Fubon Bank 富邦銀行

FUBON BANK (HONG KONG) LIMITED

富邦銀行（香港）有限公司

(incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

ANNOUNCEMENT OF 2005 CONSOLIDATED INTERIM RESULTS

SUMMARY OF RESULTS

The directors have pleasure in presenting the unaudited interim results of Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries (collectively "the Group") for the six months ended 30 June 2005.

Consolidated Income Statement

	Notes	For the six months ended 30 June 2005 HK$'000	30 June 2004 HK$'000	%
Interest income		**624,885**	472,597	
Interest expense		**(359,620)**	(168,922)	
Net interest income		**265,265**	303,675	-13
Other operating income		**114,503**	109,098	5
Operating income		**379,768**	412,773	-8
Gains less losses from disposal of available-for-sale securities		**29,031**	96,300	-70
Reversal of/(provision for) impaired loans and advances		**3,001**	(24,513)	112
Reversal of impairment losses on investments and assets acquired under lending agreements		**5,319**	27,221	-80
Operating expenses		**(284,188)**	(289,288)	2
Profit before taxation		**132,931**	222,493	-40
Taxation		**(19,109)**	(23,655)	19
Profit attributable to shareholders		**113,822**	198,838	-43
Interim dividend of 6.00 Hong Kong cents per share (2004: 6.00 Hong Kong cents)		**70,330**	70,330	
Earnings per share (Hong Kong cents)	1	**9.71**	16.96	-43

Extracts from Consolidated Balance Sheet

	As at 30 June 2005 *HK$'000*	As at 31 December 2004 *HK$'000* *(Restated)*
ASSETS		
Cash and short term funds	**19,645,649**	13,574,799
Placements with banks maturing between one and twelve months	**2,349,353**	5,813,775
Certificates of deposit held	**410,977**	499,007
Trading securities	**35,328**	126,926
Other financial instruments designated as at fair value through profit or loss	**666,465**	0
Derivative financial instruments	**285,018**	0
Advances to customers less impairment allowances	**19,677,684**	18,002,299
Accrued interest and other accounts	**704,998**	906,947
Available-for-sale securities	**5,923,193**	5,625,670
Investment in associated company	**6,662**	6,648
Fixed assets	**1,201,781**	1,204,710
	50,907,108	45,760,781
LIABILITIES		
Deposits and balances of banks and other financial institutions	**3,162,763**	4,098,985
Deposits from customers	**32,452,400**	30,085,730
Certificates of deposit issued	**2,959,557**	2,367,912
Derivative financial instruments	**297,455**	0
Other trading liabilities	**1,735,538**	2,237,272
Other accounts and liabilities	**6,635,206**	3,268,110
	47,242,919	42,058,009
EQUITY		
Share capital	**1,172,160**	1,172,160
Share premium	**749,778**	749,778
Reserves	**1,742,251**	1,780,834
	3,664,189	3,702,772
	50,907,108	45,760,781

Approved and authorised for issue by the Board of Directors on 11 August 2005.

Note 1: Earnings per share is calculated on profit attributable to shareholders of HK$113,822,000 (2004: HK$198,838,000) and on 1,172,160,000 (2004: 1,172,160,000) ordinary shares in issue during the period. There are no convertible loan capital, options or warrants outstanding which would cause a dilution effect on earnings per share.

Note 2: **Changes in accounting policies**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes Hong Kong Accounting Standards "HKASs" and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim announcement. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim announcement.

The changes in the Group's accounting policies resulting from the adoption of new HKFRSs are attributable to the adoption of HKAS 32, "Financial instruments: Disclosure and presentation", HKAS 39, "Financial instruments: Recognition and measurement" and HKAS 17, "Leases". The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim announcement.

The adoption of HKAS 17 has no material effect on the Group's financial statements.

