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 FINAL RESULTS

SUMMARY OF RESULTS

The Directors have pleasure in presenting the audited results of Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2005. This financial report has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies adopted in the 2004 annual report except for changes in the accounting policies as a result of the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Consolidated Income Statement

	2005 *HK$'000*	2004 *HK$'000 (Restated)*	Variance
Interest income	**1,571,878**	971,783	61.75%
Interest expense	**(1,068,107)**	(361,602)	195.38%
Net interest income	**503,771**	610,181	-17.44%
Other operating income	**326,790**	225,097	45.18%
Operating income	**830,561**	835,278	-0.56%
Operating expenses	**(602,766)**	(601,896)	0.14%
Operating profit before gains and impairment losses	**227,795**	233,382	-2.39%
(Losses)/gains from disposals of available-for-sale/non-trading securities	**(17,799)**	93,256	-119.09%
Write back/(charge) of impairment losses on advances to customers	**20,247**	(51,173)	139.57%
Reversal of impairment losses on investments and assets acquired under lending agreements	**4,616**	46,703	-90.12%
Gains on disposals of fixed assets	**38,956**	16,181	140.75%
Profit before taxation	**273,815**	338,349	-19.07%
Taxation	**(32,374)**	(37,961)	-14.72%
Profit attributable to shareholders	**241,441**	300,388	-19.62%
Interim divided declared during the year	**(70,330)**	(70,330)	0.00%
Final dividend proposed after the balance sheet date	**(128,938)**	(128,938)	0.00%
	(199,268)	(199,268)	0.00%
Earnings per share (Hong Kong cents)	**20.60**	25.63	-19.63%

Consolidated Balance Sheet

	2005 *HK$'000*	2004 *HK$'000* *(Restated)*	Variance
ASSETS			
Cash and short term funds	**10,157,048**	5,481,468	85.30%
Placements with banks maturing between one and twelve months	**1,573,939**	5,813,775	-72.93%
Trading securities	**395,081**	2,261,707	-82.53%
Other financial instruments designated as at fair value through profit or loss	**646,707**	0	–
Derivative financial instruments	**330,364**	0	–
Advances to customers less impairment	**21,375,566**	18,002,299	18.74%
Accrued interest and other accounts	**643,764**	906,947	-29.02%
Available-for-sale/non-trading securities	**13,523,761**	12,083,227	11.92%
Investment in associated company	**6,470**	6,648	-2.68%
Fixed assets	**1,150,838**	1,204,710	-4.47%
	49,803,538	45,760,781	8.83%
LIABILITIES			
Deposits and balances of banks and other financial institutions	**1,195,791**	4,098,985	-70.83%
Deposits from customers	**32,543,110**	30,085,730	8.17%
Certificates of deposit issued	**3,805,341**	2,367,912	60.70%
Derivative financial instruments	**355,114**	0	–
Trading liabilities	**1,125,534**	2,237,272	-49.69%
Other accounts and liabilities	**7,029,732**	3,268,110	115.10%
	46,054,622	42,058,009	9.50%
CAPITAL RESOURCES			
Share capital	**1,172,160**	1,172,160	0.00%
Share premium	**749,778**	749,778	0.00%
Reserves	**1,826,978**	1,780,834	2.59%
Shareholders' funds	**3,748,916**	3,702,772	1.25%
	49,803,538	45,760,781	8.83%

Consolidated Summary Statement of Changes in Equity

	2005 *HK$'000*	2004 *HK$'000*
Shareholders' equity at 1 January		
As previously reported	**3,702,772**	3,784,171
Opening balance adjustments arising from changes in accounting policies	**49,462**	0
As at 1 January, after opening balance adjustments	**3,752,234**	3,784,171
Realisation of revaluation surplus of available-for-sale/non-trading securities on disposal	**(4,234)**	(1,333)
Net change in fair value of available-for-sale/non-trading securities	**(50,904)**	(7,260)
Deferred taxation	**9,647**	1,898
Net losses not recognised in the income statement	**(45,491)**	(6,695)
Net profit for the year	**241,441**	300,388
Dividend paid during the year	**(199,268)**	(375,092)
Shareholders' equity as at 31 December	**3,748,916**	3,702,772

