of the Bank. Such Share Option Scheme was terminated on 24 April 2003 and replaced by a new share option scheme for a period of 10 years with amendments which complied with Chapter 17 of the Listing Rules of the Hong Kong Stock Exchange. As of 31 December 2007, the number of shares available for issue under the new share option scheme was 13,793,000 or 4.7% of the total issued share capital of the Bank.

On 22 April 2004, the Group adopted an employee incentive plan (**Employee Incentive Plan**), under which senior executives and directors of the Bank are eligible to take up awards to subscribe for shares of the Bank as incentive for them to remain in employment with the Bank. An award granted under the Employee Incentive Plan can be vested between the sixth and tenth anniversaries after the date of the grant of the award. As of 31 December 2007, the number of shares available for issue under the Employee Incentive Plan was 754,000 or 0.3% of the total issued share capital of the Bank.

Principal Subsidiaries

The Bank's subsidiaries are involved in the provision of general banking and related financial services. Details of the Bank's principal active subsidiaries and its effective equity interest in each, as of 25 July 2008 are set out below.

Name of Company	Place of incorporation and operation	Nominal value of issued ordinary shares	Bank's interest (%)	Activity
Banco Weng Hang, S.A.	Macau	MOP120,000,000	100	Banking
Wing Hang Bank (Cayman) Limited	Cayman Islands	US$25,000,000	100	Banking
Wing Hang Bank (China) Limited	People's Republic of China	RMB1,000,000,000	100	Banking
Wing Hang Finance Company Limited	Hong Kong	HK$130,000,000	100	Deposit Taking and Hire Purchase
Inchroy Credit Corporation Limited	Hong Kong	HK$25,000,000	100	Deposit Taking and Hire Purchase
Wing Hang Credit Limited	Hong Kong	HK$20,000,000	100	Consumer Lending
Wing Hang Zurich Insurance Company Ltd.	Hong Kong	HK$45,000,000	65	Insurance
Wing Hang Insurance Brokers Limited	Hong Kong	HK$100,000	100	Insurance Broker
Wing Hang Insurance Agency Limited	Hong Kong	HK$50,000	100	Insurance Agency
Wing Hang Shares Brokerage Company Ltd.	Hong Kong	HK$10,000,000	100	Securities Dealing
Wing Hang Bank (Trustee) Limited	Hong Kong	HK$3,000,000	100	Trustee Services
Wing Hang Bank (Nominees) Limited	Hong Kong	HK$10,000	100	Nominee Services
Cheuk Woo Enterprises Company Limited	Hong Kong	HK$10,000	100	Property Investment
Honfirst Land Limited	Hong Kong	HK$27,000,000	100	Property Investment
Wing Hang Financial Holdings (BVI) Limited	British Virgin Islands	US$10	100	Issuer of Subordinated Notes

Competition

The Hong Kong banking industry is well developed and the Group faces intense competition from many other Hong Kong banks and international banks. In addition, the Bank expects competition in Mainland China to continue to increase following the opening of banking business in Mainland China to foreign banks in 2007 as part of Mainland China's WTO commitments. For a discussion of competition faced by the Group in Hong Kong, see "*Investment considerations — Considerations Relating to the Group — Competition*".

SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO THE GROUP

The selected statistical and other information set forth below relates only to the Group and has, except where otherwise indicated, been compiled as of and for each of the two years ended 31 December 2006 and 31 December 2007. This section should be read in conjunction with the information contained elsewhere in this Offering Circular, including "*Description of the Issuer*".

Loan portfolio

Overview

As of 31 December 2007, the Group's total advances to customers were HK$74,573.8 million (US$9,557.9 million) which represented 53.4% of the Group's total assets. Home mortgage loans and loans for property investment and development represented 43.2% of the Group's total loans to customers as of 31 December 2007.

The table below sets forth a summary of the Group's loans, before any impairment allowances, by sector as of the dates indicated.

	As of 31 December			
	2007	Percentage of total	2006	Percentage of total
	(Expressed in thousands of Hong Kong dollars, except percentages)			
Industrial, commercial and financial companies				
Property development	467,348	0.6%	405,490	0.7%
Property investment	12,752,571	17.1%	10,901,148	18.6%
Financial concerns	1,491,123	2.0%	1,101,513	1.8%
Stockbrokers	322,990	0.4%	346,457	0.6%
Wholesale and retail trade	757,592	1.0%	807,723	1.4%
Manufacturing	1,257,800	1.7%	1,241,327	2.1%
Transport and transport equipment	5,837,444	7.8%	2,416,631	4.1%
Information technology	1,891	—	127,069	0.2%
Share financing	244,301	0.3%	277,747	0.5%
Others	3,239,171	4.4%	2,635,671	4.5%
Individuals				
Advances for the purchase of flats under Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	2,200,965	3.0%	1,591,838	2.7%
Advances for the purchase of other residential properties	16,811,653	22.5%	14,692,277	25.1%
Credit card advances	373,577	0.5%	323,145	0.6%
Others	4,387,380	5.9%	3,238,841	5.5%
Trade finance	3,283,349	4.4%	3,049,104	5.2%
Advances for use outside Hong Kong:				
Mainland China	12,082,546	16.2%	9,257,219	15.8%
Macau	9,052,217	12.1%	6,211,056	10.6%
Others[(1)]	9,861	—	13,981	—
Total	74,573,779	100.0%	58,638,237	100.0%

Note:

(1) Others include loans for use in other overseas areas.

Geographical concentration

As of 31 December 2007, loans advanced to entities and companies located in Mainland China accounted for 4.6% of the Group's total loans to customers. See "*Asset Quality*" below.

The table below sets forth a summary of the Group's loans to customers, before any impairment allowances, by geographical location as of the dates indicated.(1)

	As of 31 December			
	2007	**Percentage of total**	**2006**	**Percentage of total**
	(Expressed in thousands of Hong Kong dollars, except percentages)			
Hong Kong	60,883,545	81.7%	48,519,063	82.7%
Macau	7,310,699	9.8%	5,819,641	9.9%
Mainland China	3,449,322	4.6%	1,673,038	2.9%
Others(2)	2,930,213	3.9%	2,626,495	4.5%
Total	74,573,779	100.0%	58,638,237	100.0%

Notes:

(l) The above geographical analysis has been classified by the location of the counterparties after taking into account any risk transfer.

(2) "Others" include loans to other overseas entities.

Customer loan concentration

The Banking Ordinance generally prohibits any bank incorporated in Hong Kong from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its capital base. For a discussion of "financial exposure", see "*Regulation and Supervision — Principal Obligations of Licensed Banks — Financial Exposure to Any One Customer*". As of 31 December 2007, the Group's 20 largest performing borrowers (including groups of individuals and companies) accounted for HK$12,555.6 million (US$1,609.2 million) or 13.5% of the Group's committed exposure. As of 31 December 2007, the Group's five largest borrowers (including groups of individuals and companies) accounted for HK$4,768.1 million (US$611.1 million) or 5.1% of the Group's committed exposure, with the largest borrower accounting for HK$1,100.3 million (US$141.0 million) or 1.2% of the Group's committed exposure. As of 31 December 2007, around 53.9% of the total loans were represented by individual loans of an aggregate outstanding principal amount of HK$10.0 million (US$1.3 million) or less. The Group's largest single loan to an individual had an outstanding principal amount of HK$256.1 million (US$32.8 million), constituting 0.3% of the Group's total loans.

Loan analysis

As a significant proportion of the Group's loans are advanced for the purchase of residential property, 35.9% of total loans to customers had a remaining maturity of more than five years as of 31 December 2007. The following table sets forth a summary of the Group's total loans to customers by remaining maturity as of the dates indicated.

	Loans outstanding, before any impairment allowances, as of 31 December			
	2007	**Percentage of total**	**2006**	**Percentage of total**
	(Expressed in thousands of Hong Kong dollars, except percentages)			
Repayable on demand	2,843,717	3.8%	2,340,596	4.0%
Three months or less but not prepayable on demand	9,346,703	12.6%	8,044,744	13.7%
One year or less but over three months	9,496,878	12.7%	7,609,975	13.0%
Five years or less but over one year	25,887,399	34.7%	17,445,255	29.8%
More than five years	26,759,290	35.9%	22,797,168	38.8%
Undated(1)	239,792	0.3%	400,499	0.7%
Total	74,573,779	100.0%	58,638,237	100.0%

Note:

(1) This refers to loans whose repayments are overdue for more than one month.

As of 31 December 2007, 79.5% of loans to customers made by the Group was at floating rates and prime rates of interest. The Group's interest rate for home mortgage loans and commercial mortgage loans in Hong Kong typically ranges from 3.45% below the prime rate to the prime rate. The Group's interest rate for Hong Kong dollar consumer finance or personal loan products (other than overdrafts) is generally calculated on the initial principal amounts of such loans and typically ranges from 0.3% to 2.5% per month and the interest rate for overdrafts may be as high as 9% above the prime rate. The Group's interest rate for Hong Kong dollar hire purchase and equipment leasing loans is typically at prime rate or below. The interest rate for Hong Kong dollar trade finance loans made by the Group is typically at prime rate or below. The interest rate for project finance loans and syndicated loans made by the Group is typically a margin over the Hong Kong interbank offered rate (**HIBOR**), or in the case of US dollar facilities a margin over the London interbank offered rate. The Group may, in appropriate circumstances, offer rates which are lower than the above rates. As of 31 December 2007, 88.1% of total loans to customers made by the Group were denominated in Hong Kong dollars while the remainder were denominated primarily in US dollars.

An important component of the Group's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Group's interest rates on its interest-earning assets and interest-bearing liabilities. See "*Asset and Liability Management*". The following table sets forth the amounts, in Hong Kong dollars, and percentages represented by fixed, prime and floating-rate loans denominated in Hong Kong dollars and foreign currencies, respectively, as of 31 December 2007.

	Loans outstanding, before any impairment allowances, as of 31 December 2007					
	HK dollar loans		**Foreign currency loans**		**Total**	
	Amount	**Percentage of total**	**Amount**	**Percentage of total**	**Amount**	**Percentage of total**
	(Expressed in thousands of Hong Kong dollars, except percentages)					
Fixed rate	13,803,692	21.0%	1,514,091	17.1%	15,317,783	20.5%
Prime rate	40,737,727	62.0%	4,065,323	46.0%	44,803,050	60.1%
Floating rate	11,184,733	17.0%	3,268,213	36.9%	14,452,946	19.4%
Total	65,726,152	100.0%	8,847,627	100.0%	74,573,779	100.0%

Home mortgage loans are generally secured by a first fixed legal charge over the underlying property. Working capital loans for businesses are typically secured by fixed and floating charges over land, buildings, machinery, inventory and receivables. Term loans for specific projects or developments are typically secured against the underlying project's assets and its receivables, while the sponsors or shareholders typically provide additional guarantees. The Group also receives guarantees in relation to certain of its other loans to cover, in the case of trade finance, any shortfall in security or, in the case of consumer loans to younger or less financially secure customers, what are normally unsecured loans.

All forms of security taken as collateral against credit facilities are monitored by the respective departments which extended the loans. Collateral in the form of property is typically valued by an independent appraiser at the origination of the loan. With the exception of home mortgage loans, which are not subject to regular reviews and impaired loans in respect of which collateral is reviewed on a quarterly basis, collateral is generally reviewed on an annual basis by the department which extended the loan.

Credit policies and approval procedures

Internal policies and procedures

The Group's lending policies have been formulated on the basis of the Group's own experience, the Banking Ordinance, HKMA guidelines and policies published by the Hong Kong Association of Banks and other statutory requirements (and in the case of overseas branches and subsidiaries, the relevant local laws and regulations).

The majority of the Group's lending is on a secured basis and the Group has established loan-to-value lending limits based on the appraised market value of the relevant collateral. Loan-to-value ratios on home mortgage loans (excluding loans under government housing schemes which are fully guaranteed and covered by the Mortgage Insurance Program) are limited to 70%. Underlying property values are based on the lower of the purchase price or the independently appraised value of the property. The Group's lending policies also limit the maximum monthly repayment amount to 60% of the gross household income of the borrower if the gross monthly household income of the borrower exceeds HK$40,000, and to 50% if the borrower's gross monthly household income is less than or equal to HK$40,000. For commercial mortgage loans, the Group's policy is to limit the loan to 70% of the lower of the purchase price or independently appraised value of the property.

The Group's primary credit approval body is the Bank's Credit Committee, which comprises the Chief Executive, three Executive Directors and the Heads of the Credit Administration and Risk Management Divisions. The Credit Committee has overall responsibility for the Group's credit management and oversees the implementation of credit policies and ensures the quality of credit evaluation and approval.

Under the oversight of the Bank's Credit Committee, officers of the Group are authorised to approve credit based on the size of the loan, the collateral provided and the credit standing of the applicant. The table below sets forth the credit approval limits for various types of loans in Hong Kong.

	Hong Kong			
	Trade finance (secured)	**Loans secured by real property**	**Loans secured by other collateral**	**Unsecured & consumer loans**
	(Expressed in thousands of Hong Kong dollars)			
Credit Committee	Legal Limit[(1)]	Legal Limit[(1)]	Legal Limit[(1)]	Legal Limit[(1)]
Executive Director	30,000	30,000	10,000	3,000
Head of Corporate Banking Group	30,000	30,000	10,000	3,000
Head of Retail Banking Group	12,000	12,000	3,000	500

Note:

(1) Legal Limit means 25% of the capital base of the Bank in accordance with Section 81 of the Banking Ordinance.

Loan officers in Mainland China are also given lending limits set by the Bank's Credit Committee and each loan must be approved by two loan officers, one of whom must have adequate lending authority to approve the loan. Credit applications that exceed the loan officers' lending limits are required to pass through the Bank's Credit Committee. Banco Weng Hang has its own Credit Committee comprising of the General Manager and senior managers of Banco Weng Hang. To the extent credit applications exceed the authorised credit limit of Banco Weng Hang's Credit Committee, the application must be approved by at least two Executive Directors from the Board of Banco Weng Hang.

The extension of credit facilities requires the joint approval of two officers of the appropriate department and both officers are equally accountable for the extensions.

For its corporate commercial loans and trade finance loans, the Bank's credit assessment is based upon factors including (i) the history of the Group's dealings with the borrower in question; (ii) the borrower's financial condition; (iii) the management and operation of the borrower's business; (iv) the status of any guarantees and collateral; and (v) market conditions affecting the borrower's industry.

For the Group's retail banking loans, such as credit cards, the Retail Banking Group has in place a separate credit scoring system in addition to the credit judgment of the approving officers. This system assigns a score to a potential borrower's attributes such as (i) age of the borrower or age of the business; (ii) income; (iii) occupation or line of business; and (iv) credit history, which is ascertained by running a customer information system check for any negative credit information of the particular borrower. All credit cards and personal loans are subject to an income proof requirement and Trans Union check as part of the Bank's plans to selectively and prudently expand its retail lending business. The Bank does not implement any credit scoring system for personal loans, hire purchase and equipment financing loans. In the case of taxi and public light bus financing, the Bank approves the size of financing on the basis of the value of collateral (including the vehicle, operating licence and any dealer's guarantee) and the future cash flow of the borrower comprising rental or operating income that can be derived from the vehicle. In appraising any equipment financing, the Bank primarily focuses on the repayment ability of the borrower as indicated by the debt-service ratio of the borrower calculated by the Bank in accordance with a prescribed formula rather than the value of the equipment.

Asset quality

Overview

The Group recovered HK$38.2 million (US$4.9 million) of classified loans in 2007 and HK$42.2 million (US$5.4 million) of classified loans in 2006. See "*Selected Statistical and Other Information Relating to the Group — Asset Quality — Impaired loans which have been restructured*".

Property lending accounted for 43.2% of the Group's total loans to customers as of 31 December 2007. As a result, the Group's asset quality is closely correlated to the performance of the property markets. The ability of borrowers, including homeowners, to make timely repayment of their loans may be adversely affected by rising interest rates and/or a slowdown in the economy. As of 31 December 2007, home mortgage loans accounted for HK$19,012.6 million (US$2,436.8 million) or 25.5% of the Group's total loans to customers. Home mortgage loans accounted for the largest segment of the Group's total loans to customers. See "*Investment considerations — Considerations Relating to the Group — Loan Concentration; Exposure to the Property Market*".

Loan classification

The Group classifies loans into the following categories:

- pass;
- special mention; and
- classified loans.

In determining the classification of individual loans, the Bank considers a number of factors including (i) the payment history of the loan; (ii) the history of the Group's dealings with the borrower in question; (iii) the borrower's financial condition; (iv) the management and operation of the borrower's business; (v) the status of any guarantees and collateral and (vi) market conditions affecting the borrower's industry. In general, when a loan has a past-due record of 30 to 90 days, it will be downgraded to "special mention", although the Group will continue to accrue interest on such loan in its income statement. The prospect of recovery of the market value of the underlying security is evaluated in assessing whether individual impairment allowances should be made.

Recognition of classified loans

The Group's classified loans are sub-divided into three categories: sub-standard, doubtful and loss. When the repayment of a loan is uncertain (for example, there is a past-due record of 91 to 180 days for an unsecured or partially secured loan or over 360 days for a secured loan), it is downgraded to sub-standard. If full recovery of the loan is in doubt (for example, there is a past-due record of over 180 days for an unsecured or partially secured loan), it is classified as doubtful. Loss loans are those for which the likelihood of recovery appears remote.

Accrual of interest

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued, but any increase in the present value of impaired financial assets due to the passage of time is reported as interest income.

The table below sets forth a summary of the Group's impaired and non-impaired loans as of the dates indicated.

	As of 31 December			
	2007	Percentage of total	2006	Percentage of total
	(Expressed in thousands of Hong Kong dollars, except percentages)			
Impaired	325,137	0.4%	364,092	0.6%
Non-impaired				
Special Mention	946,061	1.3%	841,037	1.4%
Performing	73,302,581	98.3%	57,433,108	98.0%
Total	74,573,779	100.0%	58,638,237	100.0%

Impairment allowances for loans and advances

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

— significant financial difficulty of the issuer or borrower;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

— disappearance of an active market for financial assets because of financial difficulties; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management use statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the advances and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or overdue.

The table below summarises the changes in the Group's impairment allowances for loans and advances for the periods indicated.

	Years ended 31 December	
	2007	2006
	(Expressed in thousands of Hong Kong dollars, except percentages)	
Impairment allowances on loans and advances		
Beginning balance	265,674	329,179
Addition through acquisition of a subsidiary	39,672	—
Addition during the year	1,530	773
Loans written-off net of recovery	(53,853)	(61,606)
Unwind of discount of loan impairment loss	(9,281)	(2,672)
Closing balance	243,742	265,674
Impairment allowances on loans and advances as a percentage of:		
Total loans to customers at the year end	0.3%	0.5%
Total impaired loans at the year end	75.0%	73.0%
Write-offs net of recovery as a percentage of:		
Average total loans during the year	0.1%	0.1%
Total loans to customers at the year end	0.1%	0.1%
Total impaired loans at the year end	16.6%	16.9%

The Credit Administration Division is required to submit a monthly report to the Bank's Credit Committee to approve their assessment of individual impairment allowances for loan and advances.

Geographical and sectoral analysis of impaired loans

The following table sets forth, as of the dates indicated, the Group's gross impaired loans by the borrowers' industry or economic activity and as a percentage of the Group's gross impaired loans.

	As of 31 December			
	2007	Percentage of total	2006	Percentage of total
	(Expressed in thousands of Hong Kong dollars, except percentages)			
Industrial, commercial and financial				
Property investment	21,882	6.7%	27,316	7.5%
Wholesale and retail trade	18,695	5.8%	16,767	4.6%
Manufacturing	46,910	14.4%	16,906	4.7%
Transport and transport equipment	10,256	3.2%	3,283	0.9%
Others	34,222	10.5%	50,973	14.0%
Individuals				
Mortgage (Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor)	31,285	9.6%	51,388	14.1%
Others	45,230	13.9%	59,357	16.3%
Trade finance	20,636	6.4%	27,069	7.4%
Advances for use outside Hong Kong				
Mainland China	67,937	20.9%	70,382	19.3%
Macau	28,084	8.6%	40,651	11.2%
Gross impaired loans	325,137	100.0%	364,092	100.0%
Total impairment allowances on loans and advances	(243,742)		(265,674)	
Net impaired loans	81,395		98,418	

The following table sets forth, as of the dates indicated, the Group's gross impaired loans by the borrower's geographical location and as a percentage of the Group's gross impaired loans.

	As of 31 December			
	2007	Percentage of total	2006	Percentage of total
	(Expressed in thousands of Hong Kong dollars, except percentages)			
Hong Kong	259,686	79.9%	297,137	81.6%
Macau	35,615	11.0%	48,677	13.4%
Mainland China	16,341	5.0%	3,824	1.0%
Others	13,495	4.1%	14,454	4.0%
Gross impaired loans	325,137	100.0%	364,092	100.0%
Total impairment allowances on loans and advances	(243,742)		(265,674)	
Net impaired loans	81,395		98,418	

Top ten impaired loans

As of 31 December 2007, the Group's ten largest impaired loans accounted for 0.2% of the Group's total loans to customers and 42.0% of the Group's gross impaired loans to customers. As of 31 December 2007, the Group's exposure from its ten largest impaired loans ranged from HK$6.4 million (US$0.8 million) to HK$35.9 million (US$4.6 million).

Impaired loans which have been restructured

The Group maintains a prudent account upgrade policy. For example, if payments under a classified loan are rescheduled, that loan may only be upgraded to a pass loan if the revised payment terms are honoured for a period of six months, in the case of monthly repayments, and 12 months, in the case of quarterly or semi-annual repayments.

The following table sets forth, as of the dates indicated, the Group's impaired loans including those that have been restructured through the rescheduling of principal repayments or the deferral or waiver of interest.

	As of 31 December	
	2007	2006
	(Expressed in thousands of Hong Kong dollars, except percentages)	
Gross impaired loans	325,137	364,092
Total impairment allowances on loans and advances	(243,742)	(265,674)
Net impaired loans	81,395	98,418
Gross impaired loans as a percentage of total loans to customers	0.4%	0.6%
Net impaired loans as a percentage of total loans to customers	0.1%	0.2%

Investments in securities

Trading securities and financial assets measured at fair value through profit or loss increased by 28.0% from HK$5,516.7 million (US$709.3 million) as of 31 December 2006 to HK$7,060.0 million (US$904.9 million) as of 31 December 2007. Held-to-maturity and available-for-sale financial assets decreased by 15.0% from HK$22,218.6 million (US$2,856.6 million) as of 31 December 2006 to HK$18,891.9 million (US$2,421.3 million) as of 31 December 2007, mainly as a result of certain of such debt securities reaching maturity. These debt securities, over 92% of which by principal amount were rated "A-" (or equivalent) and above, included Hong Kong dollar denominated bonds and notes and US dollar denominated bonds and notes. Through the Financial Markets Division, the Group engages in derivative transactions primarily for hedging purposes. A minority of derivative transactions are trading transactions but are entered into mainly to test for hedging on a larger scale. See "*Asset and Liability Management*" below.

Asset and liability management

The Bank's Asset and Liability Management Committee (**ALMCO**) comprises of the Chief Executive, three Executive Directors, Heads of the Retail Banking Division and Risk Management Division, Chief Financial Officer and the Treasurers.

Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 50.4% in 2007, which is well above the statutory requirement of 25%.

ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, meets monthly and is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework. Liquidity is managed day-to-day by the treasury under the direction of ALMCO.

To cater for funding requirements during the ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests on its liquidity position to ensure adequate liquidity is maintained at all times. The detail of the analysis on the Group's and Bank's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in *"Index to Financial Statements — Exhibit A — Notes to the Financial Statements — Note 30"*.

Market risk management

Market risk is the risk arising from the movements in market prices of on- and off- balance sheet positions in interest rates, foreign exchange rates as well as equity and commodity prices and the resulting change in the profit / loss or reserve of the Group.

The Group is exposed to market risk on positions taken or financial instruments held or taken such as foreign exchange contracts, interest rate contracts, fixed income and equity securities and derivatives instruments.

The Board of Directors annually reviews and approves the policies for the management of market risks and trading authorities. ALMCO has been delegated the responsibility of controlling and monitoring market risk, including regular review of the risk exposures and the risk management framework such as the established limits and stop-losses. The limits are set by ALMCO and reviewed on a periodic basis with reference to market conditions, with any material changes requiring a review by the Board of Directors. It is the Bank's policy that no such limit should be exceeded. Middle Office has been delegated the duties of intra-day monitoring and ensuring compliance with the policy and limits.

The Group adopts a prudent approach in managing the portfolio of trading instruments. It reduces excessive market risk by offsetting trading transactions or hedging the open positions by executing derivative contracts with other market counterparties. Trading of interest rate and foreign exchange derivative contracts forms an integral part of the Group's trading activities, which are primarily for squaring the trading positions or covering the customer driven positions.

Interest rate risk

The Group's interest rate exposures arise from lending, deposit taking as well as treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both the banking book and trading book. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Group's interest rate risk is monitored by ALMCO within limits approved by the Board, including the interest rate gap limit, product limit and Price Value Basis Point (**PVBP**) limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by ALMCO.

The Group uses PVBP to monitor and limit its interest rate risk exposure. PVBP is a technique involving the calculation of the change in present value of a financial instrument or a portfolio of instruments due to a change in one basis point of interest rates. It also provides a tool to evaluate the impact on profit and loss due to a basis point movement in interest rates.

The following table sets forth the interest bearing asset-liability repricing gap position for the Group as of 31 December 2007.

	As of 31 December 2007				
	Total	**Within three months**	**Over three months but within one year**	**Over one year but within five years**	**Over five years**
	(Expressed in thousands of Hong Kong dollars)				
ASSETS					
Cash and balances with banks, central banks and other financial institutions	2,344,451	2,344,451	—	—	—
Placements with banks, central banks and other financial institutions	28,942,740	28,197,536	745,204	—	—
Trade bills	363,545	352,375	11,170	—	—
Trading assets	326,297	—	80,756	245,541	—
Financial assets measured at fair value through profit or loss	6,700,285	1,347,482	1,280,899	2,758,388	1,313,516
Advances to customers and other accounts	74,328,550	63,182,508	5,619,758	5,122,011	404,273
Advances to banks	93,920	—	15,896	78,024	—
Held-to-maturity and available-for-sale financial assets	18,744,747	12,796,233	378,447	4,418,962	1,151,105
Loans to associated companies	131,355	131,355	—	—	—
Total interest-bearing assets	131,975,890	108,351,940	8,132,130	12,622,926	2,868,894
LIABILITIES					
Deposits and balances of banks, central banks and other financial institutions	(2,807,871)	(1,176,059)	(1,425,700)	(206,112)	—
Deposits from customers	(108,044,289)	(103,239,077)	(4,481,430)	(323,191)	(591)
Certificates of deposit issued	(3,309,204)	(2,932,464)	(123,724)	(253,016)	—
Other liabilities	(30,359)	(30,359)	—	—	—
Subordinated liabilities	(5,658,889)	—	(2,535,747)	—	(3,123,142)
Total interest-bearing liabilities	(119,850,612)	(107,377,959)	(8,566,601)	(782,319)	(3,123,733)
Derivatives (in the banking book) net long/(short) position (notional amount)	—	241,871	210,662	(257,476)	(195,057)
Interest rate sensitivity gap	12,125,278	1,215,852	(223,809)	11,583,131	(449,896)

The following table sets forth the impact of changes in interest rates on annualised net interest income as of 31 December 2007.

	As of 31 December 2007 Change in interest rates (in basis points)			
	(100)	**(50)**	**50**	**100**
	(Expressed in millions of Hong Kong dollars, except percentages)			
Change on annualised net interest income.	(20)	(10)	10	20
As a percentage of the Group's net interest income for the year 2007.	(0.8)%	(0.4)%	0.4%	0.8%

Given the repricing position of the assets and liabilities for the Group's Hong Kong operations as of 31 December 2007, if interest rates decreased by 100 basis points, the Group would expect annualised net interest income to fall by HK$20.2 million (US$2.6 million). If interest rates increased by 100 basis points, the annualised net interest income would rise by HK$20.2 million (US$2.6 million).

The change on annualised net interest income of HK$20.2 million (US$2.6 million) was 0.8% of the Group's net interest income for the year ended 31 December 2007. This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income will vary from the model.

The Group's liquidity structure, derived from its assets, liabilities and contingent commitments, is managed so as to ensure that all of the Group's operations can meet their funding requirements and comply with the statutory liquidity ratio and regulatory requirements on maturity mismatch profile. The liquidity risk is controlled by holding sufficient quality assets, such as cash, short-term funds and liquid securities of reasonable quality. Access to interbank liquidity is maintained through sufficient counterparty money market as well as repurchase facilities. In addition, liquidity is enhanced through the issuance of long-term certificates of deposit.

As of 31 December 2007, approximately 79.5% of the Group's total loans to customers were made at floating rates and prime rates of interest. The Group's interest-earning assets have floating interest rates fixed by reference to the Group's best lending rate, prime rate and interbank rate, and the Group's interest-bearing liabilities have floating interest rates set by reference to interbank rates for Hong Kong dollar time deposits. ALMCO continuously monitors the gap between HIBOR and the prime rate and, consequently, the net interest margin. If the net interest margin declines due to the squeeze of the spread between prime rate and HIBOR, ALMCO may recommend the adjustment of the Group's best lending rate charged on loans and/or the expansion of the Group's higher margin loan products business.

The table below sets out the Group's average balances, interest and related average interest rates for the periods indicated. Average balances of interest-earning assets and interest-bearing liabilities for the years ended 31 December 2006 and 31 December 2007 are based on the arithmetic mean of the respective daily average balances. Average balances of non-interest earning assets and non-interest bearing liabilities for the years ended 31 December 2006 and 31 December 2007 are based on the arithmetic mean of the respective balances at the beginning and the end of each period.

	Year ended 31 December					
	2007			2006		
	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
	(Expressed in millions of Hong Kong dollars, except percentages)					
ASSETS						
Interest-earning assets						
Advances to customers	66,634			54,255		
Trade bills	3,640			3,835		
Total	70,274	4,208	6.0%	58,090	3,660	6.3%
Placements with banks, central banks and other financial institutions	29,099	1,438	4.9%	22,994	1,104	4.8%
Debt securities	27,983	1,542	5.5%	26,256	1,291	4.9%
Financial derivatives assets	—	136	—	—	104	—
Total interest-earning assets	127,356	7,324	5.8%	107,340	6,159	5.7%
LIABILITIES						
Interest-bearing liabilities						
Deposits						
Deposits from customers	103,614	4,220	4.1%	88,483	3,575	4.0%
Deposits and balances of banks, central banks and other financial institutions	4,608	193	4.2%	2,345	96	4.1%
Total	108,222	4,413		90,828	3,671	
Other liabilities						
Certificates of deposit issued	3,899	184	4.7%	4,122	192	4.7%
Subordinated liabilities	4,852	265	5.5%	2,525	134	5.3%
Financial derivatives liabilities	—	44	—	—	36	—
Total	8,751	493	5.6%	6,647	362	5.4%
Total interest-bearing liabilities	116,973	4,906	4.2%	97,475	4,033	4.1%
Non-interest bearing deposits	4,580			4,070		
NET INTEREST INCOME		2,418			2,126	
PURCHASED FUND MARGIN			1.6%			1.6%

The following table sets forth a summary of the changes in interest earned and incurred, in Hong Kong dollars, resulting from changes in volume and interest rate. Average balances (based on monthly averages) in all categories in each reported period were used in the volume computations. Variances caused by both volume and interest rate have been allocated to volume. Average yields and interest rates in each reported period were used in interest rate computations.

	Year ended 31 December					
	2007 vs 2006			2006 vs 2005		
	Increase (Decrease) due to:		Net increase (decrease)	Increase (Decrease) due to:		Net increase (decrease)
	Volume	Rate	in interest	Volume	Rate	in interest
	(Expressed in millions of Hong Kong dollars)					
Interest-earning assets:						
Advances to customers and trade bills	768	(220)	548	259	885	1,144
Placements with banks, central banks and other financial institutions	293	41	334	12	182	194
Debt securities	85	166	251	481	198	679
Financial derivatives assets	—	32	32	—	100	100
Total interest-earning assets	1,146	19	1,165	752	1,365	2,117
Interest-earning liabilities:						
Deposits from customers	611	34	645	328	1,195	1,523
Deposits and balance of banks, central banks and other financial institutions	93	4	97	9	21	30
Certificates of deposit issued	(10)	2	(8)	61	70	131
Subordinated liabilities	123	8	131	—	—	—
Financial derivatives liabilities	—	8	8	—	36	36
Total interest-earning liabilities	817	56	873	398	1,322	1,720

Internal auditing

The Internal Audit Division has responsibility for the internal auditing of the Group's operations. Through regular audits of all of the departments, subsidiaries and branches of the Bank, the Internal Audit Division seeks to review and evaluate the adequacy and effectiveness of internal controls, safeguard the Group's assets, improve efficiency of operations and assess compliance with established policies, procedures and relevant statutory requirements. The Internal Audit Division also plays a role in overseeing the various risks of the Group, including reviewing business initiatives of the Group and providing risk advisory support to different business and functional lines. The Internal Audit Division administers the user access control to the computer systems of the Group. The Internal Audit Division reports its findings to the Chief Executive, the Audit Committee and relevant departments of the Bank on a regular basis. Such findings are shared with the Group's external auditors and the HKMA.

MANAGEMENT

The Bank is managed by a Board of Directors which is responsible for the direction and management of the Bank. The Articles of Association of the Bank require that there are no fewer than two nor more than 15 Directors unless and until otherwise determined by the shareholders of the Bank. Directors are, subject to the consent of the HKMA, appointed either by shareholders at the annual general meeting or by the Board of Directors at any time. Directors appointed by the Board of Directors hold office until the next annual general meeting and shall be eligible for re-election at that meeting. The Board of Directors also rotates its Directors. At each annual general meeting, one-third of the Directors (or a number closest to but not greater than a third of all Directors) with longest tenure since their election or last re-election are required to retire from office and are eligible at the same meeting for re-election.

The aggregate emoluments, consisting of fees, salaries, allowances and benefits in kind, pension contributions and bonuses, of the Directors of the Bank for the year ended 31 December 2007 were HK$48.3 million (US$6.2 million), see "*Index to the Financial Statements — Exhibit A — Notes to the Financial Statements — Note 10*". In addition, certain Directors were granted share options and awards under the Share Option Scheme and Employee Incentive Plan. See "*Description of the Issuer — Principal Shareholders*" and "*Index to the Financial Statements — Exhibit A — Notes to the Financial Statements — Note 36*".

Board of Directors

The current Board of Directors of the Bank is comprised of the following individuals:

Name	Age	Title
Dr. Patrick Y.B. Fung	60	Chairman
Mr. Frank J. Wang	56	Director
Mr. Michael Y.S. Fung	58	Director
Mr. Louis C.W. Ho	71	Director
Dr. Cheng Hon Kwan, GBS, JP	80	Director
Mr. Ambrose H.C. Lau, GBS, JP	60	Director
Dr. Simon K.Y. Lee, MBE, JP	80	Director
Mr. Tung Chee Chen	65	Director
Mr. Aloysius H.Y. Tse	60	Director
Mr. Andrew M. Gordon	46	Director

Dr. Patrick Y.B. Fung *(Chairman and Chief Executive)*

Age 60. Obtained his MBA degree from University of Toronto in 1973, and was awarded an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2001 and an Honorary Doctor of Laws by the University of Toronto in 2005. Joined the Bank in 1976 and was appointed a Director in 1980. Appointed Chief Executive in 1992, Chairman and Chief Executive in April 1996. Chairman of numerous subsidiaries within the Group. A Non-Executive Director of Miramar Hotel and Investment Company Limited and an Independent Non-Executive Director of The Link Management Limited. A member of the Exchange Fund Advisory Committee (EFAC) and the EFAC Financial Infrastructure Sub-Committee, a member of the Hong Kong Tourism Board, a member of the Court of the Hong Kong Polytechnic University, a member of the Dean's Advisory Council of the Faculty of Management at the University of Toronto, a Council member and Honorary Court member of the Hong Kong University of Science and Technology, Vice President of the Hong Kong Institute of Bankers, a Co-opt member of the Planning, Development and Conservation Committee of the Urban Renewal Authority and a member of the Board of Trustees of the Lord Wilson Heritage Trust. Son of the late Mr. Y. K. Fung, founder of the Bank.

Mr. Frank J. Wang ***(Deputy Chief Executive)***

Aged 56. Obtained MBA degree from Cornell University in 1979. Joined the Bank and appointed a Director and Deputy Chief Executive in June 1999. Was previously with The Bank of New York and has extensive credit control experience. A member of the Executive Committee, Credit Committee and Management Committee of the Bank. A member of the Deposit Taking Company Advisory Committee.

Mr. Michael Y.S. Fung ***(Senior General Manager)***

Aged 58. Obtained BA degree from Carlton University in Ottawa, Canada. Joined the Bank in 1978 and appointed a Director in 1992. A member of the Executive Committee, Credit Committee and Management Committee of the Bank and a Director of numerous subsidiaries within the Group. A Member of the Board of Trustees of Shaw College, The Chinese University of Hong Kong. Son of the late Mr. Y. K. Fung, founder of the Bank.

Mr. Louis C.W. Ho ***(Non-Executive Director)***

Aged 71. Obtained an engineering degree from McGill University in 1961. Joined the Bank in 1972 and appointed a Director in October 1995. A member of the Management Committee and Credit Committee of the Bank and a Director and Secretary of numerous subsidiaries within the Group. Appointed an Honorary Adviser of The Chinese Gold and Silver Exchange Society in July 2006. Brother-in-law of Dr. Patrick Y. B. Fung and Mr. Michael Y. S. Fung.

Dr. Cheng Hon Kwan, GBS, JP ***(Non-Executive Director)***

Aged 80. Bachelor of Science in Engineering from Tianjin University and Fellow of Imperial College London. Honorary Fellow, Gold Medallist and Past President of The Hong Kong Institution of Engineers. Fellow and Gold Medallist of The Institution of Structural Engineers. Former Member of Executive and Legislative Councils. Past Chairman of the Land and Building Advisory Committee, Transport Advisory Committee, Hong Kong Housing Authority, Councils of City University and Open University of Hong Kong. Currently, Independent Non-Executive Director of Tianjin Development Holdings Limited, Agile Property Holdings Limited, Hang Lung Group Limited and Hang Lung Properties Limited. Joined the Board of the Bank in 1987.

Mr. Ambrose H.C. Lau, GBS, JP ***(Non-Executive Director)***

Aged 60. Obtained LL.B degree from the University of London and is a Solicitor of the High Court of the HKSAR, a China-Appointed Attesting Officer and a Notary Public. The Senior Partner of Messrs Chu and Lau, Solicitors and Notaries. Awarded "Gold Bauhinia Star" by the HKSAR Government in 2001. A Standing Committee member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Lau is an Independent Non-Executive Director of Beijing Enterprises Holdings Limited, Glorious Sun Enterprises Limited, Guangzhou Investment Company Limited, GZI Transport Limited, Qin Jia Yuan Media Services Company Limited and The Hong Kong Parkview Group Limited. Joined the Board of the Bank in 1996.