Summary of the effect of changes in the accounting policies from the adoption of HKAS 32 and 39 is as follows:

(i) Changes in classification and measurement of financial instruments

In prior years, the accounting policies for certain financial instruments were as follows:

a) Non-trading securities were stated at fair value with changes in fair values recognised net of deferred taxes in the investment revaluation reserve until the security was sold, collected, or otherwise disposed of, or until there was objective evidence that the security was impaired, at which time the relevant cumulative gain or loss was recognised in the income statement;

b) Derivative financial instruments entered into by management used for asset and liability management purposes and which qualified as hedges were valued on an equivalent basis to the underlying assets and liabilities or net positions which they were hedging. Any profit or loss was recognised on the same basis as that arising from related assets and liabilities or net positions;

c) General provisions on loans and advances were determined by directors at a level deemed appropriate to absorb expected losses for loans which were impaired at the balance sheet date but which would not be identified as such until sometime in the future;

d) Specific provisions on loans and advances were determined by directors at a level deemed appropriate to absorb expected losses from individual accounts after taking into account of the value of the collateral held;

e) In prior years, advances to customers and trade bills were carried at amounts advanced less payment collected, any suspended interest and reserves for credit losses. Cash rebates granted in relation to residential mortgage loans were capitalised and amortised to the income statement over the early prepayment penalty period;

f) Fees and commissions arising on project and structured finance transactions which were in the nature of interest were recognised as interest income on a time-apportioned basis.

With effect from 1 January 2005, and in accordance with HKAS 32 and 39, the following new accounting policies have been adopted for the financial instruments mentioned above:

g) Except for the non-trading investments as mentioned below, all non-trading investments held as of 1 January 2005 were classified as available-for-sale securities and were carried at fair value. Changes in fair value were recognised in equity, unless there is objective evidence that an individual investment is impaired. If there is objective evidence that an individual investment is impaired, any amount held in the fair value reserve in respect of the investment is transferred to the income statement for the period in which the impairment is identified.

   On 1 January 2005, a portfolio of non-trading investments of HK$691,125,000 with associated interest rate swaps were separated into the underlying debt securities and derivative financial instruments. As a result, the debt securities were restated at fair value amounting to HK$739,065,000 and were re-designated on 1 January 2005 as other financial instruments at fair value through profit or loss, as permitted by the transitional arrangements of HKAS 39. In addition, the interest rate swaps were classified as derivative financial instruments held for trading purposes which were measured at an aggregate fair value of HK$47,940,000.

   There was no net impact to the opening balance of retained earnings as of 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

   As a result of these changes, the Group's net profit before and after taxation for the six months ended 30 June 2005 have increased by HK$980,000 and HK$808,000 respectively.

h) All derivative financial instruments previously entered into by the Group for hedging purposes are re-designated as for trading purposes and are stated at fair value. Changes in the fair value of these derivatives held are recognised in the income statement.

This change was adopted by way of an adjustment to increase the opening balance of the retained earnings as at 1 January 2005 by HK$348,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net profit before and after taxation recognised for the six months ended 30 June 2005 have been reduced by HK$1,803,000 and HK$1,429,000 respectively.

i) At each reporting date, the Group determines whether objective evidence of impairment exists for groups of loans and advances on a collective basis and, if such indications exist, assesses the amount of collective impairment allowance required. These groups are of individually insignificant loans and advances that have similar credit risk characteristics. In assessing the amount of collective loan loss allowance required, the management estimates the present value of the future cash flows expected to be received from these groups of loans and advances, taking into account the contractual cash flows, the historical loss experience and other factors such as credit quality, portfolio size, and economic factors. The accuracy of the allowance the Group makes depends on how well the Group can estimate future cash flows and the model assumptions and parameters used. While this necessarily involves judgment, the Group believes that the collective impairment allowance is reasonable. The collective impairment allowance replaces the previous general provision for loans and advances.

This change was adopted by way of an adjustment to increase the opening balance of retained earnings as at 1 January 2005 by HK$39,863,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net profit before and after taxation recognised for the six months ended 30 June 2005 have increased by HK$8,681,000.

j) At each reporting date, the Group determines whether there is objective evidence of impairment for loans and advances which are individually significant. If such evidence exists, the Group estimates the amount of impairment allowance which is measured based on the difference between the carrying amount of the loans and advances and the present value of the estimated future cash flows discounted at the loans and advances' original effective interest rates.

This change was adopted by way of an adjustment to reduce the opening balance of retained earnings as at 1 January 2005 by HK$11,438,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net profit before and after taxation recognised for the six months ended 30 June 2005 have increased by HK$1,702,000 and HK$1,405,000 respectively.

k) With effect from 1 January 2005, and in accordance with HKAS 39, the amortisation of cash rebates for residential mortgage loans is charged to the income statement over the estimated useful lives of the loans. The cash rebate amortisation is recognised as an integral part of the total interest income.

