
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this prospectus or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Fubon Bank (Hong Kong) Limited, you should at once hand this prospectus to the purchaser(s) or transferee(s) or to the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

A copy of this prospectus, together with the provisional allotment letter, the form of application for excess Preference Shares and expert's consent letter, has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility for the contents of any of the aforesaid documents.

The Securities and Futures Commission of Hong Kong has authorised this prospectus for registration by the Registrar of Companies in Hong Kong. This authorisation does not imply the Securities and Futures Commission of Hong Kong's endorsement or recommendation of any offer contained or referred to in this prospectus. The Securities and Futures Commission of Hong Kong takes no responsibility for the contents of this prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

 **Fubon Bank**
富邦銀行
FUBON BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong under the Companies Ordinance)
(Stock Code: 636)

OPEN OFFER OF 1,172,160,000 PREFERENCE SHARES
AT US\$0.10237 PER PREFERENCE SHARE PAYABLE
IN FULL ON ACCEPTANCE
(ON THE BASIS OF ONE PREFERENCE SHARE
FOR EVERY ORDINARY SHARE HELD)

A letter from Quam Capital is set out on pages 19 to 25 of this prospectus.

The latest time for acceptance of and payment for the Preference Shares is 4:00 p.m. on Thursday, 18 December 2008. The application procedure is set out on pages 11 and 12 of this prospectus.

The conditions to the Open Offer are set out in the section entitled "Conditions to the Open Offer" in the letter from the Board. If the conditions to the Open Offer are not fulfilled by 4:00p.m. on Wednesday, 17 December 2008 or such later date as the Company may announce, the Open Offer will not proceed.

The Open Offer is not underwritten. However, the Company's substantial shareholder, Fubon Financial, has irrevocably undertaken to the Company to apply for not less than 879,120,000 Preference Shares (subject only to the prior approval of the Financial Supervisory Commission and of the Investment Commission, Ministry of Economic Affairs of Taiwan), representing its entire assured entitlement of Preference Shares under the Open Offer.

The Company also understands that Fubon Financial intends to apply for the excess of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply), which will be allocated on a fair and equitable basis pro rata to the number of excess Preference Shares applied for by each Shareholder.

Ordinary Shares have been dealt with on an ex-offer basis from Friday, 14 November 2008. Dealings in the Ordinary Shares will take place while the conditions to which to the Open Offer is subject remained unfulfilled. Shareholders and potential investors are advised to exercise caution when dealing in the Ordinary Shares and are recommended to consult their professional adviser(s).

Any person dealing in the Ordinary Shares from Friday, 14 November 2008 to the date on which the conditions to which the Open Offer is subject are fulfilled will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

SHAREHOLDERS AND POTENTIAL INVESTORS ARE ADVISED THAT THE INVESTMENT IN THE PREFERENCE SHARES WILL BE EXPOSED TO THE BUSINESS AND OTHER RISKS ASSOCIATED WITH THE COMPANY. THE PREFERENCE SHARES ARE PERPETUAL SECURITIES, HAVE NO MATURITY DATE AND WILL NOT BE LISTED ON ANY STOCK EXCHANGE AND THERE MAY NOT DEVELOP ANY LIQUID MARKET FOR THE PREFERENCE SHARES. THEREFORE, SHAREHOLDERS MAY NOT BE ABLE TO SELL THEIR PREFERENCE SHARES AT ALL OR AT A PRICE WHICH WILL PROVIDE A RETURN COMPARABLE TO SIMILAR INVESTMENTS THAT HAVE DEVELOPED A SECONDARY MARKET. FOR MORE DETAILS, PLEASE REFER TO THE SECTION HEADED "RISK FACTORS" ON PAGE 15 OF THIS PROSPECTUS.

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EXPECTED TIMETABLE

The expected timetable for the Open Offer set out below is for indicative purposes only and it has been prepared on the assumption that all the conditions of the Open Offer will be fulfilled. The expected timetable may be subject to change and any changes will be announced in a separate announcement by the Company as and when appropriate.

2008

Closure of register of members to determine eligibility for the Open Offer (both dates inclusive)	Tuesday, 18 November to Friday, 21 November
Record Date for the Open Offer	Friday, 21 November
Despatch of Prospectus Documents	Wednesday, 3 December
Latest time for the Open Offer to become unconditional	4:00 p.m. on Wednesday, 17 December
Latest time for acceptance of and payment for Preference Shares . . .	4:00 p.m. on Thursday, 18 December
Announcement of results of the Open Offer	Monday, 22 December
Despatch of certificates for Preference Shares	Tuesday, 23 December
Refund cheques to be despatched to unsuccessful applicants in the event that the Open Offer does not proceed due to, among other events, the non-fulfilment of conditions	Tuesday, 23 December

Note: If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on the latest date for acceptance for the offer of Preference Shares at any time between 12:00 noon and 4:00 p.m., the latest acceptance time for the offer of the Preference Shares will be postponed to the next business day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.

DEFINITIONS

In this prospectus, the following expressions have the meanings set out below, unless the context requires otherwise:

“Application Form”	the provisional allotment letter and the form of application for excess Preference Shares despatched with this prospectus
“Assets”	the unconsolidated gross assets (including contingencies) of the Company
“Banking (Capital) Rules”	Cap.155L of the Laws of Hong Kong
“Board”	the Board of Directors of the Company or the Directors present at a meeting of Directors at which a quorum is present
“Circular”	the circular of the Company dated 29 October 2008 in relation to the Open Offer
“Company”	Fubon Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the Ordinary Shares of which are listed on the Stock Exchange. Fubon Financial holds 75 per cent of the issued Ordinary Shares of the Company
“Computershare”	Computershare Hong Kong Investor Services Limited
“Directors”	the directors of the Company
“Excluded Overseas Shareholders”	the Overseas Shareholder(s) whose address is/are in a place(s) outside Hong Kong where the Directors, based on legal opinions provided by legal advisers of the Company, consider it necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Preference Shares to such Shareholders
“Fubon Financial”	Fubon Financial Holding Co., Ltd, a company incorporated in Taiwan, with its shares listed on the Taiwan Stock Exchange
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKMA”	the Hong Kong Monetary Authority

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	Wednesday, 26 November 2008, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Liabilities”	the unconsolidated gross liabilities of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NT\$”	New Taiwan dollars, the lawful currency of Taiwan
“Open Offer”	the proposed issue by way of an open offer of Preference Shares at a price of US\$0.10237 per Preference Share on the basis of one Preference Share for every Ordinary Share then held on the Record Date
“Ordinary Share(s)”	ordinary share(s) of HK\$1.00 each in the capital of the Company
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown on such register are outside Hong Kong
“PRC”	the People’s Republic of China
“Preference Shares”	1,172,160,000 new fully paid-up non-participating cumulative preference shares of nominal value US\$0.10237 each in the Company to be issued pursuant to the Open Offer
“Prospectus Documents”	this prospectus and the Application Form
“Qualifying Shareholders”	Shareholders other than the Excluded Overseas Shareholders
“Record Date”	Friday, 21 November 2008, the record date of which entitlements to the Preference Shares will be determined
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

DEFINITIONS

“Shareholder(s)”	holder(s) of the Ordinary Share(s)
“Solvent”	means that the Company is able to pay its debts as they fall due and has Assets that exceed its Liabilities
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price for the Preference Shares, being US\$0.10237 per Preference Share

LETTER FROM THE BOARD



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

Executive Directors:

Jin-Yi Lee (*Managing Director and
Chief Executive Officer*)

Michael Chang Ming-Yuen

James Yip

Registered Office:

Fubon Bank Building
38 Des Voeux Road Central
Hong Kong

Non-executive Directors:

Ming-Hsing (Richard) Tsai (*Chairman*)

Ming-Chung (Daniel) Tsai (*Vice Chairman*)

Victor Kung

David Chang Kuo-Chun

Independent Non-executive Directors:

Robert James Kenrick

Moses Tsang

Hung Shih

3 December 2008

To the Shareholders

Dear Sir or Madam,

**OPEN OFFER OF 1,172,160,000 PREFERENCE SHARES
AT US\$0.10237 PER PREFERENCE SHARE PAYABLE
IN FULL ON ACCEPTANCE
(ON THE BASIS OF ONE PREFERENCE SHARE
FOR EVERY ORDINARY SHARE HELD)**

INTRODUCTION

On 29 October, 2008, the Company announced that it proposes to raise approximately US\$120 million before expenses by issuing 1,172,160,000 Preference Shares at a price of US\$0.10237 per Preference Share. The Company will offer for subscription 1,172,160,000 Preference Shares in the proportion of one Preference Share for every Ordinary Share held by the Qualifying Shareholders on the Record Date. Qualifying Shareholders may also apply for Preference Shares in excess of their assured entitlements.

LETTER FROM THE BOARD

The estimated net proceeds of the Open Offer will be approximately US\$120 million (after deducting all necessary expenses of less than US\$0.5 million) which will be used for general banking and other corporate purposes and, in particular, for strengthening the capital base of the Company and providing sufficient surplus capital to support future business growth and any potential asset acquisitions. It is intended that the Preference Shares will constitute “supplementary capital” of the Company for the purpose of the Banking (Capital) Rules. The Company’s intended use of proceeds will not change according to the level of acceptances received in respect of the Open Offer.

On 29 October 2008, the Circular was despatched to the Shareholders, a copy of which is available for inspection as mentioned in the section headed “Documents available for inspection” in Appendix 2 to this prospectus. On 19 November 2008, the Company announced that a shareholder of the Company had proposed an amendment to ordinary resolution 1(b) as set out in the Notice of Extraordinary General Meeting on page 40 of the Circular to allow for the conditions of the Open Offer to be satisfied by Wednesday, 17 December 2008 or such later date as the Company may announce. At the extraordinary general meeting of the Company held on Friday, 21 November 2008, the resolutions referred to in the Circular, amended as described in the announcement of the Company dated 19 November 2008, were passed.

This prospectus sets out information regarding the Open Offer, including information on the procedures for acceptance of and payment for the Preference Shares and financial information in respect of the Group.

REASONS FOR THE OPEN OFFER

The Directors are proposing that the Company issue the Preference Shares in order to strengthen the capital base of the Company and to provide sufficient surplus capital to support future business growth and any potential asset acquisitions. The Directors believe that it is the best interests of the Company and the Shareholders as a whole to enlarge the capital base of the Company through the issuance of the Preference Shares. It is intended that the Preference Shares, when issued, will qualify as “supplementary capital” for the purposes of the Banking (Capital) Rules.

UNDERTAKING FROM FUBON FINANCIAL

The Open Offer is not underwritten. However, the Company’s substantial shareholder, Fubon Financial, has irrevocably undertaken to the Company to apply for not less than 879,120,000 Preference Shares, representing its entire assured entitlement to the Preference Shares under the Open Offer (subject only to the prior approval of the Financial Supervisory Commission and of the Investment Commission, Ministry of Economic Affairs of Taiwan).

The Company also understands that Fubon Financial intends to apply for the excess of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply), which will be allocated on a fair and equitable basis pro rata to the number of excess Preference Shares applied for by each Shareholder.

LETTER FROM THE BOARD

TERMS OF THE OPEN OFFER

The Subscription Price of US\$0.10237 per Preference Share is payable in full when a Qualifying Shareholder accepts the relevant assured entitlements under the Open Offer or applies for excess Preference Shares.

The terms of the Open Offer have been determined with reference to the prevailing market prices of comparable securities prior to the Latest Practicable Date and the current financial position of the Group.

The Company considers that the terms of the Open Offer, including the Subscription Price, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon fulfilment of the following conditions:

- (i) resolutions of the Shareholders of the Company being passed to increase the authorised share capital of the Company, to create the Preference Shares and to amend the articles of association of the Company to reflect the terms of the Preference Shares;
- (ii) the registration of the Prospectus Documents, together with all other relevant consents and documents required to be endorsed on or attached to the Prospectus Documents with the Registrar of Companies in Hong Kong (as required);
- (iii) the HKMA granting its approval that the Preference Shares may be treated as “supplementary capital” of the Company for the purposes of the Banking (Capital) Rules; and
- (iv) the Company having received valid applications for at least 879,120,000 Preference Shares under the Open Offer.

As Fubon Financial has irrevocably undertaken to accept its full entitlement in the Open Offer, being 879,120,000 Preference Shares (subject only to the prior approval of the Financial Supervisory Commission and of the Investment Commission, Ministry of Economic Affairs of Taiwan), condition (iv) above is expected to be satisfied upon the commencement of the Open Offer. **If the above conditions have not been fulfilled by 4:00p.m. on Wednesday, 17 December 2008 or such later date as the Company may announce, the Open Offer will not proceed.**

LETTER FROM THE BOARD

TERMS OF THE PREFERENCE SHARES

Description:	It is intended that the Preference Shares will constitute “supplementary capital” of the Company for the purpose of the Banking (Capital) Rules. Accordingly, any redemption, purchase or cancellation of the Preference Shares will be subject to the prior consent of the HKMA at the relevant time. Further, in compliance with section 37(2)(a) of the Banking (Capital) Rules, the money raised by the issue of Preference Shares will be available to meet losses without the Company being obliged to cease trading. This means that the amount paid upon the Preference Shares will not form part of the distributable profits of the Company but will instead form part of the permanent capital of the Company which will enable the Company to carry on trading in times of economic adversity
Issue Size:	Approximately US\$120 million
Issue Price per Preference Share:	US\$0.10237
Issue Date:	23 December 2008
Maturity:	Perpetual (no maturity date). The Preference Shares are not subject to any early mandatory redemption or repayment by either the Company or the holder(s) of the Preference Shares
Preference Dividend:	If declared, the Preference Dividend will be payable, in priority to the payment of dividends to holders of Ordinary Shares, at a fixed dividend rate of 9% per annum, calculated on 30/360 day count basis, and payable semi-annually on any Preference Dividend Payment Date
Deferral of Preference Dividend:	The Company may elect not to declare or pay the Preference Dividend if, during the 12 calendar months preceding a date on which the Preference Dividend is due to be paid in respect of the Preference Shares, no dividend or distribution or other payment has been declared or paid on any class of the share capital of the Company

LETTER FROM THE BOARD

Any undeclared or unpaid Preference Dividend is collectively referred to as a “Deferred Preference Dividend”. Any Deferred Preference Dividend will be cumulative

The Deferred Preference Dividends will not themselves bear interest and the terms of the Preference Shares will not provide for payment of any form of compensation to the Preference Shareholders other than payment of the Preference Dividend

Preference Dividend periods: The six-monthly periods prior to 23 June and 23 December each year

Preference Dividend Payment Date: 23 June and 23 December

Optional Early Redemption: Subject always to the prior consent of the HKMA and conditional upon the Company being able to redeem the Preference Shares and remain Solvent immediately thereafter, the Preference Shares will be redeemable at the option of the Company on the first working day after the fifth anniversary of the Issue Date, and on every Preference Dividend Payment Date thereafter. The Preference Shares will be redeemed at a price of US\$0.10237 plus any cumulative unpaid Preference Dividends

Voting rights: Holders of the Preference Shares will not have voting rights

Ranking: For purposes of the payment of dividends and repayment of share capital upon the winding-up of the Company, the Preference Shares will rank in priority to the Ordinary Shares and any other class of shares in the capital of the Company. Preference Shareholders rank after depositors and creditors (including subordinated creditors) of the Company in the event of the winding-up of the Company

Variation of Rights: Any variation of the rights of the holders of the Preference Shares will require the written consent of the holders of not less than three-quarters in nominal value of the Preference Shares, or the sanction of a special resolution passed at a separate general meeting of the holders of the Preference Shares

LETTER FROM THE BOARD

Further Issues: The Company shall be entitled at any time and from time to time and without any consent or sanction of the holders of the Preference Shares to create and issue further preference share capital ranking as regards participation in the profits and assets of the Company after or pari passu with the Preference Shares. Such creation and issue shall be deemed not to alter, vary, affect, modify or abrogate any of the rights attaching to the Preference Shares

Listing: The Preference Shares will not be listed

QUALIFYING SHAREHOLDERS

The Company is offering the Preference Shares for subscription to Qualifying Shareholders only. A Qualifying Shareholder is a person who at the close of business on the Record Date:

1. was registered as a member of the Company; and
2. was not an Excluded Overseas Shareholder.

OVERSEAS SHAREHOLDERS

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. The Directors are of the view that it is necessary or expedient not to offer the Preference Shares to the Shareholders whose registered addresses are outside Canada, Hong Kong, Malaysia and Taiwan on account of additional costs to be incurred or legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory bodies in those places. Accordingly, no assured entitlement of the Preference Shares or any entitlement of the Preference Shares will be made to the Excluded Overseas Shareholders in jurisdictions other than Canada, Malaysia and Taiwan. The Company will send this prospectus to such Excluded Overseas Shareholders for their information only and will not send the Application Forms to such Excluded Overseas Shareholders.

It is the responsibility of any person (including but without limitation to nominee, agent and trustee) receiving a copy of the Prospectus Documents outside Hong Kong and wishing to take up the Preference Shares under the Open Offer to satisfy himself as to the full observance of the laws of the relevant territory including the obtaining of any governmental or other consents for observing any other formalities which may be required in such territory or jurisdiction, and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. If you are in any doubt as to your position, you should consult your professional advisers.

LETTER FROM THE BOARD

PROCEDURE FOR ACCEPTANCE AND PAYMENT

The Application Form is enclosed with this prospectus which entitles you to apply for a number of Preference Shares equal to, less than or greater than your assured entitlement as set out therein. **If you wish to accept all or part of the Preference Shares provisionally allotted to you and/or apply for Preference Shares in excess of your assured entitlement, you should complete and sign the Application Form in accordance with the instructions printed thereon and lodge it, together with the appropriate remittance for the full amount payable on application in respect of the Preference Shares applied for with the Company's share registrar, Computershare at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Thursday, 18 December 2008. All remittances must be made in United States dollars. All amounts payable on application in respect of the Preference Shares must be rounded up to the nearest two decimal places. Any such amount rounded up shall be retained by the Company for its own benefit and will not be refunded to you. Cheques must be drawn on an account with, or cashier's orders must be issued by, a bank in Hong Kong and made payable to "FUBON BANK (HONG KONG) LIMITED – OPEN OFFER ACCOUNT" and crossed "ACCOUNT PAYEE ONLY".**

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgment of an Application Form together with a cheque or cashier's order will constitute a warranty by the applicant that the cheque or cashier's order will be honoured on first presentation. Any Application Form in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the relevant assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The Application Form is for use only by the person(s) to whom it is addressed and is not transferable.

FRACTIONAL ENTITLEMENTS

Since the Open Offer is made on the basis of one Preference Share for every Ordinary Share held on the Record Date, there will be no fractional entitlements to Preference Shares.

APPLICATION FOR EXCESS PREFERENCE SHARES

Any Preference Shares which would otherwise have been provisionally allotted to Excluded Overseas Shareholders and any Preference Shares allotted provisionally but not accepted will be available for application through the Application Form. The Company will allocate the Preference Shares in excess of entitlements at its discretion on a fair and equitable basis, pro rata to the number of excess Preference Shares applied for by each Shareholder. Each application for excess Preference Shares will be subject to a maximum of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply).

LETTER FROM THE BOARD

CERTIFICATES OF THE PREFERENCE SHARES AND REFUND CHEQUES

If an Application Form is rejected or accepted in respect of a part of an applicant's assured entitlement only, or if the conditions to the Open Offer are not fulfilled or if an Application Form is revoked or shall become void as provided herein and in the Application Form, the amount tendered on application or the appropriate portion thereof will be refunded without interest, either by returning the relevant cheque or cashier's order or by means of a cheque(s) despatched by ordinary post to the registered address of the applicant and in the case of joint applicants to the registered address of the applicant whose name first appears on the register of members or the Application Form at the applicant's own risk.

If the number of excess Preference Shares allotted to an applicant is less than the number applied for, the surplus application monies will also be returned to such applicant without interest by means of refund cheque(s) despatched in the same manner.

Subject to the fulfilment of conditions of the Open Offer as set out in the paragraph headed "Conditions of the Open Offer" below, certificates for all fully-paid Preference Shares and refund cheques in respect of unsuccessful excess applications or surplus application monies (if any) are expected to be posted on or before 23 December 2008 to those Qualifying Shareholders who have accepted and (where applicable) applied and paid for the Preference Shares by ordinary post at their own risk.

TRANSFERS OF PREFERENCE SHARES

The Preference Shares will be transferable by instrument of transfer in any usual common form or such other form as may be approved by the Board of Directors. Computershare will maintain a register of Preference Shareholders in Hong Kong. The provisions in the articles of association relating to registration, transmission and transfer of shares shall apply, mutatis mutandis, to the registration, transmission and transfer of Preference Shares. Dealings in the Preference Shares will be subject to Hong Kong stamp duty.

The instrument of transfer of a Preference Share shall be signed by or on behalf of the transferor and the transferee, and the transferor shall be deemed to remain the holder of the Preference Share until the name of the transferee is entered in the register in respect thereof.

The Board may, in its absolute discretion and without assigning any reason therefor, decline to register any transfer of any Preference Share which is not a fully paid Preference Share. The Board may also decline to register any transfer unless:

- (i) the instrument of transfer is lodged with the Company accompanied by the certificate for the Preference Shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (ii) the instrument of transfer is in respect of only one class of share; and
- (iii) in the case of a transfer to joint holders, the number of joint holders to whom the Preference Share is to be transferred does not exceed four.

LETTER FROM THE BOARD

ABILITY TO SELL OR PURCHASE PREFERENCE SHARES

The Company has agreed to use its reasonable endeavours to find potential purchasers for any holders of Preference Shares who wish to sell all or part of their holding in Preference Shares at any time after the Preference Shares have been issued. The Company's Securities Services Division, a licensed securities broker in Hong Kong, will arrange for designated staff members to handle all matters relating to the Preference Shares. The related staff members qualified to handle such matters will have received specific training relating to this type of security.

Any Preference Shareholder who wishes to sell his/her Preference Shares will need to contact the Company's Securities Services Division and open a securities account with the Company. Such Preference Shareholders will need to register their intent and interest in selling or purchasing Preference Shares, including the number of shares to be bought or sold, the expected price range for the transaction and the target expiry date of the order. A seller of Preference Shares will also need to present to the Company their Preference Share certificate and other evidence as the Company may request as a proof of their ownership of the Preference Shares.

The Company, in its normal course of business as a licensed securities broker, will then notify its customers of an interest to sell or interest to purchase Preference Shares. It will use its reasonable endeavours to match potential sellers and potential purchasers of the Preference Shares. The Company will notify the seller or purchaser of the results of the sale upon the expiry date of the order. In addition, the Company will, from time to time, inform a potential seller if it receives from its customers any interest to purchase the Preference Shares.

The Company will charge a brokerage fee (at its usual rate as determined by the Company from time to time) on the gross consideration for the transfer of Preference Shares, which will be payable by the seller of the Preference Shares. The Company shall not be liable for any risks or losses arising out of such sale and purchase of Preference Shares including non-payment by any purchaser or non-delivery by any seller of the Preference Shares.

Shareholders should note that this arrangement does not ensure an active trading market for the Preference Shares and there is no guarantee that the Company would be able to find a willing purchaser of Preference Shares.

USE OF PROCEEDS

The estimated net proceeds of the Open Offer will be approximately US\$120 million (after deducting all necessary expenses for the Open Offer of less than US\$0.5 million) which will be used for general banking and other corporate purposes and, in particular, for strengthening the capital base of the Company and providing sufficient surplus capital to support future business growth and any potential asset acquisitions. It is intended that the Preference Shares will constitute "supplementary capital" of the Company for the purpose of the Banking (Capital) Rules. The Company's intended use of proceeds will not change according to the level of acceptances received in respect of the Open Offer.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company expects that net earnings for the second half of 2008 will be significantly affected by the negative impact of the recent global financial crisis and economic slowdown. The Company anticipates that these factors will impact on the Company's credit quality, investment portfolio value and operating income.

These factors will cause a decrease in the market values of the assets and investments held by the Company. Such marked to market change in the values may negatively impact on the Company's capital structure and overall earnings.

Moreover, these factors may also have an adverse effect on the credit quality of the Company's lending portfolio, which may also reduce the earnings of the Company and negatively impact the Company's capital adequacy ratios and dividend payment capability.

In addition, the Company has agreed to the Hong Kong SAR Government's recent proposal to purchase certain notes issued by Pacific International Finance Limited and arranged by Lehman Brothers group companies (commonly known as "Minibonds") from certain of its customers. It is anticipated that the purchase of the Minibonds will have a negative impact on the Company's overall earnings in the near future, although it is hard to quantify the impact at this point in time.

As a result of the above factors, the profits of the Company for the year ending 31 December 2008 are expected to decline substantially as compared with the profits for the year ended 31 December 2007.

