



中國工商銀行(亞洲)

ICBC (Asia)

(STOCK CODE : 349)

Interim Report
2008

內外聯動
發揮優勢



Industrial and Commercial Bank of China (Asia) Limited

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Directors of Industrial and Commercial Bank of China (Asia) Limited (the "Bank" or "ICBC (Asia)") are pleased to present the unaudited condensed consolidated interim report of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2008. The consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity of the Group for the six months ended 30 June 2008, and the consolidated balance sheet as at 30 June 2008 of the Group, all of which are unaudited and condensed, along with notes to the condensed interim accounts, are set out on pages 11 to 55 of this report.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2008 was HK\$916 million. This represented a 27% growth over the same period last year (First half of 2007: HK\$719 million). Basic earnings per share for the six months ended 30 June 2008 were HK\$0.74 (First half of 2007: HK\$0.64). Return on average assets and return on average equity were 1.0% and 13.0% respectively (First half of 2007: 1.0% and 13.3% respectively).

Interim Dividend

The Directors are pleased to declare an interim dividend of HK\$0.28 per ordinary share for the six months ended 30 June 2008 (First half of 2007: HK\$0.23). The interim dividend will be payable in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 9 September 2008. Details of the scrip dividend and the election form will be sent to shareholders on or about Wednesday, 10 September 2008. The scrip dividend scheme is conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued under the scrip dividend scheme. The dividend warrants and the share certificates for the scrip dividend will be sent to shareholders by ordinary mail on or about Friday, 10 October 2008.

Closure of Register of Members and Register of Warrant Holders

The Register of Members and the Register of Warrant Holders of the Bank will be closed from Thursday, 4 September 2008 to Tuesday, 9 September 2008, both days inclusive, during which period no transfers of shares or warrants will be registered. In order to qualify for the above interim dividend, all transfer documents, accompanied by the relevant share certificates or in the case of warrant holders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged for registration with the Bank's Share Registrars, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 3 September 2008.

Financial Review

In the first half of 2008, the Group has achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$916 million, representing an increase of HK\$197 million or 27% over HK\$719 million achieved for the corresponding period in 2007.

Net interest income increased HK\$535 million or 54% to HK\$1,527 million. The improvement mainly came from a 30% increase in average interest-earning assets and remarkable increment of the net interest margin from 1.38% to 1.64%.

Non-interest income recorded a decline of HK\$58 million or 15% to HK\$342 million from HK\$400 million for the corresponding period in 2007. The decline is mainly due to the loss from mark-to-market revaluation of derivative instruments as well as financial assets and liabilities, together with the drastic reduction in fee income from IPO related business. The ratio of non-interest income to total operating income decreased to 18%, compared with 29% for the corresponding period in 2007.

Operating expenses increased by HK\$148 million or 30% to HK\$648 million compared with HK\$500 million for the corresponding period in 2007. However, with the proportionately larger increase in total income, the cost to income ratio has slightly decreased from 35.9% in 2007 to 34.7% in 2008.

The impairment losses on loans and advances, available-for-sale and held-to-maturity financial investments for the period were HK\$109 million, where HK\$91 million and HK\$18 million were made as additional provision for individual and collective assessments respectively.

Balance Sheet

The total assets of the Group reached HK\$202,915 million as at 30 June 2008, representing an increase of HK\$10,611 million or 6% over the position as at 31 December 2007. Increases in securities investments and total loans and advances are the main contributors to the increment.

Loans and advances increased by HK\$20,193 million or 17% to HK\$141,897 million as at 30 June 2008 as compared to HK\$121,704 million as at 31 December 2007. The increase is mainly from revolving loan, installment loan and term and demand loan products.

Taken the market opportunities, we have increased our securities investments to HK\$24,716 million, which represents an increase of HK\$4,266 million or 21% as compared to HK\$20,450 million as at 31 December 2007.

The Group has issued a total of HK\$2,076 million new certificates of deposits issue in HKD and USD during the period. As a result, total certificates of deposits issued increased HK\$753 million or 20% to HK\$4,458 million as at 30 June 2008 as compared to HK\$3,705 million as at 31 December 2007.