This change was adopted by way of an adjustment to increase the opening balance of retained earnings as at 1 January 2005 by HK$34,621,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net profit before and after taxation recognised for the six months ended 30 June 2005 have been reduced by HK$105,000 and HK$86,000 respectively.

l) Fees and commissions arising on project and structured finance transactions which are an integral part of effective interest are recognised using the effective interest method. The effective interest method is a method to allocate the interest income over the expected life of the relevant loans using the effective interest rate calculated by discounting estimated future cash payments and receipts under the relevant loans.

This change was adopted by way of an adjustment to reduce the opening balance of retained earnings as at 1 January 2005 by HK$3,442,000. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net profit before and after taxation recognised for the six months ended 30 June 2005 have been reduced by HK$1,075,000 and HK$1,263,000 respectively.

(ii) Effect on opening balance of total equity at 1 January 2005 (as adjusted)

The adoption of HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and a change in the recognition and measurement of hedging activities. The Group has applied the previous Statement of Standard Accounting Practices ("SSAP") No. 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships in the 2004 comparative information as HKAS 39 is applied prospectively.

The adjustments required to restate balances in accordance with HKAS 39 are made as at 1 January 2005. The following table sets out the adjustments that have been made to the opening balances at 1 January 2005.

Effect on equity of new policy (increase/(decrease))

	Note	**Retained earnings** *HK$'000*
Separate accounting for non-trading investments and related derivatives	2(i)(g)	0
Derivatives designated as trading	2(i)(h)	348
Collective impairment allowance	2(i)(i)	39,863
Individual impairment allowance	2(i)(j)	(11,438)
Amortisation of cash rebates for mortgage loans	2(i)(k)	34,621
Effective yield adjustments for loans and advances	2(i)(l)	(3,442)
Aggregate deferred tax effect of the above adjustments		(10,490)
Total effect at 1 January 2005		49,462

(iii) Effect on profit after taxation for the six months ended 30 June 2005 (estimated)

In respect of the six months period ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied, where it is practicable to make such estimates.

Retrospective adjustments have not been made for the six months period ended 30 June 2004 for all changes in policies due to the adoption of HKAS 39, as explained in note 2(i) above.

Effect on profit of new policy (increase/(decrease))	Note	**Six months ended 30 June 2005** ***HK$'000***
Separate accounting for non-trading investments and related derivatives	2(i)(g)	**808**
Derivatives designated as trading	2(i)(h)	**(1,429)**
Collective impairment allowance	2(i)(i)	**8,681**
Individual impairment allowance	2(i)(j)	**1,405**
Amortisation of cash rebates for mortgage loans	2(i)(k)	**(86)**
Effective yield adjustments for loans and advances	2(i)(l)	**(1,263)**
Total effect for the six months ended 30 June 2005		**8,116**

Note 3: **Comparative figures**

In order to comply with the terminology of HKAS 39, the term "non-trading" securities used in the balance sheet as of 31 December 2004 has been replaced by "available-for-sale" securities.

SUPPLEMENTARY FINANCIAL INFORMATION

1. Advances to customers less impairment allowances

	As at 30 June 2005 ***HK$'000***	As at 31 December 2004 *HK$'000*
Advances to customers	**19,863,691**	18,218,573
Allowances/reserves for impaired loans		
– Collective impairment allowance/general provision	**(110,650)**	(145,816)
– Individual impairment allowance/specific provision	**(75,357)**	(70,458)
	19,677,684	18,002,299

2. Advances to customers – by industry sectors

The information concerning advances to customers by industry sectors has been classified in accordance with the industry categories contained in the banking returns on "Quarterly Analysis of Loans and Advances and Provisions" (MA(BS)2A) and "Assets and Liabilities of an Authorised Institution" (MA(BS)1) submitted to the Hong Kong Monetary Authority ("HKMA").