The purchase of Minibonds is in response to the Hong Kong SAR Government's proposal to provide liquidity through a buy-back program offer to retail investors at market prices. Such market prices will be estimated by an independent financial advisor, Ernst & Young, which will take into consideration the legal risks inherent in the Minibonds structure, the timing of the eventual liquidation of the Minibond structure, as well as the market prices of the underlying assets of the Minibonds. However, such calculations of the purchase price are best effort estimations and, therefore, may be different to the final realised value of the Minibonds which may potentially negatively impact the Company's earnings in the future. As such impact is dependent on best estimations which determine the purchase price of the Minibonds and their subsequent realisation, it is not currently possible for the Company to calculate the impact on the earnings of the Company.

LETTER FROM THE BOARD

RISK FACTORS

No Application for Listing

The Company will not be applying for the listing of, or permission to deal in, the Preference Shares on the Stock Exchange or any other stock exchange. Accordingly, the Preference Shares will have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, Shareholders may not be able to sell their Preference Shares at all or at a price which will provide a return comparable to similar investments that have developed a secondary market.

Deferral of Dividend Payments

Dividend payments on the Preference Shares may be deferred by the Company if, during the 12 calendar months preceding a date on which the Preference Dividend is due to be paid in respect of the Preference Shares, no dividend or distribution or other payment has been declared or paid on any class of the share capital of the Company. Any undeclared or unpaid Preference Dividends will be cumulative and paid out (i) on a winding-up or other return of capital in priority to any payment to the holders of Ordinary Shares or (ii) upon a redemption of the Preference Shares. If, upon a winding up of the Company, there are insufficient assets to fully satisfy debts owed to creditors, Preference Shareholders may not be able to receive any or all of the undeclared or unpaid Preference Dividend.

Warning of the Risks in Trading of Ordinary Shares

Ordinary Shares have been dealt with on an ex-offer basis from Friday, 14 November 2008. Any dealings in the Ordinary Shares will take place while the conditions to which to Open Offer is subject remain unfulfilled. If the conditions of the Open Offer (see paragraph headed "Conditions of the Open Offer") are not fulfilled by 4:00p.m. on Wednesday, 17 December 2008 or such later date as the Company may announce, the Open Offer will not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Ordinary Shares and are recommended to consult their professional adviser(s).

Business of the Company will be affected by the downturn in the global economy

Global markets have experienced substantial volatility over the past 15 months, commencing with the sub-prime crisis in the United States and associated contagion into the wider global markets. The market is currently characterised by wider credit spreads, tightened liquidity conditions and a general weakening in the economic environment. The Company's performance is primarily influenced by economic conditions in Hong Kong, the PRC and Taiwan, including the level and cyclical nature of the Company's business activity in these countries, which in turn are affected by both domestic and international economic and political events. The Hong Kong, the PRC and Taiwan economies are not immune from events in the global markets. The Company expects that net earnings for the second half of 2008 will be significantly affected by the negative impact of the recent global financial crisis and economic slowdown. The Company anticipates that these factors will impact on the Company's credit quality, investment portfolio value and operating income.

LETTER FROM THE BOARD

Credit risk

As a financial institution, the Company is exposed to the risks associated with a borrower or counterparty failing to perform under an obligation. Credit risk arises in the form of lending, trading, treasury, derivatives and other activities. Less favourable economic conditions may affect the ability of customers or counterparties to repay such facilities. In assessing whether to extend credit facilities to customers, the Company relies on information and representations provided by or on behalf of customers. The financial performance of the Company could be negatively affected to the extent that the Company relies on information or representations which are inaccurate or misleading.

Liquidity and funding risks

Liquidity risk is the risk that not enough cash will be generated from either assets or liabilities to meet deposit withdrawals or contractual loan funding and is inherent in all banking operations. The Company relies on its customer deposits to ensure that it continues to meet its funding obligations and to maintain or grow its business generally. In times of market liquidity stress or if market confidence in the Company is damaged, the Company's ability to access sources of funding and liquidity may be constrained.

Market risk

Market risk arises when changes in market rates, prices and volatilities (such as interest rates, currency exchange rates and credit spreads) lead to a decline in the value of the assets and liabilities of the Company or affect the profits and losses of the Company. Market risk arises on financial instruments which are valued at current markets prices ("marked to market") and those valued at cost plus any accrued interest ("accruals basis"). The Company transacts in the money markets, foreign exchange markets, equity markets and capital markets, giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, market making activities and positions taken in order to hedge the Company's open position.

The Company may incur losses as a result of a decline in the value of financial instruments entered into by the Company as principal with customers, financial exchanges or interbank counterparties. Such financial instruments may decline in value due to changes or implied volatility in foreign exchange rates, interest rates and commodity prices.

Operational risk

Operational risk refers to the risk resulting from inadequate or failed internal processes, people or systems, or from external events. Operation risks arise from the Group's daily operation and fiduciary activities. The Company is also exposed to operational failings by third-party providers (including outsourcing), to natural disasters, political, security and social events and to failings in the financial services sector.

LETTER FROM THE BOARD

Regulatory risk

The Company is regulated as a bank and a registered institution in Hong Kong by the HKMA and the Securities and Futures Commission and its ordinary shares are listed on the Stock Exchange. The Company's controlling shareholder, Fubon Financial, was incorporated as a financial holding company under the Financial Holding Company Act of Taiwan and is regulated by the Financial Supervisory Commission of Taiwan. A failure by any member of the Fubon Financial group to comply with the applicable laws, regulations or policies in Hong Kong or Taiwan could result in sanctions by such regulatory or governmental agencies and cause damage to such member of the Fubon Financial group's reputation which could affect the Company substantially. To the extent that these regulatory requirements limit the Company's operations and flexibility, they could adversely affect the Company's profitability and prospects.

The regulatory and other governmental agencies relevant to the Fubon Financial group of companies frequently review banking and tax laws, regulations and policies. Changes to laws, regulations or policies or changes the interpretation or implementation of such laws, regulations or policies could affect the Company in substantial and unpredictable ways. These may include changing required levels of bank liquidity and capital adequacy, thereby limiting the types of financial services and products that can be offered.

Capital management risk

The Company's capital management base is critical to its ability to manage its banking business. The Company is required by the HKMA to maintain adequate regulatory capital.

Litigation and claims

From time to time the Company may be subject to material litigation or governmental, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Company's results. The Company may be exposed to claims of mis-selling from certain of its customers regarding the sale by the Company to such customers of the Minibonds and the Company has agreed to Hong Kong Government's recent proposal to purchase such Minibonds. However, it is difficult to quantify the extent of such claims or the cost of such purchases.

CAPITAL ADEQUACY RATIO

The Group's reported capital adequacy ratio was 13.5% as of June 30, 2008. As at the Latest Practicable Date, the Group's capital adequacy ratio complies with the minimum capital adequacy ratio requirements under the Banking Ordinance. The Company expects to comply with this minimum capital adequacy ratio following completion of the Open Offer. The Group is not required to comply with any other capital adequacy requirements, other than the minimum capital adequacy ratio under the Banking Ordinance.

The proceeds from the Open Offer are expected to be treated as supplementary capital of the Company for the purpose of the Banking (Capital) Rules.

LETTER FROM THE BOARD

TAXATION

The Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the Preference Shares. It is emphasised that none of the Company, the Directors or any other parties involved in the Open Offer accepts responsibility for any tax effects or liabilities of holders of the Preference Shares resulting from the purchase, holding, disposal of, or dealing in the Preference Shares.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from Quam Capital Limited and the additional information set out in the Appendices to this prospectus.

Yours faithfully,
for and on behalf of
FUBON BANK (HONG KONG) LIMITED
MING-HSING (RICHARD) TSAI
Chairman

LETTER FROM QUAM CAPITAL LIMITED



Quam Capital Limited 華富嘉洛企業融資有限公司

A Member of The Quam Group

3 December 2008

To the minority Shareholders
Fubon Bank (Hong Kong) Limited
Fubon Bank Building
38 Des Voeux Road Central
Hong Kong

Dear Sir or Madam,

PROPOSED OPEN OFFER OF PREFERENCE SHARES

INTRODUCTION

We refer to our appointment in connection with the issuance of Preference Shares under the Open Offer. Details of the terms of the Open Offer and the Preference Shares are contained in the prospectus to the Shareholders dated 3 December 2008 (the “**Prospectus**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Prospectus unless the context requires otherwise.

As stated in the circular of the Company dated 29 October 2008, the Company proposed an open offer of 1,172,160,000 Preference Shares at US\$0.10237 per Preference Share to the Qualifying Shareholders for a maximum fund-raise of approximately US\$120 million before expenses. Our role is to provide our view on the risks associated to the investment of Preference Shares by minority Shareholders (the “**Risk Warnings**”). We, however, do not give any opinion to the minority Shareholders regarding the terms of the Open Offer and the Preference Shares or advise the minority Shareholders as to whether to accept the Open Offer.

We are not associated or connected with the Company, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, we are considered eligible to give an independent review on the Preference Shares regarding the Risk Warnings. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our review, we have relied on the information and facts supplied by the management of the Company which we have assumed to be true, accurate and complete in all aspects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Prospectus are true at the date of this letter. We have reviewed the terms of the Open Offer and the Preference Shares. We have also considered the future prospects of the Group.

We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied by them to us in connection with the Open Offer and the Preference Shares. We consider that the information which we have received is

LETTER FROM QUAM CAPITAL LIMITED

sufficient for us to conduct our review as set out in this letter and to justify our reliance on such information. We have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have also assumed that all statements contained and representations made or referred to in the Prospectus will continue to be true at the date hereof. We have, however, not conducted any independent investigation into the businesses and affairs of the Group.

THE RISKS WARNINGS

YOU ARE NOT OBLIGED TO ACCEPT THE OPEN OFFER

You are not obliged to accept the Open Offer. You must make your own decision as to whether or not you accept the Open Offer.

Before you accept the Open Offer, you should consider carefully all relevant risks and whether the Preference Shares are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. You should also consider the section headed “Risk Factors” set out in the “Letter from the Board” in the Prospectus. If you are in any doubt, you should consult your professional independent financial adviser and legal, accounting, tax or other advisers.

You are advised to consider the following important points:

1. *Liquidity, credit and valuation risk*

The Preference Shares will NOT be listed on any stock exchange.

The Company has agreed to use its reasonable endeavours to find potential purchasers for any holders of Preference Shares who wish to sell all or part of their holding in Preference Shares at any time after the Preference Shares have been issued. The Company’s Securities Services Division, a licensed securities broker in Hong Kong, will arrange for designated staff members to handle all matters relating to the Preference Shares (the “**Brokerage Arrangement**”). The Company, in its normal course of business as a licensed securities broker, will then notify its customers of an interest to sell or an interest to purchase Preference Shares and will use its reasonable endeavours to match potential sellers and potential buyers of the Preference Shares.

However, considering that the marketing focus of the Preference Shares is targeted on the customers of the Company rather than the general public and the risks associated to the Preference Shares, the Company is unlikely to identify a willing buyer and, therefore, holders of Preference Shares are unlikely to sell any of their Preference Shares at all. It is important to note that the Company is not responsible for maintaining an active trading market for the Preference Shares and there is NO guarantee that the Company will be able to find a willing buyer of Preference Shares. As such, the holders of Preference Shares are unlikely to recover their investments unless the Company exercises the Optional Early Redemption after five years from its issue date or on any Preference Dividend Payment Date thereafter.

It is possible that even if the Company identifies a willing buyer, the price offered by such buyer may be significantly lower than the cost of investment.

LETTER FROM QUAM CAPITAL LIMITED

In addition, any downgrading of the credit ratings of the Company by rating agencies such as Moody's Investors Service, Inc. or Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc., could result in the deterioration of liquidity. For the above reasons, the Preference Shares are highly illiquid and may never be exchangeable into cash.

2. *Counterparty risk*

It is important to note that the Company is only acting in the capacity of a licensed securities broker to set up a counter for trading of the Preference Shares. The Company shall not be liable for any risks or losses arising out of such sale and purchase of Preference Shares including non-payment by any buyer or non-delivery by any seller of the Preference Shares. In other words, each party should take into account, including but not limited to, the background and credit record of the counterparty and the legal aspects in relation to execution of the transaction. It is possible that holders of Preference Shares may lose all their cost of investment during such arrangement and the Company is not responsible for any loss incurred.

3. *Non-redeemable nature of the Preference Shares*

The Open Offer is for issuance of the non-redeemable Preference Shares which are perpetual in nature and do not have a mandatory maturity date. The Company may exercise the Optional Early Redemption to redeem the Preference Shares at a price of US\$0.10237 (the "**Redemption Price**") plus any cumulative Deferred Preference Dividend after five years from its issue date or on any Preference Dividend Payment Date thereafter. The exercise of the Optional Early Redemption is only at the discretion of the Company (i.e. Fubon Bank (Hong Kong) Limited) and also conditional upon obtaining consent from the Hong Kong Monetary Authority. Although the earliest Redemption Date is after the fifth anniversary of the issue date, there is no guarantee that the Company will exercise the Optional Early Redemption at that time or on any Preference Dividend Payment Date thereafter. According to the terms of the Preference Shares, the holders do not have the right to demand early redemption at any time. Given the perpetual feature, that is, with no maturity, the limitations of the Brokerage Arrangement, holders of Preference Shares may never be able to recover their investment.

4. *Non-adjusting nature of the Redemption Price*

If the Company elects to exercise the Optional Early Redemption to redeem the Preference Shares after five years from the issue date or on any Preference Dividend Payment Date thereafter, the Preference Shares will only be redeemed at cost plus any cumulative unpaid Preference Dividend. There will not be any increment in the Redemption Price even if there is any increment in the share price of the Company. Cost of inflation will also not be adjusted to the Redemption Price by the Company. Given the non-adjusting nature of the Redemption Price and the low liquidity of the Preference Shares, it is important to note that holders of Preference Shares are unlikely to enjoy any capital gain from the subscription of the Preference Shares through the Open Offer.

LETTER FROM QUAM CAPITAL LIMITED

You should also be aware that trading price performance of the Ordinary Shares may not bear any direct reference in the investment return of the Preference Shares.

5. *Default risk*

The share class is “Preference Shares” which ranks subordinated to depositors and creditors (including subordinated creditors), but before the Ordinary Shares in the event of winding-up of the Company. In other words, the investment cost and any cumulative unpaid Preference Dividend can be recovered, on a pro-rata basis, only if the available funds of the Company exceed the claims from its depositors and creditors. Therefore, regardless of the Preference Shares’ seniority to the claims of Ordinary Shares, it is possible that in the case of winding-up, holders of Preference Shares may lose all, or a significant proportion of their initial investment in the Preference Shares and receive zero compensation.

The Preference Shares are not deposit liabilities of the Company and the payment of Preferred Dividends is not guaranteed by the Company and other members of the Group. The combination of the possible deferral payment of Preference Dividend, the non-redeemable nature and the limitations of the Brokerage Arrangement can result in a total write-off of the investment in the Preference Shares in the financial portfolios.

Furthermore, the Preference Shares are not subject to the deposit protection scheme, a guarantee provided by the Hong Kong Government’s Exchange Fund. Under the deposit protection scheme, the Hong Kong Government provides immediate guaranteed repayment of all customer deposits held with all authorized financial institutions in Hong Kong until the end of 2010. Both HK\$ and foreign currency deposits are under protection. However, certain deposits such as time deposits with a maturity longer than five years, structured deposits (such as foreign currency-linked and equity-linked deposits), secured deposits (such as deposits used as collateral to secure a banking facility), bearer instruments (such as bearer certificates of deposit) and offshore deposits are not protected. Other financial products such as bonds, stocks (including preference shares), warrants, mutual funds, unit trusts and insurance policies are not protected. After the end of 2010, such guarantee will be capped at HK\$100,000 for every customer deposit account.

You should also consider the exchange rate risks as detailed in paragraph 10 below.

6. *Holders of Preference Shares have no rights to the Ordinary Shares*

The Preference Shares convey NO interest in the Ordinary Shares. The Preference Shares do NOT carry any voting rights.

A holder of Ordinary Shares possesses the right to receive ordinary dividend and propose and vote on resolutions including, but not limited to, entering into significant acquisitions or disposals, issuance of new share capital of the Company and election of the Directors, at any Shareholders’ meetings. However, a holder of Preference Shares is not entitled to formally express his or her opinion or choice by ballot or show of hands on any resolutions that are relevant to his or her interest.

LETTER FROM QUAM CAPITAL LIMITED

7. Non-convertible nature of the Preference Shares

The Preference Shares will NOT be eligible for conversion into the Ordinary Shares. Given their non-convertible nature and the limitations of the Brokerage Arrangement, the Preference Shares are highly illiquid. As such, the holders of Preference Shares are unlikely to recover their investments unless the Company exercises the Optional Early Redemption after five years from its issue date or on any Preference Dividend Payment Date thereafter.

8. Non-adjusting nature of the dividend rate of Preference Shares

If declared, the Preference Dividend will be paid at a fixed rate of 9% per annum. There will not be any increment in the dividend rate of Preference Shares even if a higher dividend rate has been declared for Ordinary Shares. It is important to note that the terms of the Preference Shares will neither adjust the dividend rate nor provide for payment of any form of compensation to the holders of Preference Shares. The holders of Preference Shares will not enjoy the growth potential of the Company.

9. Preference Dividend may not be paid

The Company may elect NOT to declare or pay the Preference Dividend. The Preference Shares are not debt securities and accordingly do not oblige the Company to pay interest. In addition, the terms of the Preference Shares contain no events of default and, accordingly, failure to pay the Preference Dividend will not constitute an event of default. Further, in the event that the Company does not pay the Preference Dividend, a holder of Preference Shares has no right to apply for the Company to be wound up and set off rights or claims on the Company.

Although the unpaid Preference Dividend will be cumulative, the Company may have an option to defer any undeclared or unpaid Preference Dividend until winding-up of the Company, which shall rank subordinated to depositors and creditors. It is important to note that the Deferred Preference Dividend itself does not bear interest and the terms of the Preference Shares will not provide for payment of any form of compensation to the holders of Preference Shares other than the payment of Preference Dividend. In view of the terms of the perpetual Preference Shares, it is evident that almost all of the total return comes from dividend payments; however, it is possible that holders of Preference Shares will receive none.

10. Exchange rate risk

The payments of the Preference Dividend and the redemption principal upon exercise of the Optional Early Redemption will be denominated in US\$. Currently HK\$ is pegged to US\$. However, you should be aware that given the perpetual nature of the Preference Shares, the peg policy may or may not change during the investment horizon of the issue. If the peg policy changes subsequently, the investment returns from the Preference Shares may be affected by exchange rate fluctuations between HK\$ and US\$. The exchange rate between HK\$ and US\$ is determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency

LETTER FROM QUAM CAPITAL LIMITED

markets and currency trading speculation. Fluctuations in exchange rates, political and economic developments and the imposition of exchange controls or other governmental laws or restrictions may affect the investment return in HK\$. There can be no assurance that exchange rates between HK\$ and US\$ at the date of issue of the Preference Shares will be representative of the respective exchange rates used at the time of any Preference Dividend Payment Date and the date of exercise of the Optional Early Redemption.

11. Reinvestment risk

In the event the issuer does not exercise the Optional Early Redemption after the fifth anniversary of the issue date or on any Preference Dividend Payment Date thereafter, coupled with the limitations of the Brokerage Arrangement and non-redeemable nature of the Preference Shares (as described in paragraph 1 and 2 above), holders of such shares are unlikely to recover and reinvest their initial investments in other opportunities. In addition, should deferral of the Preference Dividend occur, the holders of Preference Share will not be able to reinvest dividend income as well.

12. Real rate of return

The real rate of return represents the annual percentage return realised on an investment, which is adjusted for changes in prices due to inflation or other external effects. Assuming Preference Shares are not sold through the Brokerage Arrangement within the investment horizon, in view of the non-maturity term, the non-convertible nature and limited exit feature, the annual rate of return will be capped at 9% without any adjustments to any external factors such as cost of inflation on the Redemption Price and dividend payments. As such, fluctuations in inflation rates are not properly reflected in the investment return of the Preference Shares. It is important to note that under an inflationary economy, the annual real rate of return of the Preference Shares and the purchasing power of any proceeds from the investment in the Preference Shares will be deteriorated.

13. Taxes

Holders of Preference Shares may be required to pay stamp duty or other taxes or other documentary charges on transfer of the Preference Shares. However, you should be aware that tax regulations and their application by the relevant taxation authorities may change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. If you are in any doubt as to your tax position, you should consult your own independent tax advisers.

14. Future issue of securities by the Company

The terms of the Preference Shares require prior approval from holders of not less than three-quarters in nominal value of the Preference Shares in order to issue securities which rank as regards participation in the profits and assets of the Company in priority to the Preference Shares. You should note that Fubon Financial will be interested in at least three-quarters of the Preference Shares upon completion of the Open Offer. Notwithstanding the above, the terms of the Preference Shares do not restrict the Company in the future to issue securities that (i) rank for dividends or payments of capital (including on the

LETTER FROM QUAM CAPITAL LIMITED

winding-up of the Company) equal with or behind of the Preference Shares; (ii) have the same or different dividend, interest or dividend rates as the Preference Shares; (iii) have payment restrictions or other covenants which affect the Preference Shares; and (vi) have the same or different terms and conditions as the Preference Shares. You should be aware that an investment in the Preference Shares carries no right to participate in any future issue of securities by the Company. No prediction can be made to the effect, if any, of such future issue of securities by the Company may have on the investment return and liquidity of the Preference Shares.

15. Effect of the combination of risk factors is unpredictable

Two or more risk factors may simultaneously have an effect on the value of investment return of the Preference Shares such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the investment return of the Preference Shares.

16. Rights as a Shareholder in respect of the Open Offer

If you decide NOT to accept the Open Offer, you have given up your right as a Shareholder to subscribe the Preference Shares in the Open Offer and accordingly your entitlement may be taken up by other Qualifying Shareholders. It is noted that Fubon Financial, the majority Shareholder, has irrevocably undertaken to the Company to apply for not less than 879,120,000 Preference Shares. It is also noted that Fubon Financial intends to apply for the excess of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply), which will be allocated on a fair and equitable basis pro rata to the number of the excess Preference Shares applied for by each Qualifying Shareholder. In the event that there is no subscription of the Preference Shares by the minority Shareholders and Fubon Financial does not apply for excess of 293,040,000 Preference Shares, the Open Offer will raise about US\$89 million (after deducting all necessary expenses of less than US\$0.5 million).

Notwithstanding the above, your shareholdings in Ordinary Shares will not be diluted by this issue of Preference Shares.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Richard D. Winter
Managing Director



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

Selected Financial Information

The summary financial information set forth below has been extracted without material adjustment from the Group audited financial results for each of the three years ended 31 December 2007 and the unaudited results for the first six months ended 30 June 2008 and should be read in conjunction with the information included elsewhere in this prospectus where the relevant figures are available.

Summary income statement data:

	HK\$'000, except percentages			
	Audited 31-Dec-05	Audited 31-Dec-06	Audited 31-Dec-07	Unaudited 30-Jun-08
Operating profit before impairment allowance and gains	227,795	410,646	586,704	317,257
Profit before taxation	273,815	391,497	517,067	282,281
Profit attributable to shareholders	241,441	327,168	460,998	250,359
Net interest income	503,771	696,779	853,673	532,413
Net operating income	227,795	410,646	586,704	317,257
Dividends declared and proposed	(199,268)	(210,989)	(222,711)	(70,330)
Interim dividend (Hong Kong cents per share)	6	6	6	6
Final dividend (Hong Kong cents per share)	11	12	13	N/A

Summary balance sheet data and related ratios:

	(HK\$'000, except percentages)			
	Audited 31-Dec-05	Audited 31-Dec-06	Audited 31-Dec-07	Unaudited 30-Jun-08
Total assets	49,803,538	53,346,876	60,622,879	62,656,115
Advances to customers less impairment	21,375,566	25,751,160	31,478,804	33,741,507
Deposits and balances of banks and other financial institutions	1,195,791	961,515	1,457,845	2,626,768
Customer deposits and medium-term funding	36,348,451	38,748,342	45,228,818	45,830,463
Shareholders' equity	3,748,916	3,979,030	4,117,754	4,193,773
Loan to deposit ratio ⁽¹⁾⁽²⁾	58.8%	66.5%	69.6%	73.6%
Return on average equity ⁽¹⁾⁽²⁾	6.5%	8.5%	11.4%	12.3%
Return on average assets ⁽¹⁾⁽²⁾	0.5%	0.6%	0.8%	0.9%
Average liquidity ratio (for December/ June) ⁽¹⁾	47.5%	46.4%	44.1%	40.4%
Capital adequacy ratio ⁽¹⁾	15.0%	16.6%	14.4%	13.5%
Earnings per share (Hong Kong cents)	20.6	27.9	39.3	21.4

Notes:

(1) Unaudited

(2) Loan to deposit ratio = $\frac{\text{Advances to customers less impairment}}{\text{Deposits from customers} + \text{Certificates of deposits issued} + \text{Debt securities issued}}$

Return on average equity = $\frac{\text{Profit attributable to shareholders}}{\text{Average beginning \& ending balances of shareholders' funds}}$

Return in average assets = $\frac{\text{Profit attributable to shareholders}}{\text{Average beginning \& ending balances of total assets}}$

BUSINESS OVERVIEW

The Group are principally engaged in the provision of banking and related financial services. Its operations comprise three principal lines of business: retail banking, wholesale banking and financial markets.