Dr. Simon K.Y. Lee, MBE, JP ***(Non-Executive Director)***

Aged 80. Chairman of Sun Hing Group of Companies, Non-Executive Director of Pacific Basin Shipping Limited. President of the Lions Eye Bank of Hong Kong and President of the Hong Kong Society for the Deaf. Chairman of the Hong Kong Liver Foundation. A member of the Court of the University of Hong Kong. Past District Governor of Lions District 303 and Past International Director of Lions Clubs International. Awarded Honorary degree of Doctor of Social Science by the University of Hong Kong in March 2006. Joined the Board of the Bank in 1991 and is currently the Chairman of its Audit Committee.

Mr. Tung Chee Chen ***(Non-Executive Director)***

Aged 65. Chairman and Chief Executive Officer of Orient Overseas (International) Limited. An Independent Non-Executive Director of a number of listed companies, including Zhejiang Expressway Company Limited, PetroChina Company Limited, BOC Hong Kong (Holdings) Limited, U-Ming Marine

Transport Corp., Sing Tao News Corporation Limited and Cathay Pacific Airways Limited. Mr. Tung was educated at the University of Liverpool, United Kingdom, where he obtained a Bachelor's degree in Science in 1964. He later obtained a Master's degree in Mechanical Engineering from the Massachusetts Institute of Technology in 1966. Joined the Board of the Bank in January 2004.

Mr. Aloysius H Y Tse ***(Non-Executive Director)***

Aged 60. A Fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants (**HKICPA**). A past president of the HKICPA. Joined KPMG in 1976 and became a partner in 1984 and retired in March 2003. Non-Executive Chairman of KPMG's operations in the PRC and a member of the KPMG China Advisory Board from 1997 to 2000. Also serves as Independent Non-Executive Director of a number of listed companies, including China Construction Bank Corporation, China Telecom Corporation Limited, CNOOC Limited, Linmark Group Limited and Sinofert Holdings Limited. Currently Chairman of the International Advisory Council of The People's Municipal Government of Wuhan. Joined the Board of the Bank in November 2004.

Mr. Andrew M. Gordon ***(Non-Executive Director)***

Aged 46. Obtained a BA degree from the University of Exeter, England in 1982. First joined The Bank of New York in 1985 in London and received credit training in New York. Has taken on assignments in Hong Kong, London, Tokyo and now in Hong Kong as Executive Vice President and General Manager of the Hong Kong Branch of The Bank of New York Mellon. Joined the Board of the Bank in October 2003.

Senior Management

Mr. David K.M. Fung ***(General Manager)***

Aged 61. Obtained Doctor degree from HK Polytechnic University. Joined the Bank in 2004. A member of the Management Committee of the Bank.

Mr. Stanley S.C. Yuen ***(Senior Deputy General Manager)***

Aged 52. Joined the Bank in 1974. Head of Financial Management Division and a member of the Management Committee of the Bank. A fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. Jack K.W. Fung ***(Deputy General Manager)***

Aged 56. Obtained MBA degree from New York University. Joined the Bank in 1976. Head of Information Technology Division. A member of the Management Committee of the Bank.

Mr. Stephen C.K. Wong ***(Deputy General Manager)***

Aged 54. Joined the Bank in 1972. Head of Retail Banking Division and a member of the Management Committee of the Bank. A member of the Executive and Supervisory Committee of the Chinese Gold and Silver Exchange Society.

Mr. Stephen C.W. Leung ***(Secretary and Deputy General Manager)***

Aged 48. Obtained MBA degree from Macquarie University. Joined the Bank in 1996. Head of Operations Division and a member of the Management Committee of the Bank. An associate member of the Institute of Chartered Accountants in Australia.

RELATED PARTY TRANSACTIONS

The Group enters into a number of transactions with The Bank of New York Mellon Corporation, a substantial shareholder of the Bank, its subsidiaries or its associated companies (the **BNY Group**) in the ordinary course of its banking business. These transactions include lending, the acceptance and placement of inter-bank deposits, participation in loan syndicates, correspondent banking transactions, and foreign exchange transactions. These contracts are entered into under normal commercial terms and are priced based on relevant market rates at the time of each transaction and are under the same terms as those available to other counterparties and customers of the Group. For more detailed information, see "*Index to the Financial Statements — Exhibit A — Notes to the Financial Statements — Note 36*".

The interest received from and interest paid to the BNY Group for the years ended, and the outstanding balances of amounts due from and due to them as of 31 December 2006 and 31 December 2007 are shown in the following table:

	For the year ended 31 December	
	2007	**2006**
	(Expressed in thousands of Hong Kong dollars)	
Interest income	13,080	8,333
Interest expense	2,172	1,454
Amounts due from	28,883	48,609
Amounts due to	214,365	106,807

The Group also makes a limited number of loans to companies and other persons related to the Group, including its associates, key management personnel and their close family members and companies controlled or significantly influenced by them. The Group negotiates such loans (except for staff housing loans) on an arm's length basis and subjects such loans to the same credit approval and review process applicable to the Bank's non-affiliated loan portfolio. Where applicable, the Group complies with disclosure requirements of the Hong Kong Stock Exchange or meets the conditions for waiver from compliance of such disclosure requirements, and where necessary, it solicits minority shareholders approval for such transactions. For more detailed information, see "*Index to the Financial Statements — Exhibit A — Notes to the Financial Statements — Note 36*" and "*Description of the Issuer — Employees*".

PRINCIPAL SHAREHOLDERS

The following table shows the shareholders of the Bank holding more than 5% of the outstanding ordinary shares of the Bank, as shown on its register of substantial shareholders and register of members of the Bank as of 25 July 2008.

Name of shareholder	Nature of Interest	Number of shares held	Percentage of shares
BNY International Financing Corporation	Beneficial owner	59,825,053[(1)]	20.3
The Bank of New York Mellon	Interest in controlled corporation	59,825,053[(1)]	20.3
The Bank of New York Mellon Corporation	Interest in controlled corporation	59,825,053[(1)]	20.3
Federal Trust Company Limited	Trustee	34,737,600[(2 & 4)]	11.8
Po Ding Company Limited	Trustee	24,156,000[(3 & 4)]	8.2
GZ Trust Corporation	Trustee	24,156,000[(3 & 4)]	8.2
YKF Holding Corporation	Trustee	24,098,400[(2 & 4)]	8.2
Wing Hang Bank (Nominees) Limited	Nominee	23,378,400[(2 & 4)]	7.9
Aberdeen Asset Management Asia Limited	Investment manager	22,815,000[(5)]	7.7
Aberdeen Asset Management Plc and its associates	Investment manager	20,544,739[(5)]	7.0
Penta Investment Advisers Limited	Investment manager	14,877,000[(6)]	5.0
Zwaanstra John	Interest in controlled corporation	14,877,000[(6)]	5.0
Tessel Inc.	Trustee	10,639,200[(2 & 4)]	3.6

Notes:

(1) BNY International Financing Corporation is a wholly-owned subsidiary of The Bank of New York Mellon. The Bank of New York Mellon is a wholly-owned subsidiary of The Bank of New York Mellon Corporation.

(2) Federal Trust Company Limited is the trustee for Tessel Inc. and YKF Holding Corporation. Wing Hang Bank (Nominees) Limited is the registered holder of certain shares on behalf of YKF Holding Corporation.

(3) Po Ding Company Limited is wholly-owned by GZ Trust Corporation.

(4) Each of Po Ding Co. Ltd., YKF Holding Corporation and Tessel Inc. are trusts in which Patrick Y B Fung, Michael Y S Fung and Louis C W Ho's spouse (together with other parties) are eligible beneficiaries.

(5) Aberdeen Asset Management Asia Limited is a wholly-owned subsidiary of Aberdeen Asset Management Plc.

(6) Penta Investment Advisers Limited is wholly-owned by Zwaanstra John.

All the interests stated above represent long positions.

The following table shows the beneficial interests of the Directors and the Chief Executive in the share capital of the Bank as shown in the Register of Directors' and Chief Executive's interests as of 25 July 2008.

	Number of shares held					
Name	**Personal**	**Family**	**Option[(1)]**	**Award[(2)]**	**Other**	**Total**
Patrick Y.B. Fung[(3)] (*Chief Executive*)	2,982,000	—	230,000	650,000	—	3,862,000
Michael Y.S. Fung[(3)]	3,000,000	60,000	180,000	325,000	—	3,565,000
Simon K.Y. Lee	—	—	—	—	974,701[(4)]	974,701
Frank J. Wang	—	—	80,000	395,000	—	475,000
Louis C.W. Ho[(3)]	304,000	100,000	—	10,000	—	414,000
Ambrose H.C. Lau	71,500	—	—	—	—	71,500

Notes:

(1) Share options were granted to the Directors pursuant to the share option scheme adopted by the Bank on 9 June 1993 and 24 April 2003.

(2) Share awards were granted to the Directors pursuant to the employee incentive plan adopted by the Bank on 22 April 2004.

(3) Patrick Y.B. Fung, Michael Y.S. Fung and Louis C.W. Ho's spouse are also, together with other parties, eligible beneficiaries of the trusts of Po Ding Co. Ltd., YKF Holding Corporation and Tessel Inc. The interests of these corporations in shares of the Bank are stated above.

(4) Shares are held through Dr. Simon K.Y. Lee's family trust.

All the interests stated above represent long positions.

REGULATION AND SUPERVISION

The banking sector in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance and the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks (that is, a bank which has been granted a banking licence (**licence**) by the HKMA) may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such banks (**licensed banks**). The HKMA regulates the Bank and may examine its subsidiaries.

Supervision of Licensed Banks in Hong Kong

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to provide a measure of protection to depositors and promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance in Hong Kong. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

(1) each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its operations in Hong Kong and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches, although the HKMA has the right to allow returns to be made at less frequent intervals;

(2) the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interests of the depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may in certain circumstances also require such information or any return submitted to it to be accompanied by a certificate of the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming compliance with the main provisions of the Banking Ordinance and certain other matters;

(3) licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller, a common name or a concert party arrangement to promote the licensed bank's business;

(4) in addition, licensed banks are obliged to report to the HKMA immediately of their likelihood to become unable to meet their obligations or of the commencement of material civil proceedings applicable only to licensed banks incorporated in Hong Kong;

(5) the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the systems of control of the licensed bank or other matters as the HKMA may reasonably require;

(6) the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such institution. Such inspections are carried out by the HKMA on a regular basis; and

(7) licensed banks are required to give written notice to the HKMA immediately of any proposal to remove an auditor before the expiration of his term of office or replace an auditor at the expiration of his term of office.

Exercise of Powers over Licensed Banks

The HKMA may, after consultation with the Financial Secretary, exercise certain powers over the conduct of licensed banks in any of the following circumstances:

(1) when a licensed bank informs the HKMA that it is likely to become unable to meet its obligations, that it is insolvent, or that it is about to suspend payment;

(2) when a licensed bank becomes unable to meet its obligations or suspends payment;

(3) if, after an examination or investigation, the HKMA is of the opinion that a licensed bank:

  (a) is carrying on its business in a manner detrimental to the interests of its depositors or potential depositors or of its creditors or of holders or potential holders of multi-purpose cards issued by it or the issue of which is facilitated by it;

  (b) is insolvent or is likely to become unable to meet its obligations or is about to suspend payment;

  (c) has contravened or failed to comply with any of the provisions of the Banking Ordinance; or

  (d) has contravened or failed to comply with any condition attached to its licence or certain conditions in the Banking Ordinance; and

(4) where the Financial Secretary advises the HKMA that he considers it in the public interest to do so.

In any of the circumstances described above, the HKMA, after consultation with the Financial Secretary, may exercise any of the following powers which appear to it to be necessary:

(1) to require the licensed bank, by notice in writing served on it, forthwith to take any action or to do any act or thing whatsoever in relation to its affairs, business and property as the HKMA may consider necessary;

(2) to direct the licensed bank to seek advice on the management of its affairs, business and property from an adviser appointed by the HKMA;

(3) to assume control of and carry on the business of the licensed bank, or to direct some other person to assume control of and carry on the business of the licensed bank; or

(4) to report the circumstances to the Chief Executive in Council in certain circumstances (in which case the Chief Executive in Council may exercise a number of powers including directing the Financial Secretary to present a petition to the Court of First Instance for the winding-up of the licensed bank).

Revocation and Suspension of Banking Licence

The HKMA also has powers to recommend the revocation or suspension of a licence. Both powers are exercisable after consultation with the Financial Secretary and with a right of appeal of the licensed bank concerned except in the event of temporary suspension in urgent cases. The grounds for suspension or revocation include, but are not limited to, the following:

(1) the licensed bank no longer fulfils the criteria for authorisation and the requirements for registration;

(2) the licensed bank is likely to be unable to meet its obligations, or proposes to make, or has made, any arrangement with its creditors or is insolvent or being wound up;

(3) the licensed bank has failed to provide material information required under the Banking Ordinance or has provided materially false, misleading or inaccurate information;

(4) the licensed bank has breached a condition attached to its licence;

(5) a person has become or continues to be a controller or chief executive or director after the HKMA makes an objection;

(6) the licensed bank is engaging in prohibited business practices;

(7) the licensed bank has ceased banking business or taking deposits, or its objects no longer include the foregoing businesses;

(8) the licensed bank has failed to pay fees;

(9) the licensed bank has failed to comply with a requirement relating to publication of audited annual financial statements;

(10) a person has become or continues to be a chief executive or director despite HKMA's objection or the licensed bank has failed to appoint a chief executive;

(11) a person has become or continues to be an executive officer without HKMA's consent or in breach of a condition attached to such consent;

(12) the interests of the depositors require that the licence be revoked; or

(13) the licensed bank is engaging in practices likely to prejudice Hong Kong as an international financial centre or in practices (specified in the HKMA guidelines) which should not be engaged in.

Revocation or suspension of a licence means that the licensed bank can no longer conduct banking business (for the specified period in the case of a suspension).

Principal Obligations of Licensed Banks

The obligations of a licensed bank under the Banking Ordinance, which are enforced by the HKMA through the system described above, include, but are not limited to, the following:

Capital adequacy

The capital adequacy regime in Hong Kong is in the process of change. Capital adequacy requirements in Hong Kong are still based on Basel I but since January 2007, licensed banks can instead meet new requirements based on Basel II. The Basel II Framework may also affect risk weighting of securities in respect of certain bank investors. Consequently, investors should consult their own advisers as to the effect on them of the implementation in Hong Kong of the Basel II Framework.

Basel I

A licensed bank incorporated in Hong Kong must at all times maintain a capital adequacy ratio of at least 8 per cent., calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted exposure as more fully described below. In relation to a licensed bank with subsidiaries, the HKMA may require the ratio to be calculated on a consolidated basis, or on both a consolidated and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The HKMA may, after consultation with the licensed bank concerned, increase the ratio for any particular licensed bank. According to the "Guide to Authorisation" issued by the HKMA in September 2002, the minimum capital adequacy ratios to be observed by all authorised institutions incorporated in Hong Kong have been raised to 10 per cent. or above. A licensed bank is under a duty to inform the HKMA immediately of a failure to maintain the required capital adequacy ratio and to provide the HKMA with such particulars as it may require. It is an indictable offence not to do so, and the HKMA is entitled to prescribe remedial action to be undertaken by the offending licensed bank.

The capital base of a licensed bank is, broadly speaking, but not limited to, all its paid-up capital and reserves, its income statement including its current year's profit or loss, together with perpetual and term subordinated debt meeting prescribed conditions, general provisions against doubtful debts subject to certain limitations and a portion of its latent reserves arising from the revaluation of long-term holdings of specified equity securities or its reserves on the revaluation of real property. Investments in, loans to and guarantees of liabilities of certain connected companies, shareholdings in subsidiaries or holding companies and in other companies in which more than 20 per cent. of voting power is held and investments in other banks (except for those which are not subject to a cross-holding arrangement or not otherwise a strategic investment) must be deducted.

The risk-weighted exposure is determined by:

(1) multiplying risk-weight factors to the book value of various categories of assets (including, but not limited to, notes and coins, Hong Kong government certificates of indebtedness and cash items in the course of collection);

(2) multiplying the credit conversion factors to various off-balance sheet items (including, but not limited to, direct credit substitutes, transaction-related contingencies, repurchase contracts, note issuance facilities and exchange rate contracts) to determine their credit equivalent amount;

(3) aggregating the amounts determined pursuant to (1) and (2); and

(4) subtracting from the amount determined pursuant to (3) the value of general provisions not included in the capital base of the licensed bank and the amount by which the book value of reserves on revaluation of real property (other than any interest in land mortgaged to it to secure a debt) exceeds the book value of such reserves as at the period-end.

Risk-weight factors are specified in the Banking Ordinance in Hong Kong as being a percentage varying between zero per cent. to 100 per cent. to reflect the extent to which an asset might be regarded as being at risk or the extent to which a liability might arise. Credit conversion factors are also specified in the Banking Ordinance as being percentages varying between zero per cent. to 100 per cent., being the percentage of the relevant item to which the risk-weight factor should be applied.

The capital adequacy standards described above (commonly known as "Basel I") were promulgated by the BCBS and have been applied in Hong Kong since 1989. The Banking (Amendment) Ordinance 2005, enacted on 6 July 2005, has put in place a legislative framework for the implementation in Hong Kong of Basel II. In line with the timetable set by BCBS for its members, Hong Kong BCBS commenced implementation of Basel II in January 2007.

Basel II

Basel II was introduced in Hong Kong by the Banking (Amendment) Ordinance 2005 in July 2005. The Basel II Framework sets out the details for adopting more risk-sensitive minimum capital requirements by laying out principles for Hong Kong incorporated licensed banks to assess the adequacy of their capital and for supervisors to review such assessments to ensure banking organisations have adequate capital to support their risks. The relevant sections concerning Basel II came into force on 1 January 2007 and provide the HKMA with the power to prescribe capital rules on the manner of calculating a Hong Kong incorporated licensed bank's capital adequacy ratio. They also set out the public disclosure requirements on information regarding a Hong Kong incorporated licensed bank's financial affairs.

After the implementation of Basel II, the requirement of a Hong Kong incorporated licensed bank's capital adequacy ratio continues to be least 8 per cent., and is likely to continue to be increased to 10 per cent. pursuant to the 2002 "Guide to Authorisation" issued by the HKMA (the HKMA has not clearly stated that the 2002 Guide will continue to apply for the Basel II regime). One of the changes introduced by Basel II is the manner to which capital adequacy ratio is calculated. Capital adequacy ratio in relation to a Hong Kong incorporated licensed bank means the ratio of that bank's capital base to a value representing the degree of credit risk, market risk and operational risk to which it is exposed. The value reflecting the mix of the three types of risk may be calculated in a variety of ways depending upon the type of risk and the calculation approach to be adopted. Banks have a choice of adopting their own approach to calculation of risks, namely the basic approach or the internal rating based (**IRB**) foundation approach as from 1 January 2007, or the advanced IRB approach as from 1 January 2008. The basic approach will incorporate a credit risk capital requirement calculated in accordance with the existing Organisation for Economic Co-operation and Development based framework, with some adjustments. Alternatively, the more sophisticated Hong Kong incorporated licensed banks with definite plans may adopt the IRB foundation approach during the transition period from 1 January 2007 to 31 December 2009, or the advanced IRB approach as from 1 January 2008. Hong Kong incorporated banks planning to adopt the IRB approach may have more scope to choose their own estimation of risk measures, but the qualifying criteria are stringent, also requiring the bank to satisfy qualitative and quantitative requirements.

Whether a Hong Kong incorporated licensed bank is able to use the IRB approach for assessing capital adequacy purposes is subject to prior approval from the HKMA. The onus is on the Hong Kong incorporated licensed bank's management to validate and ensure the quality of its internal rating systems. If a Hong Kong incorporated licensed bank fails to demonstrate that it can meet certain minimum requirements, the HKMA may reconsider the bank's eligibility for the IRB approach and will consider the possibility that the bank should hold additional capital to cover relevant risks.

Liquidity

Authorised institutions must maintain at all times a liquidity ratio of not less than 25 per cent. in each calendar month, calculated as the ratio (expressed as a percentage) of the sum of the net weighted amount of its highly liquid assets to the sum of its qualifying liabilities for each working day of the calendar month concerned as calculated in accordance with the Fourth Schedule of the Banking Ordinance. In relation to a licensed bank with subsidiaries, the HKMA may require that ratio to be calculated on a consolidated basis, or both on a consolidated basis and an unconsolidated basis, or on a consolidated basis only in respect of such subsidiaries of the licensed bank as may be specified by the HKMA. The ratio may be varied by the HKMA. A licensed bank has a duty to inform the HKMA if the ratio requirement is not fulfilled and provide it with such particulars of that contravention as it may require, and it is an indictable offence not to do so; the HKMA is entitled to prescribe remedial action. For the purpose of the liquidity ratio, in the case of a licensed bank which has places of business in Hong Kong and elsewhere, its places of business in Hong Kong are collectively treated as a separate licensed bank to which the liquidity ratio provisions would apply.

Highly liquid assets are, broadly speaking, assets held in the form of currency notes and coins, gold, loans due within one month from other banks (after deducting amounts payable to other banks within one month), certain export bills payable within one month, certain kinds of marketable debt securities or prescribed instruments (in some cases subject to a discount) and certain types of loan repayments due on fixed dates within one month on performing loans (subject to a discount).

Qualifying liabilities are, broadly speaking, liabilities which will or could or, in the case of contingent liabilities, in the opinion of the HKMA, may, fall due within one month, except that liabilities to other banks are treated on a net basis.

Financial exposure to any one customer

The financial exposure of a licensed bank incorporated in Hong Kong to any one person or group of connected persons must not (subject to certain exceptions) exceed 25 per cent. of the capital base of the licensed bank. Subject to certain exclusions, the licensed bank's financial exposure to any one person or group of connected persons is taken to be the aggregate of:

(1) all advances, loans and credit facilities (including letters of credit) granted to that person or group;

(2) the value of the licensed bank's holdings of shares, debentures and other debt securities issued by that person or group;

(3) financial exposure of the licensed bank to that person or group of related persons; and

(4) the principal amount, multiplied by a factor to be specified by the HKMA, for off-balance sheet items resulting from transactions between the licensed bank and that person or group.

For these purposes, persons shall be treated as connected if one company is the subsidiary of another, they have a common holding company, they have a common controller (not being a company) or if one (not being a company) is a controller of another (being a company).

The calculation of financial exposure does not include financial exposure to the Hong Kong government or authorised institutions or financial exposure generally to the extent it is secured by a cash deposit, a guarantee, an undertaking, certain specified securities or a letter of comfort approved by the HKMA.

If a person or a company to whom an authorised institution is financially exposed is a trustee of more than one trust, the HKMA may by notice in writing extend the limit of the institution's financial exposure to that person or company.

Other restrictions on lending

The Banking Ordinance also provides that:

(1) licensed banks may not grant any loan, advance or credit facility (including letters of credit) or give any guarantee against the security of their own shares (or, except with the approval of the HKMA, that of their respective holding companies, subsidiaries or fellow subsidiaries of such holding companies);

(2) the amount of the facilities which a Hong Kong incorporated licensed bank may make available on an unsecured basis to its controllers, its directors, their relatives or certain of its employees and persons associated with any of them shall be subject to the restrictions set out therein; and

(3) licensed banks may not, except with the written consent of the HKMA, provide to any one of their employees any unsecured facility of an amount in excess of that employee's salary for one year.

Restrictions on investments in land

A licensed bank incorporated in Hong Kong cannot purchase or hold any interest in land, whether situated in or outside Hong Kong, of a value or to an aggregate value in excess of 25 per cent. of its capital base. There are exceptions for land held which in the opinion of the HKMA is necessary for the operation of the business or for providing housing or amenities for staff.

Shareholding in other companies

A licensed bank incorporated in Hong Kong may not acquire or hold any part of the share capital of any other company or companies to an aggregate value which exceeds 25 per cent. of the licensed bank's capital base except for shares held by way of security for facilities and by virtue of acquisitions in satisfaction of debts due to it (which must, however, be disposed of at the earliest suitable opportunity and not later than 18 months after their acquisition unless the HKMA agrees to a longer period). Shares held by virtue of underwriting and sub-underwriting commitments are, nevertheless, permitted provided the relevant shares are disposed of within seven working days or such longer period as the HKMA may agree. A licensed bank incorporated in Hong Kong may not acquire all or part of the share capital of a company to a value which exceeds five per cent. of the licensed bank's capital base unless the approval of the HKMA has been given to such acquisition.

There are other exemptions for any holding of share capital approved by the HKMA in other banks and companies carrying on nominee, executor, trustee or other functions related to banking business, the business of deposit taking, insurance, investments or other financial services.

Other restrictions on investment

The aggregate of the outstanding amounts of all facilities granted to or on behalf of a licensed bank's controllers, directors, their relatives, certain of its employees and their associates; the value of all holdings of share capital in other companies; and the value of all holdings of interests in land (including land purchased or held which is necessary for the conduct of business or the provision of housing or amenities for the staff of the institution) must not exceed 80 per cent. of its capital base.

Charges

A licensed bank incorporated in Hong Kong is not permitted to create any charges over its assets if either the aggregate value of all charges existing over its total assets is five per cent. or more of the value of those total assets or creating that charge would cause the aggregate value of all charges over its total assets to be more than five per cent. of the value of those total assets. The HKMA has issued a notice excluding charges in favour of Euroclear and Clearstream, Luxembourg from this restriction.

Restrictions on overseas activities

A licensed bank which is incorporated in Hong Kong is subject to a condition that it shall not establish or maintain any overseas branch or overseas representative office without the approval of the HKMA. The HKMA is empowered by the Banking Ordinance to require financial and other information regarding any such overseas branch to be supplied to it.

Further, a licensed bank incorporated in Hong Kong or its Hong Kong incorporated holding company may not without the consent of the HKMA own a company incorporated outside Hong Kong which may (whether or not in or outside Hong Kong) lawfully take deposits from the public. The HKMA may at any time attach in respect of any such approved overseas companies any conditions as the HKMA may think proper.

Shareholders, Chief Executives and Directors

Limitations on shareholders

The HKMA has the power to object, on certain specified grounds, to persons becoming or being "controllers" of licensed banks incorporated in Hong Kong. "*Controller*" in this context means:

(1) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, 10 per cent. or more, but not more than 50 per cent., of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or

(2) a person who, either alone or with any associate(s), is entitled to exercise, or control the exercise of, more than 50 per cent. of the voting power at any general meeting of the licensed bank or of another company of which it is a subsidiary; or

(3) a person in accordance with whose directions or instructions the directors of the licensed bank or of another company of which it is a subsidiary are accustomed to act (but does not include any professional advisers or managers appointed by the HKMA to manage the licensed bank).

A person may not become a controller of a licensed bank incorporated in Hong Kong unless he has served a written notice on the HKMA of his proposal to that effect and the HKMA consents to his becoming such a controller or does not object within three months.

Within the three-month period, the HKMA may object to the applicant's proposal, unless it is satisfied that the applicant is a fit and proper person to become a controller; that depositors' or potential depositors' interests will not be threatened by that person being such a controller; and having regard to the applicant's likely influence on that institution as a controller, the licensed bank is likely to continue to conduct its business prudently or that the applicant is likely to undertake adequate remedial action to ensure that the licensed bank will conduct its business prudently.

The HKMA may also object to the continuation of a person as a controller on similar grounds as in respect of new controllers.

Where a person becomes a controller (by virtue of being able to exercise or control the exercise of certain voting power in a licensed bank) after a notice of objection has been served on him or otherwise in the contravention of the procedure prescribed by the Banking Ordinance, the HKMA may notify the controller that until further notice any specified shares are subject to one or more of the following restrictions:

(1) any transfer of the shares or, in the case of unissued shares, any transfer of the right to be issued with them, and any issue of such shares, shall be void;

(2) voting rights in respect of those shares shall not be exercisable;

(3) no further shares in right or pursuant to any offer made to the shareholder shall be issued; or

(4) except in a liquidation, no payments of any sums due from the licensed bank on the shares shall be paid.

In addition, the HKMA may apply to court for an order that the shares be sold. Once the shares are sold, the proceeds (less the costs of sale) shall be paid into court and held for the benefit of the persons beneficially interested in them.

In the case of an indirect controller who does not have the approval of the HKMA, the person concerned is prohibited from giving directions or instructions to the directors of the licensed bank or of another company of which it is a subsidiary.

Limitations on persons becoming chief executives or directors

All licensed banks must have a chief executive, and not less than one alternative chief executive, each of whom must be an individual and ordinarily resident in Hong Kong. A person requires the consent of the HKMA before becoming a chief executive.

The consent of the HKMA is also required for a person to become a director of a Hong Kong incorporated licensed bank.

Supervision of Securities Business of Licensed Banks

The Securities & Futures Ordinance (Cap. 571) of the laws of Hong Kong (the **SFO**), which came into operation in April 2003, introduced a substantial change to the conduct of securities business by banks. Banks are no longer exempted from the relevant regulations when they engage in securities business. Instead they are required to apply for registration with the SFC, which means they will have to meet the "Fit and Proper Criteria" set by the SFC. Likewise, staff engaged by banks in securities business will have to meet the "Fit and Proper Criteria" applicable to staff of brokerage firms. It is a statutory condition of registration for banks that each member of staff engaged by them in securities business is a fit and proper person. Banks will also have to comply with the various regulatory requirements set by the SFC in relation to their securities business, including the subsidiary legislation and the business conduct codes. Under the SFO, banks and their securities staff will be subject to the same range of disciplinary actions that are applicable to brokers and their staff in case they are guilty of misconduct or otherwise not fit and proper.

With the introduction of a new licensing regime under the SFO, corresponding changes have been made to the Banking Ordinance by way of the introduction of the Banking (Amendment) Ordinance 2002. Such ordinance came into operation simultaneously with the SFO and has enabled the HKMA to enhance their regulatory functions in relation to securities businesses of banks and other registered institutions (as defined under the SFO) that are registered under the SFO.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or CMU (together, the Clearing Systems) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believe to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Book-entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (**CMU Members**) of capital markets instruments (**CMU Instruments**) which are specified in the CMU Reference Manual as capable of being held within the CMU Service. The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, "authorised institutions" under the Banking Ordinance and other domestic and overseas financial institutions at the discretion of the HKMA. Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream, Luxembourg will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System. Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules.

Hong Kong

The following summary of certain Hong Kong tax consequences of the purchase, ownership and disposition of the Notes is based upon laws, regulations, decisions and practice now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of Hong Kong tax laws to their particular situation as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap.112) of Hong Kong (the **Inland Revenue Ordinance**), as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company, other than a financial institution, carrying on a trade, profession or business in Hong Kong; or

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance) is exempt from the payment of Hong Kong profits tax. The Bank is an authorised institution in Hong Kong within the meaning of section 2 of the Banking Ordinance, but Noteholders should consult their tax advisors as to whether any particular issue of Notes will constitute deposits to which the above exemption will apply.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of, including the place where such activities were undertaken.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes by the Bank, provided either:

(i) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable on the issue of Bearer Notes it is payable by the Issuer at a rate of 3 per cent. of the market value of the Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes issued by the Bank. Stamp duty will, however, not be payable on any transfers of Registered Notes, provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value. If, in the case of either the sale or purchase of such Registered Notes, stamp duty is not paid, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days thereafter if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

EU Directive on the Taxation of Savings Income

The European Union has adopted the EC Council Directive 2003/48/EC regarding the taxation of savings income. The Directive requires Member States of the European Economic Area to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to an individual or to certain other persons resident in another Member State, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) unless during such period they elect otherwise. A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 31 July 2008, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

(a) The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States (or, in certain circumstances, to, or for the account or benefit of, U.S. persons) except in certain transactions exempt from the registration requirements of the Securities Act.

(b) Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States, its territories or its possessions or to a United States person as such term is defined in the U.S. Internal Revenue Code of 1986 and regulations thereunder, except in certain transactions permitted by U.S. tax regulations. Bearer Notes will be issued in accordance with the provisions of U.S. Treasury Regulation Section 1.163 — 5(c)(2)(i)(D), unless the relevant Pricing Supplement specifies that Notes will be issued in accordance with the provision of U.S. Treasury Regulation Section 1.163 — 5(c)(2)(i)(C).

(c) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 1 of Regulation S (**Category 1 of Regulation S Notes**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 1 of Regulation S Notes within the United States. Each Dealer has agreed that it will not offer, sell or deliver any Notes within the United States, except as permitted by the Programme Agreement. In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

(d) In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Category 2 of Regulation S (**Category 2 of Regulation S Notes**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Category 2 of Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Category 2 of Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons as such term is defined in Rule 902 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Category 2 of Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Category 2 of Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

(e) Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Acts 2000 (the **FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), (ii) to a relevant person pursuant to Section 275(1), or to any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Japan

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) no Notes have been and will be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the **Financial Instruments and Exchange Law**); and (ii) it has not offered or sold and it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold, and will not offer or sell, in Hong Kong Special Administrative Region of the People's Republic of China (**Hong Kong**) by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee and any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and any of the Dealers has represented that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction that would permit a public offering of any of the Notes or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme has been duly authorised by a resolution of the Board of Directors of the Issuer dated 12 June 2008. Each issue of Notes will be separately approved by the Executive Committee of the Issuer.

Listing

2. Approval in-principle has been received from the SGX-ST for the listing of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST.

Clearing systems

3. The Notes to be issued under the Programme have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU Service. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

No significant change

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank or of the Group since 31 December 2007 and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2007.

Litigation

5. Except as disclosed in this Offering Circular, neither the Bank nor any of the Bank's subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, nor is the Bank or any of the Bank's subsidiaries aware that any such proceedings are pending or threatened.

Independent auditor

6. The independent auditor of the Issuer is KPMG (Certified Public Accountants).

7. The Trust Deed provides that the Trustee may rely on certificates or reports from the independent auditor (as defined in the Trust Deed) or any other person in accordance with the provisions of the Trust Deed as sufficient evidence of the facts stated therein whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the independent auditor or such other person in connection therewith contains a monetary or other limit on the liability of the independent auditor or such other person. However, the Trustee will have no recourse to the independent auditor or such other person in respect of such certificates or reports unless the independent auditor or such other person has agreed to address such certificates or reports to the Trustee.

Financial statements

8. The Bank publishes annual reports containing the audited consolidated financial statements of the Bank not later than four months after the date upon which the financial period ended. The Bank publishes interim reports containing the unaudited consolidated results of the Bank for the first six months of each financial year not later than three months after the end of that six-month period. The Bank does not publish audited interim consolidated financial statements. The Bank does not publish unconsolidated financial statements other than unconsolidated balance sheets and certain notes to the financial statements which it includes in its annual reports.

Documents

9. So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in London:

   (a) the constitutional documents of the Issuer;

   (b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2006 and 2007;

   (c) the most recent annual audited consolidated financial statements of the Issuer and the most recently published unaudited interim consolidated financial statements of the Issuer (if any);

   (d) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

   (e) a copy of this Offering Circular; and

   (f) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference.

INDEX TO THE FINANCIAL STATEMENTS

EXHIBIT A

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

The information in this Exhibit A has been extracted from the audited 2007 consolidated financial statements of the Issuer.

INDEPENDENT AUDITOR'S REPORT

The following is the full text of the independent auditor's report extracted from the published audited consolidated financial statements of the Bank for the year ended 31 December 2007. Page references used in the text of the independent auditor's report are references to pages set out in the independent auditor's report dated 18 March 2008.

KPMG

To the shareholders of Wing Hang Bank, Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Wing Hang Bank, Limited ("the Bank") set out on pages 51 to 178, which comprise the consolidated and the Bank balance sheets as at 31st December, 2007, 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 Financial Statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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 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 financial statements based on our audit. This report is made 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 31st December, 2007 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 Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18th March, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2007	2006 (restated)
Interest income	*5(a)*	7,323,415	6,159,000
Interest expense	*5(b)*	(4,905,881)	(4,033,102)
Net interest income		2,417,534	2,125,898
Other operating income	*5(c)*	1,120,427	793,717
Net (losses)/gains from financial instruments held for trading and measured at fair value through profit or loss	*5(d)*	(246,302)	17,832
Non-interest income		874,125	811,549
Operating income		3,291,659	2,937,447
Operating expenses	*5(f)*	(1,305,724)	(1,074,369)
Operating profit before impairment losses and allowances charged on loans and advances		1,985,935	1,863,078
Impairment losses and allowances charged on loans and advances	*18(e)*	(1,530)	(773)
Operating profit		1,984,405	1,862,305
Gains on revaluation of investment properties and disposal of tangible fixed assets	*6(a)*	204,932	54,222
Gains on disposal of available-for-sale financial assets	*6(b)*	39,708	13,773
Share of net profits of associated companies	*21*	115,178	50,951
Profit before taxation		2,344,223	1,981,251
Taxation	*7(a)*	(310,982)	(319,138)
Profit after taxation		2,033,241	1,662,113
Profit attributable to:			
Shareholders of the Bank	*8 & 32*	2,030,564	1,660,716
Minority interests		2,677	1,397
Profit after taxation		2,033,241	1,662,113
Dividends attributable to the year:			
Interim dividend paid during the year		283,151	241,260
Underprovision of final dividend in respect of the previous year		80	96
Final dividend proposed after the balance sheet date		728,562	588,441
	9	1,011,793	829,797
		HK$	**HK$**
Earnings per share	*12*		
Basic		6.89	5.65
Diluted		6.83	5.60
Dividends per share			
Interim		0.96	0.82
Proposed final		2.47	2.00
		3.43	2.82

The notes on pages 56 to 178 form part of these financial statements.

Consolidated Balance Sheet

As at 31st December, 2007

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2007	2006 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	*13*	3,306,767	2,253,725
Placements with banks, central banks and other financial institutions	*14*	28,942,740	27,525,225
Trade bills	*15*	363,545	370,549
Trading assets	*16*	1,034,757	738,392
Financial assets measured at fair value through profit or loss	*17*	6,700,285	5,382,956
Advances to customers and other accounts	*18(a)*	76,775,985	60,704,258
Held-to-maturity and available-for-sale financial assets	*19*	18,891,888	22,218,593
Investments in associated companies	*21*	298,189	197,906
Tangible fixed assets	*22*		
— Investment properties		286,898	258,390
— Other properties, plants and equipment		1,742,570	1,635,398
Goodwill	*23*	1,306,430	847,422
Current tax recoverable	*7(c)*	151	1,074
Deferred tax assets	*7(d)*	7,057	16,679
Total assets		139,657,262	122,150,567
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	*24*	2,817,714	1,692,887
Deposits from customers	*25*	113,968,986	102,066,947
Certificates of deposit issued	*26*	3,309,204	3,715,303
Trading liabilities	*27*	765,344	590,899
Current tax payable	*7(c)*	153,879	152,706
Deferred tax liabilities	*7(d)*	188,564	105,274
Other accounts and provisions	*28*	2,286,646	1,981,978
Subordinated liabilities	*29*	5,658,889	2,527,850
Total liabilities		129,149,226	112,833,844
Share capital	*31*	294,964	294,221
Reserves	*32*	10,190,387	9,002,494
Shareholders' funds		10,485,351	9,296,715
Minority interests		22,685	20,008
Total equity		10,508,036	9,316,723
Total equity and liabilities		139,657,262	122,150,567

Patrick Y B Fung	*Chairman and Chief Executive*
Frank J Wang	*Director and Deputy Chief Executive*
Michael Y S Fung	*Director and Senior General Manager*
Louis C W Ho	*Director and Secretary*

The notes on pages 56 to 178 form part of these financial statements.