	As at 30 June 2005 ***HK$'000***	As at 31 December 2004 *HK$'000*
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**105,825**	113,061
– Property investment	**3,332,209**	3,322,410
– Financial concerns	**228,789**	201,525
– Stockbrokers	**121,154**	59,730
– Wholesale and retail trade	**112,123**	107,505
– Manufacturing	**3,524,737**	2,227,544
– Transport and transport equipment	**638,537**	502,927
– Others	**1,988,929**	1,952,865
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	**1,490**	17,974
– Loans for the purchase of other residential properties	**7,877,715**	7,729,150
– Credit card advances	**450,041**	484,604
– Others	**507,799**	610,544
	18,889,348	17,329,839
Trade finance	**447,538**	360,372
Loans for use outside Hong Kong	**526,805**	528,362
	19,863,691	18,218,573

3. Repossessed assets and assets acquired under lending agreements

The total repossessed assets and assets acquired under lending agreements of the Group as at 30 June 2005 amounted to HK$125,510,000 (2004: HK$186,740,000).

4. Overdue advances to customers

	As at 30 June 2005		As at 31 December 2004	
	HK$'000	***% of gross advances***	*HK$'000*	*% of gross advances*
Overdue advances to customers				
6 months or less but over 3 months	**22,337**	**0.11**	37,959	0.21
1 year or less but over 6 months	**14,994**	**0.08**	20,132	0.11
Over 1 year	**102,769**	**0.52**	108,909	0.60
	140,100	**0.71**	167,000	0.92
Amount of collateral held in respect of overdue advances[i]	**85,148**		108,765	
Secured overdue advances	**82,017**		103,356	
Unsecured overdue advances	**58,083**		63,644	
	140,100		167,000	
Amount of individual impairment allowances made against overdue advances	**70,228**		60,724	

[i] *Including expected recoveries of HK$11.5 million (2004: HK$8.83 million) from companies in liquidation.*

5. Rescheduled advances to customers

	As at 30 June 2005		As at 31 December 2004	
	HK$'000	***% of gross advances***	*HK$'000*	*% of gross advances*
Rescheduled advances to customers[i]	**117,199**	**0.59**	160,172	0.88
Amount of collateral held in respect of rescheduled advances	**110,755**		148,794	
Secured rescheduled advances	**104,116**		135,181	
Unsecured rescheduled advances	**13,083**		24,991	
	117,199		160,172	
Amount of individual impairment allowances made against rescheduled advances	**2,676**		6,808	

[i] *Net of rescheduled advances which have been overdue for over three months and were reported in note (4) Overdue advances to customers.*

6. Analysis of overdue assets

As at 30 June 2005	**Loans** ***HK$'000***	**Accrued interest** ***HK$'000***	**Total overdue assets** ***HK$'000***
Overdue for			
6 months or less but over 3 months	**22,337**	**0**	**22,337**
1 year or less but over 6 months	**14,994**	**0**	**14,994**
Over 1 year	**102,769**	**0**	**102,769**
	140,100	**0**	**140,100**

As at 31 December 2004	Loans *HK$'000*	Accrued interest *HK$'000*	Total overdue assets *HK$'000*
Overdue for			
6 months or less but over 3 months	37,959	0	37,959
1 year or less but over 6 months	20,132	0	20,132
Over 1 year	108,909	0	108,909
	167,000	0	167,000

7. Included in accrued interest and other accounts are trade bills net of allowances of HK$36,838,000 (2004: HK$24,064,000).

8. Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual and credit risk-weighted amounts of each significant class of contingent liabilities and commitments:

	As at 30 June 2005		As at 31 December 2004	
	Contractual amounts *HK$'000*	**Credit risk weighted amounts** *HK$'000*	Contractual amounts *HK$'000*	Credit risk weighted amounts *HK$'000*
Direct credit substitutes	**431,693**	**431,693**	462,247	462,247
Transaction-related contingencies	**9,087**	**4,544**	10,381	5,191
Trade-related contingencies	**332,940**	**66,588**	252,940	50,588
Undrawn loan facilities				
– with an original maturity of under 1 year or which are unconditionally cancellable	**8,152,378**	**0**	6,129,359	0
– with an original maturity of 1 year or over	**576,153**	**288,077**	417,733	208,867
Forward forward deposits placed	**561,989**	**112,398**	307,519	61,504
	10,064,240	**903,300**	7,580,179	788,397

(b) Derivatives

In accordance with HKAS 39, the aggregate fair value of favourable and unfavourable derivative financial instruments have been recognised as derivative financial assets and liabilities respectively, as disclosed on the consolidated balance sheet as at 30 June 2005. The following is a summary of the contractual amounts, credit risk-weighted amounts and replacement costs of these derivative financial instruments outstanding as of 30 June 2005.