The profit contribution from the respective business divisions of the Group:

Operating Income

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retail Banking	489,157	58.9	452,310	40.1	646,108	45.5	276,870	35.2
Wholesale Banking	242,366	29.2	337,913	30.0	490,256	34.5	311,245	39.6
Financial Markets	84,884	10.2	333,918	29.6	281,535	19.8	203,022	25.8
Real Estate	(3,012)	(0.4)	(3,171)	(0.3)	(2,625)	(0.2)	(610)	(0.1)
Unallocated ⁽¹⁾	52,848	6.4	46,356	4.1	50,194	3.5	14,388	1.9
Inter-segment elimination	(35,682)	(4.3)	(39,971)	(3.5)	(43,991)	(3.1)	(18,906)	(2.4)
Total	830,561	100.0	1,127,355	100.0	1,421,477	100.0	786,009	100.0

Notes:

- (1) 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.

Profit/(loss) before taxation

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retail Banking	173,735	63.4	87,953	22.5	238,460	46.1	58,074	20.6
Wholesale Banking	131,593	48.1	141,564	36.2	316,036	61.1	206,780	73.3
Financial Markets	(8,997)	(3.3)	273,331	69.8	84,246	16.3	56,547	20.0
Real Estate	11,088	4.1	(5,420)	(1.4)	773	0.1	1,891	0.7
Unallocated ⁽¹⁾	(33,604)	(12.3)	(105,931)	(27.1)	(122,448)	(23.6)	(41,011)	(14.6)
Total	273,815	100.0	391,497	100.0	517,067	100.0	282,281	100.0

Notes:

- (1) 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.

Loan Portfolio

The composition of the Group's loan portfolio was as follows:

	Unaudited 31-Dec-05		Unaudited 31-Dec-06		Unaudited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loans for use in Hong Kong								
Industrial, commercial and financial								
Property development	28,135	0.1	29,392	0.1	59,453	0.2	78,994	0.2
Property investment	3,923,769	18.2	4,900,296	18.9	5,874,005	18.6	7,391,707	21.9
Financial concerns	313,227	1.5	484,250	1.9	678,349	2.1	619,126	1.8
Stockbrokers	159,616	0.7	157,371	0.6	144,323	0.5	78,963	0.2
Wholesale and retail trade	99,242	0.5	202,404	0.8	221,630	0.7	162,252	0.5
Manufacturing	1,710,819	7.9	1,059,535	4.1	1,634,110	5.2	1,841,554	5.4
Transport and transport equipment	683,299	3.2	756,247	2.9	699,036	2.2	689,994	2.1
Others	2,017,055	9.4	3,247,433	12.5	2,663,999	8.4	3,125,900	9.2
Trade finance	601,902	2.8	943,406	3.6	2,169,800	6.8	2,244,738	6.6
Sub-total	9,537,064	44.3	11,780,334	45.4	14,144,705	44.7	16,233,228	47.9
Individuals								
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,461	0.0	3,275	0.0	7,300	0.0	11,884	0.0
Loans for the purchase of other residential properties	7,503,104	34.8	6,946,882	26.8	7,272,919	23.0	7,495,168	22.2
Credit card advances	478,553	2.2	504,157	2.0	533,187	1.7	488,669	1.4
Others	952,404	4.4	1,299,707	5.0	894,852	2.8	959,362	2.8
Sub-total	8,935,522	41.4	8,754,021	33.8	8,708,258	27.5	8,955,083	26.4
Loans for use outside Hong Kong	3,071,796	14.3	5,379,996	20.8	8,780,049	27.8	8,714,831	25.7
Gross Advances	21,544,382	100.0	25,914,351	100.0	31,633,012	100.0	33,903,142	100.0
Allowances for impaired loans								
Collective impairment allowance	(76,115)		(81,404)		(82,126)		(70,071)	
Individual impairment allowance	(92,701)		(81,787)		(72,082)		(91,564)	
Total Provisions	(168,816)		(163,191)		(154,208)		(161,635)	
Net loan balance	21,375,566		25,751,160		31,478,804		33,741,507	

The tables below set out summaries of the Group's consolidated overdue, impaired and rescheduled advances:

(a) *Overdue advances to customers*

	Unaudited 31-Dec-05		Unaudited 31-Dec-06		Unaudited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances
Overdue advances to customers								
6 months or less but over 3 months	38,953	0.2	22,120	0.1	32,948	0.1	59,266	0.2
1 year or less but over 6 months	17,514	0.1	24,958	0.1	32,926	0.1	42,669	0.1
Over 1 year	105,754	0.5	108,084	0.4	47,703	0.2	61,269	0.2
	<u>162,221</u>	<u>0.8</u>	<u>155,162</u>	<u>0.6</u>	<u>113,577</u>	<u>0.4</u>	<u>163,204</u>	<u>0.5</u>
Amount of collateral held in respect of overdue advances	82,369		96,270		53,811		100,804	
Secured overdue advances	77,392		95,015		50,859		75,087	
Unsecured overdue advances	<u>84,829</u>		<u>60,147</u>		<u>62,718</u>		<u>88,117</u>	
	<u>162,221</u>		<u>155,162</u>		<u>113,577</u>		<u>163,204</u>	
Amount of individual impairment allowance made against overdue advances	<u>85,400</u>		<u>63,612</u>		<u>58,642</u>		<u>75,936</u>	

(b) *Impaired Loans to customers*

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances
Impaired Loans	<u>213,133</u>	<u>0.99</u>	<u>239,884</u>	<u>0.93</u>	<u>172,403</u>	<u>0.55</u>	<u>201,838</u>	<u>0.60</u>
Amount of individual impairment allowance held against these advances	92,701		81,787		72,082		91,564	

Impaired loans are those advances where full repayment of principal and/or interest is considered unlikely and are so classified as soon as such a situation becomes apparent. Impairment allowances are made to write down the carrying value of the advances to the discounted value of future recoverable amounts, including the realisation of collateral.

(c) *Rescheduled Loans (net of those which have been overdue for over three months and reported in item (a) above)*

	Unaudited 31-Dec-05		Unaudited 31-Dec-06		Unaudited 31-Dec-07		Unaudited 30-Jun-08	
	% of Gross Advances		% of Gross Advances		% of Gross Advances		% of Gross Advances	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Rescheduled advances to customers	108,227	0.5	52,792	0.2	42,779	0.1	16,698	0.1

The table below summarises the changes in the Group's allowance for possible loan losses:

	Unaudited 31-Dec-05		Unaudited 31-Dec-06		Unaudited 31-Dec-07		Unaudited 30-Jun-08	
	% of Total Advances		% of Total Advances		% of Total Advances		% of Total Advances	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Allowance for possible loan losses								
Beginning balance	81,896	0.4	92,701	0.3	81,787	0.2	72,082	0.2
Provisions for loan impairment charged/ (recovered) during the year	9,694	0.0	44,593	0.2	36,891	0.1	30,136	0.1
Bad debt recoveries	42,963	0.2	22,319	0.1	21,040	0.1	10,981	0.1
Loans written-off	(41,852)	(0.2)	(77,826)	(0.3)	(67,636)	(0.2)	(21,635)	(0.1)
Closing balance	92,701	0.4	81,787	0.3	72,082	0.2	91,564	0.3
Total loans at year end	21,544,382	100.0	25,914,351	100.0	31,633,012	100.0	33,903,142	100.0
Total gross impaired loans at year end	213,133	1.0	239,884	0.9	172,403	0.6	201,838	0.6

Investment in securities

The Group's investment in securities includes listed and unlisted equity and debt securities.

The table below summarises the carrying values of the Group's investment securities portfolio:

	Audited 31-Dec-05 HK\$'000	Audited 31-Dec-06 HK\$'000	Audited 31-Dec-07 HK\$'000	Unaudited 30-Jun-08 HK\$'000
Other financial instruments designated at fair value through profit or loss				
Debt securities at fair value				
– Listed in Hong Kong	571,392	484,068	486,932	480,219
– Listed outside Hong Kong	75,315	74,723	392,023	233,856
	<u>646,707</u>	<u>558,791</u>	<u>878,955</u>	<u>714,075</u>
Available for sale securities at fair value				
Debt securities				
– Listed in Hong Kong	1,541,072	3,536,368	2,868,782	2,534,365
– Listed outside Hong Kong	1,688,178	477,808	3,626,868	4,383,462
– Unlisted	2,898,895	5,134,353	5,224,503	3,554,350
	<u>6,128,145</u>	<u>9,148,529</u>	<u>11,720,153</u>	<u>10,472,177</u>
Treasury bills – unlisted	6,924,752	4,827,763	4,863,805	4,249,511
Certificates of deposits – unlisted	373,175	86,741	268,901	148,402
Equity shares				
– Listed in Hong Kong	88,098	68,173	138,442	139,948
– Unlisted	9,591	125,948	239,140	413,053
	<u>97,689</u>	<u>194,121</u>	<u>377,582</u>	<u>553,001</u>
Sub-total	<u>13,523,761</u>	<u>14,257,154</u>	<u>17,230,441</u>	<u>15,423,091</u>
Trading securities at fair value				
Debt securities				
– Listed in Hong Kong	3,482	2,548	5,266	6,023
– Unlisted	23,234	10,914	11,948	7,273
Treasury bills	368,365	455,568	14,981	538,645
Equity shares – listed in Hong Kong	–	–	349	103
Sub-total	<u>395,081</u>	<u>469,030</u>	<u>32,544</u>	<u>552,044</u>
Total	<u>14,565,549</u>	<u>15,284,975</u>	<u>18,141,940</u>	<u>16,689,210</u>

The table below sets forth a summary of the Group's deposits and other borrowed funds by type:

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Deposits from customers								
Demand deposits and current accounts	3,646,745	9.7	5,410,210	13.1	6,438,831	13.3	5,745,306	11.4
Savings deposits	674,688	1.8	833,204	2.0	957,426	2.0	928,446	1.8
Call deposits	1,767,760	4.7	2,247,328	5.4	2,881,912	5.9	2,826,233	5.6
Time deposits	26,453,917	70.5	25,320,091	61.4	31,195,822	64.3	32,838,774	65.5
Total customer deposits	<u>32,543,110</u>	<u>86.7</u>	<u>33,810,833</u>	<u>81.9</u>	<u>41,473,991</u>	<u>85.5</u>	<u>42,338,759</u>	<u>84.3</u>
Deposits and balances of banks	1,195,791	3.2	961,515	2.3	1,457,845	3	2,626,768	5.2
Certificates of deposits	3,805,341	10.1	3,523,347	8.6	2,161,650	4.4	1,337,323	2.7
Debt securities	–	–	1,414,162	3.4	1,593,177	3.3	2,154,381	4.3
Total deposits	<u>37,544,242</u>	<u>100.0</u>	<u>39,709,857</u>	<u>96.2</u>	<u>46,686,663</u>	<u>96.2</u>	<u>48,457,231</u>	<u>96.5</u>
Subordinated notes issued	–	–	1,570,155	3.8	1,622,652	3.3	1,622,484	3.2
Zero coupon bond issued	–	–	–	–	220,446	0.5	155,152	0.3
Total deposits, subordinated notes and zero coupon bond issued	<u>37,544,242</u>	<u>100.0</u>	<u>41,280,012</u>	<u>100.0</u>	<u>48,529,761</u>	<u>100.0</u>	<u>50,234,867</u>	<u>100.0</u>

Maturity Profile of Assets and Liabilities

The table below sets forth the contractual maturity breakdown of major Group's assets and liabilities:

As at 31 December 2005 (Unaudited)

	Repayable on demand	Within 1 month	Over 1 month but within 3 months	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Trading securities	–	114,880	254,132	12,308	10,267	3,494	–	395,081
Advances to customers (less impairment)	733,196	1,989,306	1,933,127	2,472,134	6,893,361	7,325,111	29,331	21,375,566
Available-for-sale securities	–	19,990	3,025,549	7,933,154	2,010,760	404,839	129,469	13,523,761
Liabilities								
Deposits and balances of banks	284,094	911,697	–	–	–	–	–	1,195,791
Demand deposits, current accounts, savings, call and time deposits of customers	6,089,193	21,024,420	3,888,269	776,611	632,780	131,837	–	32,543,110
Certificates of deposit issued	–	361,091	717,300	1,347,650	1,379,300	–	–	3,805,341

As at 31 December 2006 (Audited)

	Repayable on demand	Within 1 month	Over 1 month but within 3 months	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Trading securities	–	29,993	228,582	197,641	9,804	3,010	–	469,030
Advances to customers (less impairment)	860,688	3,551,279	2,197,170	3,847,986	7,547,045	7,656,293	90,699	25,751,160
Available-for-sale securities	–	305,181	1,406,414	6,629,624	4,474,611	1,217,280	224,044	14,257,154
Liabilities								
Deposits and balances of banks	101,024	488,220	372,271	–	–	–	–	961,515
Demand deposits, current accounts, savings, call and time deposits of customers	8,490,742	20,588,746	2,829,347	1,018,763	743,222	140,013	–	33,810,833
Certificates of deposit issued	–	344,197	703,650	1,983,600	491,900	–	–	3,523,347

As at 31 December 2007 (Audited)

	Repayable on demand <i>HK\$'000</i>	Within 1 month <i>HK\$'000</i>	Over 1 month but within 3 months <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets								
Trading securities	–	14,981	156	8,975	3,873	4,210	349	32,544
Advances to customers (less impairment)	1,101,486	4,845,212	2,660,556	4,610,404	9,749,840	8,479,364	31,942	31,478,804
Available-for-sale securities	–	230,967	255,233	7,115,365	5,614,917	3,611,927	402,032	17,230,441
Liabilities								
Deposits and balances of banks	380,113	1,077,732	–	–	–	–	–	1,457,845
Demand deposits, current accounts, savings, call and time deposits of customers	10,278,169	25,208,409	4,033,857	1,280,682	510,012	162,862	–	41,473,991
Certificates of deposit issued	–	306,450	243,300	1,611,900	–	–	–	2,161,650

As at 30 June 2008 (Unaudited)

	Repayable on demand <i>HK\$'000</i>	Within 1 month <i>HK\$'000</i>	Over 1 month but within 3 months <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets								
Trading securities	–	93,040	349,547	103,980	5,374	–	103	552,044
Advances to customers (less impairment)	1,099,908	5,169,193	3,502,248	4,061,762	10,467,468	9,375,479	65,449	33,741,507
Available-for-sale securities	–	–	712,263	4,979,786	7,835,993	1,317,602	577,447	15,423,091
Liabilities								
Deposits and balances of banks	68,998	1,136,040	822,290	599,440	–	–	–	2,626,768
Demand deposits, current accounts, savings, call and time deposits of customers	9,499,985	20,583,479	9,489,098	2,310,139	120,787	335,271	–	42,338,759
Certificates of deposit issued	–	–	541,450	795,873	–	–	–	1,337,323

Capital Adequacy and Liquidity Ratios

The following table sets out a summary of the Group's consolidated capital adequacy and liquidity ratios:

	Unaudited 31-Dec-05	Unaudited 31-Dec-06	Unaudited 31-Dec-07	Unaudited 30-Jun-08
Capital adequacy ratio	15.0	16.6	14.4	13.5
Core capital adequacy ratio	14.9	12.8	9.8	9.4
Liquidity ratio (average for the year/period)	44.7	44.5	44.4	40.4

New approaches are used in the calculation of the regulatory capital and capital charges following the adoption of the Banking (Capital) Rules effective from 1 January 2007. Accordingly, the capital adequacy ratio for the year ended 31 December 2006 is not directly comparable with that for financial periods beginning on or after 1 January 2007.

The capital adequacy ratio and core capital adequacy ratio are computed on a consolidated basis based on guidelines issued by the HKMA and the Banking (Capital) Rules.

In accordance with the Banking (Capital) Rules, the Group has adopted the "standardised approach" for the risk-weighted assets for credit risk and market risk and the "basic indicator approach" for the calculation of operational risk.

The average liquidity ratio for each year or period is computed as the simple average of each calendar month's average liquidity ratio in accordance with the Fourth Schedule of the Banking Ordinance.

The capital base of the Group, after deductions, used in the calculation of the above capital adequacy ratios as at reported to the HKMA was as follows:

	Unaudited 31-Dec-05 <i>HK\$'000</i>	Unaudited 31-Dec-06 <i>HK\$'000</i>	Unaudited 31-Dec-07 <i>HK\$'000</i>	Unaudited 30-Jun-08 <i>HK\$'000</i>
Core capital				
Paid up ordinary share capital	1,172,160	1,172,160	1,172,160	1,172,160
Reserves (including retained earnings)	1,550,802	1,651,057	1,762,784	1,905,093
Share premium	<u>749,778</u>	<u>749,778</u>	<u>749,778</u>	<u>749,778</u>
Total deduction from core capital	<u>–</u>	<u>–</u>	<u>(116,355)</u>	<u>(94,771)</u>
Total core capital	3,472,740	3,572,995	3,568,367	3,732,260
Eligible supplementary capital				
Reserve on revaluation of land and interests in land	36,868	36,868	23,701	23,701
Reserve on revaluation of holding of available-for-sale securities	(72,476)	3,118	(87,656)	(148,761)
Collective impairment allowance for impaired loans	76,115	81,404	82,126	70,071
Term subordinated notes	–	1,555,700	1,559,980	1,559,760
Regulatory reserve	<u>107,722</u>	<u>129,572</u>	<u>213,447</u>	<u>175,210</u>
Total deduction from eligible supplementary capital	<u>–</u>	<u>–</u>	<u>(93,633)</u>	<u>(45,496)</u>
Total eligible supplementary capital	<u>148,229</u>	<u>1,806,662</u>	<u>1,697,965</u>	<u>1,634,485</u>
Total capital base before deductions	3,620,969	5,379,657	–	–
Deductions from total capital base	<u>(65,036)</u>	<u>(701,967)</u>	<u>–</u>	<u>–</u>
Total capital base after deductions	<u><u>3,555,933</u></u>	<u><u>4,677,690</u></u>	<u><u>5,266,332</u></u>	<u><u>5,366,745</u></u>

SUMMARY FINANCIAL INFORMATION

The summary financial information set forth below has been extracted without material adjustment from the Group's audited consolidated financial results for each of the three years ended 31 December 2007 and the unaudited results for the six months ended 30 June 2008 and should be read in conjunction with the information contained elsewhere in this circular.

Consolidated Profit and Loss Account⁽¹⁾:

	Note	Audited 31-Dec-05 HK\$ millions	Audited 31-Dec-06 HK\$ millions	Audited 31-Dec-07 HK\$ millions	Unaudited 30-Jun-08 HK\$ millions
Interest income	4	1,571.9	2,523.1	2,826.1	1,158.4
Interest expense	4	(1,068.1)	(1,826.3)	(1,972.4)	(626.0)
Net interest income		503.8	696.8	853.7	532.4
Fee and commission income	5	129.7	194.2	362.8	180.1
Fee and commission expense	5	(28.4)	(51.4)	(77.0)	(43.0)
Net fees and commission income		101.3	142.8	285.8	137.1
Revaluation loss on collateralised debt obligations	23	–	–	(90.4)	(78.1)
Other operating income	6	225.5	287.7	372.4	194.6
Operating income		830.6	1,127.3	1,421.5	786.0
Operating expenses	7	(602.8)	(716.7)	(834.8)	(468.7)
Operating profit before gains and impairment losses		227.8	410.6	586.7	317.3
Write back/(charge) of impairment losses on advances to customers	10	20.2	(65.5)	(37.6)	(18.1)
Impairment losses on available-for-sale securities	23	–	–	(162.4)	(96.2)
Write back of/(charge for) impairment losses on investment in associated company	24	–	–	(8.3)	2.8
Write back of/(charge for) impairment losses on assets acquired under lending agreements		4.6	(0.5)	3.3	3.1
Impairment losses		24.8	(66.0)	(205.0)	(108.4)
Net gains on disposals of available-for-sale securities	11	(17.8)	46.9	132.5	43.8
Net gains on disposals of fixed assets		39.0	–	2.9	29.6
Profit before taxation		273.8	391.5	517.1	282.3
Taxation	12	(32.4)	(64.3)	(56.2)	(32.2)
Profit for the period		241.4	327.2	460.9	250.1
Dividends declared and proposed	13	199.3	211.0	222.7	70.3

Consolidated Balance Sheet:

	<i>Note</i>	Audited 31-Dec-05 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-06 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-07 <i>HK\$</i> <i>millions</i>	Unaudited 30-Jun-08 <i>HK\$</i> <i>millions</i>
Assets					
Cash and short-term funds	17	10,157.0	7,818.7	7,024.6	7,832.3
Placements with banks maturing between one and twelve months	18	1,573.9	1,684.2	741.0	–
Trading securities	19	395.1	469.0	32.5	552.0
Financial assets designated as at fair value through profit or loss	20	646.7	558.8	879.0	714.1
Derivative financial instruments	21	330.4	537.9	955.9	1,353.3
Advances to customers less impairment	22	21,375.5	25,751.2	31,478.8	33,741.5
Accrued interest and other accounts		641.1	1,141.7	1,115.6	1,871.7
Available-for-sale securities	23	13,523.8	14,257.2	17,230.4	15,423.1
Investments in associated company	24	6.5	6.5	–	1.9
Fixed assets	26	1,150.8	1,119.3	1,142.3	1,116.9
Deferred tax assets	33	2.7	2.5	22.7	49.3
		<u>49,803.5</u>	<u>53,346.8</u>	<u>60,622.8</u>	<u>62,656.1</u>
Liabilities					
Deposits and balances of banks	27	1,195.8	961.5	1,457.8	2,626.8
Deposits from customers	28	32,543.1	33,810.8	41,474.0	42,338.7
Trading liabilities	29	1,125.5	445.7	11.7	508.3
Financial liabilities designated as at fair value through profit or loss	31	–	–	220.4	155.2
Certificates of deposit issued	30	3,805.4	3,523.3	2,161.6	1,337.3
Debt securities issued	31	–	1,414.2	1,593.2	2,154.4
Derivative financial instruments	21	355.1	425.0	804.7	1,253.3
Other accounts and liabilities	32	7,029.7	7,208.2	7,155.2	6,462.3
Deferred tax liabilities	33	–	8.9	–	0.1
Subordinated notes issued	34	–	1,570.2	1,622.7	1,622.5
		<u>46,054.6</u>	<u>49,367.8</u>	<u>56,501.3</u>	<u>58,458.9</u>

APPENDIX 1**FINANCIAL INFORMATION**

	<i>Note</i>	Audited 31-Dec-05 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-06 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-07 <i>HK\$</i> <i>millions</i>	Unaudited 30-Jun-08 <i>HK\$</i> <i>millions</i>
Equity					
Share capital	35	1,172.2	1,172.2	1,172.2	1,172.2
Share premium	36	749.8	749.8	749.8	749.8
Reserves	37	<u>1,826.9</u>	<u>2,057.0</u>	<u>2,195.8</u>	<u>2,271.8</u>
Equity attributable to equity holders of the Bank		3,748.9	3,979.0	4,117.8	4,193.8
Minority interests	38	<u>–</u>	<u>–</u>	<u>3.7</u>	<u>3.4</u>
		<u>3,748.9</u>	<u>3,979.0</u>	<u>4,121.5</u>	<u>4,197.2</u>
		<u>49,803.5</u>	<u>53,346.8</u>	<u>60,622.8</u>	<u>62,656.1</u>

CAPITALISATION AND INDEBTEDNESS OF FUBON BANK (HONG KONG) LIMITED

The following table sets forth the Group's consolidated capitalisation and indebtedness:

	Unaudited 31-Dec-05	Unaudited 31-Dec-06	Unaudited 31-Dec-07	Unaudited 30-Jun-08
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term borrowings (less than 1 year)				
Customer deposit accounts	31,703,802	32,489,565	40,735,077	41,831,312
Certificates of deposit in issue	2,426,041	3,031,447	2,161,650	1,337,323
Debt securities issued	–	42,010	92,200	1,693,396
Securities sold but not yet purchased	4,983,729	6,027,467	6,087,313	4,589,389
Securities sold under repurchase agreement	766,245	–	–	–
Deposits from banks	1,195,791	961,515	1,457,845	2,626,768
Amounts due to immediate holding company and fellow subsidiary companies	75,249	438,428	85,915	84,352
Total short-term borrowings	<u>41,150,857</u>	<u>42,990,432</u>	<u>50,620,000</u>	<u>52,162,540</u>
Long-term borrowings (more than 1 year)				
Customer deposit accounts	764,617	883,235	672,874	456,058
Certificates of deposit in issue	1,379,300	491,900	–	–
Debt securities issued	–	1,372,152	1,500,977	460,985
Securities sold but not yet purchased	1,979,585	612,870	4,638	672,579
Subordinated notes issued	–	1,570,155	1,622,652	1,622,484
Zero coupon bond issued	–	–	220,446	155,152
Total long-term borrowings	<u>4,123,502</u>	<u>4,930,312</u>	<u>4,021,587</u>	<u>3,367,258</u>
Capital resources				
Share capital and premium	1,921,938	1,921,938	1,921,938	1,921,938
Reserves	429,881	553,945	526,535	464,948
Retained earnings.	1,397,097	1,503,147	1,669,281	1,806,887
Shareholders' funds	<u>3,748,916</u>	<u>3,979,030</u>	<u>4,117,754</u>	<u>4,193,773</u>
Total capitalisation and indebtedness	<u>49,023,275</u>	<u>51,899,774</u>	<u>58,759,341</u>	<u>59,723,571</u>

NOTES TO THE FINANCIAL STATEMENTS

1. ACTIVITIES

Fubon Bank (Hong Kong) Limited (“The Bank”) is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 38 Des Voeux Road Central, Hong Kong.