Consolidated Cash Flow Statement

	2005		2004 *(Restated)*	
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Operating activities				
Profit before taxation	**273,815**		338,349	
Adjustments for non-cash items:				
Impairment allowance for advances to an associated company	**(22)**		2,216	
Exchange difference in translation of advance to an associated company	**(525)**		83	
Depreciation	**60,688**		60,190	
Gains on disposals of fixed assets	**(38,956)**		(16,181)	
(Write back)/charge of impairment losses on loans and advances	**(20,247)**		51,173	
Reversal of impairment losses on investments and assets acquired under lending agreements	**(4,616)**		(46,703)	
		270,137		389,127
(Increase)/decrease in operating assets:				
Short-term funds with original maturity of over three months	**(141,789)**		(396,505)	
Treasury bills with original maturity of over three months	**(2,346,511)**		(4,458,442)	
Placements maturing between one and twelve months with original maturity of over three months	**3,773,360**		(5,347,299)	
Certificates of deposit held	**105,451**		(132,135)	
Gross advances to customers	**(3,328,243)**		(2,487,031)	
Accrued interest and other accounts	**(15,700)**		449,879	
Trading securities	**100,210**		(28,293)	
Other financial instruments designated as at fair value through profit or loss	**(646,707)**		0	
Available-for-sale/non-trading securities	**(647,342)**		4,989,531	
		(3,147,271)		(7,410,295)
Increase/(decrease) in operating liabilities:				
Deposits and balances of banks and other financial institutions	**(2,903,194)**		(269,727)	
Deposits from customers	**6,344,680**		1,289,311	
Certificates of deposit issued/(redeemed)	**1,437,429**		(283,735)	
Trading liabilities	**(1,111,738)**		2,159,834	
Other accounts and liabilities	**4,137,072**		1,145,322	
		7,904,249		4,041,005
Net cash generated from/(used in) operations		**5,027,115**		(2,980,163)
Hong Kong Profits Tax paid		**(61,281)**		(18,871)
Hong Kong Profits Tax refunded		**8,572**		0
Net cash generated from/(used in) operating activities		**4,974,406**		(2,999,034)
Investing activities				
Payments for purchases of fixed assets	**(42,445)**		(52,176)	
Net proceeds from disposals of fixed assets	**74,586**		9,996	
Repayment from investment in associated company	**611**		0	

Net cash generated from/(used in) investing activities		**32,752**		(42,180)
Financing activities				
Dividends paid	**(199,268)**		(375,092)	
Deposits accepted from fellow subsidiaries	**8,220,004**		3,893,277	
Deposits repaid to fellow subsidiaries	**(12,107,304)**		0	
Net cash (used in)/generated from financing activities		**(4,086,568)**		3,518,185
Net increase in cash and cash equivalents		**920,590**		476,971
Cash and cash equivalents as at 1 January		**9,186,328**		8,709,357
Cash and cash equivalents as at 31 December		**10,106,918**		**9,186,328**

Cash flows from operating activities include:

	2005	2004
	HK$'000	*HK$'000*
Interest received	**1,547,689**	915,426
Interest paid	**(1,138,628)**	(324,470)
Dividends received	**10,270**	12,432

Note 1: This financial report, which has been reviewed by the Bank's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual report except for the changes in accounting policies explained in Note 2.

Note 2: Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs, which term collectively includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations, that are effective for accounting periods beginning on or after 1 January 2005.

The changes in the Group's accounting policies resulting from the adoption of the new and revised HKFRSs are attributable to the adoption of HKAS 17, "Leases", HKAS 24 "Related party disclosures", HKAS 30, "Disclosures in the financial statements of banks and similar financial institutions", HKAS 32, "Financial instruments: Disclosure and presentation", and HKAS 39, "Financial instruments: Recognition and measurement".

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

The adoption of HKAS 17 has no material effect on the Group's financial statements. The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 from the adoption of HKAS 32 and 39 which have been reflected in this financial report.

(i) Changes in classification and measurement of financial instruments

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

a) The Group applied Statement of Standard Accounting Practices ("SSAP") No. 24 "Accounting for investments in securities" to investments in securities. Under SSAP No. 24, 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. Securities held for trading purposes were stated at fair value with changes in fair value recognised in the income statement as they arise;

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 the 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 the 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 items mentioned above:

(A) Financial instruments

(i) Initial recognition and classification

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, available-for-sale financial assets and other financial liabilities.

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 a financial asset 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.

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 or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately.

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated as 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 are accounted for as trading instruments.

Financial instruments designated as at fair value through profit or loss primarily consist of financial instruments that do not qualify for hedge accounting but are managed and whose performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy.

Financial assets and liabilities under this category are carried at fair value. 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 the net payment and the carrying value is included in the income statement.

On 1 January 2005, a portfolio of non-trading investments with a value 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 designated as 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 and were measured as a liability at an aggregate fair value of HK$47,940,000 on the same date.

There was no net impact on 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 year 2005 have increased by HK$3,430,000 and HK$2,830,000 respectively.

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 (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) 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 and financial institutions.

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. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified in any of the other two 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. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are carried at cost less impairment losses, if any.

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 available-for-sale investment revaluation reserve, except for foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Where available-for-sale financial assets are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in equity are treated as gains or losses on disposal.

Except for the non-trading investments as mentioned above under *Fair value through profit or loss*, all non-trading investments held as of 1 January 2005 were classified as available-for-sale securities and continued to be carried at fair value.

Other financial liabilities

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(ii) 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 technique that provides 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.

(iii) Embedded derivative

An embedded derivative is a component of a 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 (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and (ii) the 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 the accounting policies for financial instruments. The separated embedded derivative is accounted for as a trading financial instrument, which is measured at fair value, with fair value changes recognised in the income statement.