Balance Sheet

As at 31st December, 2007

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2007	2006 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	*13*	1,976,792	1,691,086
Placements with banks, central banks and other financial institutions	*14*	26,521,117	27,444,689
Trade bills	*15*	303,208	323,718
Trading assets	*16*	1,034,460	749,578
Financial assets measured at fair value through profit or loss	*17*	6,700,285	5,382,956
Advances to customers and other accounts	*18(a)*	45,302,894	46,524,605
Amounts due from subsidiaries		15,271,307	7,285,939
Held-to-maturity and available-for-sale financial assets	*19*	16,545,014	19,527,597
Investments in subsidiaries	*20*	3,113,060	682,707
Investments in associated companies	*21*	253,888	174,000
Tangible fixed assets	*22*		
— Investment properties		—	10,380
— Other properties, plants and equipment		1,045,065	1,116,282
Goodwill	*23*	847,422	847,422
Deferred tax assets	*7(d)*	—	9,452
Total assets		118,914,512	111,770,411
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	*24*	1,175,558	1,673,424
Deposits from customers	*25*	89,332,555	81,184,068
Certificates of deposit issued	*26*	3,109,220	3,720,276
Trading liabilities	*27*	764,982	592,379
Current tax payable	*7(c)*	50,763	106,086
Deferred tax liabilities	*7(d)*	71,099	79,012
Other accounts and provisions	*28*	1,315,527	1,133,815
Amounts due to subsidiaries		12,285,232	16,100,651
Subordinated liabilities	*29*	3,123,142	—
Total liabilities		111,228,078	104,589,711
Share capital	*31*	294,964	294,221
Reserves	*32*	7,391,470	6,886,479
Total equity		7,686,434	7,180,700
Total equity and liabilities		118,914,512	111,770,411

Patrick Y B Fung *Chairman and Chief Executive*
Frank J Wang *Director and Deputy Chief Executive*
Michael Y S Fung *Director and Senior General Manager*
Louis C W Ho *Director and Secretary*

The notes on pages 56 to 178 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2007	2006
Total equity as at 1st January		9,316,723	8,338,051
Unrealised (losses)/gains on revaluation of available-for-sale financial assets net of deferred tax	*32*	(36,436)	14,378
Gains transferred from investment revaluation reserve to consolidated income statement on disposal of available-for-sale financial assets	*32*	(13,183)	(11,890)
Unrealised gains on revaluation of bank premises	*32*	—	11,010
Deferred tax credited/(charged) to bank premises revaluation reserve	*32*	318	(1,440)
Effects of foreign exchange rate changes	*32*	394	1,098
Net (expenses)/income recognised directly in equity		(48,907)	13,156
Net profit for the year		2,033,241	1,662,113
Total recognised income and expenses for the year		1,984,334	1,675,269
Dividends declared and approved during the year	*32*	(871,672)	(711,789)
Proceeds on shares issued under Share Option Scheme	*31 & 32*	3,982	6,327
Share premium under Employee Incentive Plan	*32*	13,870	12,365
Shares issued in lieu of dividends	*31 & 32*	60,799	—
Dividends paid to minority interests		—	(3,500)
Total equity as at 31st December		10,508,036	9,316,723
Total recognised income and expenses for the year attributable to:			
Shareholders of the Bank		1,981,657	1,673,872
Minority interests		2,677	1,397
		1,984,334	1,675,269

The notes on pages 56 to 178 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2007	2006
Net cash (outflow)/inflow from operating activities	*34(a)*	(2,456,067)	10,343,333
Investing activities			
Payment for purchase of a subsidiary, net of cash acquired	*34(b)*	(1,348,448)	—
Purchase of held-to-maturity and available-for-sale financial assets		(2,849,001)	(5,535,348)
Sale and redemption of held-to-maturity and available-for-sale financial assets		6,409,888	1,927,217
Dividends received from an associated company		42,000	—
New loans to associated companies	*21*	(131,355)	—
Loan repaid by an associated company	*21*	51,467	—
Purchase of properties and equipment		(425,790)	(255,228)
Sale of properties and equipment		469,862	82,918
Net cash inflow/(outflow) from investing activities		2,218,623	(3,780,441)
Financing activities			
Issue of subordinated liabilities		3,104,204	—
Issue of new shares under Share Option Scheme	*31*	3,982	6,327
Dividends paid		(810,873)	(711,789)
Dividends paid to minority interests		—	(3,500)
Interest paid on subordinated liabilities		(264,804)	(134,029)
Net cash inflow/(outflow) from financing activities		2,032,509	(842,991)
Increase in cash and cash equivalents		1,795,065	5,719,901
Cash and cash equivalents at 1st January		26,697,151	20,968,190
Effects of foreign exchange rate changes		8,291	9,060
Cash and cash equivalents at 31st December	*34(c)*	28,500,507	26,697,151
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		3,158,664	2,182,173
Placements with banks, central banks and other financial institutions with an original maturity within three months		22,915,352	23,288,277
Treasury bills with an original maturity within three months		2,426,491	1,226,701
		28,500,507	26,697,151
Cash flows from operating activities included:			
Interest received		7,242,339	6,070,092
Interest paid		4,822,413	4,066,319
Dividend received		5,088	8,420

The notes on pages 56 to 178 form part of these financial statements.

1. Principal activities

The Bank and its subsidiaries (together referred to as "the Group") are engaged in commercial banking and related financial services.

2. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December, 2007 comprise the Bank and its subsidiaries and the Group's interest in associated companies. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as trading, measured at fair value through profit or loss and available-for-sale (note 2(f)(ii));

— investment property (note 2(l));

— other freehold land and buildings (note 2(l)); and

— other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(l) and 2(m)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Bank's balance sheet, its investments in subsidiaries are stated at cost less impairment losses, if any (note 2(p)).

(d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associated company's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associated companies for the year, including any impairment loss on goodwill relating to the investment in associated companies recognised for the year (notes 2(e) and 2(p)).

When the Group's share of losses exceeds its interest in the associated company, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associated company. For these purposes, the Group's interest in the associated company is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associated company.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Bank's balance sheet, its investments in associated companies are stated at cost less impairment losses, if any (note 2(p)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associated company over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(p)). In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the interest in the associated companies.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associated company is recognised immediately in the income statement.

On disposal of a cash generating unit, or an associated company during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Expenditure on internally generated goodwill and brand name is recognised as an expense in the period in which it is incurred.

(f) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) *Classification*

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those measured at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(h)) are accounted for as trading instruments.

The Group has the option to designate financial instruments at fair value through profit or loss upon initial recognition when:

— the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

— the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; and the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value and are not allowed to be reclassified into or out of this category while held or issued. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with banks, central banks and other financial institutions.

Securities classified as loans and receivables typically comprise of securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(p)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; and (2) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(p)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in the investment revaluation reserve, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (note 2(p)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are released from the investment revaluation reserve.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) *Derecognition*

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Group uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

(v) *Offsetting*

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

(vi) *Embedded derivatives*

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (1) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (2) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(g) ***Repurchase and reverse repurchase transactions***

Assets sold subject to a simultaneous agreement to repurchase these assets at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables and are carried in the balance sheet at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

(h) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (1) the hedging instrument expires or is sold, terminated or exercised; (2) the hedge no longer meets the criteria for hedge accounting; or (3) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when interest income or expense is recognised).

For all other cash flow hedges, the associated gain or loss is removed from equity and recognised in the income statement in the same period or periods in which the hedged cash flows affect the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(iii) Hedge effectiveness testing

The Group expects the hedge to be highly effective (prospective effectiveness) at the inception of the hedge to qualify for hedge accounting. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression analysis as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.

(i) Revenue recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. 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, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residual mortgage loans are capitalised and amortised to the income statement over their expected life.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued, but any increase in the present value of impaired financial assets due to the passage of time is reported as interest income.

(ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided, 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 as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alterative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax liabilities are generally recognised for all taxable temporary differences. 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.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such deduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income tax levied by the same tax authority on the same taxable entity.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in net realised and unrealised gains/losses on trading financial instruments or financial instruments measured at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains/losses arising from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in reserves.

The results of overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an overseas operation, the cumulative amount of the exchange differences recognised in equity which relate to that overseas operation is included in the calculation of the profit or loss on disposal.

(l) Tangible fixed assets and depreciation

(i) Bank premises are stated in the balance sheet at cost or at directors' valuation, by reference to an independent professional valuation, less accumulated depreciation and impairment losses. In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16, *Property, Plant and Equipment*, issued by the HKICPA, with the effect that bank premises have not been revalued to fair value at the balance sheet date.

(ii) Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.

(iii) No amortisation is provided on freehold land. Leasehold land (note 2(m)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are amortised by equal instalments over the estimated useful lives which in no case exceed fifty years.

(iv) Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(m)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the balance sheet at their open market values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investments properties is recognised in the income statement.

(m) Finance and operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Advances to customers". Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(p).

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(l)(ii) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(p). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(i)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(l)(iv)).

(n) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(p), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of their carrying amount of the related loans and advances and fair value less costs to sell at the date. They are not depreciated or amortised.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within "Other accounts and provisions".

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Impairment of assets

The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

— significant financial difficulty of the issuer or borrower;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

— disappearance of an active market for financial assets because of financial difficulties; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the advances and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or overdue.

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iv) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— tangible fixed assets (other than properties carried at revalued amounts);

— investments in subsidiaries and associated companies; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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).

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (notes 2(p)(i) to 2(p)(iv)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

(q) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associated company of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between entities of the Group within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the cash flow statement.

(t) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the income statement when incurred.

(iii) When the Group grants employees options to acquire shares of the Bank, the considerations received are recognised in the balance sheet as "Other accounts and provisions" at the date of grant. The fair value of the options is measured at the grant date and is charged to the income statement and credited to shareholders' funds between the grant date and the vesting date. When the options are exercised, shareholders' funds are increased by the amount of the proceeds and consideration received.

(iv) When the Group grants employees awards to acquire shares of the Bank under the Employee Incentive Plan ("EIP"). The fair value of the awards is measured at the grant date and is charged to the income statement and credited to shareholders' funds between the grant date and the vesting date. The cash amount equal to the dividend that would have been paid during the period up to vesting will be charged to the income statement as bonus expenses on an accruals basis.

3. Accounting estimates and judgements

Notes 22, 23, 38 and 39 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

Impairment losses

(i) Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in accounting policy (note2(p)). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

(i) Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(ii) Investment property

The Group has temporarily sub-let certain vacant properties but has decided not to treat the properties as investment properties because it is not the Group's intention to hold the properties in the long-term for capital appreciation or rental income. Accordingly, the properties has still been treated as a building held for own use.

4. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Bank and the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures,* there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 30, *Disclosures in the financial statements of banks and similar financial institutions*, and HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 37.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Bank's and the Group's objectives, policies and processes for managing capital. These new disclosures are set out in note 37(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

Apart from the foregoing, there has been a change in the presentation of the financial statements (HKAS 1, *Presentation of financial statements*).

(a) Presentation of operating income

With effect from 1st January, 2007, interest income and interest expense arising from all trading financial instruments and financial instruments measured at fair value through profit or loss are reported in "interest income" and "interest expense" respectively instead of under "net interest income on financial instruments held for trading and measured at fair value through profit and loss" in the consolidated income statement. The change has been made principally to match the interest expense arising from trading liabilities and liabilities measured at fair value through profit or loss with the interest income from non-trading assets.

In addition, net gains from financial instruments held for trading and measured at fair value through profit or loss are reported separately in the consolidated income statement instead of grouped under "Other operating income" in the consolidated income statement.

The above changes in presentation facilitate the comparison of the Group's net interest income, net interest margin and operating income with peer banks in Hong Kong.

Comparative figures for the year ended 31st December, 2006 have been reclassified to conform with the current year's presentation as follows:

	As previously reported	Effect of increase/ (decrease) in profit for the year	As restated
Interest income	5,818,646	340,354	6,159,000
Interest expense	(3,899,913)	(133,189)	(4,033,102)
	1,918,733	207,165	2,125,898
Net interest income on financial instruments held for trading and measured at fair value through profit or loss	207,165	(207,165)	—
Net interest income	2,125,898	—	2,125,898
Other operating income	811,549	(17,832)	793,717
Net gains from financial instruments held for trading and measured at fair value through profit or loss	—	17,832	17,832
Non-interest income	811,549	—	811,549
Operating income	2,937,447	—	2,937,447

(b) ***Presentation of treasury bills and placements with banks***

Treasury bills and placements with banks maturing within one month are reported in "Held-to-maturity investments" and "Placements with banks, central banks and other financial institutions" respectively instead of under "Cash and balances with banks, central banks and other financial institutions" in the consolidated balance sheet and balance sheet. The change has been made to facilitate comparison of the Group's and the Bank's balance sheet items with peer banks in Hong Kong.

		The Group	
	As previously reported	Effect of increase/ (decrease) in consolidated balance sheet	As restated
Cash and balances with banks, central banks and other financial institutions	28,785,949	(26,532,224)	2,253,725
Placements with banks, central banks and other financial institutions	3,677,234	23,847,991	27,525,225
Held-to-maturity and available-for-sale financial assets	19,534,360	2,684,233	22,218,593
	51,997,543	—	51,997,543

		The Bank	
	As previously reported	Effect of increase/ (decrease) in balance sheet	As restated
Cash and balances with banks, central banks and other financial institutions	26,124,387	(24,433,301)	1,691,086
Placements with banks, central banks and other financial institutions	3,608,960	23,835,729	27,444,689
Held-to-maturity and available-for-sale financial assets	18,930,025	597,572	19,527,597
	48,663,372	—	48,663,372

The Group had not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 40).

5. Operating profit

(a) Interest income

	2007	2006 (restated)
Interest income arising from:		
— financial assets not measured at fair value through profit or loss	6,899,527	5,818,646
— trading assets	138,261	100,704
— financial assets measured at fair value through profit or loss	285,627	239,650
	7,323,415	6,159,000
of which:		
— interest income from listed investments	491,734	389,242
— interest income from unlisted investments	1,049,745	901,670
— interest income from impaired financial assets	17,490	19,124

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK$9,281,000 (2006: HK$2,672,000) (note 18(e)) for the year ended 31st December, 2007.

(b) Interest expense

	2007	2006 (restated)
Interest expense arising from:		
— financial liabilities not measured at fair value through profit or loss	4,651,338	3,899,913
— trading liabilities	33,066	22,870
— financial liabilities measured at fair value through profit or loss	221,477	110,319
	4,905,881	4,033,102
of which:		
— interest expense from certificates of deposit issued repayable within 5 years	183,307	192,326
— interest expense from deposits from customers	4,220,039	3,575,234
— interest expense from deposits and balances of banks, central banks and other financial institutions	193,783	95,552
— interest expense from subordinated liabilities (note 34(a))	264,804	134,029

(c) *Other operating income*

	2007	2006 (restated)
Fees and commissions		
Credit commission and fees	147,416	106,413
Credit card related fees	104,182	82,231
Trade related fees	83,555	83,827
Insurance commission	58,348	53,435
Stockbroking fees	254,105	105,433
Trust fees	44	12
Wealth management fees	123,916	79,496
Other fees and commission income	148,536	119,137
Less: Fees and commission expenses	(61,783)	(35,993)
	858,319	593,991
Gains arising from dealing in foreign currencies (note 5(e))	206,114	165,832
Gains on other dealing activities (note 5(e))	2,569	4,077
Dividend income from unlisted available-for-sale financial assets	4,555	7,405
Dividend income from listed available-for-sale financial assets	238	483
Dividend income from listed trading investments	402	314
Rental income from investment properties less direct outgoings of HK$589,000 (2006: HK$587,000)	14,245	12,764
Others	33,985	8,851
	1,120,427	793,717
of which:		
Net fee and commissions, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor measured at fair value		
- fees and commissions income	257,364	216,448
- fees and commissions expenses	(23)	(19)
	257,341	216,429

(d) *Net (losses)/gains from financial instruments held for trading and measured at fair value through profit or loss*

	2007	2006
Net realised and unrealised gains on trading financial instruments (note 5(e))	89,744	77,312
Net realised and unrealised losses on financial instruments measured at fair value through profit or loss	(336,046)	(59,480)
	(246,302)	17,832

(e) *Net trading income*

	2007	2006
Gains arising from dealing in foreign currencies (note 5(c))	206,114	165,832
Gains on other dealing activities (note 5(c))	2,569	4,077
Net realised and unrealised gains on trading financial instruments (note 5(d))	89,744	77,312
	298,427	247,221

(f) ***Operating expenses***

	2007	2006
Staff costs		
Salaries and other staff costs	780,500	661,355
Retirement benefit costs (note 38(a))	48,807	40,467
EIP costs (note 34(a))	13,870	12,365
	843,177	714,187
Premises and equipment expenses,excluding depreciation	143,934	116,211
Depreciation (notes 22, 34(a) & 35(a))	90,516	81,242
Auditors' remuneration		
Audit services	4,435	3,380
Tax services	623	584
Other services	3,317	50
	8,375	4,014
Others	219,722	158,715
	1,305,724	1,074,369

6. ***(a) Gains on revaluation of investment properties and disposal of tangible fixed assets***

	2007	2006
Unrealised revaluation gains of investment properties	53,448	15,568
Net gains on disposal of tangible fixed assets	151,484	38,654
	204,932	54,222

(b) Gains on disposal of available-for-sale financial assets

	2007	2006
Net unrealised gains transferred from investment revaluation reserve (note 32)	13,183	11,890
Gains on disposal of available-for-sale financial assets	26,525	1,883
	39,708	13,773

7. Taxation

(a) ***Taxation in the consolidated income statement represents:***

	2007	2006
Current tax — Provision for Hong Kong profits tax		
Provision for the year	283,454	284,091
Overprovision in respect of prior years	(33,163)	(13,805)
	250,291	270,286
Current tax — Provision for overseas tax		
Provision for the year	54,138	45,821
Overprovision in respect of prior years	(211)	(2)
	53,927	45,819
Deferred taxation		
Origination and reversal of temporary differences	6,764	3,033
	310,982	319,138

The provision for Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) of the Group's estimated assessable profits for the year ended 31st December, 2007. The provision for overseas taxation is provided at the appropriate current rates of taxation ruling in the countries in which the relevant units of the Group operate.

(b) ***Reconciliation between tax expenses and accounting profit at applicable tax rates:***

	2007	%	2006	%
Profit before tax	2,344,223	100.00	1,981,251	100.00
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	384,465	16.39	330,010	16.66
Tax effect of non-deductible expenses	21,133	0.90	16,143	0.81
Tax effect of non-taxable revenue	(43,706)	(1.86)	(37,330)	(1.88)
Tax effect of unused tax losses not recognised	660	0.03	2,632	0.13
Others	(18,196)	(0.77)	21,490	1.09
Overprovision in respect of prior years	(33,374)	(1.42)	(13,807)	(0.70)
	310,982	13.27	319,138	16.11

(c) ***Current tax recoverable and payable***

The components of current tax recoverable and payable in the balance sheets are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Current tax recoverable				
Provision for Hong Kong profits tax	151	1,074	—	—
Current tax payable				
Provision for Hong Kong profits tax	223,286	273,970	134,845	236,159
Provisional profits tax paid	(111,903)	(158,486)	(84,082)	(132,799)
	111,383	115,484	50,763	103,360
Provision for overseas tax	42,496	37,222	—	2,726
	153,879	152,706	50,763	106,086

All current tax recoverable and payable are expected to be settled within one year.

(d) ***Deferred tax assets and liabilities recognised***

The components of deferred tax (assets)/liabilities recognised in the balance sheets and the movements during the year are as follows:

	The Group 2007						
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January, 2007	28,862	81,334	2,984	(20,117)	(3,010)	(1,458)	88,595
Addition through acquisition of a subsidiary	105,027	—	—	(6,224)	(1,749)	—	97,054
Charged/(credited) to consolidated income statement	(17,648)	6,593	—	17,582	1,604	(1,367)	6,764
Credited to reserves	—	(318)	(10,588)	—	—	—	(10,906)
At 31st December, 2007	116,241	87,609	(7,604)	(8,759)	(3,155)	(2,825)	181,507

	The Group 2006						
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January, 2006 . . .	30,755	84,818	2,446	(31,758)	(2,540)	(137)	83,584
Charged/(credited) to consolidated income statement	(1,893)	(4,924)	—	11,641	(470)	(1,321)	3,033
Charged to reserves. . . .	—	1,440	538	—	—	—	1,978
At 31st December, 2006 .	28,862	81,334	2,984	(20,117)	(3,010)	(1,458)	88,595

	The Bank 2007					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January, 2007	23,321	68,546	2,871	(23,720)	(1,458)	69,560
Transfer to a subsidiary	173	—	—	7,821	1,458	9,452
Charged/(credited) to income statement	3,669	(1,257)	—	768	—	3,180
Credited to reserves	—	(318)	(10,775)	—	—	(11,093)
At 31st December, 2007	27,163	66,971	(7,904)	(15,131)	—	71,099

	The Bank 2006					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January, 2006	25,536	69,404	2,443	(31,474)	(137)	65,772
Charged/(credited) to income statement	(2,215)	347	—	7,754	(1,321)	4,565
(Credited)/charged to reserves. .	—	(1,205)	428	—	—	(777)
At 31st December, 2006	23,321	68,546	2,871	(23,720)	(1,458)	69,560

	The Group		The Bank	
	2007	2006	2007	2006
Net deferred tax assets recognised on the balance sheets	(7,057)	(16,679)	—	(9,452)
Net deferred tax liabilities recognised on the balance sheets	188,564	105,274	71,099	79,012
	181,507	88,595	71,099	69,560

8. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK$1,349,638,000 (2006: HK$1,242,954,000) which has been dealt with in the financial statements of the Bank.

9. Dividends

(a) Dividends attributable to the year

	2007	2006
Interim dividend declared and paid of HK$0.96 (2006: HK$0.82) per ordinary share on 294,949,380 shares (2006: 294,220,500 shares)	283,151	241,260
Underprovision of final dividend in respect of the prior year	80	96
Final dividend proposed after the balance sheet date of HK$2.47 (2006: HK$2.00) per ordinary share on 294,964,380 shares (2006: 294,220,500 shares)	728,562	588,441
	1,011,793	829,797

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the year

	2007	2006
Final dividend in respect of the prior year, approved and paid during the year, of HK$2.00 (2006: HK$1.60) per ordinary share on 294,260,500 shares (2006: 294,080,500 shares)	588,521	470,529

10. Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2007						
	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payments	Total
Chairman							
Patrick Y B Fung	329	6,435	726	9,124	16,614	3,845	20,459
Executive directors							
Frank J Wang	165	3,765	417	5,969	10,316	2,331	12,647
Michael Y S Fung	165	3,219	362	4,562	8,308	1,923	10,231
Louis C W Ho	165	1,713	193	990	3,061	48	3,109
Non-executive directors							
Aloysius H Y Tse	150	287	—	—	437	—	437
Ambrose H C Lau	150	—	—	—	150	—	150
Andrew M Gordon	150	150	—	—	300	—	300
Cheng Hon Kwan	150	170	—	—	320	—	320
Kenneth A Lopian	150	—	—	—	150	—	150
Simon K Y Lee	194	170	—	—	364	—	364
Tung Chee Chen	150	—	—	—	150	—	150
Total	1,918	15,909	1,698	20,645	40,170	8,147	48,317

	2006						
	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payments	Total
Chairman							
Patrick Y B Fung . .	229	5,720	660	7,573	14,182	3,845	18,027
Executive directors							
Frank J Wang	115	2,700	—	4,956	7,771	2,331	10,102
Michael Y S Fung .	115	2,874	331	3,786	7,106	1,923	9,029
Louis C W Ho. . . .	115	1,609	186	824	2,734	48	2,782
Non-executive directors							
Aloysius H Y Tse . .	100	89	—	—	189	—	189
Ambrose H C Lau .	100	—	—	—	100	—	100
Andrew M Gordon .	100	50	—	—	150	—	150
Cheng Hon Kwan . .	100	50	—	—	150	—	150
David Drabkin. . . .	100	—	—	—	100	—	100
Kenneth A Lopian. .	100	—	—	—	100	—	100
Simon K Y Lee . . .	100	50	—	—	150	—	150
Tung Chee Chen . .	100	—	—	—	100	—	100
Total	1,374	13,142	1,177	17,139	32,832	8,147	40,979

The above share-based payments are fair value of share options and awards granted under the Group's Share Option Scheme and EIP. The details of these benefits in kind are disclosed under "Share Option Scheme" and "Employee Incentive Plan" in the "Report of the Directors".

11. Executives' emoluments

The five highest paid individuals include three (2006: three) directors, details of whose emoluments are set out in note 10. The emoluments of the remaining two (2006: two) individuals are as follows:

	2007	2006
Salaries and other emoluments	4,528	4,107
Pension contributions.	514	472
Performance bonuses	4,329	3,351
Share-based payments	734	880
	10,105	8,810

The emoluments of the two (2006: two) executives are within the following band:

	2007 Number of executives	2006 Number of executives
HK$5,000,001 — HK$5,500,000	1	—
HK$4,500,001 — HK$5,000,000	1	—
HK$4,000,001 — HK$4,500,000	—	2
	2	2

12. Earnings per share

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders of HK$2,030,564,000 (2006: HK$1,660,716,000) and on the weighted average number of ordinary shares of 294,667,699 shares (2006: 294,126,856 shares) in issue during the year.

	2007 Number of shares of HK$1.00 each	**2006 Number of shares of HK$1.00 each**
Issued ordinary shares at 1st January	294,220,500	294,020,500
Effect of shares issued in lieu of dividends	392,884	—
Effect of share option exercised	54,315	106,356
Weighted average number of ordinary shares used in calculating basic earnings per share	294,667,699	294,126,856

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders of HK$2,030,564,000 (2006: HK$1,660,716,000) and on the weighted average number of ordinary shares of 297,440,581 shares (2006: 296,657,181 shares) in issue during the year after adjustment for the effects of all dilutive potential ordinary shares of 2,772,882 shares (2006: 2,530,325 shares).

	2007 Number of shares of HK$1.00 each	**2006 Number of shares of HK$1.00 each**
Weighted average number of ordinary shares used in calculating basic earnings per share	294,667,699	294,126,856
Deemed exercise of Share Option Scheme	601,595	504,647
Deemed exercise of EIP	2,171,287	2,025,678
Weighted average number of ordinary shares used in calculating diluted earnings per share	297,440,581	296,657,181

13. Cash and balances with banks, central banks and other financial institutions

	The Group		**The Bank**	
	2007	**2006 (restated)**	**2007**	**2006 (restated)**
Cash balances	595,500	446,035	298,643	241,618
Balances with central banks	1,338,476	387,073	607,808	143,744
Balances with banks	1,372,791	1,420,617	1,070,341	1,305,724
	3,306,767	2,253,725	1,976,792	1,691,086

14. Placements with banks, central banks and other financial institutions

	The Group		**The Bank**	
	2007	**2006 (restated)**	**2007**	**2006 (restated)**
Placements with banks	28,942,740	27,525,225	26,521,117	27,444,689

15. Trade bills

	The Group		**The Bank**	
	2007	**2006**	**2007**	**2006**
Trade bills	365,324	375,189	304,986	328,352
Individual impairment allowances for impaired loans and advances (note 18(e))	(1,503)	(4,355)	(1,503)	(4,355)
Collective impairment allowances for loans and advances (note 18(e))	(276)	(285)	(275)	(279)
	363,545	370,549	303,208	323,718

16. Trading assets

	The Group		The Bank	
	2007	2006	2007	2006
Debt securities:				
Listed in Hong Kong	119,928	115,220	119,928	115,220
Unlisted	206,369	—	206,369	—
	326,297	115,220	326,297	115,220
Equity securities listed in Hong Kong	33,393	18,482	27,237	13,525
Total trading securities	359,690	133,702	353,534	128,745
Positive fair values of derivative financial instruments held for trading (note 33(b)(ii)(2))	675,067	604,690	680,926	620,833
	1,034,757	738,392	1,034,460	749,578

Trading assets of the Bank include positive fair values of derivative financial instruments transacted with a subsidiary amounting to HK$7,689,000 (2006: HK$16,990,000).

Trading securities analysed by counterparty are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Issued by:				
Sovereigns	80,678	—	80,678	—
Public sector entities	450	304	423	298
Banks	139,770	15,901	137,003	13,525
Corporates	138,792	117,497	135,430	114,922
	359,690	133,702	353,534	128,745

17. Financial assets measured at fair value through profit or loss

	The Group		The Bank	
	2007	2006	2007	2006
Debt securities:				
Listed in Hong Kong	—	54,684	—	54,684
Listed outside Hong Kong	718,829	697,448	718,829	697,448
Unlisted	5,981,456	4,630,824	5,981,456	4,630,824
	6,700,285	5,382,956	6,700,285	5,382,956

Financial assets measured at fair value through profit or loss analysed by counterparty are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Issued by:				
Public sector entities	518,110	502,692	518,110	502,692
Banks	3,007,038	2,379,167	3,007,038	2,379,167
Corporates	3,175,137	2,501,097	3,175,137	2,501,097
	6,700,285	5,382,956	6,700,285	5,382,956

18. Advances to customers and other accounts

(a) Advances to customers and other accounts

	The Group		The Bank	
	2007	2006	2007	2006
Gross advances to customers	74,573,779	58,638,237	44,134,211	45,204,201
Individual impairment allowances for impaired loans and advances (note 18(e))	(105,976)	(92,317)	(67,959)	(70,016)
Collective impairment allowances for loans and advances (note 18(e))	(135,987)	(168,717)	(74,162)	(146,411)
Net advances to customers	74,331,816	58,377,203	43,992,090	44,987,774
Advances to banks	93,920	47,539	—	47,539
Customer liability under acceptances	521,042	417,531	410,418	375,476
Accrued interest and other accounts	1,828,424	1,854,565	899,603	1,106,396
Positive fair values of derivative financial instruments held for hedging (note 33(b)(ii)(1))	783	7,420	783	7,420
	76,775,985	60,704,258	45,302,894	46,524,605

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any impairment allowances.

	The Group			
	2007		2006	
	Gross advances to customers	Impaired advances to customers	Gross advances to customers	Impaired advances to customers
Advances for use in Hong Kong				
Industrial, commercial and financial				
— Property development	467,348	—	405,490	—
— Property investment	12,752,571	21,882	10,901,148	27,316
— Financial concerns	1,491,123	—	1,101,513	—
— Stockbrokers	322,990	—	346,457	—
— Wholesale and retail trade	757,592	18,695	807,723	16,767
— Manufacturing	1,257,800	46,910	1,241,327	16,906
— Transport and transport equipment	5,837,444	10,256	2,416,631	3,283
— Information technology	1,891	—	127,069	—
— Share financing	244,301	—	277,747	—
— Others	3,239,171	34,222	2,635,671	50,973
Individuals				
— Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	2,200,965	2,089	1,591,838	2,836
— Advances for the purchase of other residential properties	16,811,653	29,196	14,692,277	48,552
— Credit card advances	373,577	2,741	323,145	5,116
— Others	4,387,380	42,489	3,238,841	54,241
	50,145,806	208,480	40,106,877	225,990
Trade finance	3,283,349	20,636	3,049,104	27,069
Advances for use outside Hong Kong				
— Mainland China	12,082,546	67,937	9,257,219	70,382
— Macau	9,052,217	28,084	6,211,056	40,651
— Others	9,861	—	13,981	—
	21,144,624	96,021	15,482,256	111,033
	74,573,779	325,137	58,638,237	364,092

	The Bank			
	2007		2006	
	Gross advances to customers	Impaired advances to customers	Gross advances to customers	Impaired advances to customers
Advances for use in Hong Kong				
Industrial, commercial and financial				
— Property development	467,348	—	405,490	—
— Property investment	12,302,351	21,111	10,815,074	26,517
— Financial concerns	1,491,123	—	1,101,513	—
— Stockbrokers	322,990	—	346,457	—
— Wholesale and retail trade	755,822	18,695	805,722	16,767
— Manufacturing	1,111,956	46,182	1,139,576	16,762
— Transport and transport equipment	265,904	—	326,691	—
— Information technology	1,863	—	127,069	—
— Share financing	244,301	—	277,747	—
— Others	2,986,841	33,349	2,421,308	50,973
Individuals				
— Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	2,200,831	2,089	1,591,838	2,836
— Advances for the purchase of other residential properties	14,236,752	25,330	13,122,821	46,480
— Credit card advances	373,577	2,741	323,145	5,116
— Others	1,972,181	29,113	1,508,815	39,892
	38,733,840	178,610	34,313,266	205,343
Trade finance	2,931,986	13,105	2,773,451	19,043
Advances for use outside Hong Kong				
— Mainland China	2,384,974	3,513	8,023,139	68,784
— Macau	73,550	—	80,364	—
— Others	9,861	—	13,981	—
	2,468,385	3,513	8,117,484	68,784
	44,134,211	195,228	45,204,201	293,170

(c) ***Impaired advances to customers***

The gross impaired advances to customers, market value of collateral held with respect to such advances and individual impairment allowances are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Gross impaired advances to customers	325,137	364,092	195,228	293,170
Gross impaired advances to customers as a percentage of total advances to customers	0.44%	0.62%	0.44%	0.65%
Market value of collateral held with respect to impaired advances to customers	197,662	269,028	110,224	223,491
Individual impairment allowances	105,976	92,317	67,959	70,016

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed impairment allowances were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 31st December, 2007 and 31st December, 2006.

(d) ***Net investments in finance leases and hire purchase contracts***

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

	The Group			
	2007		2006	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	3,678,245	4,191,192	1,856,521	2,087,318
After 1 year but within 5 years	4,489,754	4,876,943	2,039,947	2,220,070
After 5 years	116,624	125,899	94,378	120,057
	8,284,623	9,194,034	3,990,846	4,427,445
Individual impairment allowances for impaired loans and advances	(9,950)	—	(1,658)	—
Collective impairment allowances for loans and advances	(24,743)	—	(11,914)	—
Unearned future income on finance lease	—	(909,411)	—	(436,599)
Net investment in finance leases and hire purchase contracts	8,249,930	8,284,623	3,977,274	3,990,846

There is no receivable under finance lease and hire purchase contract for the Bank as at 31st December, 2007 and 31st December, 2006.

(e) ***Impairment allowances for loans and advances***

	The Group		
	2007		
	Individual	Collective	Total
At 1st January	96,672	169,002	265,674
Additions through acquisition of a subsidiary	4,167	35,505	39,672
Additions	130,888	5,037	135,925
Releases	(61,114)	(73,281)	(134,395)
Net charged/(credited) to consolidated income statement	69,774	(68,244)	1,530
Unwind of discount of loan impairment loss (note 5(a))	(9,281)	—	(9,281)
Recoveries of advances written off in prior years	38,198	—	38,198
Amounts written off	(92,051)	—	(92,051)
At 31st December	107,479	136,263	243,742
Representing impairment allowances for:			
Trade bills (note 15)	1,503	276	1,779
Advances to customers (note 18(a))	105,976	135,987	241,963
	107,479	136,263	243,742

	The Group 2006		
	Individual	Collective	Total
At 1st January	120,681	208,498	329,179
Additions	53,779	—	53,779
Releases	(13,510)	(39,496)	(53,006)
Net charged/(credited) to consolidated income statement	40,269	(39,496)	773
Unwind of discount of loan impairment loss (note 5(a))	(2,672)	—	(2,672)
Recoveries of advances written off in prior years	42,237	—	42,237
Amounts written off	(103,843)	—	(103,843)
At 31st December	96,672	169,002	265,674
Representing impairment allowances for:			
Trade bills (note 15)	4,355	285	4,640
Advances to customers (note 18(a))	92,317	168,717	261,034
	96,672	169,002	265,674

	The Bank 2007		
	Individual	Collective	Total
At 1st January	74,371	146,690	221,061
Transfer to a subsidiary	(22,276)	(54,173)	(76,449)
Additions	79,633	5,037	84,670
Releases	(34,903)	(23,117)	(58,020)
Net charged/(credited) to income statement	44,730	(18,080)	26,650
Unwind of discount of loan impairment loss	(7,801)	—	(7,801)
Recoveries of advances written off in prior years	22,212	—	22,212
Amounts written off	(41,774)	—	(41,774)
At 31st December	69,462	74,437	143,899
Representing impairment allowances for:			
Trade bills (note 15)	1,503	275	1,778
Advances to customers (note 18(a))	67,959	74,162	142,121
	69,462	74,437	143,899

	The Bank 2006		
	Individual	Collective	Total
At 1st January	105,155	179,450	284,605
Additions	33,295	—	33,295
Releases	(9,500)	(32,760)	(42,260)
Net (credited)/charged to income statement	23,795	(32,760)	(8,965)
Unwind of discount of loan impairment loss	(2,672)	—	(2,672)
Recoveries of advances written off in prior years	30,269	—	30,269
Amounts written off	(82,176)	—	(82,176)
At 31st December	74,371	146,690	221,061
Representing impairment allowances for:			
Trade bills (note 15)	4,355	279	4,634
Advances to customers (note 18(a))	70,016	146,411	216,427
	74,371	146,690	221,061

(f) Repossessed assets

During the year ended 31st December, 2007, the Group has taken possession of collateral it holds as security as follows:

	The Group		The Bank	
Nature	**2007**	**2006**	**2007**	**2006**
Residential properties	58,588	120,768	33,647	117,618
Vehicles	27,452	19,177	—	—
Others	2,848	1,666	—	—
	88,888	141,611	33,647	117,618

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

19. Held-to-maturity and available-for-sale financial assets

	The Group		The Bank	
	2007	**2006 (restated)**	**2007**	**2006 (restated)**
Held-to-maturity debt securities:				
Listed in Hong Kong	81,481	83,424	81,481	83,424
Listed outside Hong Kong	266,302	248,737	266,302	248,737
	347,783	332,161	347,783	332,161
Unlisted	8,422,974	12,012,660	6,244,920	9,436,318
	8,770,757	12,344,821	6,592,703	9,768,479
of which:				
Treasury bills	2,893,910	2,684,233	848,458	597,572
Other held-to-maturity debt securities	5,876,847	9,660,588	5,744,245	9,170,907
	8,770,757	12,344,821	6,592,703	9,768,479
Available-for-sale debt securities:				
Listed outside Hong Kong	6,205,624	6,566,073	6,153,545	6,514,242
Unlisted	3,768,366	3,192,960	3,662,359	3,140,872
	9,973,990	9,759,033	9,815,904	9,655,114
of which:				
Certificates of deposit held	45,005	—	—	—
Other available-for-sale debt securities	9,928,985	9,759,033	9,815,904	9,655,114
	9,973,990	9,759,033	9,815,904	9,655,114
Available-for-sale equity securities:				
Listed in Hong Kong	62,614	1,600	62,614	1,600
Unlisted	84,527	113,139	73,793	102,404
	147,141	114,739	136,407	104,004
	10,121,131	9,873,772	9,952,311	9,759,118
	18,891,888	22,218,593	16,545,014	19,527,597
Market value of listed held-to-maturity debt securities	351,708	330,673	351,708	330,673
Fair value of unlisted held-to-maturity debt securities	8,425,115	11,936,593	6,245,897	9,363,190

Held-to-maturity investments analysed by counterparty are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Issued by:				
Sovereigns	2,893,910	2,684,233	848,458	597,572
Public sector entities	231,919	232,370	231,919	232,370
Banks	4,859,769	8,364,890	4,750,568	7,906,300
Corporates	785,159	1,063,328	761,758	1,032,237
	8,770,757	12,344,821	6,592,703	9,768,479

Available-for-sale financial assets analysed by counterparty are as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Issued by:				
Sovereigns	8,028	7,695	8,028	7,695
Public sector entities	106,840	105,803	81,247	80,732
Banks	8,688,747	9,308,472	8,602,147	9,259,338
Corporates	1,317,516	451,802	1,260,889	411,353
	10,121,131	9,873,772	9,952,311	9,759,118

20. Investments in subsidiaries

	The Bank	
	2007	2006
Unlisted shares, at cost	3,113,060	682,707

The following list contains only the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held by the Bank	Principal activities
Banco Weng Hang, S.A.	Macau	MOP120,000,000	100%	Banking
Wing Hang Bank (Cayman) Limited	Cayman Islands	US$25,000,000	100%	Banking
Wing Hang Bank (China) Limited	People's Republic of China	RMB1,000,000,000	100%	Banking
Inchroy Credit Corporation Limited	Hong Kong	HK$25,000,000	100%	Deposit Taking and Hire Purchase
Wing Hang Finance Company Limited	Hong Kong	HK$130,000,000	100%	Deposit Taking and Hire Purchase
Wing Hang Credit Limited	Hong Kong	HK$20,000,000	100%	Consumer Lending
Wing Hang Zurich Insurance Company Limited	Hong Kong	HK$45,000,000	65%	Insurance
Wing Hang Insurance Brokers Limited	Hong Kong	HK$100,000	100%	Insurance Broker
Wing Hang Insurance Agency Limited	Hong Kong	HK$50,000	100%	Insurance Agency
Wing Hang Shares Brokerage Company Limited	Hong Kong	HK$10,000,000	100%	Securities Dealing
Wing Hang Bank (Trustee) Limited	Hong Kong	HK$3,000,000	100%	Trustee Services
Wing Hang Bank (Nominees) Limited	Hong Kong	HK$10,000	100%	Nominee Services
Cheuk Woo Enterprises Company Limited	Hong Kong	HK$10,000	100%	Property Investment
Honfirst Land Limited	Hong Kong	HK$27,000,000	100%	Property Investment
Wing Hang Financial Holdings (BVI) Limited	British Virgin Islands	US$10	100%	Issuer of Subordinated Notes

21. Investments in associated companies

	The Group		The Bank	
	2007	2006	2007	2006
Unlisted shares, at cost	—	—	112,000	112,000
Share of net assets	156,301	135,906	—	—
Loans to associated companies	141,888	62,000	141,888	62,000
	298,189	197,906	253,888	174,000

At 31st December, 2007, the outstanding balance of the loans to associated companies included an unsecured and interest-free loan amounting HK$10,533,000 (2006: HK$62,000,000) which is repayable in December 2008. It also includes secured loans amounting to HK$131,355,000 which arise from the sale of bank premises to associated companies during the year. The latter loans are interest bearing at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017. For details, please refer to note 36(d).

