

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

1. SPECIALISED COMMITTEES

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

(i) Executive Committee

The Executive Committee comprises all executive directors of the Bank.

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

(ii) Executive Management Committee

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

(iii) Executive Loans Committee

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

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

1. SPECIALISED COMMITTEES - continued

(iv) Loans Committee

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

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

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

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

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

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

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

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

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

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

2. RISK MANAGEMENT

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

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

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

(i) Capital management

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

(ii) Operational and legal risk

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

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

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

2. RISK MANAGEMENT - continued

(iii) Reputation risk

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

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

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

3. SEGMENTAL INFORMATION

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

	2006					
	Total	Profit	Total	Total	Total	Capital
	operating	before			contingent	
	income	taxation	assets	liabilities	liabilities and	expenditure
HK\$'000	HK\$'000	HK\$'000	HK\$'000	commitments	during the year	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,061,372	496,045	60,581,313	55,640,229	11,729,612	235,115
Asia Pacific (excluding Hong Kong)	43,248	55,139	1,935,345	1,113,537	274,869	705
America	25,608	19,730	513,241	224,403	147,388	608
Total	<u>1,130,228</u>	<u>570,914</u>	<u>63,029,899</u>	<u>56,978,169</u>	<u>12,151,869</u>	<u>236,428</u>

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

4. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and/or the business activities of the borrowers as follows:

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

5. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

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

6. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitutes 10% or more of the relevant disclosure item after taking into account any risk transfers are as follows:

	2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	10,101,438	65,696	1,339,099	11,506,233
– of which – Australia	3,929,675	2,138	995	3,932,808
North America	2,811,117	17,569	1,278,823	4,107,509
Europe	16,004,492	2,902	725,986	16,733,380
– of which – United Kingdom	3,741,074	1,478	310,507	4,053,059
– of which – Germany	3,471,632	1,278	3,980	3,476,890
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	6,544,341	63,428	1,188,122	7,795,891
– of which – Australia	3,053,656	1,077	102,101	3,156,834
North America	1,490,869	16,235	991,315	2,498,419
Europe	11,244,111	2,259	383,957	11,630,327
– of which – United Kingdom	2,696,447	1,099	356,529	3,054,075
– of which – Germany	3,666,446	999	8,603	3,676,048
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

7. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	2006			Total
	US\$	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	13,633,746	59,251	286,962	13,979,959
Spot liabilities	(13,359,547)	(49,829)	(283,551)	(13,692,927)
Forward purchases	185,772	–	2,192	187,964
Forward sales	(455,999)	–	–	(455,999)
Net long position	<u>3,972</u>	<u>9,422</u>	<u>5,603</u>	<u>18,997</u>
				MOP
Net structural position				<u>48,545</u>
	2005			Total
	US\$	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	10,218,181	84,168	302,187	10,604,536
Spot liabilities	(10,120,222)	(74,005)	(294,232)	(10,488,459)
Forward purchases	72,533	–	–	72,533
Forward sales	(156,901)	(4,004)	–	(160,905)
Net long position	<u>13,591</u>	<u>6,159</u>	<u>7,955</u>	<u>27,705</u>
				MOP
Net structural position				<u>48,545</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

8. OVERDUE AND RESCHEDULED ASSETS

	2006	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
– 6 months or less but over 3 months	59,715	0.2
– 1 year or less but over 6 months	29,325	0.1
– over 1 year	<u>356,618</u>	<u>1.3</u>
Total overdue advances	<u><u>445,658</u></u>	<u><u>1.6</u></u>
Rescheduled advances	<u><u>257,203</u></u>	<u><u>1.0</u></u>
	2005	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
– 6 months or less but over 3 months	62,520	0.3
– 1 year or less but over 6 months	24,381	0.1
– over 1 year	<u>588,924</u>	<u>2.4</u>
Total overdue advances	<u><u>675,825</u></u>	<u><u>2.8</u></u>
Rescheduled advances	<u><u>300,473</u></u>	<u><u>1.2</u></u>

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

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

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2006

9. CAPITAL ADEQUACY AND LIQUIDITY RATIO

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

The capital adequacy ratio is calculated as the ratio, expressed as a percentage, of the capital base to the risk assets, as specified in the Third Schedule of the Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited and Gallbraith Limited.

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

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month’s average ratio, as specified in the Fourth Schedule of the Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited and Gallbraith Limited.

10. OTHER FINANCIAL INFORMATION

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

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