All derivative financial instruments previously entered into by the Group with other counterparties for hedging purposes have been re-designated as held for trading purposes as at 1 January 2005 and are stated at fair value. Changes in the fair value of these derivatives held are recognised in the income statement. During the year, the Group has not applied hedge accounting allowed under HKAS 39 to any financial instruments and derivative financial instruments.

This change was adopted by way of an adjustment to increase the opening balance of 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. In addition, net profit before and after taxation recognised for the year 2005 have been reduced by HK$1,896,000 and HK$1,508,000 respectively.

(iv) 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 income statement.

(a) Loans and receivables

For loans and receivables, the impairment losses 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. 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 any 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 assets, whether significant or not, it includes the assets 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 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 merits.

This change to the methodology for determining individual impairment allowance 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 year 2005 have increased by HK$1,893,000 and HK$1,562,000 respectively.

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 income statement.

When the loan has no reasonable prospect of recovery, the loans and the related interest receivables are written off.

As a result of this new policy for determination of collective impairment allowance, an adjustment was made 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. In addition, net profit before and after taxation recognised for the year 2005 have been increased by HK$56,377,000 and HK$46,511,000 respectively.

(b) Impairment of available-for-sale financial assets

Where there is objective evidence that an available-for-sale financial asset is impaired, any 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.

Impairment losses 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.

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 financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through income statement. Any subsequent increase in fair value of such assets is recognised directly in equity.

(B) Fee and commission income recognition

Fee and commission income arises on financial services provided by the Group including cash management services, investment banking services and project and structured finance transactions services. Fee and commission income is recognised 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 risks incurred or is accounted for as interest income.

Origination or commitment fees received and the related expenses incurred 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 based on the effective interest method. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

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 which 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.

As a result of this new policy, the amortisation of cash rebates for residential mortgage loans is charged to the income statement over the estimated useful lives of the loans and 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. Net profit before and after taxation recognised for the year 2005 have been reduced by HK$327,000 and HK$270,000 respectively.

In addition, 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. 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. Net profit before and after taxation recognised for the year 2005 have been reduced by HK$2,111,000 and HK$1,981,000 respectively.

(C) Change in presentation of income statement and balance sheets

In prior years, there were no specific accounting standards governing the presentation of the financial statements of banks. Management, having regard to the overall clarity and the disclosure requirements of the Hong Kong Monetary Authority, exercised its judgement in deciding on the relative prominence given to each item presented on the face of the income statement and balance sheets. As a result, certificates of deposits held were separately presented on the face of the balance sheet. Treasury bills (including Exchange Fund Bills) and money at call and short notice (representing placements with banks and other financial institutions maturing within one month) were included in cash and short-term funds with treasury bills being presented separately as trading securities and non-trading securities according to the previous SSAP No. 24.

With effect from 1 January 2005, in order to comply with HKAS 30 and take into account of the measurement basis that has been applied, the Group has changed its presentation of certain items on the face of the income statement and balance sheets. Treasury bills (including Exchange Fund Bills) and certificates of deposit held are included in the trading securities and available-for-sale securities under HKAS 39. These changes in presentation have been applied retrospectively with comparatives reclassified.

(D) Definition of related parties

As a result of the adoption of HKAS 24 “Related Party Disclosures”, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders, etc) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosure made in the current year, as compared to those that would have been reported had SSAP No. 20 still been in effect.

Note 3: Effect of changes in accounting policies on the financial statements

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

The adjustments required to restate the balances of retained earnings in accordance with the revised HKFRS as at 1 January 2005 are:

Effect on equity of new policies (increase/(decrease))	**Retained earnings**
	HK$'000
Separate accounting for non-trading investments and related derivatives	0
Derivatives designated as trading	348
Collective impairment allowance	39,863
Individual impairment allowance	(11,438)
Amortisation of cash rebates for mortgage loans	34,621
Effective yield adjustments for loans and advances	(3,442)
Aggregate deferred tax effect of the above adjustments	(10,490)
Total effect as at 1 January 2005	49,462

The following tables provide estimates to the extent to which each of the line items in the consolidated income statement and the balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(a) Estimated effect on the consolidated income statement for the year ended 31 December 2005

	2005
	HK$'000
Increase in interest income	**2,207**
Decrease in interest expense	**75**
Increase in net interest income	**2,282**
Decrease in other operating income	**(3,186)**
Decrease in operating income/operating profit before gains and impairment losses	**(904)**
Increase in write back of impairment losses on advances to customers	**58,270**
Increase in profit before taxation	**57,366**
Increase in taxation	**(10,223)**
Increase in profit attributable to shareholders	**47,143**
Increase in earnings per share (Hong Kong cents)	**4.02**

(b) Estimated increase/(decrease) in items presented in the consolidated balance sheet as at 31 December 2005

	2005
	HK$'000
ASSETS	
Cash and short term funds	**0**
Placements with banks maturing between one and twelve months	**0**
Trading securities	**0**
Other financial instruments designated as at fair value through profit or loss	**646,707**
Derivative financial instruments	**330,364**
Advances to customers less impairment	**86,694**
Accrued interest and other accounts	**(62,827)**
Available-for-sale securities/non-trading securities	**(621,021)**
Investment in associated company	**0**
Fixed assets	**0**
	379,917
LIABILITIES	
Deposits and balances of banks and other financial institutions	**0**
Deposits from customers	**0**
Certificates of deposit issued	**0**
Derivative financial instruments	**355,114**
Trading liabilities	**0**
Other accounts and liabilities	**(72,064)**
	283,050