The Bank, through its branches and subsidiaries, provides a range of banking, financial and related services.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 31 December 2007 comprise those of the Bank and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associated company.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the “Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited” and the disclosure requirements of the Banking (Disclosure) Rules made by the Hong Kong Monetary Authority (“HKMA”) under section 60A of the Banking Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(b) New and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs, HKASs and Interpretations that are first effective or available for early adoption for the current accounting period of the Bank and the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, “Financial instruments: Disclosures” and the amendment to HKAS 1, “Presentation of financial statements: Capital disclosures”, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group’s financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 30, “Disclosures in the Financial Statements of Banks and similar financial institutions”, and HKAS 32, “Financial Instruments: Disclosure and Presentation”. These disclosures are provided throughout these financial statements, in particular in note 47.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Bank’s and the Group’s objectives, policies and processes for managing capital. These new disclosures are set out in note 47(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new/revised standards or interpretation that is not yet effective for the current accounting period. (See note 52)

(c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see Note 2(g)(ii));
- derivative financial instruments (see Note 2(g)); and
- certain of the Group's owned properties (see Note 2(j))

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 51.

(d) Investment in subsidiaries and minority interest

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Bank.

Where losses applicable to minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Bank's balance sheet, its investment in a subsidiary is stated at cost less impairment losses, if any. (see note 2(m))

(e) Associated companies

An associate is an entity in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The investment in the associated company is not equity accounted for in the consolidated financial statements as it is considered by the Directors to be immaterial to the Group. It is stated at cost less impairment losses in the Group's and the Bank's balance sheet. The results of the associated company are included in the Group's and the Bank's income statement to the extent of dividends received and receivable.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associated company over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(m)). On disposal of a cash generating unit or an associated company during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss and available-for-sale is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(ii) Categorisation

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.

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 are designated as at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and liabilities under this category are carried at fair value and are not allowed to be reclassified into or out of this category while held or issued. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (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 other financial institutions.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 2(m)). 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 (see note 2(m)).

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 impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in equity which are released from the revaluation reserve.

Other financial liabilities

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

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using a valuation technique that provide a reliable estimate of the price which could be obtained in an actual market transaction.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

The Group uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting

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

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid 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 hybrid 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 embedded derivative is classified as a derivative financial instrument in the financial statements.

(h) Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreement) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest incurred on repurchase agreements is recognised as interest expense, over the life of each agreement using the effective interest method.

(i) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instruments and the hedged items. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. Under HKAS 39 hedge accounting is classified into three categories: (a) fair value hedges; (b) cash flow hedges and (c) net investment hedges. The Group only applies hedge accounting to the fair value hedges of its subordinated notes programme (note 34) and certain fixed rate bond investments.

The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of the recognised assets and liabilities that will give rise to a gain or loss being recognised in the income statement.

The hedging instruments are measured at fair value, with fair value changes recognised in the income statement. The carrying amounts of the hedged items are adjusted by the amount of the changes in fair value of the hedging instruments attributable to the risk being hedged. These adjustments are recognised in the income statement to offset the effect of gains or losses in the hedging instruments.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method as effectiveness testing methodology. For prospective effectiveness, the hedging instruments must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value must offset each other in the range of 80 per cent to 125 percent for the hedge to be deemed effective.

(j) Other property and equipment

The Group's leasehold land and buildings are held under operating leases and, in the absence of reliable information to allow separation of the land and buildings components under the leases, the land and buildings are accounted for as properties under HKAS 16, 'Property, Plant and Equipment' issued by the HKICPA.

In addition, certain of the Group's leasehold land and premises have been included at Directors' valuation made having regard to independent professional valuations carried out in November 1989. The surplus arising on revaluation was credited to the revaluation reserve. Additions to revalued premises made subsequent to the revaluation are included at cost. Premises which have not been the subject of revaluation are included at cost. The revaluation reserve arising from the November 1989 revaluation was transferred to the capital redemption reserve when the Bank redeemed its "A" and "B" preference shares in 1991 and 1992.

In preparing these financial statements, advantage has been taken of the transitional provisions in paragraph 80A of HKAS 16 with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors' present intention to revalue the premises in the future.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the assets when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property and equipment using the straight line method over the estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no less than 2% per annum after the date of completion.
- Furniture and equipment are generally depreciated over between three to ten years.

Where parts of an item of property and equipment have different useful lives, each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Leases and hire purchase contracts

(i) Classification of leased assets

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy for impairment.

(iii) Operating leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be delivered from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregated net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(l) Repossessed assets

In the recovery of impaired loans and advances, the Group may take repossession of the assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in “Accrued interest and other accounts” and the relevant loans and advances are derecognised. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and subsequent remeasurement are recognised in the income statement.

(m) 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. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- Disappearance of an active market for financial assets because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivable, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(i) Loans and receivables

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

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

The Group first assesses whether 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 asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of 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.

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. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

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

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

(ii) Available-for-sale financial assets

Where there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

Impairment losses recognised in the income statement in respect of other available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iii) *Goodwill and other assets*

Goodwill is tested annually by comparing the carrying amount of the relevant cash-generating unit with its recoverable amount.

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries and associates

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

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

Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(iv) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see notes 2(m)(i) to (iii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

(n) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

Short term employee benefits include salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group's obligations in respect of defined benefit retirement scheme are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the balance sheet date, that portion is recognised in the income statement. Otherwise, the gain or loss is not recognised.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income from all interest-bearing financial instruments is recognised in the income statement on an accrual basis using the effective interest rates method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar option) 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, together with transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income arises on financial services provided by the Group including cash management services, brokerage services, investment banking services, 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 risk is incurred or is accounted for as interest income.

Origination or commitment fees received 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. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(iv) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollar using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains and losses on investments and net gain/(loss) on derivative financial instruments, respectively. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in reserves.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are

eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses to the extent that they have not been allocated to specific business segments.

3. BASIS OF CONSOLIDATION

These consolidated financial statements cover the consolidated positions of Fubon Bank Limited and all its subsidiaries, unless otherwise stated. For regulatory reporting, the basis of consolidation is set out in notes (A) and (B) in the Unaudited Supplementary Financial Information.

4. INTEREST INCOME AND EXPENSE

(a) Interest income

	2007 <i>HK\$'000</i>
Listed investments	175,531
Other	<u>2,573,271</u>
Interest income on financial assets that are not at fair value through profit or loss	2,748,802
Interest income on trading assets	
– listed investments	394
– unlisted investments	36,664
Interest income on financial assets designated at fair value through profit or loss	<u>40,195</u>
	<u><u>2,826,055</u></u>

(b) Interest expense

	2007 <i>HK\$'000</i>
Deposits from customers, banks and other financial institutions and certificates of deposit issued	1,800,309
Other borrowings	<u>129,973</u>
Interest expense on financial liabilities that are not at fair value through profit or loss	1,930,282
Interest expense on trading liabilities	35,909
Interest expense on financial liabilities designated at fair value through profit or loss	<u>6,191</u>
	<u><u>1,972,382</u></u>

5. FEE AND COMMISSION INCOME AND EXPENSE

(a) Fee and commission income

	2007
	<i>HK\$'000</i>
Credit related fees and commissions	14,201
Trade finance	23,472
Credit card	42,153
Securities brokerage and investment services	107,172
Insurance	33,367
Unit trust commission	122,059
Other fees	<u>20,353</u>
	<u><u>362,777</u></u>

of which:

Fee and commission income arising from:

– Financial assets or financial liabilities which are not measured at fair value through profit or loss	72,921
– Trust or other fiduciary activities	1,496

(b) Fee and commission expense

	2007
	<i>HK\$'000</i>
Handling fees and commission	57,298
Other fees paid	<u>19,711</u>
	<u><u>77,009</u></u>

of which:

Fee and commission expense arising from:

– Financial assets or financial liabilities which are not measured at fair value through profit or loss	32,632
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6. OTHER OPERATING INCOME

	2007
	<i>HK\$'000</i>
Gains less losses from dealing	
– Foreign exchange	26,928
– Trading securities	2,900
– Other dealing activities*	249,429
– Short selling activities	<u>(1,952)</u>
	<u>277,305</u>
Net hedging income from fair value hedges	
Net loss on hedged items attributable to the hedged risk	(41,698)
Net gain on hedging instruments	<u>41,698</u>
	<u>–</u>
Revaluation gain/(loss) on other financial instruments designated at fair value through profit or loss	42,751
Gains less losses from other financial liabilities	(13,221)
Revaluation (loss)/gain on derivative financial instruments	(27,360)
Dividend income from listed available-for-sale securities	6,137
Dividend income from unlisted available-for-sale securities	19,977
Rental income	281
Others	<u>66,567</u>
	<u><u>372,437</u></u>

* Other dealing activities refers to customer-driven dealing in derivative financial instruments including equity linked notes, options and structured deposit products.

7. OPERATING EXPENSES

	2007 HK\$'000
Staff costs	
Contributions to defined contribution scheme	2,951
Defined benefit scheme expenses (Note 40(b))	<u>22,163</u>
Retirement scheme costs	25,114
Salaries and other staff costs	<u>451,322</u>
	476,436
Premises and other fixed assets	
Rental of premises	45,556
Depreciation (Note 26)	59,114
Others	20,032
Auditors' remuneration	2,254
Other operating expenses	
Business promotion	55,056
Legal and professional fees	15,096
Communication	17,763
Electronic data processing and computer systems	75,203
Others	<u>68,263</u>
	<u><u>834,773</u></u>

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

The Group	Directors' Fee HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2007 Total HK\$'000
<i>Executive directors</i>					
Jin-Yi Lee	455	5,302	3,200	265	9,222
Michael Chang Ming-Yuen	455	3,134	2,000	157	5,746
James Yip	380	2,276	2,200	210	5,066
<i>Non-executive directors</i>					
Ming-Hsing (Richard) Tsai	596	–	–	–	596
Ming-Chung (Daniel) Tsai	531	–	–	–	531
Victor Kung	530	–	–	–	530
Jesse Ding	333	–	–	–	333
<i>Independent Non-Executive directors</i>					
Robert James Kenrick	666	–	–	–	666
Moses Tsang	426	–	–	–	426
Hung Shih	596	–	–	–	596
	<u>4,968</u>	<u>10,712</u>	<u>7,400</u>	<u>632</u>	<u>23,712</u>

During the year, Jin-Yi Lee, Michael Chang Ming-Yuen, James Yip and Victor Kung were granted unlisted physically settled options under share option scheme of the Bank's ultimate holding company, Fubon Financial Holding Co., Ltd. for the service rendered to the Group. The share based payment expense for the current year is not material.

9. INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three are Directors whose emoluments are disclosed in Note 8 above. The aggregate of the emoluments in respect of the other two individuals are as follows:

	The Group 2007
	<i>HK\$'000</i>
Basic salaries and other allowances	3,838
Contributions to pension scheme	353
Bonuses	<u>2,900</u>
	<u><u>7,091</u></u>

The emoluments of the two individuals with the highest emoluments are within the following bands:

	The Group 2007
	<i>HK\$'000</i>
HK\$2,500,001 – HK\$3,000,000	–
HK\$3,000,001 – HK\$3,500,000	1
HK\$3,500,001 – HK\$4,000,000	1

10. IMPAIRMENT LOSSES ON ADVANCES TO CUSTOMERS

	2007
	<i>HK\$'000</i>
Impairment losses (charged)/released on advances to customers (Note 22)	
– Additions	(79,793)
– Releases	42,180
Provision for loss from obligation under standby credit facility	<u>–</u>
	<u><u>(37,613)</u></u>

11. NET GAINS ON DISPOSALS OF AVAILABLE-FOR-SALE SECURITIES

	2007
	<i>HK\$'000</i>
Realisation of revaluation surplus/(deficit) previously recognised in revaluation reserve (Note 37)	36,104
Net gains arising in current year	<u>96,372</u>
	<u><u>132,476</u></u>

12. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% of the estimated assessable profits for the year.

	2007
	<i>HK\$'000</i>
Current tax – Hong Kong Profits Tax	
Tax for the year	54,486
(Over)/under-provision in respect of prior years	<u>(2,357)</u>
	<u>52,129</u>
Current tax – Overseas Tax	
Under-provision in respect of prior years	<u>–</u>
	<u>–</u>
Deferred tax	
Origination and reversal of temporary differences (Note 33(b))	<u>4,050</u>
	<u><u>56,179</u></u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2007
	<i>HK\$'000</i>
Profit before taxation	<u><u>517,067</u></u>
Notional tax on profit before taxation, calculated at the applicable rates in Hong Kong	90,486
Tax effect of non-taxable revenue	(36,119)
Tax effect of non-deductible expenses	4,169
(Over)/under-provision in respect of prior years	<u>(2,357)</u>
Actual tax expense	<u><u>56,179</u></u>

13. DIVIDENDS

(a) Dividends declared and proposed attributable to the financial year

	2007
	<i>HK\$'000</i>
Interim dividend declared and paid of 6 cents per share	70,330
Final dividend of 13 cents per share proposed after the balance sheet date	<u>152,381</u>
	<u><u>222,711</u></u>

The final dividend proposed after the balance sheet has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2007
	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year of 12 cents per share	<u>140,659</u>

14. EARNINGS PER SHARE

The earnings per share is calculated on profit attributable to shareholders of HK\$460,998,000 and 1,172,160,000 ordinary shares in issue during the year. There is no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

15. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders of the Bank includes a profit of HK\$383,207,000 which has been dealt with in the financial statements of the Bank.

16. 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.

(a) Business segments

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

Retail Banking comprises credit card merchant acquiring, provision of credit card advances, insurance and unit trust wealth management services, 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 include 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.

APPENDIX 1
FINANCIAL INFORMATION

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.

2007	The Group						Consolidated HK\$'000
	Retail Banking HK\$'000	Wholesale Banking HK\$'000	Financial Markets HK\$'000	Real Estate HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	
Interest income from external customers	629,446	1,059,327	1,127,351	–	9,931	–	2,826,055
Interest expense to external customers	(1,025,126)	(366,945)	(574,621)	–	(5,690)	–	(1,972,382)
Inter-segment income	692,567	–	–	–	–	(692,567)	–
Inter-segment expense	–	(308,756)	(377,976)	(2,157)	(3,678)	692,567	–
Net interest income	296,887	383,626	174,754	(2,157)	563	–	853,673
Other operating income from external customers	395,595	111,032	130,305	(468)	8,349	–	644,813
Inter-segment revenue	–	–	–	–	43,991	(43,991)	–
Fee and commission expense	(46,374)	(4,402)	(23,524)	–	(2,709)	–	(77,009)
Other operating income	349,221	106,630	106,781	(468)	49,631	–	567,804
Operating income	646,108	490,256	281,535	(2,625)	50,194	–	1,421,477
Operating expenses	(367,173)	(136,174)	(133,278)	(1,501)	(196,647)	–	(834,773)
Inter-segment expenses	(33,333)	(5,825)	(4,705)	(128)	–	43,991	–
Operating profit/(loss) before gains and provisions	245,602	348,257	143,552	(4,254)	(146,453)	–	586,704
Write back/(charge) for collective impairment allowance	3,233	(3,979)	19	–	5	–	(722)
Write back/(charge) for individual impairment allowance	(22,818)	(35,113)	–	–	–	–	(57,931)
Recovery of loans previously written off	12,443	6,871	–	1,726	–	–	21,040
Impairment loss on available-for-sale securities	–	–	(162,433)	–	–	–	(162,433)
Impairment loss on investments in associated company	–	–	–	–	(8,255)	–	(8,255)
Impairment loss on acquired assets	–	–	–	3,301	–	–	3,301
Gains less losses from disposal of available-for-sale assets	–	–	103,108	–	29,368	–	132,476
Gains less losses from disposal of fixed assets	–	–	–	–	2,887	–	2,887
Profit/(loss) before taxation	238,460	316,036	84,246	773	(122,448)	–	517,067

2007	The Group					Inter-segment elimination	Consolidated
	Retail Banking	Wholesale Banking	Financial Markets	Real Estate	Unallocated		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income tax	-	-	-	-	(56,179)		(56,179)
Minority interest	-	-	-	-	110		110
Profit/(loss) attributable to shareholders	<u>238,460</u>	<u>316,036</u>	<u>84,246</u>	<u>773</u>	<u>(178,517)</u>		<u>460,998</u>
Operating expenses – depreciation	(15,300)	(1,428)	(6,534)	-	(35,852)		(59,114)
Segment assets	12,071,255	19,802,548	27,454,458	57,378	1,237,240		<u>60,622,879</u>
Segment liabilities	29,505,347	12,161,146	14,450,889	-	384,033		<u>56,501,415</u>
Capital expenditure incurred during the year	19,302	31,665	43,757	-	-		<u>94,724</u>

(b) 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 years ended 31 December 2007, 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. No single country or geographic segment other than Hong Kong contributes 10% or more of the Group's assets, liabilities, profit or loss before taxation, total operating income or contingent liabilities and commitments.

17. CASH AND SHORT-TERM FUNDS

	The Group 2007 HK\$'000
Cash in hand	94,286
Balances with the Hong Kong Monetary Authority	208,275
Balances with banks	344,359
Money at call and short notice*	<u>6,377,681</u>
	<u>7,024,601</u>

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

18. PLACEMENTS WITH BANKS MATURING BETWEEN ONE AND TWELVE MONTHS

	The Group and the Bank 2007 HK\$'000
Maturing within	
– 3 months or less but over 1 month	584,992
– 1 year or less but over 3 months	155,998
	<u>740,990</u>

19. TRADING SECURITIES

	The Group 2007 HK\$'000
<i>Trading securities at fair value</i>	
Treasury bills (including Exchange Fund Bills), unlisted	14,981
Debt securities	
– Listed in Hong Kong	5,266
– Unlisted	11,948
Equity securities	
– Listed in Hong Kong	349
Total	<u>32,544</u>
<i>The trading securities are issued by:</i>	
– Central government and central banks	17,378
– Public sector entities	14,817
– Banks	66
– Corporate entities	283
	<u>32,544</u>

20. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group 2007 <i>HK\$'000</i>
<i>Debt securities at fair value</i>	
– Listed in Hong Kong	486,932
– Listed outside Hong Kong	<u>392,023</u>
Total	<u><u>878,955</u></u>
<i>The other financial instruments designated as at fair value through profit or loss are issued by:</i>	
– Public sector entities	481,735
– Other financial institutions	315,350
– Corporate entities	<u>81,870</u>
	<u><u>878,955</u></u>

21. DERIVATIVE FINANCIAL INSTRUMENTS

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its assets and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

(a) Notional amounts of derivatives

These derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date and do not represent amounts at risk. The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	The Group and the Bank 2007			Total HK\$'000
	Qualifying for hedge accounting HK\$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK\$'000	Others, including held for trading HK\$'000	
Exchange rate derivatives				
– Forwards	–	–	7,641,398	7,641,398
– Swaps	–	–	56,693,546	56,693,546
– Options purchased	–	–	16,242,010	16,242,010
– Options written	–	–	16,241,669	16,241,669
	<u>–</u>	<u>–</u>	<u>96,818,623</u>	<u>96,818,623</u>
Interest rate derivatives				
– Swaps	1,793,977	857,989	17,323,252	19,975,218
– Options purchased	–	–	302,200	302,200
– Options written	–	–	200,000	200,000
	<u>1,793,977</u>	<u>857,989</u>	<u>17,825,452</u>	<u>20,477,418</u>
Equity derivatives				
– Swaps	–	–	861,691	861,691
– Options purchased	–	–	125,099	125,099
– Options written	–	–	125,099	125,099
– Other equity derivatives	–	–	3,179,754	3,179,754
	<u>–</u>	<u>–</u>	<u>4,291,643</u>	<u>4,291,643</u>
Other derivatives	<u>–</u>	<u>–</u>	<u>84,492</u>	<u>84,492</u>
(i) Total	<u><u>1,793,977</u></u>	<u><u>857,989</u></u>	<u><u>119,020,210</u></u>	<u><u>121,672,176</u></u>

The above amounts are shown on a gross basis as none of these contracts are subject to any bilateral netting arrangements, and include all embedded derivatives.

Derivatives used for hedging represent hedging instruments designated as hedges under HKAS 39.

(b) Fair values and credit risk weighted amounts of derivatives

Credit risk-weighted amount as at 31 December 2007 refers to the amount as computed in accordance with the Banking (Capital) Rules of the Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150%. Embedded derivatives are not included for calculation of credit risk-weighted amount.

The amounts below are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

	The Group 2007		
	Fair value Assets HK\$'000	Fair value Liabilities HK\$'000	Credit risk weighted amount HK\$'000
Exchange rate derivatives			
– Forwards	212,784	53,636	68,956
– Swaps	238,281	175,839	170,514
– Options purchased	81,767	–	221,205
– Options written	–	81,768	–
	<u>532,832</u>	<u>311,243</u>	<u>460,675</u>
Interest rate derivatives			
– Swaps	244,789	219,135	165,354
– Options purchased	530	–	30
– Options written	–	149	–
	<u>245,319</u>	<u>219,284</u>	<u>165,384</u>
Equity derivatives			
– Swaps	38,792	38,792	18,510
– Options purchased	2,306	–	2,079
– Options written	–	2,307	–
– Other equity derivatives	134,328	134,328	251,353
	<u>175,426</u>	<u>175,427</u>	<u>271,942</u>
Other derivatives	<u>2,327</u>	<u>98,786</u>	<u>5,535</u>
(ii) Total	<u>955,904</u>	<u>804,740</u>	<u>903,536</u>

(c) Fair values of derivatives designated as hedging instruments*Fair value hedges*

Fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of the Bank's subordinated notes issued and certain fixed-rate bond investments due to movements in market interest rates.

The following is a summary of the fair values of derivatives held for hedging purposes by product type entered into by the Group and the Bank:

	The Group and the Bank 2007	
	Fair value Assets	Fair value Liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest rate derivatives	62,672	8,343
(d) Remaining life of derivatives instruments		

The following table provides an analysis of the notional amounts of derivatives of the Group and the Bank by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date.

2007	The Group and the Bank Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 Years
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange rate derivatives	96,818,623	92,351,568	4,467,055	–
Interest rate derivatives	20,477,418	7,591,850	11,454,090	1,431,478
Equity derivatives	4,291,643	3,614,351	677,292	–
Other derivatives	84,492	84,492	–	–

22. ADVANCES TO CUSTOMERS LESS IMPAIRMENT

(a) Advances to customers less impairment:

	The Group 2007 <i>HK\$'000</i>
Gross advances to customers	31,633,012
Less: Impairment allowances	
– Collective impairment allowance	(82,126)
– Individual impairment allowance	(72,082)
	<u>31,478,804</u>

(b) Movement in impairment allowances on advances to customers:

	The Group	
	Individual Impairment allowance	Collective Impairment allowance
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2007	81,787	81,404
Impairment losses charged to income statement (note 10)	71,604	8,189
Impairment allowance released back to income statement (note 10)	(34,713)	(7,467)
Amounts written off	(67,636)	–
Recoveries of advances written off in previous years	21,040	–
At 31 December 2007	<u>72,082</u>	<u>82,126</u>

(c) Advances to customers analysed by industry sector

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

As at 31 December

	The Group
	2007
	<i>HK\$'000</i>
Gross advances for use in Hong Kong	
Industrial, commercial and financial	
– Property development	59,453
– Property investment	5,874,005
– Financial concerns	678,349
– Stockbrokers	144,323
– Wholesale and retail trade	221,630
– Manufacturing	1,634,110
– Transport and transport equipment	699,036
– Information technology	14,395
– Others	2,649,604
Individuals	
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	7,300
– Loans for the purchase of other residential properties	7,272,919
– Credit card advances	533,187
– Others	894,852
	<u>20,683,163</u>
Trade finance	2,169,800
Gross advances for use outside Hong Kong	<u>8,780,049</u>
Gross advances to customers	<u><u>31,633,012</u></u>

(d) Impaired advances to customers

	The Group	
	2007	
	<i>HK\$'000</i>	<i>%</i>
Gross impaired advances	172,403	0.55
Individual impairment allowances made against impaired loans	<u>(72,082)</u>	
	<u><u>100,321</u></u>	
Amount of collateral held in respect of impaired loans ⁱⁱ	<u><u>108,530</u></u>	

	The Bank 2007	
	<i>HK\$'000</i>	<i>%</i>
Gross impaired advances	105,113	0.39
Individual impairment allowances made against impaired loans	<u>(43,001)</u>	
	<u>62,112</u>	
Amount of collateral held in respect of impaired loans ⁱⁱ	<u>74,519</u>	

- i. As a percentage of gross advances to customers.
- ii. The collateral mainly comprised of mortgage interest over residential properties, debt securities and cash deposits with the Group. Including expected recovery of HK\$16.4 million from companies in liquidation.