	As at 30 June 2005		
	Contractual amounts *HK$'000*	**Credit risk weighted amounts** *HK$'000*	**Replacement costs** *HK$'000*
<u>Trading</u>			
Exchange rate contracts			
– Forward exchange contracts	**2,280,441**	**8,469**	**76,743**
– Swaps	**4,803,024**	**17,600**	**32,706**
– Options purchased	**995,952**	**4,766**	**9,480**
– Options written	**995,397**	**N/A**	**N/A**
	9,074,814	**30,835**	**118,929**
Equity option contracts			
– Options purchased	**168,214**	**325**	**1,987**
– Options written	**168,214**	**N/A**	**N/A**
	336,428	**325**	**1,987**
Interest rate contracts			
– Interest rate swaps	**5,170,026**	**26,418**	**96,030**
– Interest rate options purchased	**200,000**	**0**	**685**
– Interest rate options written	**200,000**	**N/A**	**N/A**
	5,570,026	**26,418**	**96,715**
	14,981,268	**57,578**	**217,631**

The following is a summary of the contractual amounts, credit risk-weighted amounts and replacement costs of each significant type of derivative financial instruments outstanding as of 31 December 2004. Prior to the adoption of HKAS 39, these derivative financial instruments were accounted for as off balance sheet items and no derivative financial assets nor liabilities were recognised as at 31 December 2004 in respect of these derivative financial instruments.

	As at 31 December 2004		
	Contractual amounts *HK$'000*	Credit risk weighted amounts *HK$'000*	Replacement costs *HK$'000*
Trading			
Exchange rate contracts			
– Forward exchange contracts	1,296,388	1,061	107,045
– Swaps	452,508	2,263	0
– Options purchased	589,805	452	5,084
– Options written	588,868	N/A	N/A
	2,927,569	3,776	112,129
Equity option contracts			
– Options purchased	314,803	400	1,481
– Options written	314,803	N/A	N/A
	629,606	400	1,481
	3,557,175	4,176	113,610
Hedging			
Exchange rate contracts			
– Swaps	2,875,498	8,697	14,730
Interest rate contracts			
– Interest rate swaps	3,180,335	24,298	103,516
	6,055,833	32,995	118,246

Derivatives arise from forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. The contractual amounts of these instruments disclosed in this note indicate the volume of transactions outstanding as at 31 December 2004 and 30 June 2005; they do not represent amounts at risk.

The trading transactions include positions arising from the execution of trade orders from customers and transactions taken to hedge these positions. No significant proprietary positions were maintained by the Group as at 31 December 2004 and 30 June 2005. In 2004, the hedging contracts were used to hedge the Group's own exposure to market risks as part of its asset and liability management. As a result of the adoption of HKAS 39, these contracts do not meet the criteria for hedge accounting and have to be re-designated as trading derivatives. Fair values of favourable and unfavourable derivative financial instruments are recognised as derivative financial assets and liabilities respectively and the corresponding changes in fair values have been recognised in the income statement since 1 January 2005.

The replacement costs and credit risk-weighted amounts of the off-balance sheet exposures disclosed in parts (a) and (b) of this note do not take into account the effects of bilateral netting arrangements. They are assessed in accordance with the HKMA's guidelines which implement the Basle agreement on capital adequacy. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The credit risk-weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts.

9. Foreign exchange exposures

The net positions or net structural positions in foreign currencies are disclosed as follows:

	As at 30 June 2005					
Equivalent in HK$'Million	**US Dollars**	**Euros**	**New Zealand Dollars**	**Australian Dollars**	**Others**	**Total**
Spot assets	**12,211**	**404**	**748**	**1,290**	**1,824**	**16,477**
Spot liabilities	**(12,413)**	**(279)**	**(679)**	**(1,205)**	**(1,515)**	**(16,091)**
Forward purchases	**3,833**	**611**	**20**	**167**	**556**	**5,187**
Forward sales	**(3,616)**	**(748)**	**(89)**	**(242)**	**(854)**	**(5,549)**
Net option position	**0**	**0**	**0**	**0**	**0**	**0**
Net long/(short) position	**15**	**(12)**	**0**	**10**	**11**	**24**