CAPITAL RESOURCES	
Share capital	**0**
Share premium	**0**
Reserves	**96,867**
Shareholders' funds	**96,867**
	379,917

Note 4: Dividends declared and proposed

	2005	2004
	HK$'000	*HK$'000*
Interim dividend declared and paid of 6 cents (2004: 6 cents) per share	**70,330**	70,330
Final dividend of 11 cents (2004: 11 cents) per share proposed on 1 March 2006	**128,938**	128,938
	199,268	199,268

Note 5: Earnings per share is calculated on profit attributable to shareholders of HK$241,441,000 (2004: HK$300,388,000) and on 1,172,160,000 (2004: 1,172,160,000) ordinary shares in issue during the year. There are no convertible loan capital, options or warrants outstanding which would cause a dilution effect on earnings per share.

Note 6: Interest income and expense and other operating income include the following income and expense in respect of trading securities:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Included in interest income disclosed in the consolidated income statement is		
Interest income on trading securities	**34,246**	5,426
Included in other operating income disclosed in the consolidated income statement is		
Gains less losses from dealing in trading securities	**(9,571)**	13,462

Note 7: The provision for Hong Kong profits tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Supplementary financial information

1. Cash and short term funds

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cash in hand	**77,657**	85,540
Balances with the Hong Kong Monetary Authority	**0**	30,702
Balances with banks and other financial institutions	**264,564**	280,363
Money at call and short notice*	**9,814,827**	5,084,863
	10,157,048	5,481,468

* Money at call and short notice represents deposits of up to a maximum of one month maturity from the balance sheet date.

2. Trading securities

	2005	2004
	HK$'000	*HK$'000*
Trading securities at fair value		
Debt securities		
– Listed in Hong Kong	**3,482**	6,844
– Unlisted	**23,234**	120,082
Treasury bills (including Exchange Fund Bills) – Unlisted	**368,365**	2,134,781
Total	**395,081**	2,261,707

3. Other financial instruments designated as at fair value through profit or loss

	2005	2004
	HK$'000	*HK$'000*
Debt securities at fair value		
– Listed in Hong Kong	**77,189**	0
– Unlisted	**569,518**	0
Total	**646,707**	0

4. Available-for-sale/non-trading securities

	2005	2004
	HK$'000	*HK$'000*
Listed debt securities at fair value		
– Listed in Hong Kong	**1,541,072**	1,652,927
– Listed outside Hong Kong	**1,688,178**	1,706,869
	3,229,250	3,359,796
Unlisted debt securities at fair value		
– Treasury bills (including Exchange Fund Bills)	**6,924,752**	5,958,550
– Certificates of deposit	**373,175**	499,007
– Debt securities	**2,898,895**	2,180,354
	10,196,822	8,637,911
	13,426,072	11,997,707
Equity shares at fair value		
– Listed in Hong Kong	**88,098**	61,477
– Unlisted	**9,591**	24,043
	97,689	85,520
Total available-for-sale/non-trading securities	**13,523,761**	12,083,227

5. Advances to customers less impairment

	2005	2004
	HK$'000	*HK$'000*
Gross advances to customers	**21,544,382**	18,218,573
Impairment allowances		
– Collective impairment allowance/general provision	**(76,115)**	(145,816)
– Individual impairment allowance/specific provision	**(92,701)**	(70,458)
	21,375,566	18,002,299

The following analysis of gross advances to customers by industry sector is based on the categories and definitions used by the HKMA.

	2005	2004
	HK$'000	*HK$'000*
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**28,135**	113,061
– Property investment	**3,963,801**	3,322,410
– Financial concerns	**313,227**	201,525
– Stockbrokers	**159,616**	59,730
– Wholesale and retail trade	**101,064**	107,505
– Manufacturing	**4,174,292**	2,227,544
– Transport and transport equipment	**684,127**	502,927
– Others	**2,047,464**	1,952,865
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	**1,461**	17,974
– Loans for the purchase of other residential properties	**7,503,104**	7,729,150

– Credit card advances	**478,553**	484,604
– Others	**952,404**	610,544
	20,407,248	17,329,839
Trade finance	**614,629**	360,372
Loans for use outside Hong Kong	**522,505**	528,362
	21,544,382	18,218,573

6. Included in accrued interest and other accounts of the consolidated balance sheet are trade bills net of allowances of HK$36,691,000 (2004: HK$24,064,000).

7. Repossessed assets and assets acquired under lending agreements

   The total repossessed assets and assets acquired under lending agreements of the Group as at 31 December 2005 amounted to HK$71,880,000 (2004: HK$186,740,000).