There are no individual impairment allowances made on the loans to associated companies at 31st December, 2007 and 31st December, 2006.

The following list contains the particulars of associated companies:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held by the Bank	Voting power	Principal activities
Bank Consortium Holding Limited	Hong Kong	HK$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	Hong Kong	HK$210,000,000	33%	1 out of 3*	Insurance
Joint Electronic Teller Services Limited	Hong Kong	HK$10,023,800	20%(a)	1 out of 5*	ATM Network

* *Representing the Group's number of votes on the board of directors of the respective associated companies.*

Notes: (a) *The Group's share of net asset in Joint Electronic Teller Services Limited is based on the Group's share of dividend received from this associated company during this year.*

Summary financial information on associated companies is set out below:

2007	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	3,450,194	2,471,134	979,060	362,519	26,441	390,366
Group's effective interest	953,463	797,162	156,301	80,835	6,121	115,178

2006	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	2,601,235	1,857,334	743,901	294,198	18,772	199,962
Group's effective interest	736,869	600,963	135,906	61,908	4,117	50,951

22. Tangible fixed assets

	The Group 2007				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2007	258,390	1,603,191	631,099	2,234,290	2,492,680
Additions					
— through acquisition of a subsidiary	—	—	17,077	17,077	17,077
— others	—	306,521	119,982	426,503	426,503
Disposals	(10,380)	(268,775)	(40,072)	(308,847)	(319,227)
Transfers from investment properties to bank premises	(14,560)	14,560	—	14,560	—
Exchange adjustment	—	(713)	—	(713)	(713)
Surplus on revaluation	53,448	—	—	—	53,448
At 31st December, 2007	286,898	1,654,784	728,086	2,382,870	2,669,768

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	1,261,182	728,086	1,989,268	1,989,268
At valuation					
2007	286,898	—	—	—	286,898
1990	—	357,888	—	357,888	357,888
1989	—	9,347	—	9,347	9,347
1984	—	26,367	—	26,367	26,367
	286,898	1,654,784	728,086	2,382,870	2,669,768
Accumulated depreciation					
At 1st January, 2007	—	175,350	423,542	598,892	598,892
Addition through acquisition of a subsidiary	—	—	15,719	15,719	15,719
Charge for the year (note 5(f))	—	25,449	65,067	90,516	90,516
Written back on disposals	—	(32,195)	(32,632)	(64,827)	(64,827)
At 31st December, 2007	—	168,604	471,696	640,300	640,300
Net book value					
At 31st December, 2007	286,898	1,486,180	256,390	1,742,570	2,029,468

	The Group 2006				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2006	231,447	1,470,382	584,120	2,054,502	2,285,949
Additions	—	186,728	68,500	255,228	255,228
Disposals	(9,800)	(43,025)	(21,521)	(64,546)	(74,346)
Transfers from bank premises to investment properties	21,175	(21,904)	—	(21,904)	(729)
Surplus on revaluation	15,568	11,010	—	11,010	26,578
At 31st December, 2006	258,390	1,603,191	631,099	2,234,290	2,492,680

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	1,209,589	631,099	1,840,688	1,840,688
At valuation					
2006	258,390	—	—	—	258,390
1990	—	357,888	—	357,888	357,888
1989	—	9,347	—	9,347	9,347
1984	—	26,367	—	26,367	26,367
	258,390	1,603,191	631,099	2,234,290	2,492,680
Accumulated depreciation					
At 1st January, 2006	—	158,987	389,474	548,461	548,461
Charge for the year (note 5(f))	—	26,909	54,333	81,242	81,242
Written back on disposals	—	(9,817)	(20,265)	(30,082)	(30,082)
Transfers from bank premises to investment properties	—	(729)	—	(729)	(729)
At 31st December, 2006	—	175,350	423,542	598,892	598,892
Net book value					
At 31st December, 2006	258,390	1,427,841	207,557	1,635,398	1,893,788

	The Bank 2007				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2007	10,380	1,076,147	522,348	1,598,495	1,608,875
Additions	—	172,564	101,424	273,988	273,988
Disposals	(10,380)	(264,054)	(36,309)	(300,363)	(310,743)
Transfer to a subsidiary	—	(34,382)	(22,173)	(56,555)	(56,555)
At 31st December, 2007	—	950,275	565,290	1,515,565	1,515,565

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	591,537	565,290	1,156,827	1,156,827
At valuation					
1990	—	357,888	—	357,888	357,888
1989	—	850	—	850	850
	—	950,275	565,290	1,515,565	1,515,565
Accumulated depreciation					
At 1st January, 2007	—	131,881	350,332	482,213	482,213
Charge for the year	—	14,418	49,231	63,649	63,649
Transfer to a subsidiary	—	(6,608)	(8,237)	(14,845)	(14,845)
Written back on disposals	—	(31,167)	(29,350)	(60,517)	(60,517)
At 31st December, 2007	—	108,524	361,976	470,500	470,500
Net book value					
At 31st December, 2007	—	841,751	203,314	1,045,065	1,045,065

	The Bank 2006				
	Investment properties	**Bank premises**	**Equipment**	**Bank premises and equipment**	**Total**
Cost or valuation					
At 1st January, 2006	18,300	1,099,842	488,640	1,588,482	1,606,782
Additions	—	—	49,741	49,741	49,741
Disposals	(9,800)	(23,695)	(16,033)	(39,728)	(49,528)
Surplus on revaluation	1,880	—	—	—	1,880
At 31st December, 2006	10,380	1,076,147	522,348	1,598,495	1,608,875

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	717,409	522,348	1,239,757	1,239,757
At valuation					
2006	10,380	—	—	—	10,380
1990	—	357,888	—	357,888	357,888
1989	—	850	—	850	850
	10,380	1,076,147	522,348	1,598,495	1,608,875
Accumulated depreciation					
At 1st January, 2006	—	117,095	321,195	438,290	438,290
Charge for the year	—	18,455	44,383	62,838	62,838
Written back on disposals	—	(3,669)	(15,246)	(18,915)	(18,915)
At 31st December, 2006	—	131,881	350,332	482,213	482,213
Net book value					
At 31st December, 2006	10,380	944,266	172,016	1,116,282	1,126,662

During the year, the Group has disposed certain of its bank premises to Hong Kong Life Insurance Limited, its associated company, and Bank Consortium Trust Company Limited, a subsidiary of its associated company, at considerations of HK$143,000,000 and HK$293,215,000 respectively. For details, please refer to note 36(d).

Bank premises are stated at cost or directors' valuation. There is no revaluation surplus which has been transferred to the bank premises revaluation reserve of the Group during 2007 (2006: Surplus of HK$11,010,000 net of deferred tax of HK$1,927,000 has been transferred).

Investment properties are revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, on an open market value basis as at 31st December, 2007 and 31st December, 2006.

The carrying amount of the bank premises of the Group and the Bank would have been HK$1,175,560,000 (2006: HK$1,121,234,000) and HK$551,401,000 (2006: HK$652,099,000) respectively had they been stated at cost less accumulated depreciation.

The net book value of investment properties and bank premises comprises:

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
FREEHOLD				
— Held outside Hong Kong	86,601	47,519	—	—
LEASEHOLD				
— Held in Hong Kong				
Long-term leases (over 50 years unexpired)	929,890	861,992	523,903	492,215
Medium-term leases (10 to 50 years unexpired)	517,714	627,114	311,385	427,318
— Held outside Hong Kong				
Long-term leases (over 50 years unexpired)	12,387	1,993	1,955	1,993
Medium-term leases (10 to 50 years unexpired)	88,443	42,212	4,508	33,120
Short-term leases (less than 10 years unexpired)	138,043	105,401	—	—
	1,773,078	1,686,231	841,751	954,646

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	The Group	
	2007	**2006**
Within 1 year	9,883	10,349
After 1 year but within 5 years	3,942	8,294
	13,825	18,643

23. Goodwill

(a) *Goodwill*

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
Cost				
At 1st January	848,592	848,592	847,422	847,422
Addition through acquisition of a subsidiary	459,008	—	—	—
At 31st December	1,307,600	848,592	847,422	847,422
Accumulated impairment loss				
At 1st January/31st December	1,170	1,170	—	—
Net book value as at 31st December	1,306,430	847,422	847,422	847,422

(b) ***Impairment tests for cash-generating units containing goodwill***

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment as follows:

	2007	2006
Retail banking business acquired	1,019,136	560,128
Corporate banking business acquired	233,741	233,741
Treasury business acquired	53,553	53,553
	1,306,430	847,422

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value in use calculations:

	2007	2006
	%	%
Growth rate	6.93	6.54
Discount rate	9.64	9.36

24. Deposits and balances of banks, central banks and other financial institutions

Deposits and balances of banks, central banks and other financial institutions are analysed as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Deposits from central banks	1,691	30,555	—	30,555
Deposits from banks	2,816,023	1,662,332	1,175,558	1,642,869
	2,817,714	1,692,887	1,175,558	1,673,424

25. Deposits from customers

	The Group		The Bank	
	2007	2006	2007	2006
Demand deposits and current accounts	11,718,115	10,732,083	9,816,427	9,418,873
Savings deposits	16,893,269	15,508,366	11,713,994	10,910,605
Time, call and notice deposits	85,357,602	75,826,498	67,802,134	60,854,590
	113,968,986	102,066,947	89,332,555	81,184,068

26. Certificates of deposit issued

	The Group		The Bank	
	2007	2006	2007	2006
Certificates of deposit issued (at amortised cost)	2,014,984	2,205,000	1,815,000	2,205,000
Structured certificates of deposit issued measured at fair value through profit or loss	1,294,220	1,510,303	1,294,220	1,515,276
	3,309,204	3,715,303	3,109,220	3,720,276

At 31st December 2007, the carrying amounts of structured certificates of deposit issued measured at fair value through profit or loss are lower than their contractual amount payable at maturity for the Group and the Bank by HK$28,300,000 (2006: HK$85,021,000) and HK$28,300,000 (2006: HK$85,100,000) respectively due to changes in benchmark interest rates.

27. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 33(b)(ii)(2).

Trading liabilities of the Bank include negative fair values of derivative financial instruments transacted with a subsidiary amounting to HK$590,000 (2006: HK$1,495,000).

28. Other accounts and provisions

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
Negative fair value of derivative financial instruments held for hedging (note 33(b)(ii)(1))	15,052	7,708	15,052	7,708
Amount payable for purchase of debt securities	—	38,890	—	38,890
Acceptances outstanding	521,042	417,531	410,418	375,476
Other payables and interest payable	1,750,552	1,517,849	890,057	711,741
	2,286,646	1,981,978	1,315,527	1,133,815

29. Subordinated liabilities

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
US$325 million 5.25% subordinated guarantee notes, measured at amortised cost	2,535,747	2,527,850	—	—
US$400 million 6.00% step-up perpetual subordinated notes, measured at fair value through profit or loss	3,123,142	—	3,123,142	—
	5,658,889	2,527,850	3,123,142	—

In 2003, Wing Hang Financial Holdings (BVI) Limited, a single purpose wholly-owned finance subsidiary of the Bank, issued subordinated notes qualifying as tier 2 capital with a face value of HK$2,535,747,000 (US$325,000,000). The notes bear interest at a fixed rate of 5.25% per annum until 10th October, 2008 and will be reset at the US Treasury Rate plus 2.75% per annum if the notes are not early redeemed at the option of the issuer. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes which are listed on the Singapore Exchange Securities Trading Limited. The notes will mature on 10th October, 2013.

On 19th April, 2007, the Bank issued step-up perpetual subordinated notes qualifying as tier 2 capital with a face value of HK$3,125,520,000 (US$400,000,000). The notes bear interest at a fixed rate of 6.00% per annum until 19th April, 2017 and are floating at LIBOR plus 1.85% per annum thereafter if the notes are not early redeemed at the option of the Bank. The notes are listed on the Singapore Exchange Securities Trading Limited. The carrying amount of the notes as at 31st December, 2007 was HK$3,123,142,000.

At 31st December, 2007, the carrying amounts of the step-up perpetual subordinated notes measured at fair value through profit or loss are higher than their contractual amount payable at redemption for the Group and the Bank by HK$2,222,000. The accumulated amount of the change in fair value attributable to change in credit risk is HK$112,922,000 for the Group and the Bank.

30. Maturity profile

The following maturity profiles of the assets and liabilities of the Group and the Bank are based on the remaining periods to repayment at the balance sheet date.

	The Group 2007							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	3,306,767	—	—	—	—	—	—	3,306,767
Placements with banks, central banks and other financial institutions	—	23,511,683	4,685,853	745,204	—	—	—	28,942,740
Trade bills	49,691	173,600	111,304	11,162	—	—	17,788	363,545
Trading assets	—	—	—	80,756	245,541	—	708,460	1,034,757
Financial assets measured at fair value through profit or loss	—	41,838	51,400	1,294,652	3,384,557	1,927,838	—	6,700,285
Advances to customers (note 18(a))	2,838,531	4,583,202	4,746,458	9,479,560	25,840,193	26,710,494	133,378	74,331,816
Advances to banks and other financial institutions (note 18(a))	—	—	—	15,897	78,023	—	—	93,920
Held-to-maturity and available-for-sale financial assets	—	1,537,744	1,995,124	4,386,072	9,674,701	1,151,106	147,141	18,891,888
Other assets	6,880	1,606,083	330,635	122,910	242,857	190	3,681,989	5,991,544
Total assets	6,201,869	31,454,150	11,920,774	16,136,213	39,465,872	29,789,628	4,688,756	139,657,262
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	158,495	1,187,598	491,252	902,409	77,960	—	—	2,817,714
Deposits from customers	28,342,797	65,739,105	14,791,481	4,502,060	593,543	—	—	113,968,986
Certificates of deposit issued	—	202,189	1,315,275	888,724	903,016	—	—	3,309,204
Trading liabilities	—	—	—	—	—	—	765,344	765,344
Subordinated liabilities	—	—	—	—	—	2,535,747	3,123,142	5,658,889
Other liabilities	—	1,570,646	296,946	607,785	90,444	—	63,268	2,629,089
Total liabilities	28,501,292	68,699,538	16,894,954	6,900,978	1,664,963	2,535,747	3,951,754	129,149,226
Net assets/(liabilities) gap	(22,299,423)	(37,245,388)	(4,974,180)	9,235,235	37,800,909	27,253,881	737,002	10,508,036
of which:								
Certificates of deposit held								
— included in available-for-sale financial assets	—	—	19,998	25,007	—	—	—	45,005
Debt securities								
— included in trading assets	—	—	—	80,756	245,541	—	—	326,297
— included in financial assets measured at fair value through profit or loss	—	41,838	51,400	1,294,652	3,384,557	1,927,838	—	6,700,285
— included in available-for-sale financial assets	—	311,572	520,529	3,388,331	5,487,879	220,674	—	9,928,985
— included in held-to-maturity investments	—	1,226,173	1,454,597	972,733	4,186,823	930,431	—	8,770,757

	The Group 2006							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	2,253,725	—	—	—	—	—	—	2,253,725
Placement with banks, central banks and other financial institutions	—	23,847,991	3,519,172	158,062	—	—	—	27,525,225
Trade bills	69,633	165,609	116,468	9,906	—	—	8,933	370,549
Trading assets	—	—	—	50	248	114,922	623,172	738,392
Financial assets measured at fair value through profit or loss	—	77,789	—	128,088	4,032,880	1,144,199	—	5,382,956
Advances to customers (note 18(a))	2,333,861	3,674,372	4,347,226	7,588,079	17,395,060	22,731,575	307,030	58,377,203
Advances to banks and other financial institutions (note 18(a))	—	—	—	31,693	15,846	—	—	47,539
Held-to-maturity and available-for-sale financial assets	—	1,204,050	1,256,429	2,497,048	16,151,022	995,305	114,739	22,218,593
Other assets	3,190	1,563,742	266,339	94,106	106,641	—	3,202,367	5,236,385
Total assets	4,660,409	30,533,553	9,505,634	10,507,032	37,701,697	24,986,001	4,256,241	122,150,567
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	121,794	635,464	49,767	756,466	129,396	—	—	1,692,887
Deposits from customers	26,187,186	57,109,732	13,562,286	4,826,049	381,405	289	—	102,066,947
Certificates of deposit issued	—	208,338	1,037,631	501,143	1,968,191	—	—	3,715,303
Trading liabilities	—	—	—	—	—	—	590,899	590,899
Subordinated liabilities	—	—	—	—	—	2,527,850	—	2,527,850
Other liabilities	—	1,365,811	256,229	478,783	70,820	—	68,315	2,239,958
Total liabilities	26,308,980	59,319,345	14,905,913	6,562,441	2,549,812	2,528,139	659,214	112,833,844
Net assets/(liabilities) gap	(21,648,571)	(28,785,792)	(5,400,279)	3,944,591	35,151,885	22,457,862	3,597,027	9,316,723
of which:								
Debt securities								
— included in trading assets	—	—	—	50	248	114,922	—	115,220
— included in financial assets measured at fair value through profit or loss	—	77,789	—	128,088	4,032,880	1,144,199	—	5,382,956
— included in available-for-sale financial assets	—	—	259,379	1,839,814	7,590,966	68,874	—	9,759,033
— included in held-to-maturity investments	—	1,204,049	997,051	657,234	8,560,056	926,431	—	12,344,821

	The Bank 2007							
	Repayable on demand	**Within 1 month**	**Over 1 month but within 3 months**	**Over 3 months but within 1 year**	**Over 1 year but within 5 years**	**Over 5 years**	**Undated**	**Total**
Assets								
Cash and balances with banks, central banks and other financial institutions	1,976,792	—	—	—	—	—	—	1,976,792
Placements with banks, central banks and other financial institutions	—	21,852,050	4,613,879	55,188	—	—	—	26,521,117
Trade bills	49,684	147,399	83,268	11,161	—	—	11,696	303,208
Trading assets	—	—	—	80,756	245,541	—	708,163	1,034,460
Financial assets measured at fair value through profit or loss	—	41,838	51,400	1,294,652	3,384,557	1,927,838	—	6,700,285
Advances to customers (note 18(a))	2,537,073	3,434,987	2,982,260	3,731,620	12,485,918	18,820,232	—	43,992,090
Amounts due from subsidiaries	268,452	2,800,276	1,555,057	8,161,484	1,876,038	610,000	—	15,271,307
Held-to-maturity and available-for-sale financial assets	—	561,571	1,115,985	4,139,923	9,575,711	1,015,418	136,406	16,545,014
Other assets	—	858,851	261,646	103,200	147,057	—	5,199,485	6,570,239
Total assets	4,832,001	29,696,972	10,663,495	17,577,984	27,714,822	22,373,488	6,055,750	118,914,512
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	148,301	1,027,257	—	—	—	—	—	1,175,558
Deposits from customers	21,425,554	53,124,289	11,669,352	2,898,217	215,143	—	—	89,332,555
Certificates of deposit issued	—	202,189	1,315,274	788,741	803,016	—	—	3,109,220
Trading liabilities	—	—	—	—	—	—	764,982	764,982
Amounts due to subsidiaries	1,330,701	2,788,186	1,291,416	3,266,246	1,080,464	2,528,208	11	12,285,232
Subordinated liabilities	—	—	—	—	—	—	3,123,142	3,123,142
Other liabilities	—	830,414	205,682	327,036	46,459	—	27,798	1,437,389
Total liabilities	22,904,556	57,972,335	14,481,724	7,280,240	2,145,082	2,528,208	3,915,933	111,228,078
Net assets/(liabilities) gap	(18,072,555)	(28,275,363)	(3,818,229)	10,297,744	25,569,740	19,845,280	2,139,817	7,686,434
of which:								
Debt securities								
— included in trading assets	—	—	—	80,756	245,541	—	—	326,297
— included in financial assets measured at fair value through profit or loss	—	41,838	51,400	1,294,652	3,384,557	1,927,838	—	6,700,285
— included in available-for-sale financial assets	—	311,571	517,526	3,380,330	5,412,289	194,188	—	9,815,904
— included in held-to-maturity investments	—	250,000	598,458	759,593	4,163,422	821,230	—	6,592,703

	The Bank 2006							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	1,691,086	—	—	—	—	—	—	1,691,086
Placements with banks, central banks and other financial institutions	—	23,835,729	3,450,898	158,062	—	—	—	27,444,689
Trade bills	69,627	125,919	116,456	9,906	—	—	1,810	323,718
Trading assets	—	—	—	50	248	114,922	634,358	749,578
Financial assets measured at fair value through profit or loss	—	77,789	—	128,088	4,032,880	1,144,199	—	5,382,956
Advances to customers (note 18(a))	2,119,918	2,987,811	3,474,247	5,040,703	12,042,794	19,278,001	44,300	44,987,774
Advances to banks and other financial institutions (note 18(a))	—	—	—	31,693	15,846	—	—	47,539
Amounts due from subsidiaries	456	100,787	60,000	4,009,436	1,450,260	1,665,000	—	7,285,939
Held-to-maturity and available-for-sale financial assets	—	199,761	672,791	1,941,953	15,753,291	855,797	104,004	19,527,597
Other assets	13	915,859	246,886	80,221	78,523	—	3,008,033	4,329,535
Total assets	3,881,100	28,243,655	8,021,278	11,400,112	33,373,842	23,057,919	3,792,505	111,770,411
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	102,331	635,464	49,767	756,466	129,396	—	—	1,673,424
Deposits from customers	20,340,174	45,822,330	10,954,961	3,934,835	131,479	289	—	81,184,068
Certificates of deposit issued	—	208,338	1,037,631	506,116	1,968,191	—	—	3,720,276
Trading liabilities	—	—	—	—	—	—	592,379	592,379
Amounts due to subsidiaries	1,002,437	5,671,805	1,970,586	3,167,646	1,767,832	2,520,334	11	16,100,651
Other liabilities	—	684,330	217,300	356,794	32,977	—	27,512	1,318,913
Total liabilities	21,444,942	53,022,267	14,230,245	8,721,857	4,029,875	2,520,623	619,902	104,589,711
Net assets/(liabilities) gap	(17,563,842)	(24,778,612)	(6,208,967)	2,678,255	29,343,967	20,537,296	3,172,603	7,180,700
of which:								
Debt securities								
— included in trading assets	—	—	—	50	248	114,922	—	115,220
— included in financial assets measured at fair value through profit or loss	—	77,789	—	128,088	4,032,880	1,144,199	—	5,382,956
— included in available-for-sale financial assets	—	—	259,379	1,822,317	7,535,234	38,184	—	9,655,114
— included in held-to-maturity investments	—	199,761	413,413	119,636	8,218,056	817,613	—	9,768,479

31. Share capital

	2007	2006
Authorised:		
450,000,000 (2006: 450,000,000) ordinary shares of HK$1.00 each	450,000	450,000
Issued and fully paid:		
At 1st January	294,221	294,021
Shares issued in lieu of dividends	648	—
Shares issued under Share Option Scheme	95	200
294,964,380 (2006: 294,220,500) ordinary shares of HK$1.00 each	294,964	294,221

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual net assets.

(a) Share Option Scheme

During the year, options were exercised to subscribe for ordinary shares of 95,000 shares (2006: 200,000 shares) in the Bank at a consideration of HK$3,982,250 (2006: HK$6,327,000) of which HK$95,000 (2006: HK$200,000) is credited to share capital and the balance of HK$3,887,250 (2006: HK$6,127,000) is credited to the share premium account. At 31st December, 2007, the outstanding options are 990,000 shares (2006: 1,085,000 shares).

(b) Shares issued in lieu of dividends

During the year, 648,880 ordinary shares were issued in lieu of dividends declared for the year ended 31st December, 2006 at a consideration totalling HK$60,799,000 of which HK$648,000 is credited to share capital and the balance of HK$60,151,000 is credited to the share premium account.

(c) EIP

At 31st December, 2007, the outstanding awards under the EIP are 2,195,000 shares (2006: 2,055,000 shares).

The details of the Share Option Scheme and the EIP are disclosed in note 38 to the financial statements.

32. Reserves

	The Group 2007							
	Share premium	Capital reserve	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2007	378,421	215,909	2,091,513	290,806	16,634	769	6,008,442	9,002,494
Exchange adjustments	—	—	394	—	—	—	—	394
Shares issued under Share Option Scheme	3,887	—	—	—	—	—	—	3,887
Shares premium under EIP	13,870	—	—	—	—	—	—	13,870
Shares issued in lieu of dividends	60,151	—	—	—	—	—	—	60,151
Unrealised losses on revaluation of available-for-sale financial assets net of deferred tax	—	—	—	—	(36,436)	—	—	(36,436)
Gains on revaluation of available-for-sale financial assets transferred to consolidated income statement on disposal (note 6(b))	—	—	—	—	(13,183)	—	—	(13,183)
Deferred tax credited to revaluation reserve	—	—	—	318	—	—	—	318
Dividends paid	—	—	—	—	—	—	(871,672)	(871,672)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	—	2,030,564	2,030,564
At 31st December, 2007	456,329	215,909	2,091,907	291,124	(32,985)	769	7,167,334	10,190,387

	The Group 2006							
	Share premium	Capital reserve	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2006	359,929	215,909	2,090,415	281,236	14,146	769	5,059,515	8,021,919
Exchange adjustments	—	—	1,098	—	—	—	—	1,098
Shares issued under Share Option Scheme	6,127	—	—	—	—	—	—	6,127
Shares premium under EIP	12,365	—	—	—	—	—	—	12,365
Unrealised gains on revaluation of available-for-sale financial assets net of deferred tax	—	—	—	—	14,378	—	—	14,378
Gains on revaluation of available-for-sale financial assets transferred to consolidated income statement on disposal (note 6(b))	—	—	—	—	(11,890)	—	—	(11,890)
Unrealised gain on revaluation of bank premises net of deferred tax	—	—	—	9,570	—	—	—	9,570
Dividends paid	—	—	—	—	—	—	(711,789)	(711,789)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	—	1,660,716	1,660,716
At 31st December, 2006	378,421	215,909	2,091,513	290,806	16,634	769	6,008,442	9,002,494

The Bank 2007	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2007	378,421	1,802,777	274,052	16,028	769	4,414,432	6,886,479
Exchange adjustments	—	(403)	—	—	—	—	(403)
Shares issued under Share Option Scheme	3,887	—	—	—	—	—	3,887
Shares premium under EIP	13,870	—	—	—	—	—	13,870
Shares issued in lieu of dividends	60,151	—	—	—	—	—	60,151
Unrealised losses on revaluation of available-for-sale financial assets net of deferred tax	—	—	—	(37,615)	—	—	(37,615)
Gains on revaluation of available-for-sale financial assets transferred to income statement on disposal	—	—	—	(13,183)	—	—	(13,183)
Deferred tax credited to revaluation reserve	—	—	318	—	—	—	318
Dividends paid	—	—	—	—	—	(871,672)	(871,672)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	1,349,638	1,349,638
At 31st December, 2007	456,329	1,802,374	274,370	(34,770)	769	4,892,398	7,391,470

The Bank 2006	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2006	359,929	1,802,259	272,847	14,007	769	3,883,267	6,333,078
Exchange adjustments	—	518	—	—	—	—	518
Shares issued under Share Option Scheme	6,127	—	—	—	—	—	6,127
Shares premium under EIP	12,365	—	—	—	—	—	12,365
Unrealised gains on revaluation of available-for-sale financial assets net of deferred tax	—	—	—	13,911	—	—	13,911
Gains on revaluation of available-for-sale financial assets transferred to income statement on disposal	—	—	—	(11,890)	—	—	(11,890)
Deferred tax credited to revaluation reserve	—	—	1,205	—	—	—	1,205
Dividends paid	—	—	—	—	—	(711,789)	(711,789)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	1,242,954	1,242,954
At 31st December, 2006	378,421	1,802,777	274,052	16,028	769	4,414,432	6,886,479

The Group's unappropriated profits as at 31st December, 2007 included the accumulated profits of HK$140,163,000 (2006: HK$24,985,000) of the associated companies and a regulatory reserve of HK$722,615,000 (2006: HK$417,665,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers and certain investments held in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H of the Hong Kong Companies Ordinance.

The general reserve was set up from the transfer of retained earnings and exchange differences arising from translation of the financial statements of overseas branches and subsidiaries (note 2(k)). The capital reserve comprises retained earnings capitalised on the issue of bonus shares by subsidiaries in prior years and a legal reserve established by Banco Weng Hang, S.A. in accordance with the banking regulations in Macau. Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and available-for-sale financial assets (notes 2(l) and (f)).

Capital reserve, bank premises revaluation reserve, investment revaluation reserve and capital redemption reserve do not represent realised profits and are not available for distribution.

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios which could therefore potentially restrict the amount of retained profits which can be distributed to shareholders.

33. Off-balance sheet exposures

(a) Contingent liabilities and commitments

Contingent liabilities and commitments arises from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2007	2006	2007	2006
Direct credit substitutes	1,375,390	1,795,317	2,284,471	1,734,157
Transaction-related contingencies	83,776	133,868	274,564	333,868
Trade-related contingencies	1,374,174	1,191,434	1,178,878	1,033,201
Other commitments:				
With an original maturity of not more than one year	1,151,736	241,295	—	123,846
With an original maturity over one year	2,415,562	2,491,796	721,636	1,602,006
Which are unconditionally cancellable	12,122,646	9,475,478	11,635,004	9,738,573
Total	18,523,284	15,329,188	16,094,553	14,565,651
Credit risk weighted amounts	2,404,184	2,659,818	964,246	2,712,568

(b) Derivative financial instruments

(i) Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk 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 primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

The following table is a summary of the notional amounts of each significant type of derivatives.

	The Group 2007			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	—	2,334,014	41,764,025	44,098,039
Options purchased	—	—	9,369,755	9,369,755
Options written	—	—	7,655,005	7,655,005
Interest rate contracts				
Swaps	522,754	24,275,882	24,898,003	49,696,639
Equity contracts				
Options purchased	—	—	3,156,992	3,156,992
Options written	—	—	3,106,256	3,106,256
Credit derivative contracts				
Credit defaults swaps purchased	—	—	200,000	200,000
Credit defaults swaps written	—	—	200,000	200,000
Credit defaults swaps written-investment	—	—	785,058	785,058
Total return swaps written-investment	—	—	393,756	393,756
	522,754	26,609,896	91,528,850	118,661,500

	The Group 2006			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	—	2,261,615	58,928,290	61,189,905
Options purchased	—	—	4,334,573	4,334,573
Options written	—	—	4,495,155	4,495,155
Interest rate contracts				
Swaps	482,236	27,839,585	41,448,010	69,769,831
Equity contracts				
Options purchased	—	—	944,593	944,593
Options written	—	—	1,137,137	1,137,137
	482,236	30,101,200	111,287,758	141,871,194

The Bank

2007

	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	—	3,304,888	41,705,304	45,010,192
Options purchased	—	—	9,369,755	9,369,755
Options written	—	—	7,655,005	7,655,005
Interest rate contracts				
Swaps	522,754	24,695,882	25,054,049	50,272,685
Equity contracts				
Options purchased	—	—	3,156,992	3,156,992
Options written	—	—	3,106,256	3,106,256
Credit derivative contracts				
Credit defaults swaps purchased	—	—	200,000	200,000
Credit defaults swaps written	—	—	200,000	200,000
Credit defaults swaps written-investment	—	—	785,058	785,058
Total return swaps written-investment	—	—	393,756	393,756
	522,754	28,000,770	91,626,175	120,149,699

The Bank

2006

	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	—	2,844,139	58,880,708	61,724,847
Options purchased	—	—	4,334,573	4,334,573
Options written	—	—	4,495,155	4,495,155
Interest rate contracts				
Swaps	482,236	28,607,365	41,603,570	70,693,171
Equity contracts				
Options purchased	—	—	944,593	944,593
Options written	—	—	1,137,137	1,137,137
	482,236	31,451,504	111,395,736	143,329,476

The trading transactions include the Group's and the Bank's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

(ii) Use of derivative financial instruments

(1) as hedging instruments

The following is a summary of the fair values of derivative financial instruments held for hedging purposes by type of derivatives entered into by the Group and the Bank:

	The Group			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (notes 18(a) & 28)	783	15,052	7,420	7,708

	The Bank			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (notes 18(a) & 28)	783	15,052	7,420	7,708

Interest rate swaps are used principally as fair value hedges to protect against changes in the fair value of assets due to movements in market interest rates.

(2) as trading instruments

The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivatives entered into by the Group and the Bank:

	The Group			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	206,279	156,466	169,917	112,748
Interest rate contracts	275,183	387,402	416,823	458,867
Equity contracts	192,174	192,495	15,096	17,229
Credit derivative contracts	1,431	28,981	2,854	2,055
Total (notes 16 and 27)	675,067	765,344	604,690	590,899

	The Bank			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	204,464	155,513	169,070	112,733
Interest rate contracts	282,857	387,993	433,813	460,362
Equity contracts	192,174	192,495	15,096	17,229
Credit derivative contracts	1,431	28,981	2,854	2,055
Total (notes 16 and 27)	680,926	764,982	620,833	592,379

(iii) Remaining life of derivative financial instruments

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the balance sheet date.

	The Group 2007			
	Within 1 year	**Over 1 year but within 5 years**	**Over 5 years**	**Total**
Exchange rate contracts	55,999,003	5,123,796	—	61,122,799
Interest rate contracts	28,180,057	15,945,087	5,571,495	49,696,639
Equity contracts	6,263,248	—	—	6,263,248
Credit derivative contracts	593,756	985,058	—	1,578,814
	91,036,064	22,053,941	5,571,495	118,661,500

	The Group 2006			
	Within 1 year	**Over 1 year but within 5 years**	**Over 5 years**	**Total**
Exchange rate contracts	67,736,026	2,283,607	—	70,019,633
Interest rate contracts	27,692,840	40,299,171	1,777,820	69,769,831
Equity contracts	2,081,730	—	—	2,081,730
	97,510,596	42,582,778	1,777,820	141,871,194

	The Bank 2007			
	Within 1 year	**Over 1 year but within 5 years**	**Over 5 years**	**Total**
Exchange rate contracts	56,911,156	5,123,796	—	62,034,952
Interest rate contracts	28,531,103	16,095,087	5,646,495	50,272,685
Equity contracts	6,263,248	—	—	6,263,248
Credit derivative contracts	593,756	985,058	—	1,578,814
	92,299,263	22,203,941	5,646,495	120,149,699

	The Bank 2006			
	Within 1 year	**Over 1 year but within 5 years**	**Over 5 years**	**Total**
Exchange rate contracts	68,270,968	2,283,607	—	70,554,575
Interest rate contracts	28,080,620	40,759,731	1,852,820	70,693,171
Equity contracts	2,081,730	—	—	2,081,730
	98,433,318	43,043,338	1,852,820	143,329,476

(c) ***The credit risk weighted amounts are as follows:***

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
Exchange rate contracts	400,773	219,406	399,651	219,879
Interest rate contracts	96,040	152,106	96,040	156,190
Equity contracts	284,956	34,342	284,956	34,342
Credit derivative contracts	43,035	—	43,035	—
	824,804	405,854	823,682	410,411

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

(d) ***Capital commitments***

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2007 not provided for in the financial statements are as follows:

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
Expenditure authorised and contracted for	18,003	44,934	15,271	36,920
Expenditure authorised but not contracted for	—	—	—	—
	18,003	44,934	15,271	36,920

(e) ***Lease commitments***

At 31st December, 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2007	**2006**	**2007**	**2006**
Properties				
Within 1 year	36,623	28,785	20,310	25,621
After 1 year but within 5 years	28,575	25,366	13,797	23,460
After 5 years	4,260	5,459	—	5,459
	69,458	59,610	34,107	54,540
Others				
Within 1 year	421	247	150	50
After 1 year but within 5 years	324	16	100	15
After 5 years	—	—	—	—
	745	263	250	65

The Group leases a number of properties and items of equipment under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are periodically adjusted to reflect market rentals. None of the leases includes contingent rentals.

34. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	The Group	
	2007	**2006**
Operating profit	1,984,405	1,862,305
Depreciation (note 5(f))	90,516	81,242
EIP cost (note 5(f))	13,870	12,365
Interest expense on subordinated liabilities (note 5(b))	264,804	134,029
Change in fair value of subordinated liabilities measured at fair value through profit or loss	18,938	—
Profits tax paid	(308,831)	(266,060)
Change in treasury bills with original maturity of three months or above	990,113	(943,831)
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	(1,790,440)	(3,064,415)
Change in trade bills	7,004	281,826
Change in certificates of deposit held	70,660	—
Change in trading assets	(296,365)	172,872
Change in financial assets measured at fair value through profit or loss	(1,317,329)	541,468
Change in advances to customers and other accounts	(10,504,764)	(5,231,375)
Change in deposits and balances of banks, central banks and other financial institutions	(2,824,019)	(24,937)
Change in deposits from customers	11,840,534	16,393,495
Change in certificates of deposit issued	(1,160,335)	(109,036)
Change in trading liabilities	174,445	(275,063)
Change in other accounts and provision	290,727	778,448
Net cash (outflow)/inflow from operating activities	(2,456,067)	10,343,333

(b) Acquisition of a subsidiary

On 31st January, 2007, the Bank acquired the entire equity interest in Inchroy Credit Corporation Limited ("Inchroy"), a deposit-taking company incorporated in Hong Kong, at a consideration of HK$1,400,000,000, satisfied in cash. The newly acquired subsidiary has contributed post-acquisition profit before taxation for the year amounting to HK$115,081,000. If the acquisition had occurred on 1st January, 2007, the Group's estimated operating income and profit before taxation would have been HK$3,306,593,000 and HK$2,350,230,000 respectively for the year ended 31st December, 2007.

The net assets acquired at the date of acquisition are as follows:

	2007
Cash and balances with banks, central banks and other financial institutions	22,062
Placement with banks, central banks and other financial institutions	32,879
Held-to-maturity and available-for-sale financial assets	115,665
Advances to customers and other accounts	5,566,963
Tangible fixed assets	1,358
Current tax recoverable	4,486
Deposits and balances of banks, central banks and other financial institutions	(3,872,701)
Deposits from customers	(61,505)
Certificates of deposit issued	(754,236)
Deferred tax liabilities	(97,055)
Other accounts and provisions	(13,941)
Net identifiable assets and liabilities	943,975
Positive goodwill arising from consolidation (note 23)	459,008
Purchase consideration paid, satisfied in cash	1,400,000
Direct costs relating to the acquisition, satisfied in cash	2,983
Less: Cash and cash equivalents of the subsidiary acquired	(54,535)
Net cash outflow in respect of the purchase of a subsidiary	1,348,448

(c) Reconciliation of cash and cash equivalents with the consolidated balance sheet

	The Group	
	2007	**2006 (restated)**
Cash and balances with banks, central banks and other financial institutions	3,306,767	2,253,725
Placements with banks, central banks and other financial institutions	28,942,740	27,525,225
Treasury bills	2,893,910	2,684,233
Amounts shown in the consolidated balance sheet	35,143,417	32,463,183
Less: Amounts with an original maturity of three months or above	(6,494,807)	(5,694,480)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(148,103)	(71,552)
Cash and cash equivalents in the consolidated cash flow statement	28,500,507	26,697,151

35. Segment reporting

(a) Business segments

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase and consumer loans.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Other business activities include insurance businesses, stockbroking activities and services for retirement schemes.

Unallocated items mainly comprise the shareholders' funds, investments in premises and property investment and other activities which cannot be reasonably allocated to specific business segments.

	The Group 2007						
	Retail banking	Corporate banking	Treasury	Others	Unallocated	Inter-segment elimination	Total
Net interest income	1,675,442	480,454	69,837	2,265	189,536	—	2,417,534
Non-interest income	638,520	124,629	(95,913)	193,384	13,505	—	874,125
Inter-segment income/(expense)	—	—	—	—	61,541	(61,541)	—
Operating income	2,313,962	605,083	(26,076)	195,649	264,582	(61,541)	3,291,659
Operating expenses	(824,676)	(209,274)	(36,557)	(91,432)	(143,785)	—	(1,305,724)
Inter-segment (expense)/income	(54,836)	(3,112)	(994)	(2,599)	—	61,541	—
Operating profit/(loss) before impairment losses and allowances charged on loans and advances	1,434,450	392,697	(63,627)	101,618	120,797	—	1,985,935
Impairment losses and allowances (charged)/released for loans and advances	(21,008)	19,532	—	(54)	—	—	(1,530)
Operating profit	1,413,442	412,229	(63,627)	101,564	120,797	—	1,984,405
Gains/(losses) on revaluation of investment properties and disposal of tangible fixed assets	(2,117)	(1,570)	(132)	(288)	209,039	—	204,932
Gains/(losses) on disposal of available-for-sale financial assets	—	—	(55)	39,763	—	—	39,708
Share of net profits of associated companies	—	—	—	115,082	96	—	115,178
Profit before taxation	1,411,325	410,659	(63,814)	256,121	329,932	—	2,344,223
Depreciation (note 5(f))	33,952	7,948	3,338	672	44,606	—	90,516
Segment assets	59,560,670	28,502,796	23,736,201	211,176	27,348,230	—	139,359,073
Investments in associated companies	—	—	—	290,415	7,774	—	298,189
Total assets	59,560,670	28,502,796	23,736,201	501,591	27,356,004	—	139,657,262
Total liabilities	117,656,364	5,148,228	1,013,087	35,124	5,296,423	—	129,149,226
Capital expenditure	576,666	65,963	251	529	259,179	—	902,588

	The Group 2006						
	Retail banking	**Corporate banking**	**Treasury**	**Others**	**Unallocated**	**Inter-segment elimination**	**Total**
Net interest income/(expense)	1,455,093	473,035	(8,186)	2,389	203,567	—	2,125,898
Non-interest income	427,272	78,781	156,439	99,944	49,113	—	811,549
Inter-segment income/(expense)	—	—	—	—	62,171	(62,171)	—
Operating income	1,882,365	551,816	148,253	102,333	314,851	(62,171)	2,937,447
Operating expenses	(690,193)	(150,562)	(27,708)	(50,545)	(155,361)	—	(1,074,369)
Inter-segment (expense)/income	(55,745)	(3,062)	(894)	(2,470)	—	62,171	—
Operating profit before impairment losses and allowances charged on loans and advances	1,136,427	398,192	119,651	49,318	159,490	—	1,863,078
Impairment losses and allowances (charged)/released for loans and advances	(26,787)	26,134	—	(120)	—	—	(773)
Operating profit	1,109,640	424,326	119,651	49,198	159,490	—	1,862,305
Gains/(losses) on revaluation of investment properties and disposal of tangible fixed assets	(698)	(73)	(2)	(88)	55,083	—	54,222
Gains on disposal of available-for-sale financial assets	1,132	—	12,221	420	—	—	13,773
Share of net profits/(losses) of associated companies	—	—	—	51,252	(301)	—	50,951
Profit before taxation	1,110,074	424,253	131,870	100,782	214,272	—	1,981,251
Depreciation (note 5(f))	29,856	5,283	2,740	801	42,562	—	81,242
Segment assets	45,126,008	24,849,597	25,658,545	108,148	26,210,363	—	121,952,661
Investments in associated companies	—	—	—	190,227	7,679	—	197,906
Total assets	45,126,008	24,849,597	25,658,545	298,375	26,218,042	—	122,150,567
Total liabilities	97,070,598	2,415,551	617,992	23,875	12,705,828	—	112,833,844
Capital expenditure	88,261	7,708	571	689	157,999	—	255,228

(b) ***Geographical segments***

The information concerning geographical segments has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

	The Group 2007					
	Hong Kong	**Macau**	**Mainland China**	**Others**	**Less: inter-segment elimination**	**Total**
Total operating income	2,627,092	546,152	292,715	18,900	(193,200)	3,291,659
Profit before taxation	1,908,135	372,087	156,651	16,150	(108,800)	2,344,223
Total assets	116,376,217	20,589,836	12,041,332	7,883,939	(17,234,062)	139,657,262
Total liabilities	99,956,395	19,275,080	10,656,676	7,668,117	(8,407,042)	129,149,226
Contingent liabilities and commitments (note 33(a))	15,536,603	3,174,117	1,812,711	—	(2,000,147)	18,523,284
Capital expenditure	748,514	87,311	66,763	—	—	902,588

	The Group 2006					
	Hong Kong	Macau	Mainland China	Others	Less: inter-segment elimination	Total
Total operating income	2,406,726	416,198	169,581	21,375	(76,433)	2,937,447
Profit before taxation	1,652,911	276,285	63,759	18,283	(29,987)	1,981,251
Total assets	103,722,627	18,274,017	8,756,735	7,756,592	(16,359,404)	122,150,567
Total liabilities	86,948,109	17,188,389	8,543,126	7,506,361	(7,352,141)	112,833,844
Contingent liabilities and commitments (note 33(a))	12,974,688	2,298,288	971,802	—	(915,590)	15,329,188
Capital expenditure	174,999	72,344	7,885	—	—	255,228

36. Material related party transactions

(a) Substantial shareholder

During the year, transactions with The Bank of New York Mellon Corporation (formerly known as The Bank of New York Company Inc. before 1st July, 2007) ("BNY"), a substantial shareholder of the Bank, or its subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year and on-balance sheet outstanding at the balance sheet date are:

		The Group		The Bank	
		2007	2006	2007	2006
(i)	Income and expense for the year				
	Interest income	13,080	8,333	13,080	8,333
	Interest expense	2,172	1,454	2,172	1,454
(ii)	Average on-balance sheet outstanding for the year				
	Cash and balances with banks, central banks and other financial institutions	102,961	105,253	99,512	101,334
	Placement with banks, central banks and other financial institutions	205,633	109,056	205,633	109,056
	Deposits and balances of banks, central banks and other financial institutions	55,506	43,853	54,216	42,614
(iii)	On-balance sheet outstanding at the balance sheet date				
	Cash and balances with banks, central banks and other financial institutions	28,883	48,609	25,737	45,948
	Deposits and balances of banks, central banks and other financial institutions	214,365	106,807	214,365	104,899

(b) Minority interest holder

On 30th June, 1995, Wing Hang Zurich Insurance Company Limited ("WHZ Insurance"), a 65 percent owned subsidiary of the Bank, entered into a Management Agreement with Swiss Insurance Management (Hong Kong) Limited ("Swiss Insurance"), a wholly own subsidiary of Zurich Insurance Limited ("Zurich Insurance") pursuant to which Swiss Insurance has been appointed as manager of WHZ Insurance in connection with the conduct by WHZ Insurance of its insurance business. Zurich Insurance is a substantial shareholder of WHZ Insurance holding 35 percent of WHZ Insurance's issued share capital. On 7th February, 2007, the Management Agreement was extended for two years from 1st January, 2007 to 31st December, 2008. The revised management fee is based on a certain percentage of gross written premiums received. Under the Management Agreement, WHZ Insurance pays to Swiss Insurance an amount of HK$4,348,000 (2006: HK$5,312,000), being the contractual management fees payable during the year.

The auditors of the Bank have confirmed to the Board of Directors in writing that:

(i) The transactions have been approved by the Board of Directors;

(ii) The transactions have been entered into for considerations consistent with the pricing policies as stated in the Management Agreement;

(iii) The transactions have been entered into in accordance with the terms of the Management Agreement; and

(iv) No cap was disclosed in the previous announcement.

The independent non-executive directors of the Bank considered the above transactions were in line with the normal course of business for the Bank on normal commercial terms in accordance with the Management Agreement that was considered fair and reasonable and in the interests of the shareholders.

(c) Subsidiaries

During the year, the Bank entered into the transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year, on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

		The Bank	
		2007	**2006**
(i)	Income and expense for the year		
	Interest income	530,096	307,933
	Interest expense	649,473	652,629
(ii)	Average on-balance sheet outstanding for the year		
	Amounts due from subsidiaries	11,063,337	6,412,937
	Amounts due to subsidiaries	13,152,706	14,094,649
(iii)	On-balance sheet outstanding at the balance sheet date		
	Amounts due from subsidiaries	15,271,307	7,285,939
	Amounts due to subsidiaries	12,285,232	16,100,651
(iv)	Off-balance sheet outstanding (contract amounts) at the balance sheet date		
	Direct credit substitutes	12,712	12,666
	Transaction-related contingencies	200,000	200,000
	Trade-related contingencies	39,862	49,326
	Other commitments	622,140	684,140

(d) Associated companies

The Group provided an unsecured and interest-free loan of HK$62,000,000 to an associated company which is repayable in December 2008. At the balance sheet date, the outstanding amount of the loan is HK$10,533,000 (2006: HK$62,000,000).

During the year, the Group has disposed certain of its bank premises to Hong Kong Life Insurance Limited, its associated company, and Bank Consortium Trust Company Limited, a subsidiary of its associated company, at considerations of HK$143,000,000 and HK$293,215,000 respectively and the Group recorded a pre-tax gain totalling HK$154,140,000 during the year ended 31st December, 2007. To finance the purchase of the Group's bank premise, the Group has provided secured loans to each of these companies totalling HK$131,355,000 during the year (2006: nil). These loans bear interest rate at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017.

(e) ***Key management personnel***

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The interest income, interest expenses and emoluments for the year, average on-balance sheet outstanding for the year and on-balance sheet outstanding at the balance sheet date are as follows:

		The Group		**The Bank**	
		2007	**2006**	**2007**	**2006**
(i)	Income and expense for the year				
	Interest income	27,718	30,159	27,647	30,078
	Interest expense	55,161	36,814	55,160	35,866
(ii)	Average on-balance sheet outstanding for the year				
	Advances to customers	495,163	550,981	493,748	549,450
	Deposits from customers	1,338,658	892,011	1,338,605	867,278
(iii)	On-balance sheet outstanding at the balance sheet date				
	Advances to customers	459,546	528,757	458,187	527,277
	Deposits from customers	1,620,200	974,236	1,620,089	963,722

(iv) Emoluments for the year

Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2007	**2006**
Short-term employee benefits	47,328	39,113
Post-employment benefits	2,212	1,648
Equity compensation benefits	8,882	9,028
	58,422	49,789

(f) ***Loans to officers***

Particulars of loans to officers disclosed pursuant to Section 161B(9) of the Hong Kong Companies Ordinance are as follows:

	The Group and the Bank	
	2007	**2006**
Aggregate amount of relevant loans outstanding at 31st December	264,102	398,019
The maximum aggregate amount of relevant loans outstanding during the year . .	416,113	479,419

(g) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2006: nil).

37. Management of risks

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to. Risk management processes and management information systems are in place to identify measure, monitor and control credit risk, liquidity risk, market risk and operational risk. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee, and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALMCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chairman and Chief Executive.

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's credit policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The credit policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Guidelines to manage credit risk have been laid down in the Group's Loaning Manual, which is regularly reviewed and approved by the Credit Committee. The Loaning Manual covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

(i) Corporate credit risk

The corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. The large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The credit policies promote early detection of counterparty, industry or product exposures that require special attention. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval processes are designed based on the characteristics of the retail banking products: small value but high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and the market practices.

(iii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees.

(1) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	The Group		**The Bank**	
	2007	**2006**	**2007**	**2006**
Cash and balances with banks, central banks and other financial institutions	3,306,767	2,253,725	1,976,792	1,691,086
Placements with banks, central banks and other financial institutions	28,942,740	27,525,225	26,521,117	27,444,689
Trade bills	363,545	370,549	303,208	323,718
Trading assets	1,034,757	738,392	1,034,460	749,578
Financial assets measured at fair value through profit or loss	6,700,285	5,382,956	6,700,285	5,382,956
Advances to customers	74,331,816	58,377,203	43,992,090	44,987,774
Advances to banks	93,920	47,539	—	47,539
Loans to associated companies	141,888	62,000	141,888	62,000
Amounts due from subsidiaries	—	—	15,271,307	7,285,939
Held-to-maturity and available-for-sale financial assets	18,891,888	22,218,593	16,545,014	19,527,597
Financial guarantees and other credit related contingent liabilities	2,833,340	3,120,619	3,737,913	3,101,226
Loan commitments and other credit related commitments	15,689,944	12,208,569	12,356,640	11,464,425

(2) Credit quality of loans and advances

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted as our associated companies have good credit standing. At 31st December, 2007 and 2006, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

	The Group		**The Bank**	
	2007	**2006**	**2007**	**2006**
Gross advances to customers				
— neither past due nor impaired	73,035,565	57,116,565	43,757,626	44,411,978
— past due but not impaired	1,213,077	1,157,580	181,357	499,053
— impaired (note 18(c))	325,137	364,092	195,228	293,170
	74,573,779	58,638,237	44,134,211	45,204,201
of which:				
Gross advances to customers				
— Grade 1: Pass	73,302,581	57,433,108	43,185,347	44,168,389
— Grade 2: Special mention	946,061	841,037	753,636	742,642

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Gross advances to customers that are past due but not impaired				
— past due 3 months or less	1,170,309	1,125,263	148,679	476,302
— 6 months or less but over 3 months	35,204	21,387	31,069	15,525
— 1 year or less but over 6 months	7,564	10,798	1,609	7,094
— Over 1 year	—	132	—	132
	1,213,077	1,157,580	181,357	499,053

At 31st December, 2007, advances to customers that would be past due or impaired had the terms not been renegotiated amounted to HK$25,618,000 (2006: HK$18,767,000) and HK$17,773,000 (2006: HK$12,328,000) for the Group and the Bank respectively.

(3) Credit quality of financial assets other than advances to customers and banks and loans to associated companies

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set. It is the Group's credit policy not to invest debt securities that are below the grading of BBB by Standard & Poor's Ratings Services or their equivalents unless it is approved by the Credit Committee.

At the balance sheet date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Standard & Poor's Ratings Services or their equivalents, is as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	The Group		The Bank	
	2007	2006	2007	2006
AAA	2,205,007	2,939,355	2,079,324	2,801,547
AA - to AA+	19,095,063	17,645,659	16,929,612	17,252,048
A - to A+	2,601,163	5,858,618	2,576,155	3,709,776
BBB to BBB+	413,758	115,832	413,758	115,832
Lower than BBB	667,474	235,631	667,474	235,631
	24,982,465	26,795,095	22,666,323	24,114,834
Unrated	788,864	806,935	768,866	806,935
	25,771,329	27,602,030	23,435,189	24,921,769

(4) Collateral and other credit enhancements

The Group holds collateral against advances to customers in the form of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group also holds commercial properties as collateral against loans to associated companies. Collateral held as security for financial assets or financial derivatives other than advances is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

	The Group		The Bank	
	2007	2006	2007	2006
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	2,505,643	2,110,797	312,812	872,506

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 15 to 19 and the geographical concentration of the Group's assets is disclosed in note 35(b).

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 50.4% in 2007, which is well above the statutory requirement of 25%.

Liquidity is managed day-to-day by the treasury under the direction of ALMCO. ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

To cater for funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests which include both an institution-specific crisis scenario and a general market crisis scenario, on its liquidity position to ensure adequate liquidity is maintained at all times.

The cash flows payable by the Group for the financial liabilities including interest payable that will be settled by remaining contractual maturities at the balance sheet date are presented in the following table. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of term financial liabilities is reported based on contractual interest payment date. Financial liabilities repayable on demand including interest accrued up to balance sheet date are reported under the column "repayable on demand".

	The Group 2007							
	Repayable on demand	**Within 1 month**	**Over 1 month but within 3 months**	**Over 3 months but within 1 year**	**Over 1 year but within 5 years**	**Over 5 years**	**Undated**	**Gross cash outflow**
Deposits and balances of banks, central banks and other financial institutions	158,495	1,195,493	501,553	918,427	155,903	—	—	2,929,871
Deposits from customers	28,342,797	66,048,172	14,986,319	4,642,610	649,264	—	—	114,669,162
Certificates of deposit issued	—	205,850	1,361,400	893,498	914,674	—	—	3,375,422
Derivative financial instruments	—	39,007	11,484	192,007	446,215	432,686	—	1,121,399
Subordinated liabilities	—	—	—	227,865	759,944	3,485,547	3,120,920	7,594,276
Other liabilities	—	1,313,950	234,074	470,717	78,638	—	48,216	2,145,595
	28,501,292	68,802,472	17,094,830	7,345,124	3,004,638	3,918,233	3,169,136	131,835,725
Unrecognised loan commitments	11,768,598	211,457	43,387	1,478,787	1,920,661	267,054	—	15,689,944

	The Group 2006							
	Repayable on demand	**Within 1 month**	**Over 1 month but within 3 months**	**Over 3 months but within 1 year**	**Over 1 year but within 5 years**	**Over 5 years**	**Undated**	**Gross cash outflow**
Deposits and balances of banks, central banks and other financial institutions	121,794	640,884	50,704	767,277	134,673	—	—	1,715,332
Deposits from customers	26,187,186	57,361,581	13,731,441	4,977,355	394,481	289	—	102,652,333
Certificates of deposit issued	—	228,713	1,136,048	569,049	2,036,316	—	—	3,970,126
Derivative financial instruments	—	6,453	41,558	256,999	248,173	9,625	—	562,808
Subordinated liabilities	—	—	—	134,219	134,924	2,527,850	—	2,796,993
Other liabilities	—	1,175,995	178,218	363,062	69,393	—	60,607	1,847,275
	26,308,980	59,413,626	15,137,969	7,067,961	3,017,960	2,537,764	60,607	113,544,867
Unrecognised loan commitments	9,422,146	25,000	2,757	281,169	1,826,918	650,579	—	12,208,569

	The Bank 2007							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Deposits and balances of banks, central banks and other financial institutions	148,301	1,033,030	—	—	—	—	—	1,181,331
Deposits from customers	21,425,554	53,351,791	11,818,661	2,986,846	224,395	—	—	89,807,247
Certificates of deposit issued	—	209,251	1,360,009	823,387	812,508	—	—	3,205,155
Derivative financial instruments	—	38,541	15,941	192,493	447,603	432,827	—	1,127,405
Subordinated liabilities	—	—	—	93,022	759,944	949,800	3,120,920	4,923,686
Other liabilities	—	613,763	162,153	240,725	41,834	—	12,746	1,071,221
	21,573,855	55,246,376	13,356,764	4,336,473	2,286,284	1,382,627	3,133,666	101,316,045
Unrecognised loan commitments	11,635,004	—	—	271,639	379,997	70,000	—	12,356,640

	The Bank 2006							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Deposits and balances of banks, central banks and other financial institutions	102,331	640,884	50,704	767,277	134,673	—	—	1,695,869
Deposits from customers	20,340,174	46,003,463	11,090,262	4,041,420	131,578	289	—	81,607,186
Certificates of deposit issued	—	228,713	1,136,048	574,184	2,036,316	—	—	3,975,261
Derivative financial instruments	—	5,799	45,843	258,159	248,658	9,708	—	568,167
Other liabilities	—	527,351	150,166	285,926	32,797	—	19,804	1,016,044
	20,442,505	47,406,210	12,473,023	5,926,966	2,584,022	9,997	19,804	88,862,527
Unrecognised loan commitments	9,675,038	25,000	1,727	174,953	1,021,078	566,629	—	11,464,425

The detail of the analysis on the Group's and Bank's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in note 30.

(c) Market risk management

Market risk is the risk arising from the movements in market prices of on- and off- balance sheet positions in interest rates, foreign exchange rates as well as equity and commodity prices and the resulting change in the profit/loss or reserve of the Group.

The Group is exposed to market risk on position taken or financial instrument held or taken such as foreign exchange contracts, interest rate contracts, fixed income and equity securities and derivatives instruments.

The Board of Directors reviews and approves the policies for the management of market risks and trading authorities. ALMCO has been delegated the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework such as the established limits and stop-losses. The limits are set by ALMCO and reviewed on a periodic basis with reference to market conditions, with any material changes requiring a review by the Board of Directors. It is the Bank's policy that no limit should be exceeded. Middle Office has been delegated the duties of intra-day monitoring and ensuring compliance with the policy and limits.

The Group adopts a prudent approach in managing the portfolio of trading instruments. It reduces excessive market risk by offsetting trading transactions or hedging the open positions by executing derivative contracts with other market counterparties. Trading of interest rate and foreign exchange derivative contracts forms an integral part of the Group's trading activities, which are primarily for squaring the trading positions or covering the customer driven positions.

The Group uses the Price Value of a Basis Point ("PVBP") measurement to monitor and limit its interest rate risk exposure. PVBP is a technique involving the calculation of the change in present value of a financial instrument or a portfolio of instruments due to a change of one basis point in interest rates. It also provides a quick tool to evaluate the impact on profit and loss due to a basis point movement in interest rates.

(i) Interest rate risk

The Group's interest rate exposures arise from lending, deposit taking as well as treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both banking book and trading book. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Group's interest rate risk is monitored by the ALMCO within limits approved by the Board, including interest rate gap limit, product limit and PVBP limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

As the balance sheet date, the impact of a change in 100 basis points in interest rates would change the Group's profit before tax as follows. The effect on interest-bearing financial instruments and interest rate swaps has been included in this calculation.

	2007 Increase/(decrease) in Group's profit before tax	**2006 Increase/(decrease) in Group's profit before tax**
Increase 100 basis points	20,184	13,536
Decrease 100 basis points	(20,184)	(13,536)

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by ALMCO.

The following tables indicate the expected next repricing dates for the assets and liabilities at the balance sheet date.

	The Group 2007					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	3,306,767	2,344,451	—	—	—	962,316
Placements with banks, central banks and other financial institutions	28,942,740	28,197,536	745,204	—	—	—
Trade bills	363,545	352,375	11,170	—	—	—
Trading assets	1,034,757	—	80,756	245,541	—	708,460
Financial assets measured at fair value through profit or loss	6,700,285	1,347,482	1,280,899	2,758,388	1,313,516	—
Advances to customers and other accounts	76,682,065	63,182,508	5,619,758	5,122,011	404,273	2,353,515
Advances to banks	93,920	—	15,896	78,024	—	—
Held-to-maturity and available-for-sale financial assets	18,891,888	12,796,233	378,447	4,418,962	1,151,105	147,141
Loans to associated companies	141,888	131,355	—	—	—	10,533
Other assets	3,499,407	—	—	—	—	3,499,407
Total assets	139,657,262	108,351,940	8,132,130	12,622,926	2,868,894	7,681,372
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	2,817,714	1,176,059	1,425,700	206,112	—	9,843
Deposits from customers	113,968,986	103,239,077	4,481,430	323,191	591	5,924,697
Certificates of deposit issued	3,309,204	2,932,464	123,724	253,016	—	—
Trading liabilities	765,344	—	—	—	—	765,344
Other liabilities	2,629,089	30,359	—	—	—	2,598,730
Subordinated liabilities	5,658,889	—	2,535,747	—	3,123,142	—
Total liabilities	129,149,226	107,377,959	8,566,601	782,319	3,123,733	9,298,614
Derivatives (in the banking book) net long/(short) position (notional amount)	—	241,871	210,662	(257,476)	(195,057)	—
Interest rate sensitivity gap	10,508,036	1,215,852	(223,809)	11,583,131	(449,896)	(1,617,242)

	The Group 2006					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	2,253,725	1,505,451	—	—	—	748,274
Placements with banks, central banks and other financial institutions	27,525,225	27,367,163	158,062	—	—	—
Trade bills	370,549	360,636	9,913	—	—	—
Trading assets	738,392	—	50	248	114,922	623,172
Financial assets measured at fair value through profit or loss	5,382,956	1,320,416	165,939	3,412,250	484,351	—
Advances to customers and other account	60,656,719	51,822,520	3,370,438	2,553,473	627,544	2,282,744
Advances to banks	47,539	—	47,539	—	—	—
Held-to-maturity and available-for-sale financial assets	22,218,593	11,707,638	1,195,880	8,205,030	995,306	114,739
Other assets	2,956,869	—	—	—	—	2,956,869
Total assets	122,150,567	94,083,824	4,947,821	14,171,001	2,222,123	6,725,798
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	1,692,887	795,123	756,466	129,395	—	11,903
Deposits from customers	102,066,947	92,055,356	4,702,941	204,148	836	5,103,666
Certificates of deposit issued	3,715,303	3,475,160	86,952	153,191	—	—
Trading liabilities	590,899	—	—	—	—	590,899
Other liabilities	2,239,958	72,208	—	—	—	2,167,750
Subordinated liabilities	2,527,850	—	—	2,527,850	—	—
Total liabilities	112,833,844	96,397,847	5,546,359	3,014,584	836	7,874,218
Derivatives (in the banking book) net long/(short) position (notional amount)	—	280,008	85,558	(326,676)	(38,890)	—
Interest rate sensitivity gap	9,316,723	(2,034,015)	(512,980)	10,829,741	2,182,397	(1,148,420)

	The Bank 2007					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	1,976,792	1,384,179	—	—	—	592,613
Placements with banks, central banks and other financial institutions	26,521,117	26,465,929	55,188	—	—	—
Trade bills	303,208	292,038	11,170	—	—	—
Trading assets	1,034,460	—	80,756	245,541	—	708,163
Financial assets measured at fair value through profit or loss	6,700,285	1,347,482	1,280,899	2,758,388	1,313,516	—
Advances to customers and other accounts	45,302,894	42,035,153	1,212,943	415,810	324,657	1,314,331
Held-to-maturity and available-for-sale financial assets	16,545,014	10,892,512	157,306	4,343,372	1,015,418	136,406
Amounts due from subsidiaries	15,271,307	7,706,004	4,957,451	1,860,000	610,000	137,852
Loans to associated companies	141,888	131,355	—	—	—	10,533
Other assets	5,117,547	—	—	—	—	5,117,547
Total assets	118,914,512	90,254,652	7,755,713	9,623,111	3,263,591	8,017,445
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	1,175,558	1,168,730	—	—	—	6,828
Deposits from customers	89,332,555	82,001,997	2,908,630	111,238	—	4,310,690
Certificates of deposit issued	3,109,220	2,932,463	23,741	153,016	—	—
Trading liabilities	764,982	—	—	—	—	764,982
Amounts due to subsidiaries	12,285,232	4,820,792	5,742,866	1,080,230	—	641,344
Other liabilities	1,437,389	30,359	—	—	—	1,407,030
Subordinated liabilities	3,123,142	—	—	—	3,123,142	—
Total liabilities	111,228,078	90,954,341	8,675,237	1,344,484	3,123,142	7,130,874
Derivatives (in the banking book) net long/(short) position (notional amount)	—	241,871	210,662	(257,476)	(195,057)	—
Interest rate sensitivity gap	7,686,434	(457,818)	(708,862)	8,021,151	(54,608)	886,571

The Bank 2006	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	1,691,086	1,189,718	—	—	—	501,368
Placements with banks, central banks and other financial institutions	27,444,689	27,286,626	158,063	—	—	—
Trade bills	323,718	313,805	9,913	—	—	—
Trading assets	749,578	—	50	248	114,922	634,358
Financial assets measured at fair value through profit or loss	5,382,956	1,320,416	165,939	3,412,250	484,351	—
Advances to customers and other accounts	46,477,066	42,569,045	1,444,243	397,486	573,470	1,492,822
Advances to banks	47,539	—	47,539	—	—	—
Held-to-maturity and available-for-sale financial assets	19,527,597	10,088,621	640,785	7,838,390	855,797	104,004
Amounts due from subsidiaries	7,285,939	3,733,768	400,000	1,445,000	1,665,000	42,171
Other assets	2,840,243	—	—	—	—	2,840,243
Total assets	111,770,411	86,501,999	2,866,532	13,093,374	3,693,540	5,614,966
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	1,673,424	778,755	756,466	129,396	—	8,807
Deposits from customers	81,184,068	73,158,440	3,961,148	132,268	—	3,932,212
Certificates of deposit issued	3,720,276	3,475,160	91,925	153,191	—	—
Trading liabilities	592,379	—	—	—	—	592,379
Amounts due to subsidiaries	16,100,651	8,192,718	3,130,884	4,287,035	—	490,014
Other liabilities	1,318,913	72,208	—	—	—	1,246,705
Total liabilities	104,589,711	85,677,281	7,940,423	4,701,890	—	6,270,117
Derivatives (in the banking book) net long/(short) position (notional amount)	—	280,008	85,558	(326,676)	(38,890)	—
Interest rate sensitivity gap	7,180,700	1,104,726	(4,988,333)	8,064,808	3,654,650	(655,151)

The following table indicates the effective interest rates for the last month of the year:

	The Group		The Bank	
	2007	2006	2007	2006
	%	%	%	%
Placement with banks, central banks and other financial institutions	5.26	4.75	5.33	4.75
Advances to customers and trade bills	5.48	6.08	4.98	5.88
Debt securities	5.56	5.18	5.72	5.28
	5.44	5.57	5.26	5.44
Deposits and balances of banks, central banks and other financial institutions	4.26	4.08	3.57	4.12
Deposits from customers	3.88	4.01	3.85	4.10
Certificates of deposit issued	3.39	3.19	3.34	3.19
Subordinated liabilities	5.70	5.32	5.70	5.32
	3.97	4.01	3.93	4.10

(ii) *Currency risk*

The Group foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries and branches outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALMCO. All foreign exchange positions are managed by the ALMCO within limits approved by the Board of Directors.

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas branch, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and include structural assets or liabilities as follow:

— investments in overseas subsidiaries and related companies; and

— subordinated liabilities.

	The Group			
	2007		2006	
(In millions of HK$ equivalent)	**US$**	**Total**	**US$**	**Total**
Spot assets	34,087	61,184	33,352	54,786
Spot liabilities	(35,080)	(62,519)	(33,486)	(54,549)
Forward purchases	23,452	27,373	32,214	35,141
Forward sales	(19,685)	(23,628)	(28,651)	(32,299)
Net option position	(5,369)	(5,369)	(171)	(166)
Net (short) / long positions	(2,595)	(2,959)	3,258	2,913

	The Group			
	2007			
(In millions of HK$ equivalent)	**Macau Patacas**	**Chinese Renminbi**	**US$**	**Total**
Net structural positions	260	610	646	1,516

(In millions of HK$ equivalent)	The Group 2006 Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	441	199	324	964

(In millions of HK$ equivalent)	The Bank 2007 US$	Total	2006 US$	Total
Spot assets	31,716	54,225	32,657	53,936
Spot liabilities	(32,821)	(56,272)	(33,033)	(53,905)
Forward purchases	23,443	27,330	32,214	35,095
Forward sales	(19,685)	(23,607)	(28,651)	(32,297)
Net option position	(5,369)	(5,369)	(171)	(166)
Net (short) / long positions	(2,716)	(3,693)	3,016	2,663

(In millions of HK$ equivalent)	The Bank 2007 Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	(854)	534	646	326

(In millions of HK$ equivalent)	The Bank 2006 Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	(583)	199	324	(60)

(iii) Equity risk

The Group's equities exposures in 2007 and 2006 are mainly in long-term equity investments which are reported as "Held-to-maturity and available-for-sale financial assets" set out in note 19. Equities held for trading purpose are included under "Trading assets" set out in note 16. These are subject to trading limits and risk management control procedures and other market risk regime.

(d) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior executives of the Group.

The framework consists of governing policies with control measures to ascertain absolute compliance by all operating units. These measures are directed, controlled and held to account by operational management committees chaired by senior executives. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. This division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

(e) ***Capital management***

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel II requirements and the regulations from the HKMA.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by oversea regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the year ended 31st December, 2007 and 2006 and are well above the minimum required ratio set by the HKMA.

The capital adequacy ratios as at 31st December, 2007 are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1st January, 2007. The capital adequacy ratios as at 31st December, 2006 were computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance and adjusted in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. Accordingly, the capital adequacy ratios of the two years are not directly comparable.

38. Staff benefits

(a) ***Retirement schemes***

	The Group	
	2007	**2006**
Retirement benefit costs (note 5(f))	48,807	40,467

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the income statement as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

(b) ***Equity compensation benefits***

(i) *Share Option Scheme*

Pursuant to the approved Share Option Scheme, the directors are authorised, at their discretion, to invite certain executive, to take up options to purchase ordinary shares in the Bank as an incentive to them. Prior to 1st September, 2001, the exercise price was 80% of the average closing price on The Stock Exchange of Hong Kong Limited ("SEHK") on the five business days immediately preceding the date of offer of such options. After 1st September, 2001, the exercise price should be at least the higher of the closing price of the shares on SEHK on the date of the grant, which must be a trading day, and the average closing price of the shares on SEHK for the five business days immediately preceding the date of grant.

(1) Movements in share options

	2007		2006	
	Weighted average exercise price HK$	**Number of shares**	**Weighted average exercise price HK$**	**Number of shares**
Outstanding at 1st January	38.50	1,085,000	37.43	1,285,000
Exercised.	41.92	(95,000)	31.64	(200,000)
Outstanding and exercisable at 31st December .	38.17	990,000	38.50	1,085,000

No share options were granted during the year (2006: nil).

(2) Terms and conditions of unexpired and unexercised share options at balance sheet date

Date of options granted	**Exercise price HK$**	**2007 Number of shares**	**2006 Number of shares**
10/03/2001	23.60	150,000	150,000
15/03/2002	26.30	120,000	120,000
14/01/2003	25.80	40,000	60,000
14/03/2003	26.50	100,000	100,000
21/05/2004	43.80	300,000	350,000
14/01/2005	51.25	200,000	220,000
28/01/2005	50.25	80,000	85,000
		990,000	1,085,000

The options granted under the Share Option Scheme will be exercisable between the first and the tenth anniversaries of the date of grant, and settled by physical delivery of shares.

The options outstanding at 31st December, 2007 have a weighted average remaining contractual life of 5.66 years (2006: 6.71 years).

(3) Details of share options exercised during the year

Exercise date	**Exercise price HK$**	**Weighted average closing price per share at preceding day before exercise date HK$**	**Proceeds received HK$**	**2007 Number of shares**	**2006 Number of shares**
01/02/2006	50.25	56.10	1,005,000	—	20,000
01/04/2006	25.80	65.15	516,000	—	20,000
01/04/2006	26.30	65.15	526,000	—	20,000
16/06/2006	43.80	63.95	1,752,000	—	40,000
18/08/2006	23.60	77.70	944,000	—	40,000
25/08/2006	26.30	75.00	789,000	—	30,000
25/08/2006	26.50	75.00	795,000	—	30,000
23/01/2007	43.80	96.55	657,000	15,000	—
23/01/2007	50.25	96.55	251,250	5,000	—
19/04/2007	25.80	95.85	516,000	20,000	—
09/05/2007	51.25	89.25	1,025,000	20,000	—
20/08/2007	43.80	82.05	876,000	20,000	—
05/12/2007	43.80	99.95	657,000	15,000	—
				95,000	200,000

The weighted average share price at the exercise date for share options exercised during the year is HK$91.90 (2006: HK$69.32).