Customer deposits amounted to HK\$135,764 million, representing a slightly decrease of HK\$1,766 million or 1%, as compared to HK\$137,530 million as at 31 December 2007.

Capital and Liquidity Management

The Group's capital adequacy ratio increased to 14.2% as at 30 June 2008 from 13.0% as at 31 December 2007. The average liquidity ratio amounted to 35.9% (Average for the first half of 2007: 43.7%).

Asset Quality

Impaired loans and advances decreased slightly by HK\$8 million to HK\$639 million as at 30 June 2008, compared with HK\$647 million as at 31 December 2007. The impaired loan ratio remains at 0.5% as at 30 June 2008.

As at 30 June 2008, the cumulative loan impairment allowances aggregated to HK\$404 million (31 December 2007: HK\$336 million), which included HK\$175 million (31 December 2007: HK\$126 million) of individual impairment allowance and HK\$229 million (31 December 2007: HK\$210 million) of collective impairment allowance.

Overdue advances increased from HK\$104 million as at 31 December 2007 to HK\$175 million as at 30 June 2008.

Business Review

Below is a summary of the performances of our individual business operations in the first half of 2008 and their outlook for second half of the year.

Retail Banking

In the first half of 2008, our Retail Banking business grew steadily.

The residential mortgage market continued to be buoyant at the beginning of 2008, but as a result of the uncertain economic outlook and stock market volatility, it began to slow down gradually toward the end of the first quarter. Nevertheless, we still recorded a moderate increase in mortgage loans outstanding as compared to the end of 2007.

Our hire purchase and leasing business recorded a stable growth. However, due to fierce competition, our lending interest rate was squeezed inevitably.

Our securities business recorded year-on-year growth. The increase in business volume was supported by our continuous effort in enhancing our services and the stock-trading platform. However, the slowing down of the US economy, global trend of inflation, increasing uncertainties and rapid changing market environment in first half of 2008 depressed overall investment sentiment. This had resulted in a lower growth on our sale of investment products such as fund and structured products.

On customer acquisition, we continue to leverage on our parent company, ICBC, in flourishing cross-border relationships/referrals to further expand our wealth management business. To enhance the competitive edge on wealth management products and services, we have developed different types of investment products and also line up with different financial institutions to offer a diversified range of investment products for customers. We also launched various promotion offers to further sustain the growth of our wealth management business.

To further upgrade the quality of our services to high net worth customers, we have set up a new private banking business in June 2008. In addition, we have entered into an agreement to acquire the entire issued share capital of Worldsec Asset Management Limited in order to further expand our business scope and we expect to complete the acquisition shortly.

In order to strengthen the geographic coverage of our branch network, we opened another new branch at Aberdeen in May 2008. We also relocated our Jordan Branch in June 2008 to expand our business scope and scale in Central Kowloon. As at 30 June 2008, we had 42 branches in which about one-third of branches adopted the renowned branch design theme. Meanwhile, we continue to study the expansion or renovation of our current branch premises in order to strengthen our competitive edge.

In the second half of 2008, we shall continue to expand our Retail Banking business. We shall actively acquire new target customers and deposits, with focus to develop the high net worth customer base by offering dedicated wealth management and private banking service. Through cross selling, we shall be developing and solidifying our various retail banking businesses.

Treasury and Markets

In the first half of 2008, our Treasury & Markets ("T&M") business achieved a strong growth in net interest income. New products such as interest rate futures, interest rate swaps and digital options were undertaken in proprietary trading. To better internal control, we improved the organizational structure to strengthen our capability in new product development and risk management. In addition, we revised the policies and procedures and upgraded the computer system so as to commensurate with the latest business need.

In the second half of 2008, T&M will seize the market opportunities to expand the scope of investment in high quality debt securities with a view to enhance the overall yield of the entire portfolio. At the same time, in addition to the development of customer services and proprietary trading businesses, we shall continue to work closely with other departments of the Bank to provide suitable financial solutions to customers and to satisfy their need on treasury products by keeping up with the latest market development. Simultaneously, we shall continue our effort on the implementation of risk assessment and control by bringing in advanced technology that will assist us in upgrading on market risk analysis and monitoring.