	US Dollars	**Euros**	**New Zealand Dollars**	**Australian Dollars**	**Others**	**Total**
Net structural position	**31**	**0**	**0**	**0**	**7**	**38**

	As at 31 December 2004					
Equivalent in HK$'Million	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Others	Total
Spot assets	10,713	23	367	1,446	1,423	13,972
Spot liabilities	(10,005)	(206)	(352)	(1,416)	(1,055)	(13,034)
Forward purchases	2,078	369	8	381	838	3,674
Forward sales	(2,781)	(187)	(21)	(393)	(1,206)	(4,588)
Net option position	0	0	0	0	0	0
Net long/(short) position	5	(1)	2	18	0	24

	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Others	Total
Net structural position	0	0	0	0	0	0

10. Capital adequacy and liquidity ratios

	2005	2004
	%	%
Unadjusted capital adequacy ratio at period/year end	**15.71**	18.46
Adjusted capital adequacy ratio incorporating market risk	**15.42**	18.22
Average liquidity ratio for June	**44.60**	70.85
Average liquidity ratio for the six months ended 30 June	**45.92**	71.40

The unadjusted capital adequacy ratio is computed on a consolidated basis as required by the HKMA for its regulatory purposes, and is in accordance with the Third Schedule of the Hong Kong Banking Ordinance. The adjusted capital adequacy ratio incorporating market risk is computed on the same consolidated basis, and is in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA.

The average liquidity ratio for the period is computed as the simple average of each calendar month's average ratio, as reported in Part I (2) of the "Return of Liquidity Position of an Authorised Institution" (MA(BS)1E) calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

11. The components of the total capital base after deductions as reported under Part I of the banking return "Capital Adequacy Return" (MA(BS)3) calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

	As at 30 June 2005 ***HK$'000***	As at 31 December 2004 *HK$'000*
Core capital		
Paid up ordinary share capital	**1,172,160**	1,172,160
Reserves (including retained earnings)	**1,552,503**	1,670,086
Share premium	**749,778**	749,778
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	**36,868**	36,868
Reserves on revaluation of holdings of securities not held for trading purposes	**(77,279)**	(4,350)
Collective impairment allowance for impaired loans	**110,650**	145,919
Regulatory reserve	**99,341**	0
Total capital base before deductions	**3,644,021**	3,770,461
Deductions from total capital base	**(67,934)**	(67,930)
Total capital base after deductions	**3,576,087**	3,702,531

An appropriation of an amount of retained earnings of HK$99,341,000 has been made as a regulatory reserve for general banking risks, including future losses or other unforeseeable risks, in addition to impairment losses recognised under HKAS 39 on loans.

12. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because substantially all of the Group's business is attributable to a single geographical segment, Hong Kong.

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services.

Retail Banking mainly comprises the Consumer Banking and the Retail Distribution Network businesses. Consumer Banking comprises credit card merchant acquiring, provision of credit card advances, insurance and unit trust businesses. Retail Distribution Network business mainly comprises private banking, deposit account services, residential mortgage and other consumer lending.

Wholesale Banking comprises the Small and Medium Enterprise businesses and the Corporate Banking Business. Small and Medium Enterprise businesses includes both personal and corporate equipment financing, commercial lending to small and medium enterprises, automobile and other consumer leasing contracts and lending activities. Corporate Banking business covers trade financing, syndicated loans and other corporate lending.

Financial Markets mainly provides securities brokerage, foreign exchange services and centralized cash management for deposit taking and lending, management of trading securities, execution of management's investment strategies in money market investment instruments and the overall funding of the Group.

Real Estate is responsible for the management and orderly realization of the Group's repossessed properties and properties acquired under lending agreements.