8. Overdue advances to customers

	2005		2004	
	HK$'000	***% of total advances***	*HK$'000*	*% of total advances*
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	**38,953**	**0.18%**	37,959	0.21
– 1 year or less but over 6 months	**17,514**	**0.08%**	20,132	0.11
– Over 1 year	**105,754**	**0.49%**	108,909	0.60
	162,221	**0.75%**	167,000	0.92
Overdue advances to customers which are				
– secured	**77,392**		103,356	
– unsecured	**84,829**		63,644	
	162,221		167,000	
Amount of collateral held against the overdue advances	**71,070**		99,937	
Amount of expected recoveries from companies in liquidation in respect of the overdue advances	**11,299**		8,828	
Individually assessed impairment allowance in respect of advances overdue for more than three months	**85,400**		60,724	

   Overdue assets of the Group only comprise of advances to customers as at 31 December 2004 and 2005.

9. Rescheduled advances to customers

	2005 ***HK$'000***	**% of total advances**	2004 *HK$'000*	% of total advances
Rescheduled advances to customers	**108,227**	**0.50**	160,172	0.88

10. Impaired advances to customers

	2005		2004	
	HK$'000	***[i]%***	*HK$'000*	*[i]%*
Gross impaired advances	**213,133**	**0.99**	257,818	1.42
Individual impairment allowances made against impaired loans	**(92,701)**		(70,458)	
	120,432		187,360	

[i] *As a percentage of gross advances to customers.*

11. 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:

	2005		2004	
	Contractual amounts *HK$'000*	**Credit risk weighted amounts** *HK$'000*	Contractual amounts *HK$'000*	Credit risk weighted amounts *HK$'000*
Direct credit substitutes	**470,557**	**470,557**	462,247	462,247
Transaction-related contingencies	**109,724**	**54,862**	10,381	5,191
Trade-related contingencies	**332,256**	**66,451**	252,940	50,588
Undrawn loan facilities				
–with an original maturity of under 1 year or which are unconditionally cancellable	**9,135,831**	**0**	6,129,359	0
–with an original maturity of 1 year or over	**587,635**	**293,818**	417,733	208,867
Forward forward deposits placed	**1,155,067**	**231,013**	307,519	61,504
	11,791,070	**1,116,701**	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 the Group's derivative financial assets and liabilities respectively, as disclosed on the consolidated balance sheet as at 31 December 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 31 December 2005. Embedded derivative financial instruments separated from the host contracts recognised as the Group's derivative financial assets and liabilities, as required under HKAS 39, are not included in the following summary.

		2005	
	Contractual amounts *HK$'000*	**Credit risk weighted amounts** *HK$'000*	**Replacement costs** *HK$'000*
Trading			
Exchange rate contracts			
– Forward exchange contracts	**1,832,083**	**4,022**	**70,741**
– Swaps	**1,686,468**	**1,890**	**1,052**
– Options purchased	**1,517,020**	**9,219**	**17,454**
– Options written	**1,515,242**	**N/A**	**N/A**
	6,550,813	**15,131**	**89,247**
Equity option contracts			
– Options purchased	**149,103**	**559**	**1,414**
– Options written	**149,103**	**N/A**	**N/A**
	298,206	**559**	**1,414**
Interest rate contracts			
– Interest rate swaps	**5,154,846**	**32,488**	**119,736**
– Interest rate options purchased	**200,000**	**501**	**1,506**
– Interest rate options written	**200,000**	**N/A**	**N/A**
	5,554,846	**32,989**	**121,242**
	12,403,865	**48,679**	**211,903**

The following is a summary of the contractual amounts, credit risk-weighted amounts and replacement costs of each significant type of the Group's 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.

	Contractual amounts *HK$'000*	2004 Credit risk weighted amounts *HK$'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 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 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 the Group's 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 part (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.

12. Foreign exchange exposures

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

			2005			
Equivalent in HK$'Million	**US Dollars**	**Euros**	**New Zealand Dollars**	**Australian Dollars**	**Others**	**Total**
Spot assets	**10,194**	**668**	**903**	**1,536**	**1,321**	**14,622**
Spot liabilities	**(9,535)**	**(551)**	**(805)**	**(1,299)**	**(1,359)**	**(13,549)**
Forward purchases	**2,146**	**345**	**21**	**30**	**607**	**3,149**
Forward sales	**(2,138)**	**(463)**	**(108)**	**(271)**	**(591)**	**(3,571)**
Net option position	**4**	**(4)**	**1**	**0**	**0**	**1**
Net long/(short) position	**671**	**(5)**	**12**	**(4)**	**(22)**	**652**

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

Equivalent in HK$'Million	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Others	Total
			2004			
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

13. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

Figures in HK$'Million	**2005** **Banks and other financial institutions**	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Hong Kong	**1,991**	**5**	**529**	**2,525**
North America	**1,184**	**1,169**	**57**	**2,410**
Western Europe	**9,963**	**156**	**664**	**10,783**
of which France	**1,850**	**0**	**0**	**1,850**
of which Germany	**2,797**	**0**	**0**	**2,797**

Figures in HK$'Million	2004 Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	3,258	4	766	4,028
of which Singapore	2,314	0	53	2,367
North America	437	1,172	58	1,667
of which United States	430	1,172	53	1,655
Western Europe	3,318	156	25	3,499
of which United Kingdom	1,967	0	1	1,968

14. Capital adequacy and liquidity ratios

	2005 **%**	2004 %
Unadjusted capital adequacy ratio at year end	**14.96**	18.46
Adjusted capital adequacy ratio incorporating market risk	**14.94**	18.22
Average liquidity ratio for December	**47.49**	50.06
Average liquidity ratio for the year ended 31 December	**44.71**	63.28

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.