Commercial Banking

Our Commercial Banking business achieved satisfactory results in the first half of 2008. At the same time, we managed to maintain a lower-than-market average of loan impairment ratio.

By offering tailor-made banking and financial service to customers, our Diamond Trade Finance, European Banking and Indian Banking continued to enjoy good reputation in the Hong Kong banking sector and contributed to overall profitability. Furthermore, our cross-border co-operation with ICBC had achieved great success and generated a significant contribution to business growth especially for trade finance related products. Such co-operation will continue and we aim to collaborate with more ICBC branches in the future.

In second half of 2008, we shall continue to provide tailor-made and “one stop” banking facilities to our customers. Also, we shall further expand our professional relationship management team to actively pursue new business and to serve our existing customers. We shall enhance our e-banking system and promote IPO business, trade finance and factoring services that will generate stable interest and non-interest income.

Corporate and Investment Banking

In the first half of 2008, our Corporate Banking business obtained satisfactory performance. We were committed to applying high-end, professional and thorough marketing strategies in serving our large corporate customers. We endeavoured to build up a professional marketing team in order to provide comprehensive and integrated service for our customers. At the same time, we capitalized on the trend of steadily rising loan demand to negotiate for better credit spread. In order to further strengthen our liability management business, we shall continue to solicit new deposits from large corporations and also to cross-sell innovative financial products.

During the period, we took the lead arranger role in major property development projects in Hong Kong, including Sino Land's residential project in Aberdeen and the acquisition of Langham Place by The Champion REIT. We also provided financing to major developers in Hong Kong, Shanghai and Beijing for their business expansion. In addition, we acted as arranger in an US\$2.23 billion and GBP 796 million financing for Borse Dubai and as mandated lead arranger in an US\$291 million acquisition financing sponsored by Macquarie Group. Furthermore, we successfully acted as advisor to a RMB2.7 billion acquisition financing for an enterprise in Mainland China.

Through a close cooperation with our wholly-owned subsidiary, Chinese Mercantile Bank which can offer RMB facilities, we continue to provide one-stop cross-border financial services to existing and potential customers.

Financial Institutions

Our Financial Institutions business recorded outstanding performance in the first half of 2008 as compared to the same period in 2007.

The Financial Institutions business platform was functioning effectively and the business activities and revenue sources were widened and diversified. Transactional banking products were also enhanced to cater for market volatility and to satisfy the growing need of our clients.

In second half of 2008, we shall continue to focus on product enhancement and development. In particular, our transactional banking product range will be further expanded and non-transactional banking products will be customized to suit our sophisticated financial institution clients.

Credit Card Business

Total revenue of our Credit Card business increased remarkably in the first half of 2008 as compared with same period in 2007. That was the combined result of a number of strategies such as differential pricing, automatic credit limit review as well as marketing promotions launched from time to time.

We adopt a systematic approach in cross-selling credit cards to banking customers with more and more banking customers being turned into credit cardholders. In addition, our cooperation with ICBC is enhanced by providing mutual merchant privileges under the same platform which extends cardholder benefits to major Mainland China cities such as Beijing, Tianjin, Shanghai, Shenzhen, Zhuhai, Hangzhou and Wenzhou.

In the second half of 2008, the outlook of our Credit Card business remains positive. Firstly, the recent adjustment in tariff will bring in more fee revenue. Secondly, the launch of the Platinum Card and the Zurich Co-branded Card will start to generate income. Thirdly, the growing merchant business will generate increasing contribution. Finally, the shortening of the maximum interest free period will reduce related funding cost.

Chinese Mercantile Bank

In the first half of 2008, Chinese Mercantile Bank ("CMB") achieved remarkable results with net profit of HK\$106 million, representing an increase of HK\$66 million or 165%, compared with HK\$40 million for the same period in 2007. As at 30 June 2008, total asset increased by HK\$2,554 million or 32% to HK\$10,639 million, compared with HK\$8,085 million as at 31 December 2007.