Unallocated items mainly comprise the central management unit, management of investments in securities, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	*HK$'000*
(a) Operating Income		
Retail Banking	**248,467**	308,464
Wholesale Banking	**115,113**	103,595
Financial Markets	**9,665**	36,318
Real Estate	**(1,404)**	(443)
Unallocated*	**7927**	(35,161)
	379,768	412,773

	Six months ended	
	30 June 2005	30 June 2004
	HK$'000	*HK$'000*
(b) Profit before taxation		
Retail Banking	**89,244**	125,148
Wholesale Banking	**57,362**	59,801
Financial Markets	**4,131**	111,142
Real Estate	**12,918**	29,037
Unallocated*	**(30,724)**	(102,635)
	132,931	222,493

* *Unallocated items mainly comprise interest income derived from shareholders' funds not used by the business segments,staff housing loans and the related interest income and funding costs, staff deposits and the related interest expenses and the head office premises, furniture, fixtures and equipment and the related depreciation. This also includes compensation payments payable in respect of the early retirement of two executive directors and other senior management of HK$45 million for the period ended 30 June 2004.*

Geographical segments

The geographical segmental analysis is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of assets. For the periods ended 30 June 2005 and 2004, all of the Group's operating income and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiaries of the Bank located in Hong Kong. More than 90% of assets were either located in Hong Kong or were extended to companies and individuals domiciled in Hong Kong. The balance of the assets were extended to companies and individuals domiciled outside Hong Kong, mainly in China.

REVIEW OF 2005 INTERIM PERFORMANCE

Hong Kong and China Economic Overview

Hong Kong continued its rebound from the economic hardship with a strong performance in the first half of 2005. GDP in the first quarter of 2005 expanded by 6% compared with the corresponding period in 2004, the seventh consecutive quarterly growth since 2003. The economic growth came despite less than favourable external factors such as rising US interest rates, persistently high oil prices and the tightening measures introduced by the Chinese government to curb rapid investment growth, riding on strong exports of goods and services and growing tourism. Recent growth was also accompanied by improving consumer confidence with strong domestic demand, better employment conditions, a vibrant property market and stronger credit demand.

Private consumption expenditure went up by 4.6% in the first quarter over a year earlier. The labour market improved with the unemployment rate falling to 6.1% in the first quarter of 2005 and further to a 41-month low of 5.9% in the three months ending April 2005. Despite external price pressures, inflation remained low with a year-on-year increase in the Composite Consumer Price Index of 0.4%.

Looking forward to the rest of the year, exports, the property market and tourism will continue to underpin local economic growth. Local consumption will remain strong due to improving employment conditions and visitors under the Individual Visit Scheme. We expect a boost in tourism with the opening of Disneyland and the AsiaWorld-expo in 2005. Against this backdrop, the government has maintained its full year GDP growth forecast of 4.5%.

The continuous inflow of funds early in the year pushed money market liquidity to record highs, causing Hong Kong interest rates to diverge from the their rising US counterparts. Although there was rising credit demand in the market, loan expansion has not been able to absorb this surplus liquidity. The HKMA introduced the three new measures on 18 May 2005 to enhance the operation of the Linked Exchange Rate System, which essentially empowered the HKMA to buy or sell the Hong Kong dollar against the US dollar at any level within the range of 7.75-7.85. With the new arrangement, the HKMA can more effectively manage the short-term interest rates while allowing longer-term interest rates to follow. The narrowing of prime and HIBOR gap together with the flattening of the interest rate yield curve put pressure on Hong Kong banks' net interest margin especially in the first half of the year. Hong Kong's Prime Lending rates also rose by 1.5% to 6.5% during the period.

FUBON PERFORMANCE

2005 marked the beginning of a new era for Fubon Bank (Hong Kong) Limited ("Fubon Bank"), with its formal change of name to reflect the Bank's integration with the Fubon Group. With the new name came a new business strategy that stressed providing a "value banking" experience for its customers. Fubon Bank also set its goal to transform from a local bank to a regional financial institution while leveraging the holding company's financial strength. Fubon Bank began exploring Taiwan business and seized every growth opportunity to expand its assets.

As compared to the total assets as at last year-end, Fubon Bank's total assets recorded an increase of 11% and expanded to HK$50.9 billion in the first half of 2005, which is a record high for the Bank. The loan portfolio reached HK$19.9 billion, an increase of 9% from December 2004 with growth in most of the loan types and major economic sectors. Residential mortgage loans remained the main staple of the Bank's loan portfolio, reaching HK$7.9 billion. To diversify the credit risk, the Bank expanded its corporate loan portfolio, increasing it by 18% to HK$10.1 billion. Loan quality continued to improve with the amount of impaired loans reduced to HK$179 million compared to HK$258 million at last year-end, or 0.9% of the total loan portfolio compared to 1.4%.