(4) Fair value of share options and assumptions

The fair value per option at the dates of grant was measured based on the Bi-nominal pricing model. The Bi-nominal pricing model was used in estimating the fair value of share options after taking into account the exercise price and the life of the option. Such option pricing model requires the input of highly subjective assumptions including the risk-free interest rate, expected volatility and dividend yield of the shares. The changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. The fair values of the options were measured at the grant date and are charged to the income statement and credited to shareholders' funds between the grant date and vesting date. There were no market conditions associated with the share option grants.

(ii) *EIP*

Pursuant to the approved EIP, the directors are authorised, at their discretion, to invite certain executives, to take up awards to vesting ordinary shares in the Bank as incentive for them to remain in employment with the Bank. The maximum number of awards that may be granted under the EIP may not exceed 1% of the issued share capital of the Bank for the time being in issue within five years of the date of approval of the plan on 22nd April, 2004.

The Group grants awards at no consideration for certain employees to acquire ordinary shares in the Bank under the EIP. The shares will be acquired at a nominal value of HK$1 per share under the award. If the Board of Directors determines to select the cash option when shares vest, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

Date	**Percentage of Award vesting**
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

At 31st December, 2007, the Directors and employees of the Bank have the following interest in awards to purchase the ordinary shares in the Bank.

		2007		**2006**	
Date of awards granted	**Exercise price HK$**	**Fair value of awards at date of grant**	**Number of shares**	**Fair value of awards at date of grant**	**Number of shares**
21/05/2004	1.00	21,186,000	495,000	21,186,000	495,000
23/01/2006	1.00	87,672,000	1,560,000	87,672,000	1,560,000
29/01/2007	1.00	13,244,000	140,000	—	—
		122,102,000	2,195,000	108,858,000	2,055,000

The fair value per award at the date of grant is determined based on the closing price of the shares of the Bank less the exercise price of the award. The fair value per award at the date of grant is as follows:

	Award granted on 29/01/2007 HK$	**Award granted on 23/01/2006 HK$**
Closing price of the shares of the Bank at the date of grant	95.60	57.20
Less: Exercise price	(1.00)	(1.00)
Estimated fair value per award	94.60	56.20

39. Fair values of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

All valuation models are validated before they are used as a basis for financial reporting. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments.

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31st December, 2007 and 31st December, 2006 except as follows:

	The Group			
	2007		**2006**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Held-to-maturity investments	8,770,757	8,776,823	12,344,821	12,267,266
Financial liabilities				
Certificates of deposit issued at amortised cost	2,014,984	2,014,754	2,205,000	2,208,888
Subordinated liabilities valued at amortised cost	2,535,747	2,534,381	2,527,850	2,486,484

	The Bank			
	2007		**2006**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Held-to-maturity investments	6,592,703	6,597,605	9,768,479	9,693,863
Financial liabilities				
Certificates of deposit issued at amortised cost	1,815,000	1,814,575	2,205,000	2,208,888

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in above.

(a) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.

(b) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(c) the fair value of fixed rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(d) the fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

(e) the fair value of forward exchange contracts and interest rate swaps is estimated either using broker quotes or by discounting future cash flows. Broker quotes are back tested using pricing models or discounted cash flow techniques. Future cash flows are estimated based on management's best estimates of the amount it would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the balance sheet date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model. Inputs are based on market related data at the balance sheet date.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2007

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations, which are not yet effective for the accounting year ended 31st December, 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, HKFRS 8, *Operating segments*, which is effective for annual periods beginning on or after 1st January, 2009, may result in new or amended disclosures in the financial statements.

41. Non-adjusting post balance sheet event

The collateralised debt obligation ("CDOs") held by the Group were purchased according to the Bank's investment guidelines. As at 31st December, 2007, the carrying value of the CDOs amounted to HK$774,113,000. Since 31st December, 2007, the uncertainties in the credit and capital market for the CDOs continue, and the fair value of the CDOs held by the Group further decreased by HK$176,048,000 up to the end of February 2008. However, the unrealised loss on revaluation can be fully offset by the unrealised gain arising from the change in credit risk of our perpetual subordinated liabilities measured at fair value through profit or loss of approximately HK$256,324,000.

42. Comparative figures

As a result of adopting HKFRS 7, *Financial Instruments: Disclosures*, the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures* and complying with the Banking (Disclosure) Rules, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. In addition, certain figures have been reclassified to conform with the current year's presentation which have been made to facilitate the comparison of the Group's financial statements with peer banks in Hong Kong. Further details of these developments and reclassifications are disclosed in note 4 and under the paragraph "Compliance with the Banking (Disclosure) Rules" in the "Report of the Directors".

43. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 18th March, 2008.

EXHIBIT B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

The information in this Exhibit B has been extracted from the audited 2006 consolidated financial statements of the Issuer.

INDEPENDENT AUDITOR'S REPORT

The following is the full text of the independent auditor's report extracted from the published audited consolidated financial statements of the Bank for the year ended 31 December 2006. Page references used in the text of the independent auditor's report are references to pages set out in the independent auditor's report dated 15 March 2007.

KPMG

To the shareholders of Wing Hang Bank, Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of Wing Hang Bank, Limited ("the Bank") set out on pages 49 to 177, which comprise the consolidated and the Bank balance sheets as at 31st December, 2006, and the consolidated profit and loss account, 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 Accounts

The Directors of the Bank are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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 accounts 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 accounts based on our audit. This report is made 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 accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, 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 accounts 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 accounts.

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 accounts give a true and fair view of the state of affairs of the Bank and of the Group as at 31st 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 Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15th March, 2007

Consolidated Profit and Loss Account

For the year ended 31st December, 2006

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2006	2005
Interest income	*5(a)*	5,818,646	4,041,779
Interest expense	*5(b)*	(3,899,913)	(2,312,655)
Net interest income		1,918,733	1,729,124
Net interest income on financial instruments held for trading and measured at fair value through profit or loss	*5(c)*	207,165	135,876
Other operating income	*5(d)*	811,549	755,770
Operating income		2,937,447	2,620,770
Operating expenses	*5(e)*	(1,074,369)	(975,789)
Operating profit before impairment losses and allowances charge on loans and advances		1,863,078	1,644,981
Impairment losses and allowances charge on loans and advances	*19*	(773)	(54,056)
Operating profit		1,862,305	1,590,925
Gains on revaluation of investment properties and disposal of tangible fixed assets	*6(a)*	54,222	22,680
Gains/(losses) on disposal of available-for-sale financial assets	*6(b)*	13,773	(9,048)
Share of net profits of associated companies	*22*	50,951	11,249
Profit before taxation		1,981,251	1,615,806
Taxation	*7(a)*	(319,138)	(264,861)
Profit after taxation		1,662,113	1,350,945
Profit attributable to:			
Shareholders of the Bank	*8 & 33*	1,660,716	1,348,718
Minority interests		1,397	2,227
Profit after taxation		1,662,113	1,350,945
Dividends attributable to the year:			
Interim dividend paid during the year		241,260	205,800
Underprovision of final dividend in respect of the previous year		96	57
Final dividend proposed after the balance sheet date		588,441	470,433
	9	829,797	676,290
		HK$	**HK$**
Earnings per share	*12*		
Basic		5.65	4.59
Diluted		5.60	4.57
Dividends per share			
Interim		0.82	0.70
Proposed final		2.00	1.60
		2.82	2.30

The notes on pages 54 to 177 form part of these accounts.

Consolidated Balance Sheet

As at 31st December, 2006

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2006	2005
ASSETS			
Cash and short-term funds	*13 & 37*	28,785,949	20,053,798
Placements with banks and other financial institutions maturing between one and twelve months	*14*	3,677,234	2,657,380
Trade bills less impairment allowances	*15*	370,549	652,375
Trading assets	*16*	738,392	911,264
Financial assets measured at fair value through profit or loss	*17*	5,382,956	5,924,424
Advances to customers and other accounts less impairment allowances	*18(a)*	60,704,258	55,472,883
Held-to-maturity and available-for-sale financial assets	*20*	19,534,360	15,909,430
Investments in associated companies	*22*	197,906	146,955
Tangible fixed assets	*23*		
— Investment properties		258,390	231,447
— Other properties, plants and equipment		1,635,398	1,506,041
Goodwill	*24*	847,422	847,422
Current tax recoverable	*7(c)*	1,074	1,211
Deferred tax assets	*7(d)*	16,679	7,986
Total assets		122,150,567	104,322,616
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	*25*	1,692,887	1,703,026
Deposits from customers	*26*	102,066,947	85,673,452
Certificates of deposit issued	*27*	3,715,303	3,824,339
Trading liabilities	*28*	590,899	865,962
Current tax payable	*7(c)*	152,706	102,798
Deferred tax liabilities	*7(d)*	105,274	91,570
Other accounts and provisions	*29*	1,981,978	1,203,530
Loan capital	*30*	2,527,850	2,519,888
Total liabilities		112,833,844	95,984,565
Share capital	*32*	294,221	294,021
Reserves	*33*	9,002,494	8,021,919
Shareholders' funds		9,296,715	8,315,940
Minority interests		20,008	22,111
Total equity		9,316,723	8,338,051
Total equity and liabilities		122,150,567	104,322,616

Patrick Y B Fung *Chairman and Chief Executive*
Frank J Wang *Director and Deputy Chief Executive*
Michael Y S Fung *Director and Senior General Manager*
Louis C W Ho *Director and Secretary*

The notes on pages 54 to 177 form part of these accounts.

Balance Sheet

As at 31st December, 2006

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2006	2005
ASSETS			
Cash and short-term funds	*13*	26,124,387	18,744,775
Placements with banks and other financial institutions maturing between one and twelve months	*14*	3,608,960	2,629,507
Trade bills less impairment allowances	*15*	323,718	412,544
Trading assets	*16*	749,578	929,710
Financial assets measured at fair value through profit or loss	*17*	5,382,956	5,924,424
Advances to customers and other accounts less impairment allowances	*18(a)*	46,524,605	43,220,921
Amounts due from subsidiaries		7,285,939	6,074,285
Held-to-maturity and available-for-sale financial assets	*20*	18,930,025	15,249,952
Investments in subsidiaries	*21*	682,707	682,707
Investments in associated companies	*22*	174,000	174,000
Tangible fixed assets	*23*		
— Investment properties		10,380	18,300
— Other properties, plants and equipment		1,116,282	1,150,192
Goodwill	*24*	847,422	847,422
Deferred tax assets	*7(d)*	9,452	3,479
Total assets		111,770,411	96,062,218
EQUITY AND LIABILITIES			
Deposits and balances of banks and other financial institutions	*25*	1,673,424	1,694,613
Deposits from customers	*26*	81,184,068	67,902,897
Certificates of deposit issued	*27*	3,720,276	3,829,252
Trading liabilities	*28*	592,379	869,748
Current tax payable	*7(c)*	106,086	57,750
Deferred tax liabilities	*7(d)*	79,012	69,251
Other accounts and provisions	*29*	1,133,815	809,857
Amounts due to subsidiaries		16,100,651	14,201,751
Total liabilities		104,589,711	89,435,119
Share capital	*32*	294,221	294,021
Reserves	*33*	6,886,479	6,333,078
Total equity		7,180,700	6,627,099
Total equity and liabilities		111,770,411	96,062,218

Patrick Y B Fung *Chairman and Chief Executive*
Frank J Wang *Director and Deputy Chief Executive*
Michael Y S Fung *Director and Senior General Manager*
Louis C W Ho *Director and Secretary*

The notes on pages 54 to 177 form part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2006	2005
Total equity as at 1st January		8,338,051	7,602,038
Unrealised gains/(losses) on revaluation of available-for-sale financial assets after deferred tax charge/credit	*33*	14,378	(20,650)
(Gains)/losses transferred from investment revaluation reserve to current year profit or loss account on disposal of available-for-sale financial assets	*33*	(11,890)	7,424
Unrealised gains on revaluation of bank premises	*33*	11,010	9,297
Deferred tax (charged)/credited to bank premises revaluation reserve	*33*	(1,440)	2,900
Effects of foreign exchange rate changes	*33*	1,098	(759)
Net gains/(losses) recognised directly in equity		13,156	(1,788)
Net profit for the year		1,662,113	1,350,945
Total recognised income and expenses for the year		1,675,269	1,349,157
Dividends paid	*33*	(711,789)	(626,149)
Proceeds on shares issued under share option scheme	*32 & 33*	6,327	4,010
Share premium under Employee Incentive Plan and share option scheme	*33*	12,365	8,995
Ordinary dividends paid to minority interest holder		(3,500)	—
Total equity as at 31st December		9,316,723	8,338,051
Total recognised income and expenses for the year attributable to:			
Shareholders of the Bank		1,673,872	1,346,930
Minority interests		1,397	2,227
		1,675,269	1,349,157

The notes on pages 54 to 177 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2006	2005
Net cash inflow from operating activities	*35(a)*	10,343,333	2,158,383
Investing activities			
Purchase of held-to-maturity and available-for-sale financial assets		(5,535,348)	(7,397,211)
Sale and redemption of held-to-maturity and available-for-sale financial assets		1,927,217	6,603,467
Net cash outflow from acquisition of a subsidiary		—	(879)
Purchase of tangible fixed assets		(255,228)	(55,899)
Sale of tangible fixed assets		82,918	47,551
Net cash outflow from investing activities		(3,780,441)	(802,971)
Financing			
Issue of new shares under share option scheme		6,327	4,010
Dividends paid		(711,789)	(626,149)
Dividends paid to minority interests		(3,500)	—
Interest paid on loan capital		(134,029)	(134,148)
Net cash outflow from financing activities		(842,991)	(756,287)
Increase in cash and cash equivalents		5,719,901	599,125
Cash and cash equivalents at 1st January		20,968,190	20,375,662
Effects of foreign exchange rate changes		9,060	(6,597)
Cash and cash equivalents at 31st December	*35(b)*	26,697,151	20,968,190
Cash flows from operating activities included:			
Interest received		5,729,738	4,122,265
Interest paid		3,927,229	2,020,871
Dividend received		8,420	8,038
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks and other financial institutions		2,182,173	1,724,925
Money at call and short notice		22,829,146	16,638,711
Treasury bills		1,226,701	760,393
Placements with banks and other financial institutions with an original maturity between one and three months		459,131	1,844,161
		26,697,151	20,968,190

The notes on pages 54 to 177 form part of these accounts.

1. Principal activities

The Bank and its subsidiaries (together referred to as “the Group”) are engaged in commercial banking and related financial services.

2. Principal accounting policies

(a) Statement of compliance

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the module on “Financial Disclosure by Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority (“HKMA”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. The adoption of these new and revised HKFRSs do not result in significant changes to the Group’s and the Bank’s accounting policies applied in these accounts for the years presented. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) Basis of preparation of the accounts

The consolidated accounts for the year ended 31st December, 2006 comprise the Bank and its subsidiaries and the Group’s interest in associated companies. The measurement basis used in the preparation of the accounts is historical cost except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as trading, measured at fair value through profit or loss and available-for-sale (note 2(f)(ii));

— investment property (note 2(l));

— other freehold land and buildings (note 2(l)); and

— other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(l) and 2(m)).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of these interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Bank's balance sheet, its investments in subsidiaries are stated at cost less impairment losses, if any (note 2(p)).

(d) Associated companies

An associated company is an entity over which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associated company's net assets. The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associated companies for the year, including any impairment loss on goodwill relating to the investment in associated companies recognised for the year (notes 2(e) and 2(p)).

When the Group's share of losses exceeds its interest in the associated company, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associated company. For these purposes, the Group's interest in the associated company is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associated company.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Bank's balance sheet, its investments in associated companies are stated at cost less impairment losses, if any (note 2(p)).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associated company over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(p)). In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the interest in the associated companies.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associated company is recognised immediately in the profit and loss account.

On disposal of a cash generating unit, or an associated company during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Expenditure on internally generated goodwill and brand name is recognised as an expense in the period in which it is incurred.

(f) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(ii) *Classification*

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those measured at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(h)) are accounted for as trading instruments.

The Group has the option to designate financial instruments at fair value through profit or loss upon initial recognition when:

— the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

— the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

— the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

— the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or net payment and the carrying value is included in the profit and loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customer and placements with banks and financial institutions.

Securities classified as loans and receivables typically comprise of securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(p)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available for sale; and (2) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(p)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated at available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in the investment revaluation reserve, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the profit and loss account.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (note 2(p)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are released from the investment revaluation reserve.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) *Derecognition*

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

(v) *Offsetting*

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

(vi) *Embedded derivatives*

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (1) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (2) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the profit and loss account.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(g) ***Repurchase and reverse repurchase transactions***

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the accounts and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the balance sheet at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

(h) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (1) the hedging instrument expires or is sold, terminated or exercised; (2) the hedge no longer meets the criteria for hedge accounting; or (3) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the profit and loss account.

The hedging instrument is measured at fair value, with fair value changes recognised in the profit and loss account. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the profit and loss account to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the profit and loss account as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the profit and loss account.

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the profit and loss account in the same period or periods during which the asset acquired or liability assumed affects the profit and loss account (such as when interest income or expense is recognised).

For all other cash flow hedges, the associated gain or loss is removed from equity and recognised in the profit and loss account in the same period or periods in which the hedged cash flows affect the profit and loss account.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the profit and loss account.

(iii) Net investment hedge

Hedges of net investment in foreign operations are accounted for similarly to cash flow hedges. The portion of the gain or loss on remeasurement of the hedging instrument that is determined to be an effective hedge is directly recognised in equity until the disposal of the foreign operation, at which time the cumulative gain or loss recognised directly in equity is recognised in the profit and loss account. The ineffective portion is recognised immediately in the profit and loss account.

(iv) Hedge effectiveness testing

The Group expects the hedge to be highly effective (prospective effectiveness) at the inception of the hedge to qualify for hedge accounting. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression analysis as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(i) Revenue recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the profit and loss account on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. 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, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued, but any increase in the present value of impaired financial assets due to the passage of time is reported as interest income.

(ii) Fee and commission income

Fee and commission income is recognised in the profit and loss account when the corresponding service is provided, 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 as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised in a straight line basis over the commitment period.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alterative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax liabilities are generally recognised for all taxable temporary differences. 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.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such deduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income tax levied by the same tax authority on the same taxable entity.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in net realised and unrealised gains/losses on trading financial instruments or financial instruments measured at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains/losses arising from dealing in foreign currencies in the profit and loss account.

The results of overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of an overseas operation, the cumulative amount of the exchange differences recognised in equity which relate to that overseas operation is included in the calculation of the profit or loss on disposal.

(l) Tangible fixed assets and depreciation

(i) Bank premises are stated in the balance sheet at cost or at directors' valuation, by reference to an independent professional valuation, less accumulated depreciation and impairment losses. In preparing these accounts, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16 "Property, Plant and Equipment" issued by the HKICPA, with the effect that bank premises have not been revalued to fair value at the balance sheet date.

(ii) Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.

(iii) No amortisation is provided on freehold land. Leasehold land (note 2(m)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are amortised by equal instalments over the estimated useful lives which in no case exceed fifty years.

(iv) Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(m)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the balance sheet at their open market values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investments properties is recognised in the profit and loss account.

(m) Finance and operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Advances to customers". Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(p).

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(l)(ii) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(p). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(i)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(l)(iv)).

(n) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(p), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances.

Repossessed assets are recorded at the lower of their carrying amount of the related loans and advances and fair value less costs to sell at the date. They are not depreciated or amortised.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within "Other accounts and provisions".

The deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) ***Impairment of assets***

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the profit and loss account.

(i) *Loans and receivables*

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the profit and loss account. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the advances and the related interest receivables are written off.

(ii) *Held-to-maturity investments*

Impairment on held-to-maturity investments is considered at both individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit and loss account. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit and loss account. The amount of the cumulative loss that is recognised in the profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit and loss account.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

Impairment losses recognised in the profit and loss account in respect of available-for-sale equity securities are not reversed through the profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the profit and loss account.

(iv) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— tangible fixed assets (other than properties carried at revalued amounts);

— investments in subsidiaries and associated companies; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

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).

— Recognition of impairment losses

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (notes 2(p)(i) to 2(p)(iv)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

(q) Related parties

For the purposes of these accounts, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associated company of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these accounts.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between entities of the Group within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the cash flow statement.

(t) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the profit and loss account when incurred.

(iii) When the Group grants employees options to acquire shares of the Bank, the considerations received are recognised in the balance sheet as "Other accounts and provisions" at the date of grant. The fair value of the options is measured at the grant date and is charged to the profit and loss account and credited to shareholders' funds between the grant date and the vesting date. When the options are exercised, shareholders' funds are increased by the amount of the proceeds and consideration received.

(iv) When the Group grants employees awards to acquire shares of the Bank under the Employee Incentive Plan ("EIP"). The fair value of the awards is measured at the grant date and is charged to the profit and loss account and credited to shareholders' funds between the grant date and the vesting date. The cash amount equal to the dividend that would have been paid during the period up to vesting will be charged to the profit and loss account as bonus expenses on an accruals basis.

3. Accounting estimates and judgements

Notes 23, 24, 40 and 41 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

Impairment losses

(i) Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data about local or economic conditions that correlate with defaults on the assets in the group. If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

(i) Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(ii) Investment property

The Group has temporarily sub-let certain vacant properties but has decided not to treat the property as an investment property because it is not the Group's intention to hold the property in the long-term for capital appreciation or rental income. Accordingly, the property has still been treated as a building held for own use.

4. Changes in accounting policies

The HKICPA has issued certain new and revised HKFRSs that are effective or available for early adoption for the current accounting period of the Group.

With effect from 1st January, 2006, the Group has adopted the following new and revised HKFRSs which are pertinent to its operations and relevant to these accounts:

— Amendments to HKAS 39, *Financial instruments: Recognition and measurement: Financial guarantee contracts*;

— Amendments to HKAS 39, *Financial instruments: Recognition and measurement: Fair value option*; and

— HK(IFRIC) 10, *Interim financial reporting and impairment*.

Note 2 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The Group assesses the adoption of each of the above developments and has determined that there is no material impact on the basis of preparation of these accounts and accordingly no comparatives have been restated.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 42) except for HK(IFRIC) 10, *Interim financial reporting and impairment*, which is effective for accounting periods beginning on or after 1st November, 2006.

5. Operating profit

(a) Interest income

	2006	2005
Placement with banks and other financial institutions	1,104,734	909,644
Advances to customers and trade bills	3,659,849	2,515,713
Listed investments	341,456	58,361
Unlisted investments	708,792	522,511
Others	3,815	35,550
	5,818,646	4,041,779

Interest income from advances to customers and trade bills includes the amount of interest income of HK$19,124,000 (2005: HK$22,824,000) accrued on impaired financial assets, which includes interest income on unwinding of discount on loan impairment loss of HK$2,672,000 (2005: HK$10,465,000) (Note 19) for the year ended 31st December, 2006.

(b) Interest expenses

	2006	2005
Deposits and balances of banks and other financial institutions	95,552	66,375
Deposits from customers	3,553,702	2,051,916
Certificates of deposit issued	103,539	60,216
Loan capital	134,029	134,148
Others	13,091	—
	3,899,913	2,312,655

(c) Net interest income on financial instruments held for trading and measured at fair value through profit or loss

	2006	2005
Trading assets	1,014	138
Trading liabilities	(106)	(562)
Financial assets measured at fair value through profit or loss	239,650	234,309
Financial liabilities measured at fair value through profit or loss	(110,319)	(84,776)
Trading financial derivative assets	99,690	55,869
Trading financial derivative liabilities	(22,764)	(69,102)
	207,165	135,876

(d) ***Other operating income***

	2006	2005
Fees and commissions		
Credit commission and fees	106,413	120,456
Credit card related fees	82,231	67,947
Trade related fees	83,827	80,605
Insurance commission	53,435	56,761
Stockbroking fees	105,433	58,147
Other fees and commission income	198,645	173,087
Less: Fees and commission expenses	(35,993)	(36,041)
	593,991	520,962
Gains arising from dealing in foreign currencies	165,832	113,480
Gains on other dealing activities	4,077	981
Net realised and unrealised gains on trading financial instruments	77,312	33,038
Net realised and unrealised (losses)/gains on financial instruments measured at fair value through profit or loss	(59,480)	59,531
Dividend income from unlisted available-for-sale investments	7,405	6,071
Dividend income from listed available-for-sale investments	483	1,629
Dividend income from listed trading investments	314	149
Others	21,615	19,929
	811,549	755,770

(e) ***Operating expenses***

	2006	2005
Staff costs		
Salaries and other staff costs	661,355	579,729
Retirement benefit costs (Note 40(a))	40,467	36,267
Share option scheme cost (Note 35(a))	—	6,588
EIP cost (Note 35(a))	12,365	3,372
	714,187	625,956
Premises and equipment expenses, excluding depreciation	116,211	105,179
Depreciation (Notes 23 and 36(a))	81,242	75,407
Auditor's remuneration		
Audit services	3,380	3,238
Tax services	584	532
Other services	50	868
	4,014	4,638
Impairment losses on goodwill (Notes 24 and 36(a))	—	1,170
Others	158,715	163,439
	1,074,369	975,789

6. *(a)* ***Gains on revaluation of investment properties and disposal of tangible fixed assets***

	2006	2005
Unrealised revaluation gain of investment properties	15,568	12,797
Net profit on disposal of tangible fixed assets	38,654	9,883
	54,222	22,680

6. *(b)* ***Gains/(losses) on disposal of available-for-sale financial assets***

	2006	2005
Net unrealised gains/(losses) transferred from investment revaluation reserve (Note 33)	11,890	(7,424)
Gains/(losses) on disposal of available-for-sale financial assets	1,883	(1,624)
	13,773	(9,048)

7. Taxation

(a) Taxation in the consolidated profit and loss account represents:

	2006	2005
Current tax — Provision for Hong Kong profits tax		
Provision for the year	284,091	239,151
Overprovision in respect of prior years	(13,805)	(6,866)
	270,286	232,285
Current tax — Provision for overseas tax		
Provision for the year	45,821	32,609
Overprovision in respect of prior years	(2)	(6,779)
	45,819	25,830
Deferred taxation		
Origination and reversal of temporary differences	3,033	7,423
Effect of decrease in overseas tax rate on deferred tax balances at 1st January	—	(677)
	3,033	6,746
	319,138	264,861

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the Group's estimated assessable profits for the year ended 31st December, 2006. The provision for overseas taxation is provided at the appropriate current rates of taxation ruling in the countries in which the relevant units of the Group operate.

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2006		2005	
		%		%
Profit before tax	1,981,251	100.00	1,615,806	100.00
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	330,010	16.66	267,845	16.57
Tax effect of non-deductible expenses	16,143	0.81	18,588	1.15
Tax effect of non-taxable revenue	(37,330)	(1.88)	(9,147)	(0.57)
Tax effect of unused tax losses not recognised	2,632	0.13	1,897	0.12
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	—	—	(677)	(0.04)
Others	21,490	1.09	—	—
Overprovision in respect of prior years	(13,807)	(0.70)	(13,645)	(0.84)
	319,138	16.11	264,861	16.39

(c) ***Current tax recoverable and payable***

The components of current tax recoverable and payable in the balance sheets are as follows:

	The Group		The Bank	
	2006	**2005**	**2006**	**2005**
Current tax recoverable				
Provision for Hong Kong profits tax	1,074	1,211	—	—
Current tax payable				
Provision for Hong Kong profits tax	115,484	67,760	103,360	53,641
Provision for overseas tax	37,222	35,038	2,726	4,109
	152,706	102,798	106,086	57,750

All current tax recoverable and payable are expected to be settled within one year.

(d) ***Deferred tax assets and liabilities recognised***

The components of deferred tax (assets)/liabilities recognised in the balance sheets and the movements during the year are as follows:

The Group
2006

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January, 2006	30,755	84,818	2,446	(31,758)	(2,540)	(137)	83,584
Charged/(credited) to consolidated profit and loss account	(1,893)	(4,924)	—	11,641	(470)	(1,321)	3,033
Charged to reserves	—	1,440	538	—	—	—	1,978
At 31st December, 2006	28,862	81,334	2,984	(20,117)	(3,010)	(1,458)	88,595

The Group
2005

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January, 2005	28,944	85,479	4,835	(34,491)	(2,640)	—	82,127
Charged/(credited) to consolidated profit and loss account	1,811	2,239	—	2,733	100	(137)	6,746
Credited to reserves	—	(2,900)	(2,389)	—	—	—	(5,289)
At 31st December, 2005	30,755	84,818	2,446	(31,758)	(2,540)	(137)	83,584

	The Bank 2006					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January, 2006	25,536	69,404	2,443	(31,474)	(137)	65,772
Charged/(credited) to profit and loss account	(2,215)	347	—	7,754	(1,321)	4,565
(Credited)/charged to reserves	—	(1,205)	428	—	—	(777)
At 31st December, 2006	23,321	68,546	2,871	(23,720)	(1,458)	69,560

	The Bank 2005					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January, 2005	24,032	73,021	4,522	(34,692)	—	66,883
Charged/(credited) to profit and loss account	1,504	910	—	3,218	(137)	5,495
Credited to reserves	—	(4,527)	(2,079)	—	—	(6,606)
At 31st December, 2005	25,536	69,404	2,443	(31,474)	(137)	65,772

	The Group		The Bank	
	2006	2005	2006	2005
Net deferred tax assets recognised on the balance sheets	(16,679)	(7,986)	(9,452)	(3,479)
Net deferred tax liabilities recognised on the balance sheets	105,274	91,570	79,012	69,251
	88,595	83,584	69,560	65,772

8. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK$1,242,954,000 (2005: HK$1,124,275,000) which has been dealt with in the accounts of the Bank.

9. Dividends

(a) Dividends attributable to the year

	2006	2005
Interim dividend declared and paid of HK$0.82 (2005: HK$0.70) per ordinary share on 294,220,500 shares (2005: 294,000,500 shares)	241,260	205,800
Underprovision of final dividend in respect of the prior year	96	57
Final dividend proposed after the balance sheet date of HK$2.00 (2005: HK$1.60) per ordinary share on 294,220,500 shares (2005: 294,020,500 shares)	588,441	470,433
	829,797	676,290

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous year, approved and paid during the year

	2006	2005
Final dividend in respect of the prior year, approved and paid during the year, of HK$1.60 (2005: HK$1.43) per ordinary share on 294,080,500 shares (2005: 293,950,500 shares)	470,529	420,349

10. Directors' emoluments

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

2006	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payment	Total
Chairman							
Patrick Y B Fung	229	5,720	660	7,573	14,182	3,845	18,027
Executive directors							
Frank J Wang	115	2,700	—	4,956	7,771	2,331	10,102
Michael Y S Fung	115	2,874	331	3,786	7,106	1,923	9,029
Louis C W Ho	115	1,609	186	824	2,734	48	2,782
Non-executive directors							
Aloysius H Y Tse	100	89	—	—	189	—	189
Ambrose H C Lau	100	—	—	—	100	—	100
Andrew M Gordon	100	50	—	—	150	—	150
Cheng Hon Kwan	100	50	—	—	150	—	150
David Drabkin	100	—	—	—	100	—	100
Kenneth A Lopian	100	—	—	—	100	—	100
Simon K Y Lee	100	50	—	—	150	—	150
Tung Chee Chen	100	—	—	—	100	—	100
Total	1,374	13,142	1,177	17,139	32,832	8,147	40,979

2005	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payment	Total
Chairman							
Patrick Y B Fung	229	5,200	600	4,026	10,055	1,908	11,963
Executive directors							
Frank J Wang	115	2,460	—	2,666	5,241	1,356	6,597
Michael Y S Fung	115	2,704	312	2,013	5,144	1,234	6,378
Louis C W Ho	115	1,609	186	571	2,481	798	3,279
Non-executive directors							
Alan R Griffith	100	—	—	—	100	—	100
Aloysius H Y Tse	100	89	—	—	189	—	189
Ambrose H C Lau	100	—	—	—	100	—	100
Andrew M Gordon	100	50	—	—	150	—	150
Cheng Hon Kwan	100	50	—	—	150	—	150
Kenneth A Lopian	100	—	—	—	100	—	100
Simon K Y Lee	100	50	—	—	150	—	150
Tung Chee Chen	100	—	—	—	100	—	100
Total	1,374	12,212	1,098	9,276	23,960	5,296	29,256

The above share-based payments are fair value of share options and awards granted under the Group's Share Option Scheme and EIP. The details of these benefits in kind are disclosed under "Share Option Scheme" and "Employee Incentive Plan" in the Report of the Directors.

11. Executives' emoluments

The five highest paid individuals include three (2005: four) directors, details of whose emoluments are set out in Note 10. The emoluments of the remaining two (2005: one) individuals are as follows:

	2006	2005
Salaries and other emoluments	4,107	1,922
Pension contributions	472	220
Performance bonuses	3,351	1,200
Share-based payment	880	554
	8,810	3,896

The emoluments of the executives are within the following band:

	2006 Number of executives	2005 Number of executives
HK$3,500,001 — HK$4,000,000	—	1
HK$4,000,001 — HK$4,500,000	2	—
	2	1

12. Earnings per share

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders of HK$1,660,716,000 (2005: HK$1,348,718,000) and on the weighted average number of ordinary shares of 294,126,856 shares (2005: 293,970,062 shares) in issue during the year.

	2006 Number of shares of HK$1.00 each	2005 Number of shares of HK$1.00 each
Issued ordinary shares at 1st January	294,020,500	293,910,500
Effect of share option exercised	106,356	59,562
Weighted average number of ordinary shares used in calculating basic earnings per share	294,126,856	293,970,062

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders of HK$1,660,716,000 (2005: HK$1,348,718,000) and on the weighted average number of ordinary shares of 296,657,181 shares (2005: 294,844,825 shares) in issue during the year after adjustment for the effects of all dilutive potential ordinary shares of 2,530,325 shares (2005: 874,763 shares).

	2006 Number of shares of HK$1.00 each	2005 Number of shares of HK$1.00 each
Weighted average number of ordinary shares used in calculating basic earnings per share	294,126,856	293,970,062
Deemed exercise of share option scheme	504,647	733,918
Deemed exercise of EIP	2,025,678	140,845
Weighted average number of ordinary shares used in calculating diluted earnings per share	296,657,181	294,844,825

13. Cash and short-term funds

	The Group		The Bank	
	2006	2005	2006	2005
Cash and balances with banks and other financial institutions	2,253,725	1,781,679	1,691,086	1,387,648
Money at call and short notice	23,847,991	16,998,025	23,835,729	16,958,098
Treasury bills	2,684,233	1,274,094	597,572	399,029
	28,785,949	20,053,798	26,124,387	18,744,775

Cash and balances with banks and other financial institutions are analysed as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Cash balances	446,035	381,624	241,618	271,043
Balances and placement with central banks	387,073	413,531	143,744	228,574
Balances and placement with banks and other financial institutions	1,420,617	986,524	1,305,724	888,031
	2,253,725	1,781,679	1,691,086	1,387,648

Money at call and short notice are analysed as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Placement with banks	23,847,991	16,998,025	23,835,729	16,958,098

All treasury bills are held-to-maturity, issued by central governments and central banks, and are unlisted.

14. Placements with banks and other financial institutions maturing between one and twelve months

	The Group		The Bank	
	2006	2005	2006	2005
Placement with banks	3,677,234	2,657,380	3,608,960	2,629,507

15. Trade bills less impairment allowances

	The Group		The Bank	
	2006	2005	2006	2005
Trade bills	375,189	653,992	328,352	414,160
Individual impairment allowances for impaired loans and advances (Note 19)	(4,355)	(961)	(4,355)	(961)
Collective impairment allowances for loans and advances (Note 19)	(285)	(656)	(279)	(655)
	370,549	652,375	323,718	412,544

16. Trading assets

	The Group		The Bank	
	2006	2005	2006	2005
Debt securities:				
Listed in Hong Kong	115,220	299	115,220	299
Unlisted	—	1,413	—	1,413
	115,220	1,712	115,220	1,712
Equity securities listed in Hong Kong	18,482	74,380	13,525	66,380
Total trading securities	133,702	76,092	128,745	68,092
Positive fair values of derivative financial instruments held for trading (Note 34(b)(ii)(2))	604,690	835,172	620,833	861,618
	738,392	911,264	749,578	929,710

Trading assets of the Bank include positive fair values of derivative financial instruments transacted with a subsidiary amounting to HK$16,990,000 (2005: HK$26,445,000).

Trading securities analysed by counterparty are as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Issued by:				
Central governments and central banks	—	201	—	201
Banks and other financial institutions	15,901	42,036	13,525	37,014
Corporate entities	117,497	33,757	114,922	30,779
Public sector entities	304	98	298	98
	133,702	76,092	128,745	68,092

17. Financial assets measured at fair value through profit or loss

	The Group		The Bank	
	2006	2005	2006	2005
Debt securities:				
Listed in Hong Kong	54,684	93,506	54,684	93,506
Listed outside Hong Kong	697,448	1,230,053	697,448	1,230,053
Unlisted	4,630,824	4,600,865	4,630,824	4,600,865
	5,382,956	5,924,424	5,382,956	5,924,424

Financial assets measured at fair value through profit or loss analysed by counterparty are as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Issued by:				
Banks and other financial institutions	2,379,167	2,886,507	2,379,167	2,886,507
Corporate entities	2,501,097	2,527,422	2,501,097	2,527,422
Public sector entities	502,692	510,495	502,692	510,495
	5,382,956	5,924,424	5,382,956	5,924,424

18. Advances to customers and other accounts less impairment allowances

(a) Advances to customers and other accounts less impairment allowances

	The Group		The Bank	
	2006	2005	2006	2005
Gross advances to customers	58,638,237	54,401,834	45,204,201	42,518,513
Individual impairment allowances for impaired loans and advances (Note 19)	(92,317)	(119,720)	(70,016)	(104,194)
Collective impairment allowances for loans and advances (Note 19)	(168,717)	(207,842)	(146,411)	(178,795)
Net advances to customers	58,377,203	54,074,272	44,987,774	42,235,524
Advances to banks and other financial institutions	47,539	79,191	47,539	79,191
Accrued interest and other accounts	2,272,096	1,310,822	1,481,872	897,608
Positive fair values of derivative financial instruments held for hedging (Note 34(b)(ii)(1))	7,420	8,598	7,420	8,598
	60,704,258	55,472,883	46,524,605	43,220,921

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any impairment allowances.