During the first half of 2008, CMB attained outstanding achievement in its corporate banking and syndication business. As one of the mandated lead arrangers, CMB successfully launched a HK\$3,128 million syndicated loan for a reputable enterprise in Zhuhai City. As a result, total operating income of CMB increased by HK\$113 million or 192% to HK\$172 million for the six months ended 30 June 2008, including non-interest income of HK\$27 million, as compared to HK\$59 million for the same period in 2007.

In January 2008, CMB successfully completed and implemented the upgrade of its core banking system, which enables CMB to enhance risk management, internal control, product innovation and market analysis.

With the soon opening of its Guangzhou Branch, CMB is expected to further increase its presence in Mainland China.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2008, the interests of the Directors and chief executives of the Bank in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:-

Ordinary shares of HK\$2 each in the Bank

Name of Director	Capacity in which interests are held	Number of shares held	Number of warrants ⁽¹⁾ held	Total interests	Approximate % of total issued share capital
Dr. Jiang Jianqing	Beneficial owner	14,985	1,596 ⁽²⁾	16,581	0.0013%
Mr. Zhu Qi ⁽³⁾	Beneficial owner	53,520	5,700 ⁽⁴⁾	59,220	0.0047%
Mr. Zhang Yi	Beneficial owner	2,140	228 ⁽⁵⁾	2,368	0.0002%
Mr. Yuen Kam Ho, George	Beneficial owner	24,825	15,850 ⁽⁶⁾	40,675	0.0032%

Notes:

- The underlying shares represent registered warrants of the Bank. Each warrant of the Bank entitles the holder thereof to subscribe in cash for one share, at an initial subscription price of HK\$20 per ordinary share (subject to adjustment) of HK\$2.00 each in the issued share capital of the Bank, at any time during the period from 7 November 2007 to 6 November 2008 (both days inclusive).
- This represented an interest in 1,596 units of registered warrants giving rise to an interest in 1,596 underlying shares.
- Mr. Zhu Qi has resigned as the Managing Director and Chief Executive Officer of the Bank on 22 July 2008.
- This represented an interest in 5,700 units of registered warrants giving rise to an interest in 5,700 underlying shares.
- This represented an interest in 228 units of registered warrants giving rise to an interest in 228 underlying shares.
- This represented an interest in 15,850 units of registered warrants giving rise to an interest in 15,850 underlying shares.

All the interests stated above represent long positions. As at 30 June 2008, no short positions were recorded in the register required to be kept under Section 352 of the SFO.

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executives of the Bank or their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2008, so far as the Directors were aware, the following persons (other than Directors or chief executives of the Bank) were interested in 5% or more of the issued share capital or short positions in shares or underlying shares of the Bank which would fall to be disclosed to the Bank under Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO:-

Ordinary shares of HK\$2 each in the Bank

Name of shareholder	Capacity in which interests are held	Number of shares held	Number of warrants ⁽¹⁾ held	Total interests	Approximate % of total issued share capital
Industrial and Commercial Bank of China Limited ⁽²⁾ ("ICBC")	Beneficial owner	910,892,218	–	910,892,218	71.72%
Central SAFE Investments Limited ⁽²⁾ ("Central SAFE")	Interest of controlled corporation	910,892,218	–	910,892,218	71.72%
Ministry of Finance of the People's Republic of China ⁽²⁾ ("Ministry of Finance")	Interest of controlled corporation	910,892,218	–	910,892,218	71.72%

Notes:

- The underlying shares represent registered warrants of the Bank. Each warrant of the Bank entitles the holder thereof to subscribe in cash for one share, at an initial subscription price of HK\$20 per ordinary share (subject to adjustment) of HK\$2.00 each in the issued share capital of the Bank, at any time during the period from 7 November 2007 to 6 November 2008 (both days inclusive).
- ICBC is the legal owner of 910,892,218 ordinary shares of the Bank. Each of Central SAFE and Ministry of Finance is interested in such shares as a result of Central SAFE and Ministry of Finance being entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of ICBC.