The Bank maintained a liquid position with cash and bank balances of HK$11.6 billion, a growth of HK$6.1 billion. The increase was partly the result of increases in deposits from customers of HK$2.4 billion. The Bank also raised HK$800 million in a well-received floating rate certificates of deposit placement in May 2005.

The Bank maintains an investment portfolio of Hong Kong Exchange Fund and quality commercial paper to enhance its yield. In light of the rising interest rate environment, the Bank shortened the duration of its portfolio compared to the end of 2004.

The rise in interest rate coupled with the expansion of the Bank's interest-earning assets led to a 32% increase in gross interest income to HK$625 million. With credit demand improving in the second quarter of 2005, the Bank actively expanded its loan portfolio to enhance its core earning capability. The deposit base was enlarged to facilitate a continual expansion in the latter half of 2005. However, with the successive increases in HKD and USD interest rates, gross interest expense has risen to HK$360 million and led to a decline of net interest income of 13% to HK$265 million recorded for the first half of 2005 and the net interest margin also declined by 53 basis points to 1.3%.

Fees and other operating income reached HK$115 million for the six months, a 5% increase compared to the same period last year. Sales of structured products for our wealth management clients saw good growth. Brokerage income improved in the second quarter with the equity market activity increasing. Fubon Bank also leveraged on its Group strength in expanding its insurance and unit trust businesses.

Operating expenses decreased slightly to HK$284 million despite an expanded operation to support the growth of the balance sheet, the cost of the name change campaign and costs incurred in cultivating the Bank's Taiwan business. The Taiwan Corporate Banking team and Offshore Ambassador team were formed in the first half of the year and are beginning to make a contribution to the overall profitability.

The Group recorded a reversal of provision of HK$3 million for impaired loans and advances as compared with a total charge of HK$25 million in the first half of last year. However, the gain on disposal of available-for-sale securities has decreased from HK$96 million to HK$29 million and the reversal of impairment losses on other assets also dropped from HK$27 million to HK$5 million between these periods. The overall contribution to the Group's net profit from these items has decreased from HK$99 million to HK$37 million. In view of the abovementioned factors, net profit for the first half of 2005 amounted to HK$113.8 million, representing a decline of 43% from the same period last year.

INTERIM DIVIDEND

The directors have approved at the Board Meeting held on Thursday, 11 August 2005 the payment of an interim dividend of 6 Hong Kong cents per share for the six months ended 30 June 2005. The interim dividend will be paid on or about Monday, 24 October 2005, in cash to shareholders whose names are on the Register of Members as at the close of business on Friday, 14 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Wednesday, 12 October 2005 to Friday, 14 October 2005, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Share Registrars, Computershare Hong Kong Investor Services Limited, Shop 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 10 October 2005.

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

The Bank has not redeemed any of its listed shares during the six months ended 30 June 2005. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

No director of the Bank is aware of information which would reasonably indicate that the Bank is not or was not in compliance with the Code on Corporate Governance Practices, as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 of the Listing Rules at any time during the six months ended 30 June 2005.

STATUTORY FINANCIAL STATEMENTS

The financial information in this interim announcement is unaudited and does not constitute statutory financial statements.

The financial information relating to the financial year ended 31 December 2004 included in this interim announcement does not constitute the Bank's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 1 March 2005.

The same accounting policies adopted in the 2004 annual financial statements have been applied in the preparation of the interim financial report, except for the changes in accounting policies as set out in note 2. The interim results have been reviewed by the audit committee. The interim financial report for the six months ended 30 June 2005 has been reviewed in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants, by KPMG whose unmodified review report is included in the interim financial report to be sent to shareholders.

By Order of the Board
Ivan Young
Company Secretary

Hong Kong, 11 August 2005

As at the date of this announcement, the Board comprises of Jin-Yi Lee (Managing Director and Chief Executive Officer), Fan Sheung Yam, Horace as Executive Directors; Ming-Hsing (Richard) Tsai (Chairman), Ming-Chung (Daniel) Tsai (Vice Chairman), Wing-Fai Ng, Victor Kung, Jesse Ding as Non-Executive Directors; and Robert James Kenrick, Moses Tsang, Hung Shih as Independent Non-Executive Directors.

Please also refer to the published version of this announcement in South China Morning Post.