	The Group		The Bank	
	2006	2005	2006	2005
Advances for use in Hong Kong				
Industrial, commercial and financial				
— Property development	405,490	652,264	405,490	652,264
— Property investment	10,901,148	9,628,817	10,815,074	9,536,468
— Financial concerns	1,101,513	508,747	1,101,513	508,747
— Stockbrokers	346,457	307,150	346,457	307,150
— Wholesale and retail trade	807,723	835,833	805,722	829,045
— Manufacturing	1,241,327	1,460,996	1,139,576	1,366,358
— Transport and transport equipment	2,416,631	2,827,696	326,691	593,886
— Share financing	277,747	256,776	277,747	256,776
— Others	2,762,740	2,899,347	2,548,377	2,682,803
Individuals				
— Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,591,838	1,500,857	1,591,838	1,500,857
— Advances for the purchase of other residential properties	14,692,277	13,917,497	13,122,821	12,536,471
— Credit card advances	323,145	385,932	323,145	385,932
— Others	3,238,841	3,523,120	1,508,815	1,870,588
	40,106,877	38,705,032	34,313,266	33,027,345
Trade finance	3,049,104	3,057,178	2,773,451	2,713,906
Advances for use outside Hong Kong				
— Mainland China	9,257,219	7,801,900	8,023,139	6,667,519
— Macau	6,211,056	4,817,591	80,364	94,610
— Others	13,981	20,133	13,981	15,133
	15,482,256	12,639,624	8,117,484	6,777,262
	58,638,237	54,401,834	45,204,201	42,518,513

(c) ***Impaired advances to customers***

The gross impaired advances to customers and individual impairment allowances made after taking into account the discounted value of future recoverable amounts in respect of such advances are as follows:

	The Group		The Bank	
	2006	**2005**	**2006**	**2005**
Gross impaired advances to customers	364,092	560,065	293,170	463,689
Gross impaired advances to customers as a percentage of total advances to customers	0.62%	1.03%	0.65%	1.09%
Individual impairment allowances	92,317	119,720	70,016	104,194

There are no individual impairment allowances made on advances to banks and other financial institutions as at 31st December, 2006 and 31st December, 2005.

(d) ***Included in advances to customers are net investments in finance leases:***

The total minimum lease payments receivable under finance leases and their present values are as follows:

	The Group			
	2006		**2005**	
	Present value of the minimum lease payments	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**
Amount receivable:				
Within 1 year	1,856,521	2,087,318	1,766,192	1,979,874
After 1 year but within 5 years	2,039,947	2,220,070	2,086,306	2,282,263
After 5 years	94,378	120,057	181,878	263,114
	3,990,846	4,427,445	4,034,376	4,525,251
Individual impairment allowances for impaired loans and advances	(1,658)	—	(2,434)	—
Collective impairment allowances for loans and advances	(11,914)	—	(15,209)	—
Unearned future income on finance lease	—	(436,599)	—	(490,875)
Net investment in finance leases	3,977,274	3,990,846	4,016,733	4,034,376

The Bank has no finance lease receivable as at 31st December, 2006 and 31st December, 2005.

19. Impairment allowances for loans and advances

	The Group		
	2006		
	Individual	**Collective**	**Total**
At 1st January	120,681	208,498	329,179
Additions	53,779	—	53,779
Releases	(13,510)	(39,496)	(53,006)
Net charged/(credited) to consolidated profit and loss account	40,269	(39,496)	773
Unwind of discount of loan impairment loss (Note 5(a)) . . .	(2,672)	—	(2,672)
Recoveries of advances written off in prior years	42,237	—	42,237
Amounts written off	(103,843)	—	(103,843)
At 31st December	96,672	169,002	265,674
Representing impairment allowances for:			
Trade bills (Note 15)	4,355	285	4,640
Advances to customers (Note 18(a))	92,317	168,717	261,034
	96,672	169,002	265,674

	The Group 2005		
	Individual	Collective	Total
At 1st January	123,979	222,330	346,309
Additions	105,066	16,106	121,172
Releases	(37,178)	(29,938)	(67,116)
Net charged/(credited) to consolidated profit and loss account	67,888	(13,832)	54,056
Unwind of discount of loan impairment loss (Note 5(a))	(10,465)	—	(10,465)
Recoveries of advances written off in prior years	86,136	—	86,136
Amounts written off	(146,857)	—	(146,857)
At 31st December	120,681	208,498	329,179
Representing impairment allowances for:			
Trade bills (Note 15)	961	656	1,617
Advances to customers (Note 18(a))	119,720	207,842	327,562
	120,681	208,498	329,179

	The Bank 2006		
	Individual	Collective	Total
At 1st January	105,155	179,450	284,605
Additions	33,295	—	33,295
Releases	(9,500)	(32,760)	(42,260)
Net (credited)/charged to profit and loss account	23,795	(32,760)	(8,965)
Unwind of discount of loan impairment loss	(2,672)	—	(2,672)
Recoveries of advances written off in prior years	30,269	—	30,269
Amounts written off	(82,176)	—	(82,176)
At 31st December	74,371	146,690	221,061
Representing impairment allowances for:			
Trade bills (Note 15)	4,355	279	4,634
Advances to customers (Note 18(a))	70,016	146,411	216,427
	74,371	146,690	221,061

	The Bank 2005		
	Individual	Collective	Total
At 1st January	83,205	196,246	279,451
Additions	85,289	9,687	94,976
Releases	(21,852)	(26,483)	(48,335)
Net charged/(credited) to profit and loss account	63,437	(16,796)	46,641
Unwind of discount of loan impairment loss	(10,465)	—	(10,465)
Recoveries of advances written off in prior years	74,108	—	74,108
Amounts written off	(105,130)	—	(105,130)
At 31st December	105,155	179,450	284,605
Representing impairment allowances for:			
Trade bills (Note 15)	961	655	1,616
Advances to customers (Note 18(a))	104,194	178,795	282,989
	105,155	179,450	284,605

20. Held-to-maturity and available-for-sale financial assets

	The Group		The Bank	
	2006	2005	2006	2005
Held-to-maturity debt securities:				
Listed in Hong Kong	83,424	85,348	83,424	85,348
Listed outside Hong Kong	248,737	202,232	248,737	202,232
	332,161	287,580	332,161	287,580
Unlisted	9,328,427	9,838,934	8,838,746	9,295,630
	9,660,588	10,126,514	9,170,907	9,583,210
Available-for-sale debt securities:				
Listed in Hong Kong	—	12,467	—	—
Listed outside Hong Kong	6,566,073	2,782,418	6,514,242	2,730,229
	6,566,073	2,794,885	6,514,242	2,730,229
Unlisted	3,192,960	2,879,968	3,140,872	2,839,435
	9,759,033	5,674,853	9,655,114	5,569,664
Available-for-sale equity securities:				
Listed in Hong Kong	1,600	1,856	1,600	1,470
Unlisted	113,139	106,207	102,404	95,608
	114,739	108,063	104,004	97,078
	9,873,772	5,782,916	9,759,118	5,666,742
	19,534,360	15,909,430	18,930,025	15,249,952
Market value of listed held-to-maturity debt securities	330,673	288,331	330,673	288,331
Fair value of unlisted held-to-maturity debt securities	9,252,236	9,757,850	8,765,493	9,220,546

Held-to-maturity and available-for-sale financial assets analysed by counterparty are as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Issued by:				
Central governments and central banks	7,695	7,764	7,695	7,764
Banks and other financial institutions	17,673,362	13,564,685	17,165,638	13,069,702
Corporate entities	1,515,130	1,996,214	1,443,590	1,857,352
Public sector entities	338,173	340,767	313,102	315,134
	19,534,360	15,909,430	18,930,025	15,249,952

Held-to-maturity treasury bills are classified as "Cash and short-term funds" (Note 13).

21. Investments in subsidiaries

	The Bank	
	2006	2005
Unlisted shares, at cost	682,707	682,707

The following list contains only the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held	Principal activities
Banco Weng Hang, S.A.	Macau	MOP120,000,000	100%	Banking
Wing Hang Bank (Cayman) Limited	Cayman Islands	US$25,000,000	100%	Banking
Wing Hang Finance Company Limited	Hong Kong	HK$130,000,000	100%	Deposit Taking and Hire Purchase
Wing Hang Credit Limited	Hong Kong	HK$20,000,000	100%	Consumer Lending
Wing Hang Zurich Insurance Company Limited	Hong Kong	HK$45,000,000	65%	Insurance
Wing Hang Insurance Brokers Limited	Hong Kong	HK$100,000	100%	Insurance Broker
Wing Hang Insurance Agency Limited	Hong Kong	HK$50,000	100%	Insurance Agency
Wing Hang Shares Brokerage Company Limited	Hong Kong	HK$10,000,000	100%	Securities Dealing
Wing Hang Bank (Trustee) Limited	Hong Kong	HK$3,000,000	100%	Trustee Services
Wing Hang Bank (Nominees) Limited	Hong Kong	HK$10,000	100%	Nominee Services
Cheuk Woo Enterprises Company Limited	Hong Kong	HK$10,000	100%	Property Investment
Honfirst Land Limited	Hong Kong	HK$27,000,000	100%	Property Investment
Wing Hang Financial Holdings (BVI) Limited	British Virgin Islands	US$10	100%	Issuer of Subordinated Notes

22. Investments in associated companies

	The Group		The Bank	
	2006	2005	2006	2005
Unlisted shares, at cost	—	—	112,000	112,000
Share of net assets	135,906	84,955	—	—
Loans to associated companies	62,000	62,000	62,000	62,000
	197,906	146,955	174,000	174,000

Loans to associated companies are unsecured, interest-free and repayable in 2008.

The following list contains the particulars of associated companies:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held	Voting power	Principal activities
Bank Consortium Holding Limited	Hong Kong	HK$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	Hong Kong	HK$210,000,000	33%	1 out of 3*	Insurance
Joint Electronic Teller Services Limited	Hong Kong	HK$10,023,800	20%(a)	1 out of 5*	ATM Network

* *Representing the Group's number of votes on the board of directors of respective associated companies.*

Notes: (a) *The Group's share of net asset in Joint Electronic Teller Services Limited is based on the Group's share of dividend received from this associated company during this year.*

Summary financial information on associated companies is set out below:

	2006					
	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	2,601,235	1,857,334	743,901	294,198	18,772	199,962
Group's effective interest	736,869	600,963	135,906	61,908	4,117	50,951

	2005					
	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	2,056,313	1,485,507	570,806	210,159	12,288	64,149
Group's effective interest	561,119	476,164	84,955	39,844	2,597	11,249

23. Tangible fixed assets

	The Group 2006				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2006	231,447	1,470,382	584,120	2,054,502	2,285,949
Additions	—	186,728	68,500	255,228	255,228
Disposals	(9,800)	(43,025)	(21,521)	(64,546)	(74,346)
Transfers from bank premises to investment properties	21,175	(21,904)	—	(21,904)	(729)
Surplus on revaluation	15,568	11,010	—	11,010	26,578
At 31st December, 2006	258,390	1,603,191	631,099	2,234,290	2,492,680

The analysis of cost or valuation of the above assets is as follows:

At cost	—	1,209,589	631,099	1,840,688	1,840,688
At valuation					
2006	258,390	—	—	—	258,390
1990	—	357,888	—	357,888	357,888
1989	—	9,347	—	9,347	9,347
1984	—	26,367	—	26,367	26,367
	258,390	1,603,191	631,099	2,234,290	2,492,680
Accumulated depreciation					
At 1st January, 2006	—	158,987	389,474	548,461	548,461
Charge for the year (Note 5(e))	—	26,909	54,333	81,242	81,242
Written back on disposals	—	(9,817)	(20,265)	(30,082)	(30,082)
Transfers from bank premises to investment properties	—	(729)	—	(729)	(729)
At 31st December, 2006	—	175,350	423,542	598,892	598,892
Net book value					
At 31st December, 2006	258,390	1,427,841	207,557	1,635,398	1,893,788

	The Group 2005				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2005	209,560	1,502,092	578,024	2,080,116	2,289,676
Additions	—	668	55,231	55,899	55,899
Disposals	(5,000)	(27,180)	(49,135)	(76,315)	(81,315)
Transfers from bank premises to investment properties	18,338	(18,743)	—	(18,743)	(405)
Transfers from investment properties to bank premises	(4,248)	4,248	—	4,248	—
Surplus on revaluation	12,797	9,297	—	9,297	22,094
At 31st December, 2005	231,447	1,470,382	584,120	2,054,502	2,285,949

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	1,076,780	584,120	1,660,900	1,660,900
At valuation					
2005	231,447	—	—	—	231,447
1990	—	357,888	—	357,888	357,888
1989	—	9,347	—	9,347	9,347
1984	—	26,367	—	26,367	26,367
	231,447	1,470,382	584,120	2,054,502	2,285,949
Accumulated depreciation					
At 1st January, 2005	—	135,867	381,239	517,106	517,106
Charge for the year (Note 5(e))	—	25,700	49,707	75,407	75,407
Written back on disposals	—	(2,175)	(41,472)	(43,647)	(43,647)
Transfers from bank premises to investment properties	—	(405)	—	(405)	(405)
At 31st December, 2005	—	158,987	389,474	548,461	548,461
Net book value					
At 31st December, 2005	231,447	1,311,395	194,646	1,506,041	1,737,488

	The Bank 2006				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2006	18,300	1,099,842	488,640	1,588,482	1,606,782
Additions	—	—	49,741	49,741	49,741
Disposals	(9,800)	(23,695)	(16,033)	(39,728)	(49,528)
Surplus on revaluation	1,880	—	—	—	1,880
At 31st December, 2006	10,380	1,076,147	522,348	1,598,495	1,608,875

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	717,409	522,348	1,239,757	1,239,757
At valuation					
2006	10,380	—	—	—	10,380
1990	—	357,888	—	357,888	357,888
1989	—	850	—	850	850
	10,380	1,076,147	522,348	1,598,495	1,608,875
Accumulated depreciation					
At 1st January, 2006	—	117,095	321,195	438,290	438,290
Charge for the year	—	18,455	44,383	62,838	62,838
Written back on disposals	—	(3,669)	(15,246)	(18,915)	(18,915)
At 31st December, 2006	—	131,881	350,332	482,213	482,213
Net book value					
At 31st December, 2006	10,380	944,266	172,016	1,116,282	1,126,662

	The Bank 2005				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January, 2005	13,100	1,126,174	487,862	1,614,036	1,627,136
Additions	—	668	47,677	48,345	48,345
Disposals	—	(27,000)	(46,899)	(73,899)	(73,899)
Surplus on revaluation	5,200	—	—	—	5,200
At 31st December, 2005	18,300	1,099,842	488,640	1,588,482	1,606,782

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
At cost	—	741,104	488,640	1,229,744	1,229,744
At valuation					
2005	18,300	—	—	—	18,300
1990	—	357,888	—	357,888	357,888
1989	—	850	—	850	850
	18,300	1,099,842	488,640	1,588,482	1,606,782
Accumulated depreciation					
At 1st January, 2005	—	99,968	319,072	419,040	419,040
Charge for the year	—	19,302	41,512	60,814	60,814
Written back on disposals	—	(2,175)	(39,389)	(41,564)	(41,564)
At 31st December, 2005	—	117,095	321,195	438,290	438,290
Net book value					
At 31st December, 2005	18,300	982,747	167,445	1,150,192	1,168,492

Bank premises are stated at cost or directors' valuation. The revaluation surplus of HK$11,010,000 (2005: HK$9,297,000) has been transferred to the bank premises revaluation reserve of the Group, net of deferred tax of HK$1,927,000 (2005: HK$1,627,000).

Investment properties are revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited who have among their staff, Fellows of the Hong Kong Institute of Surveyors, on an open market value basis as at 31st December, 2006 and 31st December, 2005.

The carrying amount of the bank premises of the Group and the Bank would have been HK$1,121,234,000 (2005: HK$996,800,000) and HK$652,099,000 (2005: HK$688,763,000) respectively had they been stated at cost less accumulated depreciation.

The net book value of investment properties and bank premises comprises:

	The Group		The Bank	
	2006	**2005**	**2006**	**2005**
FREEHOLD				
— Held outside Hong Kong	47,519	47,870	—	—
LEASEHOLD				
— Held in Hong Kong				
Long leases (over 50 years unexpired)	861,992	871,447	492,215	519,436
Medium-term leases (10 to 50 years unexpired)	627,114	523,900	427,318	444,620
— Held outside Hong Kong				
Long leases (over 50 years unexpired)	1,993	2,031	1,993	2,031
Medium-term leases (10 to 50 years unexpired)	42,212	44,261	33,120	34,960
Short leases (less than 10 years unexpired)	105,401	53,333	—	—
	1,686,231	1,542,842	954,646	1,001,047

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	The Group	
	2006	**2005**
1 year or less	10,349	8,508
5 years or less but over 1 years	8,294	4,660
	18,643	13,168

24. Goodwill

(a) Goodwill

	The Group		The Bank	
	2006	**2005**	**2006**	**2005**
Cost				
At 1st January	848,592	847,713	847,422	847,422
Addition through acquisition of subsidiary	—	879	—	—
At 31st December	848,592	848,592	847,422	847,422
Accumulated impairment loss				
At 1st January	1,170	—	—	—
Impairment loss for the year (Notes 5(e) and 35(a))	—	1,170	—	—
At 31st December	1,170	1,170	—	—
Net book value as at 31st December	847,422	847,422	847,422	847,422

(b) ***Impairment tests for cash-generating units containing goodwill***

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and business segment as follows:

	2006	2005
Retail banking business acquired	560,128	560,128
Corporate banking business acquired	233,741	233,741
Treasury business acquired	53,553	53,553
	847,422	847,422

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value in use calculations:

	2006	2005
	%	%
Growth rate	6.54	6.54
Discount rate	9.36	11.85

25. Deposits and balances of banks and other financial institutions

Deposits and balances of banks and other financial institutions are analysed as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Deposits from central banks	30,555	84,377	30,555	84,377
Deposits from banks and other financial institutions	1,662,332	1,618,649	1,642,869	1,610,236
	1,692,887	1,703,026	1,673,424	1,694,613

26. Deposits from customers

	The Group		The Bank	
	2006	2005	2006	2005
Demand deposits and current accounts	10,732,083	8,309,633	9,418,873	7,624,367
Savings deposits	15,508,366	11,578,904	10,910,605	8,176,603
Time, call and notice deposits	75,826,498	65,784,915	60,854,590	52,101,927
	102,066,947	85,673,452	81,184,068	67,902,897

27. Certificates of deposit issued

	The Group		The Bank	
	2006	2005	2006	2005
Certificates of deposit issued (at amortised cost)	2,205,000	1,902,640	2,205,000	1,902,640
Structured certificates of deposit issued measured at fair value through profit or loss	1,510,303	1,921,699	1,515,276	1,926,612
	3,715,303	3,824,339	3,720,276	3,829,252

At 31st December, 2006, the carrying amounts of structured certificates of deposit issued measured at fair value through profit or loss are lower than their contractual amount payables at maturity for the Group and the Bank by HK$85,021,000 (2005: HK$144,974,000) and HK$85,100,000 (2005: HK$145,102,000) respectively due to changes in benchmark interest rates.

28. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in Note 34(b)(ii)(2).

Trading liabilities of the Bank include negative fair values of derivative financial instruments transacted with a subsidiary amounting to HK$1,495,000 (2005: HK$3,842,000).

29. Other accounts and provisions

	The Group		The Bank	
	2006	**2005**	**2006**	**2005**
Negative fair value of derivative financial instruments held for hedging (Note 34(b)(ii)(1))	7,708	13,047	7,708	13,501
Amount payable for purchase of debt securities	38,890	—	38,890	—
Other payables and interest payable	1,935,380	1,190,483	1,087,217	796,356
	1,981,978	1,203,530	1,133,815	809,857

Other accounts and provisions of the Bank include negative fair values of derivative financial instruments transacted with a subsidiary amounting to HK$454,000 as at 31st December, 2005. There was no such amount as at 31st December, 2006.

30. Loan capital

Loan capital with face value of HK$2,527,850,000 (Note 31) (US$325,000,000) represents 5.25% subordinated notes qualifying as tier 2 capital which were issued during 2003 by Wing Hang Financial Holdings (BVI) Limited, a single purpose wholly-owned finance subsidiary of the Bank. The Bank unconditionally and irrevocably guarantees all amounts payable under the notes which are listed on the Singapore Exchange Trading Limited. The notes will mature on 10th October, 2013.

31. Maturity profile

	The Group 2006							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Assets								
Cash and balances with banks and other financial institutions (Note 13)	2,253,725	—	—	—	—	—	—	2,253,725
Money at call and short notice (Note 13)	—	23,847,991	—	—	—	—	—	23,847,991
Treasury bills (Note 13)	—	1,165,186	981,449	537,598	—	—	—	2,684,233
Placements with banks and other financial institutions maturing between 1 and 12 months	—	—	3,519,172	158,062	—	—	—	3,677,234
Trade bills less impairment allowances	69,633	165,609	116,468	9,906	—	—	8,933	370,549
Trading assets	—	—	—	50	248	114,922	623,172	738,392
Financial assets measured at fair value through profit or loss	—	77,789	—	128,088	4,032,880	1,144,199	—	5,382,956
Advances to customers less impairment allowances (Note 18(a))	2,333,861	3,674,372	4,347,226	7,588,079	17,395,060	22,731,575	307,030	58,377,203
Advances to banks and other financial institutions (Note 18(a))	—	—	—	31,693	15,846	—	—	47,539
Held-to-maturity and available-for-sale financial assets	—	38,864	274,980	1,959,450	16,151,022	995,305	114,739	19,534,360
Other assets	3,190	1,563,742	266,339	94,106	106,641	—	3,202,367	5,236,385
Total assets	4,660,409	30,533,553	9,505,634	10,507,032	37,701,697	24,986,001	4,256,241	122,150,567
Liabilities								
Deposits and balances of banks and other financial institutions	121,794	635,464	49,767	756,466	129,396	—	—	1,692,887
Deposits from customers	26,187,186	57,109,732	13,562,286	4,826,049	381,405	289	—	102,066,947
Certificates of deposit issued	—	208,338	1,037,631	501,143	1,968,191	—	—	3,715,303
Trading liabilities	—	—	—	—	—	—	590,899	590,899
Loan capital (Note 30)	—	—	—	—	—	2,527,850	—	2,527,850
Other liabilities	—	1,365,811	256,229	478,783	70,820	—	68,315	2,239,958
Total liabilities	26,308,980	59,319,345	14,905,913	6,562,441	2,549,812	2,528,139	659,214	112,833,844
Net assets/(liabilities) gap	(21,648,571)	(28,785,792)	(5,400,279)	3,944,591	35,151,885	22,457,862	3,597,027	9,316,723

	The Group							
	2005							
	Repayable on demand	**1 month or less**	**3 months or less but over 1 month**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**After 5 years**	**Undated**	**Total**
Assets								
Cash and balances with banks and other financial institutions (Note 13)	1,781,679	—	—	—	—	—	—	1,781,679
Money at call and short notice (Note 13)	—	16,998,025	—	—	—	—	—	16,998,025
Treasury bills (Note 13)	—	1,074,883	199,211	—	—	—	—	1,274,094
Placements with banks and other financial institutions maturing between 1 and 12 months . . .	—	—	2,559,271	98,109	—	—	—	2,657,380
Trade bills less impairment allowances	59,356	283,050	291,217	6,813	—	—	11,939	652,375
Trading assets	—	—	—	300	1,412	—	909,552	911,264
Financial assets measured at fair value through profit or loss . .	—	—	155,331	1,139,979	3,991,252	637,862	—	5,924,424
Advances to customers less impairment allowances (Note 18(a)).	2,412,503	3,244,921	3,951,024	6,777,178	16,612,653	20,941,046	134,947	54,074,272
Advances to banks and other financial institutions (Note 18(a)).	208	—	—	31,593	47,390	—	—	79,191
Held-to-maturity and available-for-sale financial assets	—	—	13,939	682,115	14,015,122	1,090,191	108,063	15,909,430
Other assets	12,435	921,303	88,051	57,945	134,619	—	2,846,129	4,060,482
Total assets.	4,266,181	22,522,182	7,258,044	8,794,032	34,802,448	22,669,099	4,010,630	104,322,616
Liabilities								
Deposits and balances of banks and other financial institutions	186,926	615,900	390,732	432,567	76,901	—	—	1,703,026
Deposits from customers	19,830,717	48,583,380	14,785,225	1,644,926	829,204	—	—	85,673,452
Certificates of deposit issued. . .	—	429,215	1,448,126	684,067	1,262,931	—	—	3,824,339
Trading liabilities	—	—	—	—	—	—	865,962	865,962
Loan capital	—	—	—	—	—	2,519,888	—	2,519,888
Other liabilities.	—	732,897	233,517	298,044	83,774	—	49,666	1,397,898
Total liabilities	20,017,643	50,361,392	16,857,600	3,059,604	2,252,810	2,519,888	915,628	95,984,565
Net assets/(liabilities) gap	(15,751,462)	(27,839,210)	(9,599,556)	5,734,428	32,549,638	20,149,211	3,095,002	8,338,051

	The Bank							
	2006							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Assets								
Cash and balances with banks and other financial institutions (Note 13)	1,691,086	—	—	—	—	—	—	1,691,086
Money at call and short notice (Note 13)	—	23,835,729	—	—	—	—	—	23,835,729
Treasury bills (Note 13)	—	199,761	397,811	—	—	—	—	597,572
Placements with banks and other financial institutions maturing between 1 and 12 months	—	—	3,450,898	158,062	—	—	—	3,608,960
Trade bills less impairment allowances	69,627	125,919	116,456	9,906	—	—	1,810	323,718
Trading assets	—	—	—	50	248	114,922	634,358	749,578
Financial assets measured at fair value through profit or loss	—	77,789	—	128,088	4,032,880	1,144,199	—	5,382,956
Advances to customers less impairment allowances (Note 18(a))	2,119,918	2,987,811	3,474,247	5,040,703	12,042,794	19,278,001	44,300	44,987,774
Advances to banks and other financial institutions (Note 18(a))	—	—	—	31,693	15,846	—	—	47,539
Amounts due from subsidiaries	456	100,787	60,000	4,009,436	1,450,260	1,665,000	—	7,285,939
Held-to-maturity and available-for-sale financial assets	—	—	274,980	1,941,953	15,753,291	855,797	104,004	18,930,025
Other assets	13	915,859	246,886	80,221	78,523	—	3,008,033	4,329,535
Total assets	3,881,100	28,243,655	8,021,278	11,400,112	33,373,842	23,057,919	3,792,505	111,770,411
Liabilities								
Deposits and balances of banks and other financial institutions	102,331	635,464	49,767	756,466	129,396	—	—	1,673,424
Deposits from customers	20,340,174	45,822,330	10,954,961	3,934,835	131,479	289	—	81,184,068
Certificates of deposit issued	—	208,338	1,037,631	506,116	1,968,191	—	—	3,720,276
Trading liabilities	—	—	—	—	—	—	592,379	592,379
Amounts due to subsidiaries	1,002,437	5,671,805	1,970,586	3,167,646	1,767,832	2,520,334	11	16,100,651
Other liabilities	—	684,330	217,300	356,794	32,977	—	27,512	1,318,913
Total liabilities	21,444,942	53,022,267	14,230,245	8,721,857	4,029,875	2,520,623	619,902	104,589,711
Net assets/(liabilities) gap	(17,563,842)	(24,778,612)	(6,208,967)	2,678,255	29,343,967	20,537,296	3,172,603	7,180,700

	The Bank 2005							
	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
Assets								
Cash and balances with banks and other financial institutions (Note 13)	1,387,648	—	—	—	—	—	—	1,387,648
Money at call and short notice (Note 13)	—	16,958,098	—	—	—	—	—	16,958,098
Treasury bills (Note 13)	—	199,818	199,211	—	—	—	—	399,029
Placements with banks and other financial institutions maturing between 1 and 12 months	—	—	2,531,398	98,109	—	—	—	2,629,507
Trade bills less impairment allowances	59,322	156,114	181,550	6,809	—	—	8,749	412,544
Trading assets	—	—	—	300	1,412	—	927,998	929,710
Financial assets measured at fair value through profit or loss	—	—	155,331	1,139,979	3,991,252	637,862	—	5,924,424
Advances to customers less impairment allowances (Note 18(a))	2,164,747	2,692,787	3,032,671	4,506,517	12,141,555	17,663,043	34,204	42,235,524
Advances to banks and other financial institutions (Note 18(a))	208	—	—	31,593	47,390	—	—	79,191
Amounts due from subsidiaries	4,196	75,118	60,000	2,641,131	1,448,840	1,845,000	—	6,074,285
Held-to-maturity and available-for-sale financial assets	—	—	13,939	643,613	13,544,101	951,221	97,078	15,249,952
Other assets	9,444	642,143	85,981	50,234	86,809	—	2,907,695	3,782,306
Total assets	3,625,565	20,724,078	6,260,081	9,118,285	31,261,359	21,097,126	3,975,724	96,062,218
Liabilities								
Deposits and balances of banks and other financial institutions	178,513	615,900	390,732	432,567	76,901	—	—	1,694,613
Deposits from customers	15,807,745	39,609,656	11,129,575	1,180,104	175,817	—	—	67,902,897
Certificates of deposit issued	—	429,215	1,448,127	688,980	1,262,930	—	—	3,829,252
Trading liabilities	—	—	—	—	—	—	869,748	869,748
Amounts due to subsidiaries	836,150	4,364,485	2,034,712	3,360,063	1,093,945	2,512,396	—	14,201,751
Other liabilities	—	450,236	224,258	197,182	48,074	—	17,108	936,858
Total liabilities	16,822,408	45,469,492	15,227,404	5,858,896	2,657,667	2,512,396	886,856	89,435,119
Net assets/(liabilities) gap	(13,196,843)	(24,745,414)	(8,967,323)	3,259,389	28,603,692	18,584,730	3,088,868	6,627,099

32. Share capital

	2006	2005
Authorised:		
450,000,000 (2005: 450,000,000) ordinary shares of HK$1.00 each	450,000	450,000
Issued and fully paid:		
At 1st January	294,021	293,911
Shares issued under share option scheme	200	110
294,220,500 (2005: 294,020,500) ordinary shares of HK$1.00 each	294,221	294,021

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual net assets.

During the year, options are exercised to subscribe for ordinary shares of 200,000 shares (2005: 110,000 shares) in the Bank at a consideration of HK$6,327,000 (2005: HK$4,010,000) of which HK$200,000 (2005: HK$110,000) is credited to share capital and the balance of HK$6,127,000 (2005: HK$3,900,000) is credited to the share premium account. At 31st December, 2006, the outstanding options are 1,085,000 shares (2005: 1,285,000 shares).

At 31st December, 2006, the outstanding awards under the EIP are 2,055,000 shares (2005: 495,000 shares).

The details of the Share Option Scheme and the EIP are disclosed in note 40 to the accounts.

33. Reserves

The Group
2006

	Share premium	Capital reserve	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2006	359,929	215,909	2,090,415	281,236	14,146	769	5,059,515	8,021,919
Exchange adjustments	—	—	1,098	—	—	—	—	1,098
Shares issued under share option scheme	6,127	—	—	—	—	—	—	6,127
Shares premium under EIP	12,365	—	—	—	—	—	—	12,365
Unrealised gains on revaluation of available-for-sale financial assets net of deferred tax charge	—	—	—	—	14,378	—	—	14,378
Gains on revaluation of available-for-sale financial assets transferred to consolidated profit and loss account on disposal (Note 6(b))	—	—	—	—	(11,890)	—	—	(11,890)
Unrealised gain on revaluation of bank premises	—	—	—	11,010	—	—	—	11,010
Deferred tax charged to revaluation reserve	—	—	—	(1,440)	—	—	—	(1,440)
Dividends paid	—	—	—	—	—	—	(711,789)	(711,789)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	—	1,660,716	1,660,716
At 31st December, 2006	378,421	215,909	2,091,513	290,806	16,634	769	6,008,442	9,002,494

The Group
2005

	Share premium	Capital reserve	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2005	347,034	215,909	2,091,174	269,039	27,372	769	4,336,946	7,288,243
Exchange adjustments	—	—	(759)	—	—	—	—	(759)
Shares issued under share option scheme	3,900	—	—	—	—	—	—	3,900
Shares premium under share option scheme	6,588	—	—	—	—	—	—	6,588
Shares premium under EIP	2,407	—	—	—	—	—	—	2,407
Unrealised losses on revaluation of available-for-sale financial assets net of deferred tax credit	—	—	—	—	(20,650)	—	—	(20,650)
Losses on revaluation of available-for-sale financial assets transferred to consolidated profit and loss account on disposal (Note 6(b))	—	—	—	—	7,424	—	—	7,424
Unrealised gain on revaluation of bank premises	—	—	—	9,297	—	—	—	9,297
Deferred tax credited to revaluation reserve	—	—	—	2,900	—	—	—	2,900
Dividends paid	—	—	—	—	—	—	(626,149)	(626,149)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	—	1,348,718	1,348,718
At 31st December, 2005	359,929	215,909	2,090,415	281,236	14,146	769	5,059,515	8,021,919

	The Bank 2006						
	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2006	359,929	1,802,259	272,847	14,007	769	3,883,267	6,333,078
Exchange adjustments	—	518	—	—	—	—	518
Shares issued under share option scheme	6,127	—	—	—	—	—	6,127
Shares premium under EIP	12,365	—	—	—	—	—	12,365
Unrealised gains on revaluation of available-for-sale financial assets net of deferred tax charge	—	—	—	13,911	—	—	13,911
Losses on revaluation of available-for-sale financial assets transferred to profit and loss account on disposal	—	—	—	(11,890)	—	—	(11,890)
Deferred tax credited to revaluation reserve	—	—	1,205	—	—	—	1,205
Dividends paid	—	—	—	—	—	(711,789)	(711,789)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	1,242,954	1,242,954
At 31st December, 2006	378,421	1,802,777	274,052	16,028	769	4,414,432	6,886,479

	The Bank 2005						
	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January, 2005	347,034	1,802,376	268,320	23,812	769	3,385,141	5,827,452
Exchange adjustments	—	(117)	—	—	—	—	(117)
Shares issued under share option scheme	3,900	—	—	—	—	—	3,900
Shares premium under share option scheme	6,588	—	—	—	—	—	6,588
Shares premium under EIP	2,407	—	—	—	—	—	2,407
Unrealised losses on revaluation of available-for-sale financial assets net of deferred tax charge	—	—	—	(17,229)	—	—	(17,229)
Losses on revaluation of available-for-sale financial assets transferred to profit and loss account on disposal	—	—	—	7,424	—	—	7,424
Deferred tax credited to revaluation reserve	—	—	4,527	—	—	—	4,527
Dividends paid	—	—	—	—	—	(626,149)	(626,149)
Profit attributable to shareholders of the Bank for the year	—	—	—	—	—	1,124,275	1,124,275
At 31st December, 2005	359,929	1,802,259	272,847	14,007	769	3,883,267	6,333,078

The Group's unappropriated profits as at 31st December, 2006 included the accumulated profits of HK$24,985,000 (accumulated losses in 2005: HK$25,966,000) of the associated companies and a regulatory reserve of HK$417,665,000 (2005: HK$336,176,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority.

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H of the Hong Kong Companies Ordinance.

The general reserve was set up from the transfer of retained earnings and exchange differences arising from translation of the accounts of overseas branches and subsidiaries (note 2(k)). The capital reserve comprises retained earnings capitalised on the issue of bonus shares by subsidiaries in prior years and a legal reserve established by Banco Weng Hang, S.A. in accordance with the banking regulations in Macau. Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and available-for-sale financial assets (notes 2(l) and (f)).

Capital reserve, bank premises revaluation reserve, investment revaluation reserve and capital redemption reserve do not represent realised profits and are not available for distribution.

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios which could therefore potentially restrict the amount of retained profits which can be distributed to shareholders.

34. Off-balance sheet exposures

(a) Contingent liabilities and commitments

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future liquidity requirements. The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		**The Bank**	
	2006	**2005**	**2006**	**2005**
Direct credit substitutes	1,795,317	848,908	1,734,157	944,422
Transaction-related contingencies	133,868	105,582	333,868	305,582
Trade-related contingencies	1,191,434	1,482,947	1,033,201	1,320,491
Other commitments:				
With an original maturity of under 1 year or which are unconditionally cancellable	9,716,773	9,211,179	9,862,419	9,066,228
With an original maturity of 1 year and over	2,491,796	1,329,636	1,602,006	1,072,475
Forward forward deposits placed	—	2,000,600	—	2,000,600
Total (Note 36(b))	15,329,188	14,978,852	14,565,651	14,709,798

(b) Derivative financial instruments

(i) Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

The following table is a summary of the notional amounts of each significant type of derivatives.

	The Group		The Bank	
	2006	2005	2006	2005
Exchange rate contracts				
Forwards — trading	61,189,905	6,866,513	61,724,847	7,441,234
Option purchased — trading	4,334,573	242,524	4,334,573	242,524
Option written — trading	4,495,155	242,524	4,495,155	242,524
Total exchange rate contracts	70,019,633	7,351,561	70,554,575	7,926,282
Interest rate contracts				
Swaps — trading - receiving fixed rate	33,427,156	79,759,074	33,731,046	80,022,841
Swaps — trading - paying fixed rate	35,860,439	83,558,435	36,479,889	84,347,273
Swaps — hedging - receiving fixed rate	—	—	—	16,000
Swaps — hedging - paying fixed rate	482,236	535,485	482,236	535,485
Total interest rate contracts	69,769,831	163,852,994	70,693,171	164,921,599
Equity contracts				
Option purchased — trading	944,593	—	944,593	—
Option written — trading	1,137,137	76,210	1,137,137	76,210
Total equity contracts	2,081,730	76,210	2,081,730	76,210
	141,871,194	171,280,765	143,329,476	172,924,091

The trading transactions include the Group's and the Bank's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

(ii) Use of derivative financial instruments

(1) as hedging instruments

The following is a summary of the fair values of derivative financial instruments held for hedging purposes by type of derivatives entered into by the Group and the Bank:

	The Group			
	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (Notes 18(a) & 29)	7,420	7,708	8,598	13,047

	The Bank			
	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (Notes 18(a) & 29)	7,420	7,708	8,598	13,501

Interest rate swaps are used principally as fair value hedges to protect against changes in the fair value of assets due to movements in market interest rates.

(2) as trading instruments

The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivatives entered into by the Group and the Bank:

	The Group			
	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	169,917	112,748	59,496	24,157
Interest rate contracts	416,823	458,867	774,582	841,740
Equity contracts	15,096	17,229	1,094	65
Credit default swap	2,854	2,055	—	—
Total (Note 16)	604,690	590,899	835,172	865,962

	The Bank			
	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	169,070	112,733	59,496	24,101
Interest rate contracts	433,813	460,362	801,028	845,582
Equity contracts	15,096	17,229	1,094	65
Credit default swap	2,854	2,055	—	—
Total (Note 16)	620,833	592,379	861,618	869,748

(iii) Remaining life of derivative financial instruments

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the balance sheet date.