Impaired advances are individually assessed loans with objective evidence of impairment on an individual basis.

(e) Net investment in finance leases and hire purchase contracts

Advances to customers includes the net investment in motor vehicles and equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 3 to 5 years, with an option for acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

	The Group 2007 <i>HK\$'000</i>
Total minimum lease payments due:	
– within 1 year	3,095,811
– after 1 year but within 5 years	2,406,166
– after 5 years	<u>305,709</u>
	5,807,686
Interest income relating to future periods	<u>(588,179)</u>
Present value of the minimum lease payment receivable	5,219,507
Collective impairment allowance	(30,273)
Individual impairment allowance	<u>(48,236)</u>
Net investment in finance leases and hire purchase contracts	<u><u>5,140,998</u></u>

The maturity profile of the present value of the minimum lease payments before impairment allowances is as follows:

	The Group 2007 <i>HK\$'000</i>
Within 1 year	2,765,976
After 1 year but within 5 years	2,226,139
After 5 years	<u>227,392</u>
	<u><u>5,219,507</u></u>

23. AVAILABLE-FOR-SALE SECURITIES

	The Group 2007 <i>HK\$'000</i>
Listed debt securities at fair value	
– Listed in Hong Kong	2,868,782
– Listed outside Hong Kong	<u>3,626,868</u>
	<u>6,495,650</u>
Unlisted debt securities at fair value	
– Treasury bills (including Exchange Fund Bills)	4,863,805
– Certificates of deposit	268,901
– Other debt securities	<u>5,224,503</u>
	<u>10,357,209</u>
Total debt securities	<u>16,852,859</u>
Equity shares at fair value	
– Listed in Hong Kong	138,442
– Unlisted	<u>239,140</u>
	<u>377,582</u>
Total available-for-sale securities	<u><u>17,230,441</u></u>
<i>The available-for-sale securities are issued by:</i>	
Central governments and central banks	7,633,735
Public sector entities	84,991
Banks	7,866,010
Other financial institutions	729,669
Corporate entities	<u>916,036</u>
	<u><u>17,230,441</u></u>

Included in “Other debt securities” as at 31 December 2007 were investments in structured investment vehicles (“SIVs”) with a fair value of HK\$110.6 million which were individually determined to be impaired as a result of difficulties in raising senior funding. Impairment losses on these investments of HK\$162.4 million have been recognised in the income statement in accordance with the accounting policy set out in note 2(m). As detailed in Note 48 one of the investments has been restructured subsequent to the balance sheet date.

In addition, the Bank had investments in collateralised debt obligations (“CDOs”) with a nominal value of USD30 million which is included in “Other debt securities” as at 31 December 2007. The embedded derivatives are bifurcated and marked to market with a revaluation loss of HK\$90.4 million charged to the income statement.

24. INVESTMENTS IN ASSOCIATED COMPANY

	The Group 2007 HK\$'000
Unlisted shares, at cost	5,761
Advances	10,590
Less: Impairment allowance on unlisted shares	(5,761)
Impairment allowance for advances to an associated company	(10,590)
	-

The Bank owns 40% of the issued shares capital of IBA Finance Corporation, which is incorporated in the Philippines. The principal activity of the associated company is the provision of financing and leasing services in the Philippines. The Group has not equity accounted for the investments in the associated company in view of the immaterial amount involved.

25. INVESTMENTS IN SUBSIDIARIES

	The Bank 2007 HK\$'000
Unlisted shares, at cost	144,863

All principal subsidiaries, which principally affected the results, assets or liabilities of the Group, are directly owned by the Bank. Details of principal subsidiaries as of 31 December 2007 are as follows:

	Issued and fully paid-up ordinary share capital	% of ownership interest held	Net profit for the year	Principal activities
<i>Incorporated and operating in Hong Kong</i>				
Fubon Credit (Hong Kong) Limited	HK\$65,000,000	100%	<i>HK\$109,693,000</i>	Deposit taking and finance
Fubon (Hong Kong) Trustee Limited	HK\$5,000,000	100%	<i>HK\$187,000</i>	Trustee services
FB Securities (Hong Kong) Limited	HK\$8,000,000	100%	<i>HK\$81,008,000</i>	Securities broking
FB Investment Management Limited	HK\$8,000,000	100%	<i>HK\$1,297,000</i>	Fund management
Fubon Nominees (Hong Kong) Limited	HK\$200	100%	<i>HK\$11,000</i>	Nominees service
<i>Incorporated and operating in Vanuatu</i>				
Fubon Bank Vanuatu Limited	US\$4,000,000	100%	<i>US\$246,000</i>	Finance

26. FIXED ASSETS

The Group	Premises <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January 2007	1,132,743	450,964	1,583,707
Additions	–	94,724	94,724
Disposals	<u>(12,573)</u>	<u>(6,050)</u>	<u>(18,623)</u>
At 31 December 2007	<u>1,120,170</u>	<u>539,638</u>	<u>1,659,808</u>
<i>Representing:</i>			
Cost	1,047,557	539,638	1,587,195
Valuation – 1991	<u>72,613</u>	<u>–</u>	<u>72,613</u>
	<u>1,120,170</u>	<u>539,638</u>	<u>1,659,808</u>
Accumulated depreciation			
At 1 January 2007	127,559	336,892	464,451
Charge for the year	12,837	46,277	59,114
Released on disposal	<u>(293)</u>	<u>(5,784)</u>	<u>(6,077)</u>
At 31 December 2007	<u>140,103</u>	<u>377,385</u>	<u>517,488</u>
Net book value			
At 31 December 2007	<u>980,067</u>	<u>162,253</u>	<u>1,142,320</u>

The net book value of those premises which have been stated in the balance sheet at valuation would have been as follows had they been stated at cost less accumulated depreciation:

	The Group 2007 <i>HK\$'000</i>
Net book value at 31 December	<u>15,188</u>

The analysis of net book value of premises is as follows:

	The Group 2007 <i>HK\$'000</i>
Premises held in Hong Kong	
– Long term leases (over 50 years)	646,962
– Medium term leases (10-50 years)	<u>333,105</u>
	<u>980,067</u>

27. DEPOSITS AND BALANCES OF BANKS

	The Group 2007 <i>HK\$'000</i>
Deposits and balances of banks	1,130,598
Deposits and balances with the Hong Kong Monetary Authority	<u>327,247</u>
	<u><u>1,457,845</u></u>

28. DEPOSITS FROM CUSTOMERS

	The Group 2007 <i>HK\$'000</i>
Demand deposits and current accounts	6,438,831
Savings deposits	957,426
Call deposits	2,881,912
Time deposits	<u>31,195,822</u>
	<u><u>41,473,991</u></u>

29. TRADING LIABILITIES

	The Group 2007 <i>HK\$'000</i>
Short positions in Exchange Fund Bills/Notes	<u>11,673</u>

30. CERTIFICATES OF DEPOSIT ISSUED

	The Group and the Bank 2007 <i>HK\$'000</i>
3 months or less but not repayable on demand	549,750
1 year or less but over 3 months	1,611,900
5 years or less but over 1 year	<u>—</u>
	<u><u>2,161,650</u></u>

All certificates of deposit issued are measured at amortised cost.

31. DEBT SECURITIES ISSUED

	The Group and the Bank 2007 HK\$'000
Financial liabilities stated at amortised cost	
Floating rate notes	1,169,985
Variable coupon rate notes	<u>423,192</u>
	<u>1,593,177</u>
Financial liabilities designated as at fair value through profit or loss	
Zero coupon bond issued	<u>220,446</u>
	<u><u>1,813,623</u></u>

The debt securities issued represent the notes issued by the Bank under the Bank's Euro Medium Term Note Programme.

The floating rate notes of face values and carrying amounts of USD 150 million (equivalent to HK\$1,170 million) were issued by the Bank on 4 April 2006 bearing interest at the rate of three-month USD LIBOR plus 0.22% per annum, payable quarterly. The maturity date for the notes is 6 April 2009.

The variable coupon rate notes issued by the Bank are denominated in HKD and USD, and mature at various dates through 2017.

The zero coupon bond with a face value of HK\$520 million and issue price of 48.076615% was issued by the Bank on 12 April 2007. The maturity date for the bond is 12 April 2022 but it can be called by 12 April 2017 on the 10th anniversary of issuance. At the same time, the Bank entered into an interest rate swap to hedge the interest rate risk associated with the bond. Under the terms of the interest rate swap, the Bank makes quarterly floating rate interest payments and receives fixed rate interest income.

The carrying amount of financial liabilities designated as at fair value through profit or loss at 31 December 2007 was HK\$299.6 million lower than the contractual amount at maturity for the Group and the Bank.

The zero coupon bond issued is measured at fair value using valuation techniques based on observable market conditions existing at balance sheet date; however, data in respect of the Bank's credit risk volatilities and correlations require management's estimation. The total amount of the change in the fair value of the zero coupon bond recognised in the income statement during the year is HK\$35.7 million, of which HK\$51.5 million is attributable to widening of credit spread in line with the overall market conditions.

To the extent the Bank's credit risk volatilities that are not supported by observable market prices on rates, are altered by 10% in either direction, the fair value of the zero coupon bond would be either higher by HK\$6.8 million or lower by HK\$6.7 million.

32. OTHER ACCOUNTS AND LIABILITIES

	The Group 2007 <i>HK\$'000</i>
Other financial liabilities*	6,080,278
Accounts payable and other liabilities	<u>1,074,873</u>
	<u><u>7,155,151</u></u>

* Other financial liabilities represent funds obtained from financial institutions in respect of government bills and notes sold but not yet purchased.

33. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group 2007 <i>HK\$'000</i>
Provision for Hong Kong Profits Tax for the year	54,486
Provisional Profits Tax paid	<u>(49,901)</u>
	4,585
Balance of Profits Tax provision relating to prior years	<u>3,237</u>
	<u><u>7,822</u></u>
<i>Representing:</i>	
Hong Kong Profits Tax recoverable*	(5,415)
Provision for Hong Kong Profit Tax*	<u>13,237</u>
	<u><u>7,822</u></u>

* The amounts of taxation recoverable and payable are expected to be settled within 1 year and are included in the "Accrued interest and other accounts" and "Other accounts and liabilities" respectively.

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Depreciation allowances in excess of related depreciation <i>HK\$'000</i>	Defined benefit scheme assets <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>	Cash rebate adjustment <i>HK\$'000</i>	Revaluation of available-for-sale securities <i>HK\$'000</i>	Revaluation of premises <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	(6,035)	(2,899)	14,247	(672)	(4,336)	(6,911)	211	(6,395)
(Charged)/credited to consolidated income statement (note 12(a))	(4,851)	-	126	672	-	121	(118)	(4,050)
Charged to reserves (Note 37)	-	-	-	-	33,078	-	-	33,078
At 31 December 2007	(10,886)	(2,899)	14,373	-	28,742	(6,790)	93	22,633

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	The Group 2007 <i>HK\$'000</i>
Net deferred tax asset recognised on the balance sheet	22,723
Net deferred tax liability recognised on the balance sheet	<u>(90)</u>
	<u>22,633</u>

(c) Deferred tax assets and liabilities unrecognised

The Group has no material unrecognised deferred tax asset or liability as at 31 December 2007.

34. SUBORDINATED NOTES ISSUED

Subordinated notes of face value of USD 200 million (equivalent to HK\$1,560 million) and carrying amount of HK\$1,623 million qualifying as supplementary capital were issued by the Bank on 25 April 2006. The notes bear interest at 6.125% per annum for the period from the issuance date to 26 April 2011, payable semi-annually. The notes carry a one-time call option exercisable by the Bank on 26 April 2011. If the call option is not exercised, the interest rate for the subordinated notes will be reset at the United States treasury rate plus 1.93875% for the period from 27 April 2011 to the final maturity date on 26 April 2016, payable semi-annually.

The carrying amount of the subordinated notes includes an adjustment of HK\$62.7 million due to application of fair value hedge accounting.

35. SHARE CAPITAL

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at a general meeting of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

	2007 <i>HK\$'000</i>
Authorised:	
1,406,592,000 ordinary shares of HK\$1 each	<u>1,406,592</u>
Ordinary shares, issued and fully paid At 1 January and 31 December	<u>1,172,160</u>

36. SHARE PREMIUM

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

37. RESERVES

The Group	Capital redemption reserve <i>HK\$'000</i>	Regulatory reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2007	372,000	129,572	52,373	1,503,147	2,057,092
Profit after tax for the year	–	–	–	460,998	460,998
Realisation of revaluation surplus of available-for-sale securities (Note 11)	–	–	(36,104)	–	(36,104)
Net change in fair value of available-for-sale securities	–	–	(270,692)	–	(270,692)
Revaluation deficit transfer to income statement on impairment of available-for-sale securities	–	–	162,433	–	162,433
Deferred taxation (Note 33(b))	–	–	33,078	–	33,078
Dividend paid in respect of the previous financial year (Note 13(b))	–	–	–	(140,659)	(140,659)
Interim dividend paid (Note 13(a))	–	–	–	(70,330)	(70,330)
Transfer to/from regulatory reserve	–	83,875	–	(83,875)	–
At 31 December 2007	<u>372,000</u>	<u>213,447</u>	<u>(58,912)</u>	<u>1,669,281</u>	<u>2,195,816</u>

(a) Capital redemption reserve

The capital redemption reserve arose from the redemption of the Bank's "A" and "B" preference shares in 1991 and 1992 out of its retained earnings. The capital redemption reserve is undistributable under the Hong Kong Companies Ordinance section 79 C(2) but may be applied by the Bank in paying up its unissued shares to be allotted to its members as fully paid bonus shares.

(b) Regulatory reserve

	The Group 2007 HK\$'000
At 1 January	129,572
Transfer from retained earnings	<u>83,875</u>
At 31 December	<u><u>213,447</u></u>

The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

(c) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities until the securities are derecognised and is dealt with in accordance with the accounting policies in Note 2(g).

(d) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Bank was HK\$1,107,395,000.

Subsequent to the balance sheet date, the Directors have proposed a final dividend of 13 Hong Kong cents per share amounting to HK\$152,381,000. This dividend has not been recognised as a liability at the balance sheet date.

38. MINORITY INTERESTS

	2007 HK\$'000
At 1 January	–
Loss for the year	(110)
Acquisition of subsidiary	<u>3,820</u>
At 31 December	<u><u>3,710</u></u>

39. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents in the consolidated cash flow statement

	The Group 2007 HK\$'000
Cash and balances with banks	646,920
Money at call and short notice	6,377,681
Treasury bills with original maturity within three months	214,148
Placements with banks with original maturity within three months	<u>–</u>
	<u><u>7,238,749</u></u>

(b) Reconciliation to the consolidated balance sheet

	The Group 2007 HK\$'000
Cash and short term funds and treasury bills	11,944,215
Placements with banks maturing between one and twelve months	<u>740,990</u>
Amount shown in the consolidated balance sheet	12,685,205
Less: Amount with an original maturity of over three months	<u>(5,446,456)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u><u>7,238,749</u></u>

40. EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plans

The Group operates a retirement scheme, namely the Fubon Bank (Hong Kong) Limited Retirement Scheme (“the Scheme”), which incorporates a defined benefits plan for all its full time employees. The Scheme is administered by trustees who are independent. The assets of the Scheme are held separately from those of the Group. The Group has secured Mandatory Provident Fund (“MPF”) exemption status for the Scheme. The Scheme is funded by contributions from the Group in accordance with the trust deed governing the Scheme and based on an independent actuary’s recommendations. The latest independent actuarial valuation of the Scheme was at 31 December 2007 and was prepared by Kevin Davey, Fellow of the Institute of Actuaries of England, of Mercer (Hong Kong) Limited using the projected unit credit method. The actuarial valuation indicates that the Group’s obligations under the Scheme are 81.09% covered by the plan assets held by the trustee.

	The Group 2007 HK\$'000
Present value of wholly or partly funded obligations	(244,040)
Fair value of Scheme’s assets	197,898
Unrecognised actuarial losses	<u>59,300</u>
Net asset recognised in the balance sheet	<u><u>13,158</u></u>

The Scheme’s assets include ordinary shares issued by the Bank with a fair value of HK\$9,074,000.

(b) Movements in net asset recognised in the balance sheet are as follows:

	The Group and the Bank 2007
	<i>HK\$'000</i>
At 1 January	15,501
Contributions paid to the Scheme	19,820
Expense recognised in the consolidated income statement (<i>Note 7</i>)	<u>(22,163)</u>
At 31 December	<u><u>13,158</u></u>

(c) Expense recognised in the “Operating expenses – staff costs” in the consolidated income statement is as follows:

	The Group 2007
	<i>HK\$'000</i>
Current service cost	22,399
Interest cost on obligation	7,674
Amortisation of actuarial loss	1,589
Expected return on Scheme’s assets	<u>(9,499)</u>
	<u><u>22,163</u></u>

The actual return on the Scheme’s assets for the year ended 31 December 2007 amounted to approximately HK\$14,501,000.

(d) The principal actuarial assumptions used as at 31 December 2007 are as follows:

	The Group 2007
	<i>HK\$'000</i>
Discount rate	3.4%p.a.
Long-term rate of return on assets	5.0%p.a.
Credited rate	5.0%p.a.
Future salary increases	4.5%p.a.

(e) Mandatory Provident Fund Scheme (“MPF Scheme”)

The Group also operates an MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the Scheme. The Group participates in an approved MPF scheme with the Bank Consortium Trust Company Limited to provide scheme choice to both existing and new employees. The MPF scheme is a defined contribution retirement scheme administered by independent trustees.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

41. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit related commitments and contingencies

	The Group 2007	
	Contractual amounts	Credit risk weighted amounts
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	514,567	514,567
Transaction-related contingencies	121,492	60,746
Trade-related contingencies	928,081	185,616
Undrawn loan facilities		
– which are unconditionally cancellable	10,900,414	–
– with an original maturity of 1 year or over	377,481	188,741
Forward forward deposits placed	309,549	61,910
	<u>13,151,584</u>	<u>1,011,580</u>

Credit related commitments and contingencies include forward forward deposit placed, acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the credit default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

(b) Lease commitments

At 31 December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group 2007
	<i>HK\$'000</i>
Properties:	
– Within one year	40,672
– After 1 year but within 5 years	<u>30,324</u>
	<u>70,996</u>

(c) Capital commitments

Capital commitments for purchase of equipment and available-for-sale investments outstanding at 31 December not provided for in the financial statements were as follows:

	The Group 2007
	<i>HK\$'000</i>
Contracted for	166,780
Authorised but not contracted for	<u>–</u>
	<u>166,780</u>

42. TRUST ACTIVITIES

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as the Group does not control the assets.

43. ACQUISITION OF SUBSIDIARY

During the year, the Group acquired 87.04% of the share capital of Fubon Capital (HK) Limited (“Fubon Capital”), a company principally engaged in advising in corporate finance and securities underwriting. The Bank acquired 50% of the share capital on 16 February 2007 for HK\$5 million. On 30 November 2007, Fubon Capital enlarged its capital from HK\$10 million to HK\$30 million by issuing 20 million ordinary shares at HK\$1 par value. The Bank subscribed all these new shares for HK\$20 million and acquired 1.1 million ordinary shares from Fubon Capital’s existing shareholder at HK\$1.1 million. The Group holds 87.04% of share capital of Fubon Capital after these transactions.

The profit and loss of the Group includes a HK\$1.3 million loss incurred by the acquired company for the period since acquisition. If the acquisition had occurred on 1 January 2007, the Group would have included a HK\$1.7 million loss attributable to the acquired company.

Details of fair value of the assets and liabilities acquired and goodwill arising are as follows:

	16 February 2007	30 November 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net asset	9,903	28,743
Share of net assets	4,952	3,238
Share of capital increase	–	17,407
	<hr/>	<hr/>
Consideration paid (by cash)	5,000	21,111
Goodwill	48	466
	<hr/>	<hr/>
Total goodwill		<u>514</u>
Cash and cash equivalents in subsidiary acquired		29,057
Less: Cost of acquisition		<u>(26,111)</u>
Cash inflow on acquisition		<u>2,946</u>

The goodwill of HK\$514,000 has been included in “accrued interest and other accounts”.

There is no material difference between fair value of the assets and liabilities acquired and their carrying amounts immediately before the acquisition.

44. FAIR VALUES OF FINANCIAL INSTRUMENTS**(a) Estimation of fair values**

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure of fair value is the quoted market price. In the absence of organized secondary markets for most financial instruments, and in particular of loans, deposits and unlisted derivatives, direct market prices are not available. The fair values of such instruments are therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

All valuation models are validated before they are used as a basis for financial reporting by qualified personnel. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realized, in order to further validate and calibrate the models. These techniques involve uncertainties and values are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected losses and other factors. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in the table set out in Note (b) below:

- (i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;
- (ii) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value;
- (iii) the fair value of fixed rate loans and mortgages carried at amortized cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value;
- (iv) the fair value of unquoted equity investments is estimated using the net asset value as reported by management of the companies;
- (v) the fair value of unlisted investment funds is estimated using the net asset value as reported by the managers of such funds;
- (vi) the fair value of forward exchange contracts and interest rate swaps is estimated either using broker quotes or by discounting future cash flows.

(b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

	The Group 2007	
	Carrying amount	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Financial assets</i>		
Advances to customers	5,337,535	5,344,504
<i>Financial liabilities</i>		
Other accounts and liabilities	6,080,278	6,082,415

45. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into a number of transactions with its ultimate holding company and related parties, including Taipei Fubon Commercial Bank Co., Ltd. These transactions were entered into in the ordinary course of the Group's banking business and included, inter alia, lending, placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced at the relevant market rates at the time of each transaction, and were on the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

Information relating to income and expenses from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

(a) Income/expenses

	2007
	<i>HK\$'000</i>
<i>Ultimate holding company</i>	
Interest expense	354
<i>Fellow subsidiaries</i>	
Interest income	4,744
Interest expense	4,926

(b) Commission and services charges

	2007
	<i>HK\$'000</i>
<i>Fellow subsidiaries*</i>	23,163

* The amount represents aggregate customer referral and support service fees paid to Taipei Fubon Commercial Bank Co., Ltd., Fubon Securities Co., Ltd. and Fubon Life Assurance Co., Ltd. by the Group's entities during 2007 pursuant to the amended business co-operation agreements dated 20 March 2006. These transactions constitute continuing connected transactions of the Group under Rule 14A.14 of the Listing Rules.

(c) Placement of deposits

	The Group
	2007
	<i>HK\$'000</i>
<i>Fellow subsidiaries</i>	
At 1 January	–
Placements during the year	8,127,039
Repayments during the year	<u>(8,127,039)</u>
At 31 December	<u>–</u>
<i>Fellow subsidiaries</i>	
Accrued interest and other accounts	<u>–</u>

There was no impairment allowance made against the above placement of deposits with related parties.

(d) Acceptance of deposits

	The Group 2007 HK\$'000
<i>Ultimate holding company</i>	
At 1 January	3,919
Acceptance during the year	966,435
Repayments during the year	<u>(966,217)</u>
At 31 December	<u>4,137</u>
<i>Fellow subsidiaries</i>	
At 1 January	324,000
Acceptance during the year	8,300,195
Repayments during the year	<u>(8,624,195)</u>
At 31 December	<u>–</u>
<i>Fellow subsidiaries</i>	
Other accounts and liabilities	<u>81,782</u>

(e) Financial Instruments

	The Group 2007 HK\$'000
<i>Fellow subsidiary</i>	
Exchange rate contracts (notional principal)	<u>3,695,427</u>
Equity Swap (notional principal)	<u>–</u>

(f) Loans to officers

Loans to officers of the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	The Group 2007 HK\$'000
Aggregate amount of relevant loans at 31 December	
– by the Bank	32,181
– by a subsidiary	<u>–</u>
	<u>32,181</u>
Maximum aggregate amount of relevant loans outstanding during the year	
– by the Bank	35,019
– by a subsidiary	<u>–</u>
	<u>35,019</u>

There was no interest due but unpaid nor any impairment allowance made against these loans at 31 December 2007.