15. 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.

	2005 HK$'000	2004 HK$'000
Core capital		
Paid up ordinary share capital	**1,172,160**	1,172,160
Reserves (including retained earnings)	**1,550,802**	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	**(72,476)**	(4,350)
Collective impairment allowance for impaired loans	**76,115**	145,919
Regulatory reserve	**107,722**	0
Total capital base before deductions	**3,620,969**	3,770,461
Deductions from total capital base	**(65,036)**	(67,930)
Total capital base after deductions	**3,555,933**	3,702,531

16. An appropriation of an amount of retained earnings of HK$107,722,000 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.

17. 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 Market mainly provides securities brokerage, foreign exchange services and centralised 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.

	Retail Banking HK$'000	Wholesale Banking HK$'000	Financial Markets HK$'000	Real Estate HK$'000	Unallocated HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
2005							
Interest income from external customers	465,053	453,516	646,375	0	6,934	0	1,571,878
Interest expense to external customers	(640,989)	(110,072)	(312,966)	0	(4,080)	0	(1,068,107)
Inter-segment income	530,042	0	0	0	0	(530,042)	(0)
Inter-segment expense	0	(126,326)	(399,865)	(3,511)	(340)	530,042	(0)
Net interest income	354,106	217,118	(66,456)	(3,511)	2,514	0	503,771
Other operating income from external customers	150,867	28,059	160,282	499	15,466		355,173
Inter-segment revenue	0	0	0	0	35,682	(35,682)	0
Fees and commission expenses	(15,816)	(2,811)	(8,942)	0	(814)		(28,383)
Other operating income	135,051	25,248	151,340	499	50,334		326,790
Operating income	489,157	242,366	84,884	(3,012)	52,848		830,561
Operating expenses	(304,469)	(95,712)	(74,270)	(1,615)	(126,700)		(602,766)
Inter-segment expenses	(30,596)	(3,098)	(1,812)	(176)	0	35,682	0

Operating profit / (loss) before provisions and gains	**154,092**	**143,556**	**8,802**	**(4,803)**	**(73,852)**		**227,795**
Charges less releases for individual impairment losses	**(26,644)**	**(26,013)**	**0**	**0**	**0**		**(52,657)**
Recovery of loans previously written off	**15,913**	**14,845**	**0**	**12,205**	**0**		**42,963**
Write back / (charge) for collective impairment allowance	**30,374**	**(795)**	**0**	**0**	**362**		**29,941**
Reversal of impairment loss on investments and acquired assets	**0**	**0**	**0**	**3,686**	**930**		**4,616**
Losses from disposal of available-for-sale / non-trading securities	**0**	**0**	**(17,799)**	**0**	**0**		**(17,799)**
Gains less losses from disposal of fixed assets	**0**	**0**	**0**	**0**	**38,956**		**38,956**
Profit / (loss) before taxation	**173,735**	**131,593**	**(8,997)**	**11,088**	**(33,604)**		**273,815**
Income tax	**0**	**0**	**0**	**0**	**(32,374)**		**(32,374)**
Profit / (loss) attributable to shareholders	**173,735**	**131,593**	**(8,997)**	**11,088**	**(65,978)**		**241,441**
Operating expenses – depreciation	**(16,988)**	**(1,905)**	**(5,393)**	**0**	**(36,402)**		**(60,688)**
Segment assets	**11,031,605**	**11,146,462**	**26,603,382**	**71,880**	**0**		**48,853,329**
Unallocated assets							**950,209**
							49,803,538
Segment liabilities	**28,712,172**	**4,819,298**	**12,241,172**	**0**	**0**		**45,772,642**
Unallocated liabilities							**281,980**
							46,054,622
Capital expenditure incurred during the year	**9,598**	**9,699**	**23,148**	**0**	**0**		**42,445**