	The Group 2006			
	Up to 1 year	5 years or less but over 1 year	More than 5 years	Total
Exchange rate contracts	67,736,026	2,283,607	—	70,019,633
Interest rate contracts	27,692,840	40,299,171	1,777,820	69,769,831
Equity contracts	2,081,730	—	—	2,081,730
	97,510,596	42,582,778	1,777,820	141,871,194

	The Group 2005			
	Up to 1 year	5 years or less but over 1 year	More than 5 years	Total
Exchange rate contracts	7,351,561	—	—	7,351,561
Interest rate contracts	103,946,999	57,938,993	1,967,002	163,852,994
Equity contracts	76,210	—	—	76,210
	111,374,770	57,938,993	1,967,002	171,280,765

	The Bank 2006			
	Up to 1 year	5 years or less but over 1 year	More than 5 years	Total
Exchange rate contracts	68,270,968	2,283,607	—	70,554,575
Interest rate contracts	28,080,620	40,759,731	1,852,820	70,693,171
Equity contracts	2,081,730	—	—	2,081,730
	98,433,318	43,043,338	1,852,820	143,329,476

	The Bank 2005			
	Up to 1 year	5 years or less but over 1 year	More than 5 years	Total
Exchange rate contracts	7,926,282	—	—	7,926,282
Interest rate contracts	104,112,999	58,766,598	2,042,002	164,921,599
Equity contracts	76,210	—	—	76,210
	112,115,491	58,766,598	2,042,002	172,924,091

(c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are as follows:

	The Group			
	2006		2005	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
Contingent liabilities and commitments	N/A	2,659,818	N/A	1,954,688
Exchange rate contracts	169,917	219,406	59,494	41,391
Interest rate contracts	424,243	152,106	783,180	259,614
Equity contracts	15,096	34,342	1,094	—
	609,256	3,065,672	843,768	2,255,693

	The Bank			
	2006		2005	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
Contingent liabilities and commitments	N/A	2,712,568	N/A	2,120,970
Exchange rate contracts	169,070	219,879	59,496	42,518
Interest rate contracts	441,233	156,190	809,626	265,955
Equity contracts	15,096	34,342	1,094	—
	625,399	3,122,979	870,216	2,429,443

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk weighted amounts of off-balance sheet exposures are computed in accordance with the Third Schedule of the Hong Kong Banking Ordinance on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate, interest rate and equity contracts.

These amounts do not take into account the effects of bilateral netting arrangements.

(d) ***Capital commitments***

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2006 not provided for in the accounts are as follows:

	The Group		The Bank	
	2006	2005	2006	2005
Expenditure authorised and contracted for	44,934	121,438	36,920	115,380
Expenditure authorised but not contracted for	—	—	—	—
	44,934	121,438	36,920	115,380

(e) ***Lease commitments***

At 31st December, 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2006	**2005**	**2006**	**2005**
Properties				
1 year or less	28,785	23,350	25,621	20,553
5 years or less but over 1 year	25,366	33,771	23,460	31,732
Over 5 years	5,459	6,329	5,459	6,329
	59,610	63,450	54,540	58,614
Others				
1 year or less	247	344	50	136
5 years or less but over 1 year	16	161	15	—
Over 5 years	—	—	—	—
	263	505	65	136

The Group leases a number of properties and items of equipment under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are periodically adjusted to reflect market rentals. None of the leases includes contingent rentals.

35. Notes to the consolidated cash flow statement

(a) ***Reconciliation of operating profit to net cash inflow from operating activities***

	The Group	
	2006	**2005**
Operating profit	1,862,305	1,590,925
Depreciation	81,242	75,407
Impairment losses on goodwill (Note 24)	—	1,170
Share option scheme cost (Note 5(e))	—	6,588
EIP cost (Note 5(e))	12,365	3,372
Interest expense on loan capital	134,029	134,148
Profits tax paid	(266,060)	(203,423)
Increase in treasury bills with original maturity of three months or above	(943,831)	(111,285)
Increase in placements with banks and other financial institutions with original maturity of three months or above	(3,064,415)	(76,617)
Decrease/(increase) in trade bills less impairment allowances	281,826	(101,250)
Decrease in certificates of deposit held	—	30,000
Decrease/(increase) in trading assets	172,872	(440,966)
Decrease/(increase) in financial assets measured at fair value through profit or loss	541,468	(646,762)
Increase in advances to customers and other accounts less impairment allowances	(5,231,375)	(5,447,396)
(Decrease)/increase in deposits and balances of banks and other financial institutions	(24,937)	527,541
Increase in deposits from customers	16,393,495	7,104,291
Decrease in certificates of deposit issued	(109,036)	(758,233)
(Decrease)/increase in trading liabilities	(275,063)	279,164
Increase in other accounts and provision	778,448	191,709
Net cash inflow from operating activities	10,343,333	2,158,383

(b) ***Reconciliation of cash and cash equivalents with the consolidated balance sheet***

	The Group	
	2006	**2005**
Cash and short-term funds	28,785,949	20,053,798
Placements with banks and other financial institutions maturing between one and twelve months	3,677,234	2,657,380
Amounts shown in the consolidated balance sheet	32,463,183	22,711,178
Less: Amounts with an original maturity of three months or above	(5,694,480)	(1,686,234)
Deposits and balances of banks and other financial institutions that are repayable on demand	(71,552)	(56,754)
Cash and cash equivalents in the consolidated cash flow statement	26,697,151	20,968,190

36. Segment reporting

(a) ***Business segments***

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase and consumer loans.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Other business activities include insurance businesses, stockbroking activities and services for retirement schemes.

Unallocated items mainly comprise the shareholders' funds, investments in premises and investment property, and results of other activities which cannot be reasonably allocated to specific business segments.

	The Group 2006						
	Retail banking	Corporate banking	Treasury	Others	Unallocated	Inter-segment elimination	Total
Net interest income/(expense)	1,455,093	473,035	(325,670)	2,389	313,886	—	1,918,733
Net interest income/(expense) on financial instruments held for trading and measured at fair value through profit or loss	—	—	317,484	—	(110,319)	—	207,165
Other operating income	427,272	78,781	156,439	99,944	49,113	—	811,549
Inter-segment income/(expense)	—	—	—	—	62,171	(62,171)	—
Operating income	1,882,365	551,816	148,253	102,333	314,851	(62,171)	2,937,447
Operating expenses	(690,193)	(150,562)	(27,708)	(50,545)	(155,361)	—	(1,074,369)
Inter-segment (expense)/income	(55,745)	(3,062)	(894)	(2,470)	—	62,171	—
Operating profit before impairment losses and allowances charge on loans and advances	1,136,427	398,192	119,651	49,318	159,490	—	1,863,078
Impairment losses and allowances (charge)/release for loans and advances	(26,787)	26,134	—	(120)	—	—	(773)
Operating profit	1,109,640	424,326	119,651	49,198	159,490	—	1,862,305
Gains/(losses) on revaluation of investment properties and disposal of tangible fixed assets	(698)	(73)	(2)	(88)	55,083	—	54,222
Gains on disposal of available-for-sale financial assets	1,132	—	12,221	420	—	—	13,773
Share of net profits/(losses) of associated companies	—	—	—	51,252	(301)	—	50,951
Profit before taxation	1,110,074	424,253	131,870	100,782	214,272	—	1,981,251
Depreciation (Note 5(e))	29,856	5,283	2,740	801	42,562	—	81,242
Segment assets	45,126,008	24,849,597	25,658,545	108,148	26,210,363	—	121,952,661
Investments in associated companies	—	—	—	190,227	7,679	—	197,906
Total assets	45,126,008	24,849,597	25,658,545	298,375	26,218,042	—	122,150,567
Total liabilities	97,070,598	2,415,551	617,992	23,875	12,705,828	—	112,833,844
Capital expenditure	88,261	7,708	571	689	157,999	—	255,228

	The Group 2005						
	Retail banking	Corporate banking	Treasury	Others	Unallocated	Inter-segment elimination	Total
Net interest income/(expense)	1,230,339	378,742	(90,958)	2,855	208,146	—	1,729,124
Net interest income/(expense) on financial instruments held for trading and measured at fair value through profit or loss	—	—	220,652	—	(84,776)	—	135,876
Other operating income	398,322	85,892	131,503	82,326	57,727	—	755,770
Inter-segment income/(expense)	—	—	—	—	56,344	(56,344)	—
Operating income	1,628,661	464,634	261,197	85,181	237,441	(56,344)	2,620,770
Operating expenses	(648,406)	(123,753)	(35,108)	(41,919)	(126,603)	—	(975,789)
Inter-segment (expense)/income	(51,468)	(2,377)	(652)	(1,847)	—	56,344	—
Operating profit before impairment losses and allowances charges on loans and advances	928,787	338,504	225,437	41,415	110,838	—	1,644,981
Impairment losses and allowances charge on loans and advances	(15,604)	(38,452)	—	—	—	—	(54,056)
Operating profit	913,183	300,052	225,437	41,415	110,838	—	1,590,925
Gains/(losses) on revaluation of investment properties and disposal of tangible fixed assets	(3,146)	(28)	—	(1)	25,855	—	22,680
(Losses)/gains on disposal of available-for-sale financial assets	—	—	(8,174)	59	(933)	—	(9,048)
Share of net profits of associated companies	—	—	—	11,005	244	—	11,249
Profit before taxation	910,037	300,024	217,263	52,478	136,004	—	1,615,806
Depreciation (Note 5(e))	27,926	3,807	2,029	1,005	40,640	—	75,407
Impairment losses on goodwill (Note 5(e))	—	—	—	291	879	—	1,170
Segment assets	40,112,196	21,714,801	21,943,990	122,253	20,282,421	—	104,175,661
Investments in associated companies	—	—	—	138,978	7,977	—	146,955
Total assets	40,112,196	21,714,801	21,943,990	261,231	20,290,398	—	104,322,616
Total liabilities	84,031,512	1,897,049	662,086	20,550	9,373,368	—	95,984,565
Capital expenditure	24,729	10,557	1,114	238	19,261	—	55,899

(b) Geographical segments

The information concerning geographical segments has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

	The Group 2006				
	Hong Kong	Macau	Others	Less: inter-segment elimination	Total
Total operating income	2,648,730	416,198	190,956	(318,437)	2,937,447
Profit before taxation	1,764,280	276,338	82,042	(141,409)	1,981,251
Total assets	118,039,586	18,274,017	16,514,225	(30,677,261)	122,150,567
Total liabilities	109,663,538	17,188,389	16,050,385	(30,068,468)	112,833,844
Contingent liabilities and commitments (Note 34(a))	13,636,801	2,298,288	971,802	(1,577,703)	15,329,188
Capital expenditure	174,999	72,344	7,885	—	255,228

	The Group 2005				
	Hong Kong	Macau	Others	Less: inter-segment elimination	Total
Total operating income	2,439,037	328,961	138,562	(285,790)	2,620,770
Profit before taxation	1,476,178	233,180	61,249	(154,801)	1,615,806
Total assets	102,123,436	12,823,757	15,733,485	(26,358,062)	104,322,616
Total liabilities	94,384,492	11,981,792	15,320,048	(25,701,767)	95,984,565
Contingent liabilities and commitments (Note 34(a))	14,190,916	1,236,398	665,151	(1,113,613)	14,978,852
Capital expenditure	40,759	7,554	7,586	—	55,899

37. Pledge of assets

At 31st December, 2005, a demand deposit of HK$7,754,000 included in "Cash and short-term funds" is pledged as collateral with the State of California in compliance with the statutory requirements of the State of California. There was no such demand deposit as at 31st December, 2006.

38. Material related party transactions

(a) Substantial shareholder

During the year, transactions with The Bank of New York Company Inc. ("BNY"), a substantial shareholder of the Bank, or its subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year and on-balance sheet outstanding at the balance sheet date are:

		The Group		The Bank	
		2006	2005	2006	2005
(i)	Income and expense for the year				
	Interest income	8,333	2,927	8,333	2,927
	Interest expense	1,454	612	1,454	612
(ii)	Average on-balance sheet outstanding for the year				
	Cash and short-term funds	214,309	110,776	210,390	105,845
	Deposits and balances of banks and other financial institutions	43,853	22,254	42,614	20,857
(iii)	On-balance sheet outstanding at the balance sheet date				
	Cash and short-term funds	48,609	62,379	45,948	55,969
	Deposits and balances of banks and other financial institutions	106,807	46,539	104,899	46,539

(iv) On 19th September, 2002, the Bank entered into a Delegation Agreement with BNY pursuant to which the Bank agreed to provide various back-up support services to BNY in connection with a securitisation transaction undertaken by BNY. The Delegation Agreement was terminated on 6th November, 2006. In 2006, the Bank received from BNY a total service fee of HK$86,000 (2005: HK$216,000) for the year.

(b) Minority interest holder

On 30th June, 1995, Wing Hang Zurich Insurance Company Limited ("WHZ Insurance"), a 65 percent owned subsidiary of the Bank, entered into a Management Agreement with Swiss Insurance Management (Hong Kong) Limited ("Swiss Insurance"), a wholly own subsidiary of Zurich Insurance Limited ("Zurich Insurance") pursuant to which Swiss Insurance has been appointed as manager of WHZ Insurance in connection with the conduct by WHZ Insurance of its insurance business. Zurich Insurance is a substantial shareholder of WHZ Insurance holding 35 percent of WHZ Insurance's issued share capital. On 7th February, 2007, the Management Agreement was extended for two years from 1st January, 2007 to 31st December, 2008. The revised management fee is based on a certain percentage of gross written premiums received. Under the Management Agreement, WHZ Insurance pays to Swiss Insurance an amount of HK$5,312,000 (2005: HK$5,299,000), being the contractual management fees payable during the year.

The auditors of the Bank have confirmed to the Board of Directors in writing that:

(i) The transactions have been approved by the Board of Directors;

(ii) The transactions have been entered into for considerations consistent with the pricing policies as stated in the Management Agreement;

(iii) The transactions have been entered into in accordance with the terms of the Management Agreement; and

(iv) No cap was disclosed in the previous announcement.

The independent Non-executive Directors of the Bank considered the above transactions were in line with the normal course of business for the Bank on normal commercial terms in accordance with the Management Agreement that was considered fair and reasonable and in the interests of the shareholders.

(c) Subsidiaries

During the year, the Bank entered into the transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year, on-balance sheet and off-balance sheet outstandings at the balance sheet date are:

		The Bank	
		2006	**2005**
(i)	Income and expense for the year		
	Interest income	307,933	191,407
	Interest expense	652,629	489,175
(ii)	Average on-balance sheet outstanding for the year		
	Amounts due from subsidiaries	6,412,937	5,708,720
	Amounts due to subsidiaries	14,094,649	13,818,556
(iii)	On-balance sheet outstanding at the balance sheet date		
	Amounts due from subsidiaries	7,285,939	6,074,285
	Amounts due to subsidiaries	16,100,651	14,201,751
(iv)	Off-balance sheet outstanding (contract amounts) at the balance sheet date		
	Direct credit substitutes	12,666	14,052
	Transaction-related contingencies	200,000	200,000
	Trade-related contingencies	49,326	67,486
	Other commitments	684,140	417,484

(d) Associated company

The Group provides an unsecured and interest-free loan of HK$62,000,000 (2005: HK$62,000,000) to an associated company which is repayable in 2008.

(e) Key management personnel

During the year, the Group enters into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The interest income, interest expenses and emoluments for the year, average on-balance sheet outstanding for the year and on-balance sheet outstanding at the balance sheet date are as follows:

		The Group		The Bank	
		2006	**2005**	**2006**	**2005**
(i)	Income and expense for the year				
	Interest income	30,159	25,243	30,078	25,201
	Interest expense	36,814	20,909	35,866	17,447
(ii)	Average on-balance sheet outstanding for the year				
	Advances to customers	550,981	654,791	549,450	653,133
	Deposits from customers	892,011	782,131	867,278	660,831
(iii)	On-balance sheet outstanding at the balance sheet date				
	Advances to customers	528,757	659,624	527,277	658,031
	Deposits from customers	974,236	776,434	963,722	657,882

(iv) Emoluments for the year

Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2006	**2005**
Short-term employee benefits	39,113	28,240
Post-employment benefits	1,648	1,522
Equity compensation benefits	9,028	6,464
	49,789	36,226

(f) Loans to officers

Particulars of loans to officers disclosed pursuant to section 161B(9) of the Hong Kong Companies Ordinance are as follows:

	The Group and the Bank	
	2006	**2005**
Aggregate amount of relevant loans outstanding at 31st December	398,019	424,044
The maximum aggregate amount of relevant loans outstanding during the year	479,419	499,399

(g) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2005: Nil).

39. Management of risks

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to. Risk management processes and management information systems are in place to identify, measure, monitor and control credit risk, liquidity risk, market risk, operational risk etc. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee, and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALMCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chairman and Chief Executive.

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's credit policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The credit policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Guidelines to manage credit risk have been laid down in the Group's Loaning Manual, which is regularly reviewed and approved by the Credit Committee. The Loaning Manual covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

(i) Corporate credit risk

The corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. The large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The credit policies promote early detection of counterparty, industry or product exposures that require special attentions. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval process are designed based on the characteristics of the retail banking products: small value but high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and the market practices.

(iii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) Concentrations of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees.

Analysis of credit risk concentration by economic sector of respective financial assets is disclosed in notes 15 to 20 and geographical concentration of the Group's asset is disclosed in note 36(b).

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 51.6% in 2006, which is well above the statutory requirement of 25%.

Liquidity is managed day-to-day by the treasury under the direction of ALMCO. ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

To cater for funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests on its liquidity position to ensure adequate liquidity is maintained at all times. The detail of the analysis on the Group's and Bank's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in note 31.

(c) Market risk management

Market risk is the risk arising from the movements in market prices of on- and off- balance sheet positions in interest rates, foreign exchange rates as well as equity and commodity prices and the resulting change in the profit/loss or reserve of the Group.

The Group is exposed to market risk on position taken or financial instrument held or taken such as foreign exchange contracts, interest rate contracts, fixed income and equity securities and derivatives instruments.

The Board of Directors reviews and approves the policies for the management of market risks and trading authorities. ALMCO has been delegated the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework such as the established limits and stop-losses. The limits are set by ALMCO and reviewed on a periodic basis with reference to market conditions, with any material changes requiring a review by the Board of Directors. It is the Bank's policy that no limit should be exceeded. Middle Office has been delegated the duties of intra-day monitoring and ensuring compliance with the policy and limits.

The Group adopts a prudent approach in managing the portfolio of trading instruments. It reduces excessive market risk by offsetting trading transactions or hedging the open positions by executing derivative contracts with other market counterparties. Trading of interest rate and foreign exchange derivative contracts forms an integral part of the Group's trading activities, which are primarily for squaring the trading positions or covering the customer driven positions.

The Group uses Price Value Basis Point ("PVBP") to monitor and limit its interest rate risk exposure. PVBP is a technique involving the calculation of the change in present value of a financial instrument or a portfolio of instruments due to a change in one basis point of interest rates. It also provides a quick tool to evaluate the impact on profit and loss due to a basis point movement in interest rates.

(i) Interest rate risk

The Group's interest rate exposures arise from lending, deposit taking as well as treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both banking book and trading book. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Group's interest rate risk is monitored by the ALMCO within limits approved by the Board, including interest rate gap limit, product limit and PVBP limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by ALMCO.

The following tables indicate the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

	The Group					
	2006					
	Total	**3 months or less**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**After 5 years**	**Non-interest bearing**
Assets						
Cash and short-term funds	28,785,949	27,500,077	537,598	—	—	748,274
Placements with banks and other financial institutions maturing between one and twelve months	3,677,234	3,519,172	158,062	—	—	—
Trade bills less impairment allowances	370,549	360,636	9,913	—	—	—
Trading assets	738,392	—	50	248	114,922	623,172
Financial assets measured at fair value through profit or loss	5,382,956	1,320,416	165,939	3,412,250	484,351	—
Advances to customers and other account less impairment allowances	60,656,719	51,822,520	3,370,438	2,553,473	627,544	2,282,744
Advances to banks	47,539	—	47,539	—	—	—
Held-to-maturity and available-for-sale financial assets	19,534,360	9,561,003	658,282	8,205,030	995,306	114,739
Other assets	2,956,869	—	—	—	—	2,956,869
Total assets	122,150,567	94,083,824	4,947,821	14,171,001	2,222,123	6,725,798
Liabilities						
Deposits and balances of banks and other financial institutions	1,692,887	795,123	756,466	129,395	—	11,903
Deposits from customers	102,066,947	92,055,356	4,702,941	204,148	836	5,103,666
Certificates of deposit issued	3,715,303	3,475,160	86,952	153,191	—	—
Trading liabilities	590,899	—	—	—	—	590,899
Other liabilities	2,239,958	72,208	—	—	—	2,167,750
Loan capital	2,527,850	—	—	2,527,850	—	—
Total liabilities	112,833,844	96,397,847	5,546,359	3,014,584	836	7,874,218
Interest rate sensitivity gap	9,316,723	(2,314,023)	(598,538)	11,156,417	2,221,287	(1,148,420)

	The Group					
	2005					
	Total	**3 months or less**	**1 year or less but over 3 months**	**5 years or less but over 1 year**	**After 5 years**	**Non-interest bearing**
Assets						
Cash and short-term funds	20,053,798	19,435,975	95,335	—	—	522,488
Placements with banks and other financial institutions maturing between one and twelve months	2,657,380	2,559,271	98,109	—	—	—
Trade bills less impairment allowances	652,375	645,555	6,820	—	—	—
Trading assets	911,264	—	300	1,412	—	909,552
Financial assets measured at fair value through profit or loss	5,924,424	981,327	1,223,951	3,274,944	444,202	—
Advances to customers and other account less impairment allowances	55,393,692	47,715,104	3,264,783	2,762,867	389,864	1,261,074
Advances to banks	79,191	78,982	—	—	—	209
Held-to-maturity and available-for-sale financial assets	15,909,430	5,789,899	219,240	8,702,037	1,090,191	108,063
Other assets	2,741,062	—	—	—	—	2,741,062
Total assets	104,322,616	77,206,113	4,908,538	14,741,260	1,924,257	5,542,448
Liabilities						
Deposits and balances of banks and other financial institutions	1,703,026	1,160,138	432,567	76,901	—	33,420
Deposits from customers	85,673,452	79,337,292	1,688,551	328,575	1,150	4,317,884
Certificates of deposit issued	3,824,339	3,432,341	384,067	7,931	—	—
Trading liabilities	865,962	—	—	—	—	865,962
Other liabilities	1,397,898	44,236	—	—	—	1,353,662
Loan capital	2,519,888	—	—	2,519,888	—	—
Total liabilities	95,984,565	83,974,007	2,505,185	2,933,295	1,150	6,570,928
Interest rate sensitivity gap	8,338,051	(6,767,894)	2,403,353	11,807,965	1,923,107	(1,028,480)

	The Bank 2006					
	Total	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non-interest bearing
Assets						
Cash and short-term funds . . .	26,124,387	25,623,019	—	—	—	501,368
Placements with banks and other financial institutions maturing between one and twelve months	3,608,960	3,450,897	158,063	—	—	—
Trade bills less impairment allowances	323,718	313,805	9,913	—	—	—
Trading assets	749,578	—	50	248	114,922	634,358
Financial assets measured at fair value through profit or loss	5,382,956	1,320,416	165,939	3,412,250	484,351	—
Advances to customers and other accounts less impairment allowances . . .	46,477,066	42,569,045	1,444,243	397,486	573,470	1,492,822
Advances to banks	47,539	—	47,539	—	—	—
Held-to-maturity and available-for-sale financial assets	18,930,025	9,491,049	640,785	7,838,390	855,797	104,004
Amounts due from subsidiaries	7,285,939	3,733,768	400,000	1,445,000	1,665,000	42,171
Other assets	2,840,243	—	—	—	—	2,840,243
Total assets	111,770,411	86,501,999	2,866,532	13,093,374	3,693,540	5,614,966
Liabilities						
Deposits and balances of banks and other financial institutions	1,673,424	778,755	756,466	129,396	—	8,807
Deposits from customers	81,184,068	73,158,440	3,961,148	132,268	—	3,932,212
Certificates of deposit issued .	3,720,276	3,475,160	91,925	153,191	—	—
Trading liabilities	592,379	—	—	—	—	592,379
Amounts due to subsidiaries . .	16,100,651	8,192,718	3,130,884	4,287,035	—	490,014
Other liabilities	1,318,913	72,208	—	—	—	1,246,705
Total liabilities	104,589,711	85,677,281	7,940,423	4,701,890	—	6,270,117
Interest rate sensitivity gap . .	7,180,700	824,718	(5,073,891)	8,391,484	3,693,540	(655,151)

	The Bank 2005					
	Total	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non-interest bearing
Assets						
Cash and short-term funds	18,744,775	18,379,921	—	—	—	364,854
Placements with banks and other financial institutions maturing between one and twelve months	2,629,507	2,531,398	98,109	—	—	—
Trade bills less impairment allowances	412,544	405,724	6,820	—	—	—
Trading assets	929,710	—	300	1,412	—	927,998
Financial assets measured at fair value through profit or loss	5,924,424	981,327	1,223,951	3,274,944	444,202	—
Advances to customers and other accounts less impairment allowances	43,141,730	39,911,818	1,573,446	491,679	335,544	829,243
Advances to banks	79,191	78,982	—	—	—	209
Held-to-maturity and available-for-sale financial assets	15,249,952	5,758,880	180,738	8,262,035	951,221	97,078
Amounts due from subsidiaries	6,074,285	2,483,291	270,000	1,445,000	1,845,000	30,994
Other assets	2,876,100	—	—	—	—	2,876,100
Total assets	96,062,218	70,531,341	3,353,364	13,475,070	3,575,967	5,126,476
Liabilities						
Deposits and balances of banks and other financial institutions	1,694,613	1,152,206	432,567	76,901	—	32,939
Deposits from customers	67,902,897	62,804,506	1,218,022	177,890	—	3,702,479
Certificates of deposit issued	3,829,252	3,432,341	388,980	7,931	—	—
Trading liabilities	869,748	—	—	—	—	869,748
Amounts due to subsidiaries	14,201,751	7,032,897	3,328,411	3,605,499	—	234,944
Other liabilities	936,858	44,236	—	—	—	892,622
Total liabilities	89,435,119	74,466,186	5,367,980	3,868,221	—	5,732,732
Interest rate sensitivity gap	6,627,099	(3,934,845)	(2,014,616)	9,606,849	3,575,967	(606,256)

The following table indicates the effective interest rates for the last month of the year:

	The Group		The Bank	
	2006	2005	2006	2005
	%	%	%	%
Placement with banks and other financial institutions	4.75	4.51	4.75	4.51
Advances to customers and trade bills	6.08	6.08	5.88	5.92
Debt securities	5.18	4.40	5.28	4.45
	5.57	5.37	5.44	5.21
Deposits and balances of banks and other financial institutions	4.08	3.71	4.12	3.74
Deposits from customers	4.01	3.69	4.10	3.77
Certificates of deposit issued	3.19	3.73	3.19	3.73
Loan capital	5.32	5.32	5.32	5.32
	4.01	3.74	4.10	3.82

(ii) Currency risk

The Group foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries and branches outside Hong Kong, mainly in US dollar, Macau Patacas and Renminbi, are managed by ALMCO. All foreign exchange positions are managed by the ALMCO within limits approved by the Board of Directors.

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

	The Group			
	2006		2005	
(In millions of HK$ equivalent)	**US$**	**Total**	**US$**	**Total**
Spot assets	33,352	54,786	31,689	51,672
Spot liabilities	(33,486)	(54,549)	(32,431)	(52,130)
Forward purchases	32,214	35,141	5,396	7,871
Forward sales	(28,651)	(32,299)	(3,257)	(5,783)
Net option position	(171)	(166)	—	—
Net long positions	3,258	2,913	1,397	1,630

	The Group 2006			
(In millions of HK$ equivalent)	**Macau Patacas**	**Chinese Renminbi**	**US$**	**Total**
Net structural positions	441	199	324	964

	The Group 2005			
(In millions of HK$ equivalent)	**Macau Patacas**	**Chinese Renminbi**	**US$**	**Total**
Net structural positions	204	192	317	713

	The Bank			
	2006		2005	
(In millions of HK$ equivalent)	**US$**	**Total**	**US$**	**Total**
Spot assets	32,657	53,936	30,706	50,587
Spot liabilities	(33,033)	(53,905)	(31,683)	(51,291)
Forward purchases	32,214	35,095	5,396	7,871
Forward sales	(28,651)	(32,297)	(3,257)	(5,775)
Net option position	(171)	(166)	—	—
Net long positions	3,016	2,663	1,162	1,392

	The Bank 2006			
(In millions of HK$ equivalent)	**Macau Patacas**	**Chinese Renminbi**	**US$**	**Total**
Net structural positions	(583)	199	324	(60)

	The Bank 2005			
(In millions of HK$ equivalent)	**Macau Patacas**	**Chinese Renminbi**	**US$**	**Total**
Net structural positions	(583)	192	317	(74)

(d) ***Operational risk management***

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior executives of the Group.

The framework consists of governing policies with control measures to ascertain absolute compliance by all operating units. These measures are directed, controlled and held to account by operation management committees chaired by senior executives. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. This division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

40. Staff benefits

(a) ***Retirement schemes***

	The Group	
	2006	**2005**
Retirement benefit costs (Note 5(e))	40,467	36,267

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the profit and loss account as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

(b) ***Equity compensation benefits***

(i) *Share Option Scheme*

Pursuant to the approved Share Option Scheme, the directors are authorised, at their discretion, to invite certain executives, to take up options to purchase ordinary shares in the Bank as an incentive to them. Prior to 1st September, 2001, the exercise price was 80% of the average closing price on The Stock Exchange of Hong Kong Limited ("SEHK") on the five business days immediately preceding the date of offer of such options. After 1st September, 2001, the exercise price should be at least the higher of the closing price of the shares on SEHK on the date of the grant, which must be a trading day, and the average closing price of the shares on SEHK for the five business days immediately preceding the date of grant.

(1) Movements in share options

	Weighted average exercise price HK$	**Number of shares**	**Weighted average exercise price HK$**	**Number of shares**
Outstanding at 1st January	37.43	1,285,000	33.56	1,105,000
Granted	—	—	50.88	350,000
Lapsed	—	—	36.45	(60,000)
Exercised	31.64	(200,000)	46.49	(110,000)
Outstanding at 31st December	38.50	1,085,000	37.43	1,285,000
Exercisable at 31st December	38.50	1,085,000	32.86	960,000

(2) Terms and conditions of unexpired and unexercised share options at balance sheet date

Date of options granted	Exercise price HK$	2006 Number of shares	2005 Number of shares
10/03/2001	23.60	150,000	190,000
15/03/2002	26.30	120,000	170,000
14/01/2003	25.80	60,000	80,000
14/03/2003	26.50	100,000	130,000
21/05/2004	43.80	350,000	390,000
14/01/2005	51.25	220,000	220,000
28/01/2005	50.25	85,000	105,000
		1,085,000	1,285,000

The options granted under the Share Option Scheme will be exercisable between the first and the tenth anniversaries of the date of grant, and settled by physical delivery of shares.

The options outstanding at 31st December, 2006 have a weighted average remaining contractual life of 6.71 years (2005: 7.59 years).

(3) Details of share options granted during the year, all of which were granted with HK$1.00 consideration.

Exercise period	Exercise price HK$	2006 Number of shares	2005 Number of shares
14/01/2006 — 14/01/2015	51.25	—	220,000
28/01/2006 — 28/01/2015	50.25	—	130,000
		—	350,000

(4) Details of share options exercised during the year

Exercise date	Exercise price HK$	Weighted average closing price per share at preceding day before exercise date HK$	Proceeds received HK$	2006 Number of shares	2005 Number of shares
15/04/2005	23.60	48.20	944,000	—	40,000
21/05/2005	43.80	51.00	657,000	—	15,000
31/05/2005	43.80	54.50	657,000	—	15,000
16/08/2005	43.80	58.90	876,000	—	20,000
27/09/2005	43.80	56.40	876,000	—	20,000
01/02/2006	50.25	56.10	1,005,000	20,000	—
01/04/2006	25.80	65.15	516,000	20,000	—
01/04/2006	26.30	65.15	526,000	20,000	—
16/06/2006	43.80	63.95	1,752,000	40,000	—
18/08/2006	23.60	77.70	944,000	40,000	—
25/08/2006	26.30	75.00	789,000	30,000	—
25/08/2006	26.50	75.00	795,000	30,000	—
				200,000	110,000

The weighted average share price at the exercise date for share options exercised during the year is HK$69.32 (2005: HK$52.90).

(5) Fair value of share options and assumptions

The fair value per option at the dates of grant using the Bi-nominal pricing model with the following assumptions are as follows:

	Option granted on 28/01/2005	**Option granted on 14/01/2005**
Risk-free interest rate (%)	3.63	3.79
Expected life (in years)	10.0	10.0
Expected Volatility (%)	23.48	24.65
Expected dividend yield (%)	3.57	3.57
Estimated fair value per option (HK$)	11.45	11.85

The Bi-nominal pricing model was used in estimating the fair value of share options after taking into account the exercise price and the life of the option. Such option pricing model requires the input of highly subjective assumptions including the risk-free interest rate, expected volatility and dividend yield of the shares. The changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. The fair value of the options were measured at the grant date and are charged to the profit and loss account and credited to shareholders' funds between the grant date and vesting date. There were no market conditions associated with the share option grants.

(ii) EIP

Pursuant to the approved EIP, the directors are authorised, at their discretion, to invite certain executives, to take up awards to vesting ordinary shares in the Bank as incentive for them to remain in employment with the Bank. The maximum number of awards that may be granted under the EIP may not exceed 1% of the issued share capital of the Bank for the time being in issue within five years of the date of approval of the plan on 22nd April, 2004.

The Group grants awards at no consideration for certain employees to acquire ordinary shares in the Bank under the EIP. The shares will be acquired at a nominal value of HK$1 per share under the award. If the Board of Directors determines to select the cash option when shares vest, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

Date	**Percentage of Award vesting**
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

At 31st December, 2006, the Directors and employees of the Bank have the following interest in awards to purchase the ordinary shares in the Bank.

		2006		**2005**	
Date of awards granted	**Exercise price HK$**	**Fair value of awards at date of grant**	**Number of shares**	**Fair value of awards at date of grant**	**Number of shares**
21/05/2004	1.00	21,186,000	495,000	21,186,000	495,000
23/01/2006	1.00	87,672,000	1,560,000	—	—
		108,858,000	2,055,000	21,186,000	495,000

The fair value per award at the date of grant is determined based on the closing price of the shares of the Bank less the exercise price of the award. The fair value per award at the date of grant is as follows:

	Award granted on 23/01/2006 HK$
Closing price of the shares of the Bank at the date of grant	57.20
Less: Exercise price	(1.00)
Estimated fair value per award	56.20

41. Fair values of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

All valuation models are validated before they are used as a basis for financial reporting. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments.

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31st December, 2006 and 31st December, 2005 except as follows:

	The Group			
	2006 Carrying value	2005 Carrying value	2006 Fair value	2005 Fair value
Financial assets				
Held-to-maturity and available-for-sale financial assets	19,534,360	15,909,430	19,456,681	15,829,097
Financial liabilities				
Certificates of deposit issued at amortised cost	2,205,000	1,902,640	2,208,888	1,905,045
Loan capital	2,527,850	2,519,888	2,486,484	2,479,972

	The Bank			
	2006 Carrying value	2005 Carrying value	2006 Fair value	2005 Fair value
Financial assets				
Held-to-maturity and available-for-sale financial assets	18,930,025	15,249,952	18,855,284	15,175,619
Financial liabilities				
Certificates of deposit issued at amortised cost	2,205,000	1,902,640	2,208,888	1,905,045

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in above.

(a) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.

(b) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(c) the fair value of fixed rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(d) the fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

(e) the fair value of forward exchange contracts and interest rate swaps is estimated either using broker quotes or by discounting future cash flows. Broker quotes are back tested using pricing models or discounted cash flow techniques. Future cash flows are estimated based on management's best estimates of the amount it would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the balance sheet date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model. Inputs are based on market related data at the balance sheet date.

42. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2006

Up to the date of issue of the accounts, the HKICPA has issued a number of amendments, new standards and interpretations and the HKMA has recommended additional disclosures, which are not yet effective for the accounting year ended 31st December, 2006 and which have not been adopted in these accounts.

The Group is in the process of making an assessment of what the impact of these amendments, new standards, new interpretations and additional disclosures is expected to be in the period of initial application. So far it has concluded that the adoption of them is only expected to affect the level of detail of the disclosures, and is not expected to have any impact on the Bank's balance sheet or the Group's consolidated profit and loss account, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, *Financial instruments: disclosures*	1st January, 2007
Amendment to HKAS 1, *Presentation of financial statements: capital disclosures*	1st January, 2007
Banking (Disclosure) Rules	1st January, 2007

43. Non-adjusting post balance sheet events

On 21st December, 2006, the Bank entered into a Share Purchase Agreement with BankAmerica International Financial Corporation ("BankAmerica"), Inchcape Hong Kong Limited ("Inchcape") and Inchcape International Holdings Limited whereby the Bank agreed to acquire the entire issued share capital of Inchroy Credit Corporation Limited ("Inchroy") from BankAmerica and Inchcape for a consideration of HK$1,400 millions. The purchase price represents approximately 1.49 times the net asset value of Inchroy as at 31st December, 2006. Inchroy is a registered deposit-taking company in Hong Kong. The completion date of the acquisition was 31st January, 2007.

44. Approval of accounts

The accounts were approved and authorised for issue by the Board of Directors on 15th March, 2007.

THE ISSUER
Wing Hang Bank, Limited
161 Queen's Road Central
Hong Kong

TRUSTEE
The Bank of New York Mellon
40th Floor,
One Canada Square
London E14 5AL
United Kingdom

PRINCIPAL PAYING AGENT, AGENT BANK AND TRANSFER AGENT
The Bank of New York Mellon
40th Floor,
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR
The Bank of New York Mellon
101 Barclay Street
21st Floor West
New York, New York 10286
United States of America

CMU LODGING AGENT
The Bank of New York Mellon
Level 24, Three Pacific Place
1 Queen's Road East
Hong Kong

LEGAL ADVISERS

To the Issuer as to Hong Kong law
Freshfields Bruckhaus Deringer
11th Floor
Two Exchange Square
Central
Hong Kong

To the Dealers as to English law
Allen & Overy
9th Floor
Three Exchange Square
Central
Hong Kong

To the Trustee as to English law
Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

INDEPENDENT AUDITOR

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

DEALERS

ABN AMRO Bank N.V.
250 Bishopsgate
London EC2M 4AA
United Kingdom

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Deutsche Bank AG, Singapore Branch
One Raffles Quay
#17-00 South Tower
Singapore 048583

The Hongkong and Shanghai Banking Corporation Limited
Level 17, HSBC Main Building
1 Queen's Road
Central
Hong Kong

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
United Kingdom

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR
United Kingdom

UBS AG
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Printed by IFN Financial Press Limited
28268