(g) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Bank's Directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9 is as follows:

	The Group 2007 HK\$'000
Salaries and short-term employee benefits	<u>51,879</u>

Total remuneration is included in "staff cost" (see note 7).

During the year, several key management personnel were granted unlisted physically settled share option scheme of the Bank's ultimate holding company, Fubon Financial Holding Co., Ltd. with various vesting periods for the service rendered to the Group. The share based payment expense for the current year is not material.

(h) Credit facilities to key management personnel

During the year, the Bank provided loans and credit facilities to key management personnel of the Group and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with other employees.

	The Group 2007 HK\$'000
Loans	
At 1 January	47,132
Additional loans made during the year	3,391
Repayment during the year	<u>(13,369)</u>
At 31 December	<u>37,154</u>
Interest income	<u>1,372</u>
Credit facilities	
At 1 January	4,030
Additional facilities extended during the year	1,145
Facilities withdrawn during the year	<u>(690)</u>
At 31 December	<u>4,485</u>

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no individually assessed impairment allowance been made on the above balances at the year end.

The Bank's policies for lending to related parties take into account the requirements under the Hong Kong Banking Ordinance, the guidelines of the Hong Kong Monetary Authority and the Listing Rules. The Group sets internal limits – individual and aggregate group limits for individual, group, secured and unsecured exposures – and carefully monitors exposure to related parties, whether individual or corporate, and takes the necessary measures to control the risk of connected lending. Approvals are made by the Credit Committee, Managing Director and/or the Executive Credit Committee.

46. ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for own liabilities at balance sheet date:

	The Group 2007 HK\$'000
Secured liabilities	<u>6,091,951</u>
Assets pledged:	
Trading securities	–
Available-for-sale securities	<u>6,168,375</u>
	<u>6,168,375</u>

The following balances with banks have been pledged as collateral for margin deposits of derivatives at balance sheet date:

	The Group 2007 HK\$'000
Margin accounts for derivative contracts	<u>32,978</u>

These transactions are conducted under usual and customary terms.

The Group has restated its prior year comparative figures for more appropriate presentation.

47. FINANCIAL RISK MANAGEMENT

This section presents information about the Group's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- Credit risk: losses resulting from customer or counterparty default and arising from credit exposures in all forms, including settlement risk.
- Market risk: exposures to market variables such as interest rates, exchange rates and equity markets.
- Liquidity and funding risk: risk that the Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- Operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

The Group has established policies and procedures to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date management and information systems. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

(a) Credit risk management

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities and country risks. Credit risk arises from the potential that a borrower or counterparty will fail to perform under an obligation. It arises from the lending, trading, treasury, derivatives and other activities. The Group identifies and manages credit risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures. These policies and procedures are documented in the Group's credit policy which defines the credit extension criteria, the credit approval authorities delegated from the Board, the credit monitoring processes, the loan grading system and provisioning policy.

The Board of Directors delegates credit approval to the following in descending order of authority: the Executive Credit Committee, the Chief Executive Officer and the Credit Committee.

The Credit Committee carries out the Bank's credit risk management functions. It meets twice a week and is responsible for approving, advising and recommending to the Chief Executive the approval of credit exposures in accordance with the credit authority limits. The Credit Committee also reviews and implements measures on credit risk management and controls and plays a key role in credit monitoring. In addition, it reviews loans extended by lending officers and provides guidelines to all lending officers to assist them in monitoring the credit risk of the loan portfolio.

The credit departments, Enterprise Credit Risk Management Unit and Consumer Finance Risk Management Unit, receive their authority and delegated responsibilities from the Credit Committee to provide centralised management of credit risk. They are responsible for:

- independent evaluation of credit applications, which covers facility details, credit grade determination, risk review and analysis and financial spreads;
- control of cross-border exposures, as well as those to banks and other financial institutions;
- portfolio management of risk concentrations;
- maintenance of the loan grading system; and
- reporting to the Risk Management Committee regularly on aspects of the loan portfolio. This includes information on large credit exposures, industry exposures, country exposures and levels of bad debt provisioning.

In addition, the Group has also established guidelines to ensure that each new product is designed and reviewed by a product committee with respect to the risks involved, including credit risk. All relevant departments are required to put in place the appropriate processes, systems and controls before the product is approved by the New Product and Commitment Committee.

Specific policies and measures to address different kinds of credit related activities are set out below:

(i) Corporate lending

Corporate lending is generally concentrated among middle market borrowers. In addition to compliance with the Group's underwriting standards, credit risk is managed by conducting a thorough credit evaluation and obtaining proper approval for the proposed credit transactions. Subject to the size of the facility and the risk grading of the borrower, different extents of credit evaluation and levels of credit approval are required to ensure the proper credit risk management measures are exercised. Credit approval also takes into account facility structure, tenor, the repayment ability of the prospective borrower and available security.

The Group has established limits for exposures to individual industries and for borrowers and groups of borrowers, regardless of whether the credit exposure is in the form of loans or non-funded exposures. The Group also undertakes ongoing credit analysis and monitoring at several levels. The

policies and procedures also take into account the requirements under the Hong Kong Banking Ordinance and the guidelines issued by the HKMA with respect to large exposures and provisioning requirements.

The credit risk management procedures are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Enterprise Credit Risk Management Unit monitors overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis. Relevant management reports are submitted to the Chief Executive Officer as well as the relevant internal risk management committee for their review.

(ii) Retail credit risk

The Group's retail credit policy and approval process are designed to address high volumes of relatively homogeneous, small value lending transactions in each retail loan category. Because of the nature of retail banking, the credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. The Consumer Finance Risk Management Unit is responsible for conducting regular monitoring of the retail credit risks. They are also responsible for determination and revision of product terms and desired customer profiles on a regular basis. In addition, they also review the existing policies on underwriting, loan classification, provisioning, and write off on a regular basis.

(iii) Credit risk for treasury transactions

The credit risk of the Group's treasury transactions is managed the same way as the Group manages its corporate lending risk. The Group sets individual limits to its counterparties based on its risk assessment.

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value or the notional amount, credit risk for derivatives is the positive replacement cost together with an estimate for the potential exposure from changes in its market value. These credit exposures, together with potential exposures from market movements, are managed as part of the overall lending limits to the counterparties. The credit risk exposure on derivatives is disclosed in Note 21(b) of this annual report. The Group currently uses the current exposure method for the purpose of providing capital for such counterparty exposures.

(iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(v) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along geographic, industry and product sectors.

Analysis of credit risk concentration of respective financial assets is disclosed in Notes 19 to 23.

(vi) Credit risk mitigation

The Group's credit assessment primarily relies on an evaluation of the obligor's repayment ability based on the obligor's cash flow and financial condition. In addition, the Group employs various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and/or third party support as well as transfer risk to other third parties from an integral part

of the credit risk management process. There is immaterial credit and market risk concentration within the credit risk mitigations used by the Group. The most commonly used credit risk mitigation measures are provided below:

Collateral

The Group holds collateral against loans and advances to customers in the form of cash deposits, marketable securities, mortgage interest over property, inventory, equipment and other physical collateral, and guarantees. The Group has in place policies and procedures that govern the assessment, acceptance and the periodic valuation of eligible collateral. For collateral taken to secure corporate and retail loans, the collateral is revalued periodically ranging from daily to semi-annually depending on the type of collateral taken. For treasury operations, any collateral taken is marked to market on a periodic basis that is mutually agreed with the counterparty.

Master netting agreements

Collateral generally is not held over loans and advances extended to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. However, where applicable, the Group manages its credit exposure to banks by entering into master netting arrangements whenever it is appropriate and feasible to do so. The netting arrangement results to the settlement of counterparty exposure on a net basis in the event a default occurs. The Group's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events. It is also common for the Group to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Other credit risk mitigation measures

The Group also uses guarantees for credit risk mitigation. While the Group may accept guarantees from any counterparty, it sets a threshold internally for considering eligible guarantors.

(vii) Maximum exposure to credit risk

The maximum exposure to credit risk at the balance sheet date without taking into consideration any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure to credit risk for the various components of the balance sheet, contingencies and commitments is as follows:

	The Group 2007
	<i>HK\$'000</i>
<i>Credit risk exposures relating to on-balance sheet assets:</i>	
Cash and balances with banks	6,930,315
Placements with banks maturing between one and twelve months	740,990
Trading securities	32,544
Financial assets designated as at fair value through profit or loss	878,955
Derivative financial instruments	955,904
Advances to customers	31,478,804
Accrued interest and other accounts	1,115,597
Available-for-sale securities	17,230,441
<i>Credit risk exposures relating to off-balance sheet items:</i>	
Financial guarantees and other credit related contingent liabilities	1,564,140
Loan commitments and other credit related commitments	<u>11,587,444</u>
	<u><u>72,515,134</u></u>

(viii) Credit quality of loans and advances

Loans and advances to banks are only made on exceptional cases to international banks with good credit standing. At 31 December 2007 and 2006, no loans and advances to banks were impaired. The credit quality of advances to customers can be analysed as follows:

	The Group 2007
	<i>HK\$'000</i>
Neither past due nor impaired	31,360,390
Past due but not impaired	100,219
Impaired	<u>172,403</u>
	<u><u>31,633,012</u></u>
Of which:	
Gross loans and advances to customers that are neither past due nor impaired	
– Grade 1: Pass	31,310,200
– Grade 2: Special mention	<u>50,190</u>
	<u><u>31,360,390</u></u>

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the Hong Kong Monetary Authority.

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	The Group 2007 HK\$'000
Gross loans and advances to customers that are past due but not impaired	
– Overdue 3 months or less	92,937
– Overdue 6 months or less but over 3 months	5,485
– Overdue 1 year or less but over 6 months	235
– Overdue over 1 year	<u>1,562</u>
	<u><u>100,219</u></u>

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to HK\$231,018,000 as at 31 December 2007.

(ix) *Credit quality of financial assets other than loans and advances*

Credit risk that arises from investments in financial assets or debt securities is managed in the same way as the Group manages its corporate lending risk with the exposure being part of the overall lending limits to the counterparties. It is the Group's credit policy not to invest in debt securities that are below the grading of BBB+ from Standard & Poor's Rating Services or A-3 from Moody's Investors Services at the time of investing. Analysis of debt securities by credit rating designation at 31 December, based on Standard & Poor's ratings or their equivalent is as follows:

	2007			
	The Group	Designated at fair value through profit or loss	Available- for-sale securities	Total
	Trading securities HK\$'000	HK\$'000	HK\$'000	HK\$'000
AAA	–	–	158,338	158,338
AA– to AA+	32,195	641,282	11,192,714	11,866,191
A– to A+	–	237,673	4,425,823	4,663,496
Lower than A-	–	–	1,051,535	1,051,535
Unrated	<u>349</u>	<u>–</u>	<u>402,031</u>	<u>402,380</u>
	<u><u>32,544</u></u>	<u><u>878,955</u></u>	<u><u>17,230,441</u></u>	<u><u>18,141,940</u></u>

There are no overdue debt securities in the year.

As at 31 December 2007, investments in structured investment vehicle ("SIV") with nominal value of HK\$273 million were individually determined to be impaired. No collateral is held by the Group for these investments.

The collateralized debt obligations ("CDOs") and SIVs held by the Bank were purchased according to the Bank's investment guidelines. As at 31 December 2007, carrying amount of CDOs and SIVs amounted to HK\$143.6 million and HK\$110.6 million respectively.

(x) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	The Group 2007 HK\$'000
Fair value of collateral and other credit enhancements held against financial assets that are:	
– Neither past due nor impaired	45,208,299
– Past due but not impaired	55,614
– Impaired	<u>108,530</u>
	<u><u>45,372,443</u></u>

(xi) Collateral and other credit enhancements obtained

During the year, the Group obtained assets by taking possession of collateral held as security, as follows:

	The Group 2007 HK\$'000
Carrying amount of assets obtained:	
– Residential property	<u><u>3,483</u></u>

As at 31 December 2007, total repossessed assets and assets acquired under lending agreements of the Group and the Bank amounted to HK\$34,002,000.

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

(b) Market risk management

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. The Bank transacts in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, market making activities, and positions taken in order to hedge the Bank's open position. The Bank does not engage in significant proprietary trading of foreign exchange.

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

The Board reviews and approves policies for the management of market risks and dealing authorities and limits. The Board has delegated the responsibility for ongoing general market risk management to the Asset and Liability Committee. This committee articulates the interest rate review of the Bank and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

The Group has also established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly and approved by the Board. Market risk is managed within various limits approved by the Board. These limits are determined for each financial instrument and include limits on product volume, gross and net positions, position concentrations, mark to market limits, stop loss limits and risk position limits.

The use of derivatives for proprietary trading and the sale of derivatives to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions.

One of the principal tools used by the Group to monitor and limit market risk exposure is Value-at-risk (VAR). VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The calculation uses the variance-covariance model as the means to estimate the statistical confidence level.

The Group augments its VAR limits with other positions and sensitivity limit structures. Additionally, the Group applies a wide range of sensitivity analysis, both on individual portfolios and on the Group's consolidated positions to assess the potential impact on the Group's earnings as a result of extreme movements in market prices.

(i) *Sensitivity analysis of market risk exposures*

Trading market risk

Currency risk

At 31 December 2007, if Hong Kong Dollar had weakened by 0.5% against other currencies, with all other variables held constant, the profit before tax for the year would have been HK\$1.5 million lower, mainly as a result of foreign exchange gains on translation of non-HKD denominated financial assets compensated by foreign exchange losses on translation of non-HKD denominated financial liabilities.

Conversely, if Hong Kong Dollar had strengthened by 0.5% against other currencies, with all other variables held constant, the profit before tax for the year would have been HK\$1.5 million higher.

Interest rate risk

The Group measures trading book interest rate risks through Present Value of Basis Point (PVBP). PVBP is a sensitivity test to measure the potential profit or loss fluctuation on interest rate positions upon a basis point movement.

The Group adopts a sensitivity test of 25 basis points movement. At 31 December 2007, 25 basis points upward movement in interest rate would result in a downward profit movement of HK\$22,460. Conversely, 25 basis points downward movement in interest rate would result in an upward profit movement of HK\$22,460.

Equity risk

At 31 December 2007, if Hang Seng Index had increased by 10% with all other variables held constant and all the equity instruments move according to the historical correlation with the index, earnings for the year would have been HK\$46,127 higher.

Conversely, at 31 December 2007, if Hang Seng Index had decreased by 10% with all other variables held constant and all the equity instruments move according to the historical correlation with the index, earnings for the year would have been HK\$46,127 lower.

Non-trading market risk

Interest rate risk

Interest rate risk primarily results from timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by the treasury department within limits approved by the Board, including interest rate gap limits. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

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

At 31 December 2007, if other market variables including prime rate were held constant, an increase in HKD market interest rates of 25 basis points would result in a decrease in earnings over the next 12 months of HK\$13.5 million, or a decrease in economic value of HK\$23.6 million; while an increase in USD market interest rates of 25 basis points would result in a decrease in earnings over the next 12 months of HK\$5.5 million, or a decrease in economic value of HK\$14 million.

Conversely, if other market variables including prime rate were held constant, a decrease in HKD market interest rates of 25 basis points would result in an increase in earnings over the next 12 months of HK\$13.5 million, or an increase in economic value of HK\$23.6 million; while a decrease in USD market interest rates of 25 basis points would result in an increase in earnings over the next 12 months of HK\$5.5 million, or an increase in economic value of HK\$14 million.

Equity risk

At 31 December 2007, if Hang Seng Index had increased by 10% with all other variables held constant and all the equity instruments move according to the historical correlation with the index, equity for the year would have been HK\$13.5 million higher.

Conversely, at 31 December 2007, if Hang Seng Index had decreased by 10% with all other variables held constant and all the equity instruments move according to the historical correlation with the index, equity for the year would have been HK\$13.5 million lower.

The method and assumptions used in the above sensitivity analysis on interest rate risk, foreign exchange risk and equity risk are performed on the same basis for both 2006 and 2007.

(ii) Currency risk

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed by the treasury department within limits approved by the Board. Structural foreign currency positions arise mainly on foreign currency investments in the Group's subsidiaries and an associated company. The Group seeks to match closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

The following table indicates the concentration of currency risk at the balance sheet date:

The Group (Equivalent in HK\$'000)	2007			
	US Dollars	Chinese Renminbi	Euros	Other currencies
ASSETS				
Cash and short-term funds	5,496,400	143,294	183,085	836,485
Placements with banks maturing between one and twelve months	740,990	–	–	–
Trading securities	156	–	–	–
Financial assets designated as at fair value through profit or loss	878,955	–	–	–
Advances to customers less impairment	6,033,828	–	41,977	168,552
Accrued interest and other accounts	291,255	–	13,469	23,466
Available-for-sale securities	<u>6,763,137</u>	<u>–</u>	<u>925,472</u>	<u>1,424,521</u>
Spot assets	<u>20,204,721</u>	<u>143,294</u>	<u>1,164,003</u>	<u>2,453,024</u>
LIABILITIES				
Deposits and balances of banks	24,657	–	682,852	194,880
Deposits from customers	14,296,350	145,696	1,186,351	3,697,156
Debt securities issued	1,362,877	–	–	–
Other account and liabilities	231,660	5	13,544	18,451
Subordinated notes issued	<u>1,622,652</u>	<u>–</u>	<u>–</u>	<u>–</u>
Spot liabilities	<u>17,538,196</u>	<u>145,701</u>	<u>1,882,747</u>	<u>3,910,487</u>
Net on-balance sheet position	<u>2,666,525</u>	<u>(2,407)</u>	<u>(718,744)</u>	<u>(1,457,463)</u>
Off-balance sheet position				
Foreign exchange derivative contracts	<u>(3,415,851)</u>	<u>215,076</u>	<u>648,489</u>	<u>1,556,465</u>
Net aggregate position	<u>(749,326)</u>	<u>212,669</u>	<u>(70,255)</u>	<u>99,002</u>
Credit commitments and other contingent liabilities in foreign currencies	<u>2,106,912</u>	<u>–</u>	<u>29,380</u>	<u>489,352</u>

(iii) *Interest rate risk*

The Group's interest rate positions mainly arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and available-for-sale portfolios. Interest rate risk primarily results from timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by the treasury department within limits approved by the Board, including interest rate gap limits. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

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

The following tables indicate the effective interest rates for the relevant periods and the mismatches of the expected interest repricing dates for interest bearing assets and liabilities at the balance sheet date. Actual repricing dates may differ from the contractual dates owing to prepayments and the exercise of options.

The Group	Average effective interest rate	2007					Non-interest bearing
		Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Cash and short-term funds	4.59%	7,024,601	6,377,681	–	–	–	646,920
Placements with banks maturing between one and twelve months	5.12%	740,990	584,992	155,998	–	–	–
Trading securities	2.38%	32,544	15,137	8,975	3,873	4,210	349
Financial assets designated as at fair value through profit or loss	6.56%	878,955	–	–	564,610	314,345	–
Derivative financial instruments	0%	955,904	–	–	–	–	955,904
Advances to customers less impairment	5.74%	31,478,804	25,387,760	3,403,550	2,253,792	416,456	17,246
Other assets	6.33%	649,647	78,350	–	–	–	571,297
Available-for-sale securities	3.73%	17,230,441	6,045,057	6,229,994	4,160,713	392,645	402,032
Undated assets	0%	1,630,993	–	–	–	–	1,630,993
		<u>60,622,879</u>	<u>38,488,977</u>	<u>9,798,517</u>	<u>6,982,988</u>	<u>1,127,656</u>	<u>4,224,741</u>
LIABILITIES							
Deposits and balances of banks	3.85%	1,457,845	1,077,732	–	–	–	380,113
Deposits from customers	3.78%	41,473,991	39,853,053	1,299,324	–	–	321,614
Trading liabilities	3.94%	11,673	–	7,035	1,033	3,605	–
Financial liabilities designated as at fair value through profit or loss	5.84%	220,446	–	–	–	220,446	–
Certificates of deposit issued	4.21%	2,161,650	1,169,800	439,050	552,800	–	–
Debt securities issued	5.16%	1,593,177	1,593,177	–	–	–	–
Derivative financial instruments	0%	804,740	–	–	–	–	804,740
Other liabilities	1.62%	6,718,976	5,620,525	459,753	–	–	638,698
Subordinated notes issued	5.65%	1,622,652	–	–	1,622,652	–	–
Undated liabilities	0%	436,265	–	–	–	–	436,265
		<u>56,501,415</u>	<u>49,314,287</u>	<u>2,205,162</u>	<u>2,176,485</u>	<u>224,051</u>	<u>2,581,430</u>
Interest rate sensitivity gap			<u>(10,825,310)</u>	<u>7,593,355</u>	<u>4,806,503</u>	<u>903,605</u>	

Note: Effect of off-balance sheet derivatives on the above table is immaterial.

(c) Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the treasury department under the direction of the Asset and Liability Committee. The treasury department is responsible for ensuring that the Group has adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap, and monitoring relevant markets for the adequacy of funding and liquidity.

As part of its liquidity risk management, the Group focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified source of liquidity, reserving necessary funding capacity and contingent planning. The Group manages liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. In order to lengthen the duration of the funding, the Bank periodically issues certificates of deposit with maturities of not more than 5 years. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Group regularly performs stress tests on its liquidity position.

The Group's consolidated average liquidity ratio for the year ended 31 December 2007 was well above the statutory minimum ratio of 25%.

(i) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

The Group	2007							Indefinite HK\$'000
	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	Over 1 month but within 3 months HK\$'000	Over 3 m months but within 1 year HK\$'000	Over 1 year but within 5 years HK\$'000	Over 5 years HK\$'000	
ASSETS								
Cash and short-term funds	7,024,601	646,920	6,377,681	-	-	-	-	-
Placements with banks maturing between one and twelve months	740,990	-	-	584,992	155,998	-	-	-
Trading securities	32,544	-	14,981	156	8,975	3,873	4,210	349
Financial assets designated as at fair value through profit or loss	878,955	-	-	-	-	564,610	314,345	-
Derivative financial instruments	955,904	-	-	-	-	-	-	955,904
Advances to customers less impairment	31,478,804	1,101,486	4,845,212	2,660,556	4,610,404	9,749,840	8,479,364	31,942
Other assets	649,647	-	499,137	60,729	67,058	22,723	-	-
Available-for-sale securities	17,230,441	-	230,967	255,233	7,115,365	5,614,917	3,611,927	402,032
Undated assets	1,630,993	-	-	-	-	-	-	1,630,993
	<u>60,622,879</u>	<u>1,748,406</u>	<u>11,967,978</u>	<u>3,561,666</u>	<u>11,957,800</u>	<u>15,955,963</u>	<u>12,409,846</u>	<u>3,021,220</u>
LIABILITIES								
Deposits and balances of banks	1,457,845	380,113	1,077,732	-	-	-	-	-
Deposits from customers	41,473,991	10,278,169	25,208,409	4,033,857	1,280,682	510,012	162,862	-
Trading liabilities	11,673	-	-	-	7,035	1,033	3,605	-
Financial liabilities designated as at fair value through profit or loss	220,446	-	-	-	-	-	220,446	-
Certificates of deposit issued	2,161,650	-	306,450	243,300	1,611,900	-	-	-
Debt securities issued	1,593,177	-	-	-	92,200	1,438,890	62,087	-
Derivative financial instruments	804,740	-	-	-	-	-	-	804,740
Other liabilities	6,718,976	-	5,331,512	868,827	518,637	-	-	-
Subordinated notes issued	1,622,652	-	-	-	-	-	1,622,652	-
Undated liabilities	436,265	-	-	-	-	-	-	436,265
	<u>56,501,415</u>	<u>10,658,282</u>	<u>31,924,103</u>	<u>5,145,984</u>	<u>3,510,454</u>	<u>1,949,935</u>	<u>2,071,652</u>	<u>1,241,005</u>
Net liquidity gap		<u>8,909,876</u>	<u>19,956,125</u>	<u>1,584,318</u>	<u>(8,447,346)</u>	<u>(14,006,028)</u>	<u>(10,338,194)</u>	

The Group	2007							Indefinite HK\$'000
	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	Over 1 month but within 3 months HK\$'000	Over 3 months but within 1 year HK\$'000	Over 1 year but within 5 years HK\$'000	Over 5 years HK\$'000	
Of which: Certificate of deposits held – Included in available-for-sale securities	268,901	–	–	120,124	–	148,777	–	–
Debt securities held * – Included in trading securities	32,195	–	14,981	156	8,975	3,873	4,210	–
– Included in financial assets designated as at fair value through profit or loss	878,955	–	–	–	–	564,610	314,345	–
– Included in available-for-sale securities	16,852,859	–	230,967	255,233	7,115,365	5,614,917	3,611,927	24,450
	<u>17,764,009</u>	<u>–</u>	<u>245,948</u>	<u>255,389</u>	<u>7,124,340</u>	<u>6,183,400</u>	<u>3,930,482</u>	<u>24,450</u>
Certificates of deposit issued – Stated at amortised cost	<u>2,161,650</u>	<u>–</u>	<u>306,450</u>	<u>243,300</u>	<u>1,611,900</u>	<u>–</u>	<u>–</u>	<u>–</u>

* The amount of debt securities held included certificate of deposits held.