	Retail Banking *HK$'000*	Wholesale Banking *HK$'000*	Financial Markets *HK$'000*	Real Estate *HK$'000*	Unallocated *HK$'000*	Inter-segment elimination *HK$'000*	Consolidated *HK$'000*
2004							
Interest income from external customers	372,740	237,559	353,696	0	7,788		971,783
Interest expense to external customers	(273,240)	(31,469)	(55,516)	0	(1,377)		(361,602)
Inter-segment income	364,444	0	0	0	0	(364,444)	0
Inter-segment expense	0	(16,460)	(251,890)	(6,521)	(89,573)	364,444	0
Net interest income	463,944	189,630	46,290	(6,521)	(83,162)	0	610,181
Other operating income from external customers	121,287	22,567	75,269	6,361	13,025		238,509
Inter-segment revenue	0	0	0	0	32,042	(32,042)	0
Fees and commission expenses	(9,679)	3,060	(5,829)	0	(964)		(13,412)
Other operating income	111,608	25,627	69,440	6,361	44,103		225,097
Operating income	575,552	215,257	115,730	(160)	(39,059)		835,278
Operating expenses	(305,878)	(82,726)	(42,342)	(1,565)	(169,385)		(601,896)
Inter-segment expenses	(28,045)	(3,004)	(817)	(176)	0	32,042	0
Operating profit/(loss) before provisions and gains	241,629	129,527	72,571	(1,901)	(208,444)		233,382
Charge less releases for individual impairment losses	(48,182)	(41,564)	0	0	(13)		(89,759)
Recovery of loans previously written off	11,254	14,853	0	32,159	0		58,266
Write back/(charge) for collective impairment allowance	(7,444)	(12,905)	0	0	669		(19,680)
Reversal of impairment loss on investments and acquired assets	0	0	0	44,390	2,313		46,703
Gains/(losses) from disposal of available-for-sale/ non-trading securities	0	0	100,511	0	(7,255)		93,256
Gains less losses from disposal of fixed assets	0	0	0	0	16,181		16,181
Profit/(loss) before taxation	197,257	89,911	173,082	74,648	(196,549)		338,349
Income tax	0	0	0	0	(37,961)		(37,961)
Profit/(loss) attributable to shareholders	197,257	89,911	173,082	74,648	(234,510)		300,388
Operating expenses – depreciation	(18,439)	(1,562)	(2,516)	0	(37,673)		(60,190)
Segment assets	11,181,573	7,741,945	25,737,855	182,980	0		44,844,353
Unallocated assets							916,428
							45,760,781
Segment liabilities	27,557,385	4,004,058	10,258,039	0	0		41,819,482
Unallocated liabilities							238,527
							42,058,009
Capital expenditure incurred during the year	13,063	9,045	30,068	0	0		52,176

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 year ended 31 December 2004 and 2005, 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.

HONG KONG ECONOMY AND BANKING INDUSTRY

In May 2005, the HKMA adjusted the Hong Kong dollar's two-decade-old peg system to a trading band from HK$7.75 to HK$7.85 against the U.S. dollar, and committed to buy or sell Hong Kong dollars as needed to prevent the currency from moving outside that range. Previously, the HKMA had committed only to preventing the Hong Kong dollar from falling below HK$7.80. The trading band theoretically allows the currency's value to move by as much as 1.3%, though its daily changes are typically much smaller than that. Since the changes, the Hong Kong dollar has been relatively strong against the US$.

The measures introduced by the HKMA had a significant impact on Hong Kong dollar interest rates and therefore the economy and the banking industry. Prior to the measures, Hong Kong dollar interest rates were significantly lower than normal due to strong speculation about the possible revaluation of the Chinese RMB. The large inflows of funds into the Hong Kong dollar was based on the premise that the Hong Kong dollar was a good proxy for the RMB, which is not fully convertible.

CHINESE ECONOMY

According to the National Bureau of Statistics, China's fourth quarter and 2005 real Gross Domestic Product each rose by 9.9%. The increase represented a slight slow down, as GDP grew 10% in 2003 and 10.1% in 2004. The bureau reported that China's economy produced output of RMB18.23 trillion (US$2.23 trillion) last year - or a per-capita GDP of US$1,700. The performance was ahead of market expectations. Economists predict growth for 2006 ranging from 8.5% to more than 10%. Most commentators agree that the economy has built momentum, and will continue to be vibrant this year.

Investments accounted for approximately 50% of China's GDP growth during 2005, while consumption contributed to 33.3% of the country's GDP growth. Trade contributed the remaining 17.9%. Forecasters expect consumption to play a greater role in the economy in 2006, as trade growth decelerates.

The nation's exports surged 28% to US$762 billion last year, generating a record US$102 billion trade surplus. Industrial production grew by 11.4% in 2005 on a year-on-year basis, while fixed assets investment grew by 25.7% year on year. China's retail sales of consumer goods in 2005 increased 12.9% year-on-year. Despite the rapid growth in the economy, China's consumer price index rose by just 1.8% in 2005.

An encouraging development last year was the decline in China's oil consumption and oil exports. In 2004, China's consumption of crude and refined oil grew 15.3% compared with 2003. Net imports jumped by 41.5%. However, in 2005, the rate of oil consumption fell 0.5%, while net imports declined by 5.3% compared with 2004.

There were two other significant announcements during the year. In July, The People's Bank of China announced that the RMB's value would no longer be pegged solely to the US dollar, which resulted in a 2% revaluation of the RMB. In future, the RMB will follow a basket of currencies (including the U.S. dollar, the euro, the yen and other major currencies) rather than just the U.S. dollar. The authorities also made reference to a band system, whereby the RMB can appreciate or depreciate by up to 0.3% against the previous day's closing U.S. dollar quote - a system which has actually been in place for the past decade, albeit rarely used in practice. The reform effectively allows China to have the necessary mechanisms and controls to make further changes to the valuation of RMB in the future, giving China more flexibility to manage its currency as well as to control its monetary policies.

In the other major announcement, the National Bureau of Statistics reported that the size of China's economy in 2004 was 16.8% bigger than had been previously reported at RMB15.99 trillion (US$1.93 trillion). Over 90% of the newly-added RMB2.3 trillion arouse due to better data about the services sector. Based on the new data, China has eclipsed Italy as the world's sixth largest economy and should overtake France and Britain this year. It would already have done so if Hong Kong, which is accounted for separately, had been factored in.

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 the opportunities presented by its Taiwan connections and had made some initial progress.

As compared to the total assets as at last year-end, Fubon Bank's total assets recorded an increase of 9% and expanded to HK$49.8 billion in 2005. The loan portfolio reached HK$21.5 billion, an increase of 18% 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, at HK$7.5 billion. To diversify the credit risk, the Bank expanded its corporate loan portfolio, increasing it by 35% to HK$11.5 billion. Loan quality continued to improve with the amount of impaired loans reducing to HK$213 million compared to HK$258 million at last year-end, or 0.99% of the total loan portfolio compared to 1.42%.

The Bank maintained a liquid position with cash and bank balances of HK$10.2 billion, a growth of HK$4.7 billion. The increase was partly the result of increases in deposits from customers of HK$2.5 billion. The Bank also raised a total of HK$1.9 billion in three well-received floating rate certificates of deposit placements during 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 62% increase in gross interest income to HK$1.6 billion. With credit demand improving in the second half 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$1.1 billion which led to a decline in net interest income of 17% to HK$504 million for 2005 and the net interest margin also declined by 45 basis points to 1.10%.

Fees and other operating income reached HK$327 million, a 45% increase compared to last year. It represented 39% of the Bank's total operating income, compared to 27% in 2004. Sales of structured products for our wealth management clients saw good growth. Brokerage income improved in the second half with the equity market activity increasing. Fubon Bank also leveraged on its Group strength in expanding its insurance and unit trust businesses.

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, operating expenses were kept at HK$603 million, similar to 2004's level. The Taiwan Corporate Banking team and Offshore Ambassador team were formed in the beginning of the year and are contributing to the overall profitability.

The Group recorded a reversal of provisions of HK$20 million for impaired loans and advances as compared with a total charge of HK$51 million last year. However, the gain on disposal of available-for-sale securities has decreased from HK$93 million to a loss of HK$18 million due to a volatile and rising interest rate environment. The reversal of impairment losses on other assets also dropped from HK$47 million to HK$5 million year on year. The overall contribution to the Group's net profit from these items has decreased from HK$89 million to HK$7 million. During the year, the Bank disposed of its surplus properties and realized HK$39 million profit. In view of the abovementioned factors, net profit for 2005 amounted to HK$241 million, representing a decline of 20% from last year.

FINAL DIVIDEND

The Directors will propose the payment of a final dividend of 11 Hong Kong cents per ordinary share in respect of the year ended 31 December 2005, totalling HK$128,937,600 at the forthcoming Annual General Meeting to be held on Friday, 28 April 2006. The final dividend, if approved, will be paid on or after Wednesday, 3 May 2006 to the shareholders whose names are on the Register of Members on Thursday, 13 April 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Tuesday, 11 April 2006 to Thursday, 13 April 2006, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final 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 April 2006.

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

The Bank has not redeemed any of its listed shares during the year ended 31 December 2005. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the year.

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 year ended 31 December 2005, except for the deviations from the Code provisions A.4.2, A.5.4 and B.1.1 which are explained as follows:

(1) The Articles of Association ("Articles) of the Bank provide that the Managing Director is excluded from retirement by rotation. In compliance with the Code provision A.4.2 that every Director should be subject to retirement by rotation, the Bank will propose to its shareholders at the 2006 Annual General Meeting that the Articles be amended accordingly.

(2) The Code provision A.5.4 requires that Directors must comply with the obligations set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Appendix 10 of the Listing Rules. Upon appointment, a Director was not aware that his spouse had, before his appointment, purchased 100,000 issued shares of the Bank in March 2004 and therefore failed to make the required notification to the Bank under the Model Code in respect of said issued shares. The Director only became aware of his spouse's ownership of the share in January 2006 and he then notified the Bank accordingly.

(3) The Code provision B.1.1. stipulates that a majority of the members of the Remuneration Committee should be independent Non-Executive Directors. The Remuneration Committee of the Bank during the year 2005 did not comply with the provision as it comprised a total of four members, two Non-Executive Directors and two independent Non-Executive Directors. In compliance with the provision, the Board approved the appointment of the remaining independent Non-Executive Director to the Remuneration Committee in January 2006.

BOARD OF DIRECTORS

As of the date of this announcement, the Company's directors comprise 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.

By Order of the Board
Ivan Young
Company Secretary

Hong Kong, 1 March 2006

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