(ii) Analysis of non-derivative liabilities by contractual maturities

The following contractual cash flow projections of the Group's financial liabilities, derivatives and off-balance sheet exposures analysed by the remaining period as at balance sheet dates to the contractual maturity dates. The balances in the tables below will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

The Group	2007						
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial liabilities							
Deposits and balances of banks	1,462,505	380,113	1,082,392	-	-	-	-
Deposits from customers	41,754,111	10,278,169	25,317,334	4,085,691	1,340,156	559,023	173,738
Trading liabilities	12,526	-	-	82	7,278	1,601	3,565
Financial liabilities designated as at fair value through profit or loss	520,000	-	-	-	-	-	520,000
Certificates of deposit issued	2,243,399	-	319,626	253,619	1,654,394	15,760	-
Debt securities issued	1,743,577	-	17,804	3,167	153,147	1,495,628	73,831
Subordinated notes issued	1,857,746	-	7,836	14,203	67,340	208,387	1,559,980
Other liabilities	6,878,396	-	5,355,719	860,536	650,881	11,260	-
	<u>56,472,260</u>	<u>10,658,282</u>	<u>32,100,711</u>	<u>5,217,298</u>	<u>3,873,196</u>	<u>2,291,659</u>	<u>2,331,114</u>
Off-balance sheet exposures							
- Contingent liabilities	1,564,140	-	1,564,140	-	-	-	-
- Commitments	11,587,444	11,277,895	309,549	-	-	-	-
	<u>13,151,584</u>	<u>11,277,895</u>	<u>1,873,689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risks arise from the Group's daily operation and fiduciary activities. An appropriate and robust Operational Risk Management Policy and related framework has been developed, based on the HKMA guidelines, to facilitate the timely identification, effective assessment and mitigation of material and relevant risks. Through this framework, the management oversight for risk exposures, especially in the prioritisation and allocation of limited risk mitigating resources, can further be strengthened.

The board of directors, through the Risk Management Committee, is aware of the major aspects of the bank's operational risks as a distinct risk category that should be managed. The Committee performs regular review and approves the operational risk framework, risk profiles, policies and guidelines. The Committee also plays an active role in monitoring the progress of implementation of mitigating measures for the risk events identified, including Business Continuity Planning, Key Risk Indicator monitoring and Basel II implementation.

Internal controls, an integral part of a sound operational risk management framework, are maintained by the established departmental operational manuals which provide guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product or service introduced is subject to a rigorous risk review and sign-off process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or services. Variations of existing

products or services are also subject to a similar process. Departments are required to report any risk events and failings promptly through a reporting mechanism, as well as to review their control procedures regularly to ensure compliance of the regulatory and industry requirements.

The Bank's internal audit and compliance departments play an essential role in monitoring and limiting the Group's operational risk. The primary focus of internal audit and compliance is:

- to independently evaluate the adequacy of all internal controls,
- to ensure adherence to the operating guidelines, including regulatory and legal requirements, and
- to pro-actively recommend improvements

In order to ensure total independence, the internal audit reports directly to the Audit Committee of the board as well as indirectly to the chief executive.

(e) Capital management

The HKMA sets and monitors capital requirements for the Group as a whole. In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by Asset and Liability Committee and are reviewed regularly by the board of directors.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital during the year, except for a change in the calculation methodology in the capital adequacy ratios.

The capital adequacy ratios as at 31 December 2007 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31 December 2007, and were well above the minimum required ratio set by the HKMA.

48. NON-ADJUSTING POST BALANCE SHEET EVENTS

As at 31 December 2007, the Bank held an income note issued by Cullinan Finance Limited ("Cullinan") with a carrying value of HK\$30.1 million. In January 2008, the managers of Cullinan, HSBC Bank plc, announced a restructuring whereby Cullinan's income note would be exchanged for income notes newly issued by Mazarin Funding Limited ("Mazarin") and Barion Funding Limited ("Barion"). Under the exchange offer, the Bank's income note was exchanged for a Mazarin income note and a Barion income note with nominal amounts of USD10.7 million and USD4.3 million respectively on 21 February 2008. The exchange was accounted for at the fair value of the notes received as at the date of the exchange which was estimated as HK\$23.3 million.

Fair value of the remaining structured investment vehicle investment held by the Bank at 29 February 2008 further decreased by HK\$47.3 million since the balance sheet date.

49. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, “Financial instruments: Disclosures”, the amendments to HKAS 1, “Presentation of financial statements: Capital disclosures”, and complying with the Banking (Disclosure) Rules, certain comparative figures have been adjusted to conform with disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

50. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the Group is Fubon Financial Holding Company Limited, which is incorporated in the Republic of China.

51. ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, certain assumptions and estimates have been made by management of the Group. The accuracy of these assumptions and estimates are continuously reviewed by management with reference to actual results, historical experience and other factors, including projection of future cash flows and possible outcomes from future events. Management believes that the assumptions and estimates made are reasonable and supportable.

Note 44 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses*Advances to customers*

Loan portfolios are reviewed periodically to assess whether impairment losses exist. Management makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence of impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data of local or economic conditions that correlate with defaults on the assets in the group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data.

Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgment.

(b) Fair value determination

The Group determines the fair values for the financial assets and liabilities which are carried at fair value based on quoted market prices whenever possible. If such quoted market prices are not available or an active market does not exist, the Group determines the fair values based on internally developed models which make use of market parameters, including interest rate yield curves, historical and/or implied option volatilities, currency rates, prices of the underlying instruments, and the net assets of the obligors. Model assumptions and correlation among these parameters can affect the estimates of the fair values of these financial instruments.

52. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations and the HKMA has recommended additional disclosures, which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making assessment of the expected impact of these amendments, new standards, new interpretations and additional disclosures in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, HKFRS 8, Operating Segments, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements.

(A) Capital adequacy ratio

	The Group 2007
	%
Capital adequacy ratio as at 31 December	14.42%
Core capital adequacy ratio as at 31 December	9.77%

As mentioned in note 47(e) on the capital management of the Bank, new approaches are used in the calculation of the regulatory capital and capital charges following the adoption of the Banking (Capital) Rules effective from 1 January 2007. Accordingly, the capital adequacy ratios for the two years are not directly comparable. The comparative quantitative information concerned is also not required to be presented.

The capital adequacy ratio and core capital adequacy ratio are computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Bank Vanuatu Limited and Fubon Hong Kong (Taiwan) Co., Ltd. as required by the HKMA for its regulatory purposes.

In accordance with the Banking (Capital) Rules, the Group has adopted the "standardised approach" for the risk-weighted assets for credit risk and market risk and the "basic indicator approach" for the calculation of operational risk.

The Group's capital adequacy is managed by Asset and Liability Management Committee. Key tools adopted by the Group to assess its capital adequacy include capital budgeting, monitoring and stress testing. Annual capital budget is prepared during annual budgeting process to assess adequacy of the Group's capital to support current and future business activities taking into account of projected business growth and also any new business activities. The annual budget is approved by the Board of Directors. Actual capital adequacy and also return on capital of individual business units and also bankwide basis is measured and compared against the approved budget on a regular basis. In addition, regular stress testing and scenario analysis of major sources of risk faced by the Group is performed on capital adequacy.

(i) Capital base

The components of the total capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December and reported under Part II of the banking return “Capital Adequacy Return” (MA(BS)3) are analysed as follows:

	The Group 2007 <i>HK\$'000</i>
Core Capital	
Paid up ordinary share capital	1,172,160
Reserves (including retained earnings)	1,533,639
Share premium	749,778
Profit and loss account	229,145
Total deduction from core capital	<u>(116,355)</u>
Core capital after deduction	<u><u>3,568,367</u></u>
Eligible supplementary capital	
Reserves on revaluation of land and interest in land	23,701
Reserves on revaluation of holdings of available-for-sale securities	(87,656)
Collective impairment allowance	82,126
Regulatory reserve	213,447
Term subordinated notes	1,559,980
Total deduction from eligible supplementary capital	<u>(93,633)</u>
Supplementary capital after deduction	<u><u>1,697,965</u></u>
Total deductions from the core capital and supplementary capital	
Total capital base after deductions	<u><u>5,266,332</u></u>
Total deductions from the core capital and supplementary capital	<u><u>(209,988)</u></u>

All of the Bank’s investments in subsidiaries except for Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Bank Vanuatu Limited and Fubon Hong Kong (Taiwan) Co., Ltd. are deducted from the core capital and supplementary capital.

(B) Liquidity ratio

	The Group 2007 %
Average liquidity ratio for the year	44.35

The average liquidity ratio 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 Forth Schedule to the Hong Kong Banking Ordinance.

The ratio for the year is computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited and Fubon Bank Vanuatu Limited as required by the HKMA for its regulatory purposes.

(C) FURTHER ANALYSIS ON ADVANCES TO CUSTOMERS ANALYSED BY INDUSTRY SECTOR

Advances to customers analysed by industry sector and the coverage of collateral is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

The Group	2007	
	Gross loans and advances <i>HK\$'000</i>	% of gross loans covered by collateral %
Gross advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	59,453	66.36
– Property investment	5,874,005	69.51
– Financial concerns	678,349	6.44
– Stockbrokers	144,323	97.79
– Wholesale and retail trade	221,630	12.54
– Manufacturing	1,634,110	23.04
– Transport and transport equipment	699,036	88.01
– Information technology	14,395	94.45
– Others	2,649,604	40.32
Individuals		
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	7,300	100.00
– Loans for the purchase of other residential properties	7,272,919	95.36
– Credit card advances	533,187	–
– Others	894,852	52.53
	20,683,163	
Trade finance	2,169,800	13.69
Gross advances for use outside Hong Kong	8,780,049	44.08
Gross advances to customers	<u>31,633,012</u>	<u>56.87</u>

Analysis of the Group's impaired advances in respect of industry sectors which account for 10% or more of gross advances to customers:

As at 31 December 2007	Overdue advances <i>HK\$'000</i>	Impaired advances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	New provisions charged to income statement during the year <i>HK\$'000</i>	Loans written off during the year <i>HK\$'000</i>
- Property investment	9,988	12,429	2,286	3,287	1,747	14,823
- Loans for the purchase of other residential properties	1,683	7,928	597	2,264	597	-
- Gross advances for use outside Hong Kong	76,436	109,458	44,170	38,272	31,515	23,179
	<u>76,436</u>	<u>109,458</u>	<u>44,170</u>	<u>38,272</u>	<u>31,515</u>	<u>23,179</u>

(D) Overdue and rescheduled assets

(i) Overdue advances to customers

	The Group 2007	
	<i>HK\$'000</i>	<i>% of total advances</i>
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	32,948	0.10
- 1 year or less but over 6 months	32,926	0.10
- Over 1 year	47,703	0.15
	<u>113,577</u>	<u>0.36</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>37,379</u>	
Covered portion of overdue loans and advances	50,859	
Uncovered portion of overdue loans and advances	62,718	
	<u>113,577</u>	
Amount of expected recoveries from companies in liquidation in respect of the covered portion of overdue loans and advances	<u>16,432</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>58,642</u>	

Collateral held with respect to overdue loans and advances are mainly residential properties, cash deposits with the Group, and equipments against hire purchase and leasing loans.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Overdue assets of the Group comprise advances to customers only as at 31 December 2007.

(ii) *Rescheduled advances to customers*

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	<i>HK\$'000</i>	The Group 2007 <i>% of total Advances</i>
Rescheduled advances to customers	<u>42,779</u>	<u>0.14</u>

(iii) *Geographical analysis of overdue loans and advances to customers*

	The Group			
	As at 31 December 2007			
	Gross loans and advances <i>HK\$'000</i>	Overdue loans and advances <i>HK\$'000</i>	Impaired loans (individually determined) <i>HK\$'000</i>	Individually assessed impairment allowances <i>HK\$'000</i>
Hong Kong	25,741,152	112,295	171,121	71,160
Other	<u>5,891,860</u>	<u>1,282</u>	<u>1,282</u>	<u>922</u>
	<u>31,633,012</u>	<u>113,577</u>	<u>172,403</u>	<u>72,082</u>

The above geographical analysis is classified by the location of the borrowers after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party situated in an area different from the counterparty.

No collective impairment allowance is allocated to any geographical segment as at 31 December 2007.

(E) Cross border claims

Cross border claims are on-balance sheet exposures of counterparties based on the location of counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

Figures in HK\$'Million	The Group				Total
	Banks	Other financial institutions	Public sector entities	Others	
Asia Pacific excluding Hong Kong					
Kong	4,078	78	7	4,700	8,863
– Of which Taiwan	628	–	–	1,833	2,461
North America	1,137	898	161	251	2,447
Western Europe	9,454	80	–	134	9,668
– Of which Germany	2,411	–	–	–	2,411

(F) Non-bank Mainland exposures

The analysis of non-bank Mainland exposures includes the exposure of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

	2007			Individually assessed impairment allowances HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposures HK\$'000	Total HK\$'000	
Mainland entities	85,196	24,751	109,947	448
Companies and individuals outside the Mainland where the credit is granted for use in Mainland	<u>6,342,272</u>	<u>2,197,299</u>	<u>8,539,571</u>	<u>42,855</u>
	<u>6,427,468</u>	<u>2,222,050</u>	<u>8,649,518</u>	<u>43,303</u>

Note: The balances of exposures reported above include gross advances and other claims on customers.

(G) Currency concentration

The Group's net positions or net structural positions in foreign currencies are disclosed as follows when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies:

As at 31 December	2007				
	US dollars	Chinese Renminbi	Euros	Other foreign currencies	Total foreign currencies
Equivalent in HK\$ Million					
Spot assets	20,267	143	1,205	2,474	24,089
Spot liabilities	(17,461)	(146)	(1,906)	(3,965)	(23,478)
Forward purchase	36,956	1,566	4,363	8,290	51,175
Forward sales	(40,372)	(1,350)	(3,714)	(6,734)	(52,170)
Net option position	—	—	—	—	—
Net long/(short) position	<u>(610)</u>	<u>213</u>	<u>(52)</u>	<u>65</u>	<u>(384)</u>
Net structural position	<u>31</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>31</u>

The net option position is calculated on the basis of the delta-weighted position of options contracts. Net structural position includes the structural positions of the Bank's overseas subsidiaries involved in foreign exchange.

(H) Capital charge for credit, market and operational risks*(i) Capital requirement for credit risk*

The capital requirements on each class of exposures calculated under the standardised (credit risk) approach at the balance sheet date can be analysed as follows:

	2007 <i>HK\$'000</i>
Classes of exposures	
Public sector entity	8,349
Bank	326,790
Securities firm	12,028
Corporate	1,228,092
Collective Investment Scheme	12,234
Regulatory retail exposures	305,428
Residential mortgage loans	281,247
Other exposure which are not past due	368,719
Past due	<u>9,406</u>
 Total capital requirements for on-balance sheet exposures	 <u>2,552,293</u>
 Direct credit substitutes	 41,765
Transaction-related contingencies	4,860
Trade-related contingencies	14,849
Forward forward deposits placed	4,953
Other commitments	20,155
Exchange rate contracts	36,854
Interest rate contracts	13,231
Equity contracts	21,755
Debt security contracts or other commodity contracts	<u>443</u>
 Total capital requirements for off-balance sheet exposures	 <u>158,865</u>
 Total capital requirement for credit risk	 <u>2,711,158</u>

The disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Bank's actual "regulatory capital".

(ii) Capital requirement for market risk

The Bank uses the standardised (market risk) approach for calculation of capital requirement for market risk. Positions covered by the approach include:

- the Bank's positions held in foreign exchange, exchange rate-related derivative contracts, commodities and commodity-related derivative contracts; and
- the Bank's trading book positions held in debt securities, debt-related derivative contracts, interest rate derivative contracts, equities and equity-related derivative contracts.

Capital requirement at the balance sheet date can be analysed as follows:

	2007
	<i>HK\$'000</i>
Exchange rate exposures	22,560
Interest rate exposures	3,188
Equity exposures	–
Commodity exposures	–
	<hr/>
Total capital requirement for market risk	25,748
	<hr/> <hr/>

The disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Bank's actual "regulatory capital".

(iii) *Capital requirement for operational risk*

The capital charge for operational risk calculated in accordance with the basic indicator approach at the balance sheet date is:

	2007
	<i>HK\$'000</i>
Capital charge for operational risk	167,793
	<hr/> <hr/>

The disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Bank's actual "regulatory capital".

(I) Additional disclosures on credit risk management

(i) Credit risk exposures

Credit ratings from Standard & Poor's Rating Services and Moody's Investors Services are used for all classes of credit exposures mentioned below. The Bank follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.

The Group	2007							
	Total Exposures HK\$'000	Exposures after recognised credit risk mitigation		Risk-weighted amounts			Total exposure covered by recognised collateral HK\$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK\$'000
		Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total risk-weighted amounts HK\$'000		
On-balance sheet								
Sovereign	1,789,355	1,789,355	440,192	–	–	–	–	440,192
Public sector entity	521,822	521,822	–	104,364	–	104,364	–	–
Bank	14,193,463	14,193,463	–	4,084,870	–	4,084,870	–	–
Securities firm	198,985	–	150,345	–	150,345	150,345	48,640	–
Corporate	16,667,797	814,376	14,948,281	402,864	14,948,281	15,351,145	755,236	579,512
Collective Investment Scheme	152,927	–	152,927	–	152,927	152,927	–	–
Cash items	94,285	–	94,285	–	–	–	–	–
Regulatory retail exposures	5,519,492	–	5,090,473	–	3,817,855	3,817,855	138,731	290,288
Residential mortgage loans	9,035,805	–	9,033,204	–	3,515,587	3,515,587	2,601	–
Other exposure which are not past due	4,847,558	2,408,096	2,200,893	2,408,096	2,200,893	4,608,989	238,569	–
Past due	123,850	–	123,950	–	117,572	117,572	25,385	60,552
	<u>53,145,339</u>	<u>19,727,112</u>	<u>32,234,550</u>	<u>7,000,194</u>	<u>24,903,460</u>	<u>31,903,654</u>	<u>1,209,162</u>	<u>1,370,544</u>
Off-balance sheet								
Off-balance sheet exposure other than OTC derivative transactions or credit derivative contracts	1,329,919	309,549	1,020,370	61,910	1,020,370	1,082,280	–	–
OTC derivative transactions	1,911,713	1,311,839	599,874	303,662	599,874	903,536	–	–
	<u>3,241,632</u>	<u>1,621,388</u>	<u>1,620,244</u>	<u>365,572</u>	<u>1,620,244</u>	<u>1,985,816</u>	<u>–</u>	<u>–</u>
Exposures deducted from capital base	<u>110,765</u>							

(ii) Counterparty credit risk-related exposures

(1) The analysis of the major classes of exposures by counterparty type is as follows:

	2007 OTC derivative transactions HK\$'000
Notional amounts:	
Bank	80,231,142
Corporate	13,157,231
Others	<u>4,484,123</u>
	<u><u>97,872,496</u></u>
Credit equivalent amounts/ net exposures:	
Bank	1,311,839
Corporate	310,778
Others	<u>289,096</u>
	<u><u>1,911,713</u></u>
Risk-weighted amounts:	
Bank	303,662
Corporate	310,778
Others	<u>289,096</u>
	<u><u>903,536</u></u>

(2) The analysis of counterparty credit risk exposures is as follows:

	2007 OTC derivative transactions HK\$'000
Non-repo type transactions:	
Gross total positive fair value	747,370
Credit equivalent amounts	<u>1,911,713</u>
Recognised collateral held:	
Cash on deposit with the Bank	1,516
Credit equivalent amounts or net credit exposures net of recognised collateral held	<u><u>1,910,197</u></u>
Risk-weighted amounts:	
	<u><u>903,536</u></u>

There was no outstanding repo-style transactions and credit derivative contracts as at 31 December 2007.

(J) Additional disclosures on risk management on asset securitisation

The Bank uses the standardised (securitisation) approach to calculate the credit risk for securitisation exposures. There was no asset securitization for which the Group is an originating institution at 31 December 2007. It is an investing institution for all classes of exposures below.

Standard and Poor's Rating Services and Moody's Investors Services are the external credit agency institutions that the bank has used in relation to the each and all classes of securitisation exposures below:

The Group					
As at 31 December 2007					
	Outstanding Amounts	Risk-weighted amount	Capital requirements	Exposures deducted from its	
				Core capital	Supplementary capital
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Traditional securitisations					
- Credit cards	-	-	-	-	-
- Home equity	-	-	-	-	-
- Auto	-	-	-	-	-
- Instalment loans	-	-	-	-	-
- Others	209,902	99,137	7,931	55,382	55,383
	<u>209,902</u>	<u>99,137</u>	<u>7,931</u>	<u>55,382</u>	<u>55,383</u>
Synthetic securitisations					
- Credit cards	-	-	-	-	-
- Home equity	-	-	-	-	-
- Auto	-	-	-	-	-
- Instalment loans	-	-	-	-	-
- Others	234,501	117,251	9,380	-	-
	<u>234,501</u>	<u>117,251</u>	<u>9,380</u>	<u>-</u>	<u>-</u>
	<u>444,403</u>	<u>216,388</u>	<u>17,311</u>	<u>55,382</u>	<u>55,383</u>

The above capital requirement is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Bank's actual "regulatory capital".

(K) Additional disclosures on equity exposures in banking book

Equity holdings taken by the Group are differentiated between those taken for strategic reasons and those for long term investment for capital gains. Equity holdings taken for strategic reasons include the Group's investment in companies providing financial services which nourish spectrum of the Bank's banking services. These include provident fund services provision, electronic payment services provision, and e-banking infrastructure and platform provision. On the other hand, equity holdings in listed companies are taken for enhancing the medium-term liquidity and yield of the Bank's assets over time. All these investments are classified as "available-for-sale securities" and measured at fair value as described in Notes 2(g) and 44.

	2007
	HK\$'000
Cumulative realised gains from sales and liquidations	99,252
Unrealised gains/(losses)	
– Amount recognised in reserve but not through income statement	60,082
– Amount included in / (deducted from) supplementary capital	60,082

(L) Additional disclosures on risk management on interest rate exposures in banking book

In accordance with the prudential return "Interest Rate Risk Exposures" issued by the Hong Kong Monetary Authority, the Bank calculates, on a quarterly basis, the impact on earnings over the next 12 months under a scenario of which all interest rates other than prime rises 200 basis points.

As at 31 December 2007, the 200 basis points interest rate rises would reduce earnings over the next 12 months on the HKD and USD interest risk positions by HK\$108 million and HK\$44 million respectively.

(M) 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 2007 amounted to HK\$34,002,000.

(N) Corporate governance

The Bank is committed to high standards of corporate governance, and has fully complied throughout the year with the guidelines on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

(O) Key specialised committees

The Board of Directors has established a number of governing committees including the Executive Credit Committee, Management Committee, Asset and Liability Committee, Audit Committee, and Remuneration Committee. Compositions and functions of these committees are set out below:

(i) Executive Credit Committee

The Executive Credit Committee comprises the Chairman, Vice Chairman and two Executive Directors. This committee serves as the Credit Committee of the Board of Directors to review and approve credit proposals within limits assigned by the Board.

(ii) Management Committee

The Management Committee comprises the Bank's Chief Executive Officer, Executive Directors, Chief Financial Officer, Head of Legal Division and senior management personnel as appointed by the Chief Executive Officer. The committee is the key decision making body for the Bank and is responsible mainly for formulation of the Bank's business strategies in all major

business units. The committee also coordinates among business units during the implementation process, monitors the implementation of the approved business strategies and reviews the achievement of business targets and objectives.

(iii) Asset and Liability Committee

The Asset and Liability Committee comprises the Bank's Chief Executive Officer, Executive Directors, Chief Financial Officer, Head of Treasury and senior management personnel as appointed by the Chief Executive Officer. The committee meets at least bi-weekly with the internal auditor and compliance officer attending the meeting as observers to ensure overall compliance with the Bank's governing policies. The committee's main responsibilities include regular review of the Bank's operations relating to interest rate risk and liquidity risk and in particular the Bank's ability to meet its funding obligations, and its compliance with statutory liquidity and capital adequacy requirements. The committee regularly reviews and endorses for the Board's approval, the Bank's policies governing asset and liability management, investment, and other risk management issues. It also formulates both long term strategy for the sources and uses of funds and short term directives to address prevailing conditions and monitors the implementation of these strategies and directives. In addition, the Asset and Liability Committee assesses the risk and profitability of new products proposed by business units and approves new products.

(iv) Audit Committee

The Bank has complied with Rule 3.21 of the Listing Rule in relation to the composition of the Audit Committee. The Audit Committee comprises one Non-Executive Director and two independent Non-Executive Directors. The Audit Committee is chaired by Mr Robert James Kenrick, an Independent Non- Executive Director who has appropriate accounting professional qualifications. It meets at least four times a year and additionally when deemed necessary.

The Audit Committee ensures adequate supervision of the Bank's financial reporting processes, reviews the internal audit programmes and reports, ensures coordination between the internal and external auditors, and monitors compliance with internal policies, statutory regulations and recommendations made by the external auditors.

During the year, the Audit Committee has reviewed the Bank's financial reporting process and the systems of internal control, including reviews of the internal audit functions and the risk management process. In particular, the reviews undertaken by Audit Committee on the internal audit function include reviews of the internal audit program, the internal audit reports issued, the major findings from any investigation and remedial actions taken by the relevant departments in response to the findings.

The Committee also reviews the appointment of the external auditors and discusses with them the nature and scope of their audits. In addition, any issues arising from their audits together with the follow up actions taken by the Bank to address those issues have also been examined by the Audit Committee. The Audit Committee also reviewed the interim and annual financial statements before recommending them to the Board for approval. It also reviewed the Bank's statement on internal control systems in the annual report prior to the endorsement by the Board.

(v) Remuneration Committee

The Remuneration Committee comprises the Board's Non-Executive Chairman, Non-Executive Vice Chairman and three Independent Non-Executive Directors. The Committee meets as required to review and approve the remuneration packages for senior executives which include the Chief Executive Officer, Executive Directors, and Executive Vice Presidents. Executive Directors do not take part in decisions on their own remuneration.

(P) Market risk management

Details of the Group's market risk management policies and measures have been set out in Note 47(b).

The Group calculates VAR with a confidence level of 99% and a holding period of one trading day. The VAR model adopted by the Group is predominantly based on parametric model. This model assumes a normal symmetric distribution of risk variables.

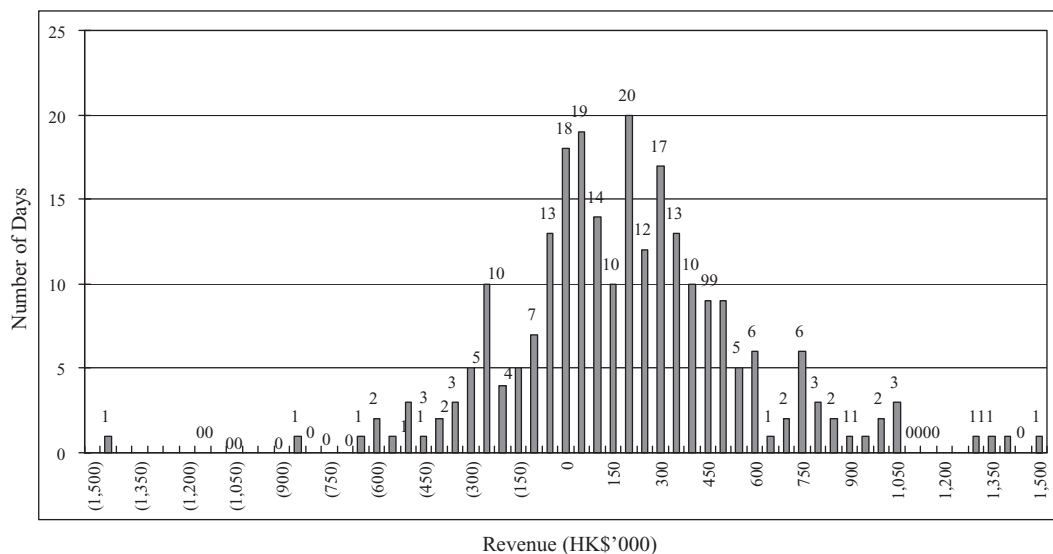
The Group has measured VAR for all material trading portfolios. The VAR results as shown in the below table are calculated independently according to the underlying positions, correlations and historical market movements.

At 31 December	2007
	<i>HK\$'000</i>
<i>VAR by risk type:</i>	
Foreign exchange risk	804
Interest rate risk	32
Equities risk	15
Total VAR	815

The Group adopts a prudent approach to managing its trading portfolios, and reduces any excessive market risk by executing offsetting transactions or hedging contracts with other market counterparties. Market risk ensues once the Group takes positions in markets such as foreign exchange, interest rates, securities and equities. Such positions are driven by execution of customer orders, proprietary trading and hedging.

The Group's maximum market risk exposures are set by the Assets and Liability Committee. Exposures are monitored and reported to the management regularly. The average daily revenue generated from the treasury's trading activities for the year was HK\$166,676 and the standard deviation was HK\$380,512. An analysis of the Group's trading revenue is shown below:

Daily Distribution of Trading Revenue for the Year Ended 31 December 2007



This shows a maximum daily loss of HK\$1,470,254 with 77 days out of 246 days showing losses. The most frequent results were observed in daily revenue falling from HK\$150,000 to HK\$200,000 with 20 occurrences. The highest daily revenue was HK\$1,486,068.

INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2008, the Group had outstanding borrowings as follows:

	Unaudited 30 September 2008 HK\$'000
Short-term borrowings (less than or equal to 1 year)	
Customer deposit accounts	38,483,644
Certificates of deposit in issue	802,934
Debt securities issued	1,462,357
Securities sold but not yet purchased	3,868,435
Securities sold under repurchase agreement	–
Deposits from banks	3,232,982
Amounts due to immediate holding company and fellow subsidiary companies	<u>181,199</u>
Total short-term borrowings	<u><u>48,031,551</u></u>
Long-term borrowings (more than 1 year)	
Customer deposit accounts	378,253
Certificates of deposit in issue	466,371
Debt securities issued	492,753
Securities sold but not yet purchased	830,289
Subordinated notes issued	1,625,646
Zero coupon bond issued	<u>146,067</u>
Total long-term borrowings	<u><u>3,939,379</u></u>
Total borrowings	<u><u>51,970,930</u></u>

Save as disclosed above, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at 30 September 2008, the Group had no other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date are:

Authorised capital: 1,406,592,000 ordinary shares of HK\$1.00 each

Issued capital: 1,172,160,000 ordinary shares of HK\$1.00 each

Immediately following the issue of the Preference Shares pursuant to the Open Offer, the Company expects that the authorised and issued share capital of the Company will be increased to:

Authorised capital: 1,406,592,000 ordinary shares of HK\$1.00 each; and 1,172,160,000 non-participating cumulative preference shares of US\$0.10237 each

Issued capital: 1,172,160,000 ordinary shares of HK\$1.00 each; and 1,172,160,000 non-participating cumulative preference shares of US\$0.10237 each

The Company has not issued any equity securities in the 12 months immediately preceding the date of this prospectus.

1. RESPONSIBILITY STATEMENT

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no facts not contained in this prospectus, the omission of which would make any statement in this prospectus misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company do not have any interests and short positions in the Company's Ordinary Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), other than the following:

Name	Ordinary shares in Fubon Financial of NT\$10 each			Total number of shares held	Percentage of total issued shares %
	Personal	Family	Corporate		
Ming-Hsing (Richard) Tsai	209,591,280	23,736,564	1,792,181,232 ⁽¹⁾	2,025,509,076	26.24
Ming-Chung (Daniel) Tsai	229,536,304	33,174,166	1,792,181,232 ⁽¹⁾	2,054,891,702	26.62
Jin-Yi Lee	450,000 ⁽²⁾	–	–	450,000	0.01
Victor Kung	460,571	–	–	460,571	0.01
David Chang Kuo-Chun	750,000	–	–	750,000	0.01

Notes:

- (1) 1,792,181,232 shares were held through corporations in which Mr. Ming-Hsing (Richard) Tsai, Mr. Ming-Chung (Daniel) Tsai and other Tsai family members have beneficial interests.
- (2) The shares were acquired during 2004 pursuant to Fubon Financial's treasury shares programme which invited the directors and certain senior management of the Fubon Financial group to acquire Fubon Financial's shares at a discounted price.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has any interests or debentures of the Company, its holding company, subsidiaries or fellow subsidiaries.

3. SHARE OPTIONS

As at the Latest Practicable Date, the Directors and chief executive of the Company mentioned below held unlisted physically settled options to acquire the number of ordinary shares of par value NT\$10 each in Fubon Financial set against their respective names. These options were granted for nil consideration by Fubon Financial during the year.

Details of the share options granted and outstanding as at the Latest Practicable Date are as follows:

Name	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of options forfeited during the year	No. of options outstanding at the Latest Practicable Date	Date granted	Period during which options are exercisable	Exercise price per share (NT\$)
Jin-Yi Lee	1,400,000	-	-	-	1,400,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	2,825,000	-	-	-	2,825,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					4,225,000			
Michael Chang Ming-yuen	1,085,000	-	-	-	1,085,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	1,416,000	-	-	-	1,416,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					2,501,000			
James Yip	1,085,000	-	-	-	1,085,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012	30.5
	1,411,000	-	-	-	1,411,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					2,496,000			
Victor Kung	1,410,000	-	-	-	1,410,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	2,830,000	-	-	-	2,830,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					4,240,000			

Name	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of options forfeited during the year	No. of options outstanding at the Latest Practicable Date	Date granted	Period during which options are exercisable	Exercise price per share (NT\$)
David Chang Kuo-Chun	1,400,000	–	–	–	1,400,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	2,820,000	–	–	–	2,820,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012 [#]	28.2
					4,220,000			

* 50% of granted options are exercisable between 31 July 2009 and 30 July 2010,
75% of granted options are exercisable between 31 July 2010 and 30 July 2011,
100% of granted options are exercisable between 31 July 2011 and 30 July 2012

50% of granted options are exercisable between 7 December 2009 and 6 December 2010
75% of granted options are exercisable between 7 December 2010 and 6 December 2011
100% of granted options are exercisable between 7 December 2011 and 6 December 2012

All the interests in shares disclosed above under this section represent long positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of the SFO). Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

The Company has no outstanding options, convertible securities or warrants which confer the right to subscribe for the Shares as at the date of this prospectus.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders showed that the Company had been notified of the following interests, being 5% or more of the Company's issued share capital:

Name of Shareholder	Number of Company Shares beneficially held	% of shareholding
Fubon Financial Holding Co., Ltd	879,120,000	75

All the interests in shares disclosed under this section represent long positions in the Company Shares. Save as disclosed above, as at the Latest Practicable Date, the Company was not aware of any other person (other than the Directors and the chief executive of the Company) who had an interest or a short position in the Company Shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and had been recorded in the register kept by the Company pursuant to section 336 of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. MATERIAL CONTRACT

On 10 June 2008, the Company entered into a share subscription agreement to subscribe to newly issued shares representing 19.99% of the enlarged issued share capital of Xiamen City Commercial Bank ("XCCB") for a cash consideration of approximately RMB230 million (approximately HK\$260 million). In addition, the Company further agreed to give its share of future dividends from XCCB of up to RMB27 million as deferred payment of part of the consideration. The Company has received the approval from the China Banking Regulatory Commission for the transaction on 13 November 2008. The transaction is expected to be completed by the end of this year. This transaction is an important breakthrough for a Taiwanese owned bank to obtain a substantial ownership and assume an active management role in a PRC commercial banking institution. The signing of the agreement underscores the Group's commitment to making the PRC a key market for growth and reinforces the Company's vision in becoming the regional financial platform for Fubon Financial. The strategic partnership with XCCB will provide the Company with an established banking franchise and knowledge of the PRC market, instant RMB access and a distribution network to better serve the banking and wealth management needs of Taiwanese and Hong Kong businessmen and their families in the PRC.

Certain sections of the Share Subscription Agreement are highly commercially sensitive to the parties thereto and are irrelevant and unnecessary for the purpose of enabling potential investors to make an informed investment decision. Such sections have been redacted from the copy of the Share Subscription Agreement which is being made available by the Company for inspection as described in the section “Documents available for inspection” on page 136 of this prospectus.

Save as described above, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group within the two years immediately preceding the date of this prospectus which are or may be material.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. MATERIAL ADVERSE CHANGE

Save as disclosed in the section entitled “Financial and Trading Prospects of the Group” on page 14 of this prospectus, the Directors are not aware of any material adverse change to the Group since 31 December 2007 (the date to which the latest published audited financial statements of the Group were made up).

9. MATERIAL INTEREST

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this prospectus and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

10. DIRECTORS’ INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

11. REMITTANCE OF PROFITS INTO HONG KONG

On 10 June 2008, the Company announced its acquisition of a 19.99% equity stake in XCCB, a company incorporated and registered in the PRC. The Company has received the approval from the China Banking Regulatory Commission for the transaction on 13 November 2008. The transaction is expected to be completed by the end of this year.

Under existing foreign exchange regulations in the PRC remittance of dividends out of the PRC may be processed through designated banks in the PRC licensed to engage in foreign currency transactions upon production of certain specified documents. However, remittance of capital payments requires the prior approval of the State Administration of Foreign Exchange or its designated local branch in the PRC.

12. CORPORATE INFORMATION

Registered office	Fubon Bank Building, 38 Des Voeux Road Central, Hong Kong
Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Solicitors	Slaughter and May, 47th Floor, Jardine House, One Connaught Place, Central, Hong Kong
Auditors	KPMG <i>Certified Public Accountants</i> 8th Floor, Prince's Building, 10 Chater Road, Central Hong Kong

13. PARTICULARS OF DIRECTORS**Ming-Hsing (Richard) TSAI***Chairman*

Aged 51. Mr. Tsai joined the Fubon Group in 1982. He is Vice Chairman of Fubon Financial Holding Co., Ltd. Mr. Tsai also acts as Chairman for Fubon Life Assurance Co., Ltd. and has over 20 years of experience in these businesses. He is currently also Chairman of Taiwan Fixed Network Co., Ltd and Taiwan Mobile Co., Ltd., a provider of telecommunication services. Prior to this, Mr. Tsai was also Chairman of Fubon Securities Co., Ltd. Mr. Tsai holds a Master of Business Administration Degree (1981) from New York University and a Bachelor of Business Administration Degree (1979) from National Taiwan University. Mr. Tsai is the brother

of Mr. Ming-Chung (Daniel) Tsai. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Tsai did not hold any other directorships in other listed public companies during the last three years.

Mr. Tsai has personal interest of 209,591,280 shares, family interest of 23,736,564 shares and corporate interest of 1,792,181,232 shares in the Company's substantial shareholder, Fubon Financial Holding Co., Ltd within the meaning of Part XV of the SFO.

Ming-Chung (Daniel) TSAI

Vice Chairman

Aged 52. Mr. Tsai joined the Fubon Group in 1981. He is currently Chairman of Fubon Financial Holding Co., Ltd. as well as Chairman of Taipei Fubon Commercial Bank Co., Ltd. Mr. Tsai is also Vice Chairman of Taiwan Mobile Co., Ltd. and Taiwan Fixed Network Co., Ltd. Mr. Tsai has extensive experience in banking and telecommunication services, as well as the land development, construction management and building leasing business. He holds a Master of Law Degree (1979) from Georgetown University and a Bachelor of Law Degree (1978) from National Taiwan University. Mr. Tsai is the brother of Mr. Ming-Hsing (Richard) Tsai. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Tsai did not hold any other directorships in other listed public companies during the last three years.

Mr. Tsai has personal interest of 229,536,304 shares, family interest of 33,174,166 shares and corporate interest of 1,792,181,232 shares in the Company's substantial shareholder, Fubon Financial Holding Co., Ltd within the meaning of Part XV of the SFO.

Jin-Yi LEE

Executive Director

Aged 51. Mr. Lee was appointed Managing Director and Chief Executive Officer of the Company in July 2004. He is currently a director of Fubon Financial Holding Co., Ltd. Mr. Lee has extensive experience in the banking industry. Before joining the Company, he was the Managing Director, Corporate Finance and Advisory, Asia Pacific of The Hongkong and Shanghai Banking Corporation Limited. Prior to that, he was the Head of Corporate Finance, Asia and a member of the Management Committee of BNP Paribas Peregrine, the Managing Director and China Senior Country Officer of J.P. Morgan Chase & Co., the Managing Director and Chairman of Hong Kong Management Committee of J.P. Morgan & Co. and Chief Executive of Morgan Guaranty Trust Co. of New York, Hong Kong Branch. Mr. Lee was also a committee member of the Hong Kong Association of Banks from 1998 to 2000. Mr. Lee graduated from National Taiwan University and obtained his MBA Degree from Harvard University. Save as disclosed above, Mr. Lee did not hold any other directorships in other listed public companies during the last three years.

Mr. Lee does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Lee has personal interest of 450,000 shares and was granted options to acquire 4,225,000 shares in the Company's substantial shareholder, Fubon Financial.

Michael CHANG Ming-Yuen

Executive Director

Aged 52. Mr. Chang joined the Company in August 2004. He is the Executive Vice President and Head of Channel and Risk Management Group, responsible for managing the distribution channels and risk management of the Company. He is an Independent Director of Hua Xia Bank Co., Limited. He is also an appointed member of the Deposit-Taking Companies Advisory Committee of the Hong Kong Monetary Authority. Mr. Chang is an experienced professional in banking management and has solid international exposures. He started his career in J.P. Morgan & Co. in New York as Vice President in Corporate Finance and Global Credit Risk Management. Before joining the Company, Mr. Chang also worked for China International Capital Corporation in charge of its capital markets operations. Mr. Chang was also a Managing Director in charge of the Investment Banking Division and Chief Administration Officer and Acting Chief Financial Officer while with BOC International Holdings Limited. Mr. Chang obtained his Bachelor Degree from National Taiwan University and Master of Business Administration Degree from the University of Chicago. He is also a Chartered Financial Analyst. He became a Director of the Company in April 2006. Save as disclosed above, Mr. Chang did not hold any other directorships in other listed public companies during the last three years.

Mr. Chang does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chang was granted options to acquire 2,501,000 shares in the Company's substantial shareholder, Fubon Financial.

James YIP

Executive Director

Aged 55. Mr. Yip joined the Company in March 2006. He is the Executive Vice President and Head of Financial Markets Group of the Company. He was previously the Regional Treasurer, Regional Head of Capital Markets at KBC Bank, NatWest Markets, Chemical Bank and Bank of America. He has over 25 years of senior management experience in Asian treasury and capital markets with major international banks in the Asia-Pacific region; as a result, Mr. Yip has lived and worked in Tokyo, Singapore and Sydney in addition to Hong Kong. Mr. Yip was a President of the Hong Kong Financial Markets Association. He was also the Asia-Pacific Representative for the Committee for Professionalism of the Association Cambiste Internationale from 1985 to 1990. Prior to joining the Company, he was the Chief Executive Officer and the co-founder of iMarkets Limited. Mr. Yip holds a Master of Applied Finance Degree

from Macquarie University, Australia. He became a Director of the Company in July 2006. Save as disclosed above, Mr. Yip did not hold any other directorships in other listed public companies during the last three years.

Mr. Yip does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Yip was granted options to acquire 2,496,000 shares in the Company's substantial shareholder, Fubon Financial.

Victor KUNG

Non-executive Director

Aged 52. Mr. Kung joined the Fubon Group in 2000, currently serves as Director and President of Fubon Financial Holding Co., Ltd. He first joined Fubon Insurance Co., Ltd. as a Director and Senior Advisor before becoming President of Fubon Financial Holding Co., Ltd. Prior to this, he was the Executive Vice President of Walden International Investment Group, specialising in private equity investments, and an Executive Director at the private equity investment arm of Citicorp Capital Asia. He is also Chairman of Fubon Asset Management Co., Ltd. and Director of Taipei Fubon Commercial Bank Co., Ltd. and Fubon Insurance Co., Ltd. Mr. Kung holds both a Master of Business Administration in Finance (1988) and a Master in Economics Degree (1982) from New York University. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Kung did not hold any other directorships in other listed public companies during the last three years.

Mr. Kung does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Kung has personal interest of 460,571 shares and was granted options to acquire 4,240,000 shares in the Company's substantial shareholder, Fubon Financial.

David CHANG Kuo-Chun

Non-executive Director

Aged 49. Mr. Chang is the Head of Financial Markets Group and Co-Head of Wealth Management Group of Fubon Financial Holding Co., Ltd. He is also the President and Director of Fubon Securities Co., Ltd. since June 2006. Before joining Fubon Financial Holding Co., Ltd, Mr Chang was responsible for the overall business of Goldman Sachs in Taiwan. He was appointed Regional Manager for Private Wealth Management Department of Goldman Sachs in Hong Kong in 1997 and became a Managing Director in 1998. Mr. Chang became the Head of Investment Banking and Branch Manager for Goldman Sachs Taipei office in June 2000. Mr. Chang is currently a Director of Taipei Fubon Commercial Bank Co., Ltd and The Taiwan Stock Exchange Inc. Mr. Chang holds a Master of Business Administration Degree from Columbia Business School. He became a Director of the Company in January 2008. Save as disclosed above, Mr. Chang did not hold any other directorships in other listed public companies during the last three years.

Mr. Chang does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chang has personal interest of 750,000 shares and was granted options to acquire 4,220,000 shares in the Company's substantial shareholder, Fubon Financial.

Robert James KENRICK

Independent Non-executive Director

Aged 60. Mr. Kenrick was a partner of the international accounting firm KPMG from 1988 to 1998 and a member of the Financial Accounting Standards Committee of the Hong Kong Institute of Certified Public Accountants from 1992 to 2001. He holds a Master of Arts and Bachelor of Arts Degree (1969) from Cambridge University and is a Certified Public Accountant (Hong Kong) and Chartered Accountant (England & Wales). He became a Director of the Company in April 1999. Mr. Kenrick did not hold any directorships in other listed public companies during the last three years.

Mr. Kenrick does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company, and he does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Moses K. TSANG

Independent Non-executive Director

Aged 59. Mr. Tsang is the Chairman and Managing Partner of Ajia Partners and the Chairman and Chief Executive Officer of EC Investment Services Limited. Prior to that, he was a General Partner of Goldman Sachs Group where he led the establishment of the Fixed Income Group in Tokyo and headed the Debt Syndicate Group in London, and served as the Chairman of Goldman Sachs (Asia) L.L.C. between 1989 and 1994. Mr. Tsang is also an Independent Non-Executive Director of China Central Properties Limited, a trustee of the Hong Kong Centre for Economic Research of the University of Hong Kong, a member of The Nature Conservancy's Asia Pacific Council and Trustee Council, and a councilor of the Copenhagen Climate Council. Mr Tsang serves as the Chairman of Brown University Parents' Council (Hong Kong), a member of Brown University Advisory Council in Asia. He has special interests in the Hong Kong Children's Cancer Foundation and the Hong Kong International School, and is a member of the World President Organization – Hong Kong Chapter. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Tsang did not hold any other directorships in other listed public companies during the last three years.

Mr. Tsang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company nor have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Hung SHIH*Independent Non-executive Director*

Aged 54. Mr. Shih is the Managing Director of China Renaissance Capital Investment Limited. He was previously a Managing Director and the China Country Head of UBS AG. Mr. Shih holds both a Master of Business Administration Degree (1982) and a Master of Law Degree (1980) from the University of Michigan, as well as a Bachelor of Law Degree (1976) from National Taiwan University. He became a Director of the Company in February 2004. Mr. Shih was an Independent Non-executive Director of Yue Yuen Industrial Holdings Limited before 1 March 2006.

Mr. Shih does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company nor have any interests in the shares of the Company within the meaning of Part XV of the SFO.

EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this prospectus or has given an opinion which is contained in this prospectus:

Name	Qualification
Quam Capital Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Quam Capital Limited has given and had not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter as set out on pages 19 to 25 of this prospectus and references to its name in the form and context in which it appears respectively.

As at the Latest Practicable Date, Quam Capital Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Quam Capital Limited did not have any direct or indirect interests in any assets which have been, since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

14. MISCELLANEOUS

- (a) The Company was incorporated in Hong Kong on 27 January 1970. Its registered office is at 38 Des Voeux Road Central, Hong Kong, which is also the business address of each of the Directors.
- (b) The qualified accountant of the Company is David Lam Yiu Chau who is a member of the Hong Kong Institute of Certified Public Accountants.
- (c) The company secretary of the Company is Juliana Chiu Yuk Ching who is a member of The Hong Kong Institute of Chartered Secretaries.
- (d) The English language text of this prospectus shall prevail over the Chinese language text.

15. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents together with the expert's consent letter referred to on page 135 has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Slaughter and May at 47th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this prospectus up to and including Thursday, 18 December 2008:

- (a) the Memorandum and the Articles;
- (b) the annual report of the Company for the three years ended from 31 December 2005, 2006 and 2007 and the interim report for the period ended 30 June 2008;
- (c) the Circular;
- (d) the irrevocable undertaking entered into by Fubon Financial in favour of the Company as described in the section entitled "Undertaking from Fubon Financial" in this prospectus;
- (e) the written consent of Quam Capital Limited referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (f) a copy of the material contract referred to in the paragraph headed "Material Contract" in this appendix.