All the interests stated above represent long positions. As at 30 June 2008, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

Saves as disclosed above, as at 30 June 2008, the Bank had not been notified by any persons (other than Directors or chief executives of the Bank) who had interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank under the provisions of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO.

Compliance with the Banking (Disclosure) Rules

The Bank has fully complied with the disclosure requirements as set out in the Banking (Disclosure) Rules.

Corporate Governance

The Bank is committed to maintain high standards of corporate governance practices and also follows the module set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorized Institutions" issued by Hong Kong Monetary Authority on 21 September 2001.

In the opinion of the Directors, the Bank has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008, except for the following deviations:-

1. Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

The Non-executive Directors and the Independent Non-executive Directors of the Bank are not appointed for specific term but subject to the retirement by rotation and re-election at annual general meetings in accordance with the Bank's Articles of Association.

2. Under code provision E.1.2, the chairman of the board should attend the annual general meeting.

The Chairman of the Bank was unable to attend the annual general meeting of the Bank held on 22 May 2008 due to other important business engagements. Nonetheless, the board members (including the Chairman or the Alternate Chairman or the respective committee members of each of the Audit, Remuneration and Nomination Committees) attended the above annual general meeting to answer questions from shareholders.

The Bank considered that sufficient measures have been taken to ensure that the Bank's corporate governance practices are no less exacting than those in the code provisions as set out in the Code, details of which were set out in the Corporate Governance Report of the Bank's 2007 Annual Report.

Model Code for Securities Transactions By Directors

The Bank has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard as set out in the Model Code for the period ended 30 June 2008.

Purchase, Sale or Redemption of the Bank's Listed Securities

During the period, the Bank has not redeemed any of its listed securities. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's listed securities.

Audit Committee

During the period ended 30 June 2008, the Audit Committee of the Bank comprised three Independent Non-executive Directors, namely Professor Wong Yue Chim, Richard, *S.B.S., J.P.*, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George and one Non-executive Director, namely Mr. Chen Aiping. The Committee meets on a quarterly basis to review the effectiveness of both the external and internal audit, and of internal controls and risk evaluation.

On 22 July 2008, Mr. Chen Aiping ceased to act as a member of the Audit Committee of the Bank.

Interim Financial Information

The Audit Committee of the Bank has reviewed the results for the six months ended 30 June 2008 of the Group. The financial information in this interim report is unaudited and does not constitute statutory accounts.

On behalf of the Board
Industrial and Commercial Bank of China (Asia) Limited
Dr. Jiang Jianqing
Chairman

Hong Kong, 14 August 2008

As at the date of this interim report, the Board of Directors comprises Mr. Chen Aiping, Mr. Wong Yuen Fai and Mr. Zhang Yi as Executive Directors, Dr. Jiang Jianqing and Ms. Wang Lili as Non-executive Directors and Professor Wong Yue Chim, Richard, S.B.S., J.P., Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George as Independent Non-executive Directors.

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Unaudited)

	Notes	Six Months Ended		Change %
		30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000	
Interest income	(6)	3,905,375	3,948,360	-1%
Interest expense	(6)	(2,378,390)	(2,956,495)	-20%
Net interest income	(6)	1,526,985	991,865	54%
Fee and commission income	(7)	402,204	337,529	19%
Fee and commission expense	(7)	(47,470)	(14,405)	230%
Net fee and commission income	(7)	354,734	323,124	10%
Net trading income	(8)	88,162	55,337	59%
Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	(9)	(122,045)	9,884	-1335%
Dividend income from financial investments	(10)	13,839	2,510	451%
Other operating income	(11)	7,326	9,362	-22%
Operating income		1,869,001	1,392,082	34%
Operating expenses	(12)	(647,591)	(499,635)	30%
Operating profit before impairment losses		1,221,410	892,447	37%
Charge for impairment losses on loans and advances	(13)	(87,605)	(58,483)	50%
Write-back of impairment losses on held-to-maturity financial investments		779	1,690	-54%
Charge for impairment losses on available-for-sale financial investments		(22,336)	-	-
Operating profit after impairment losses		1,112,248	835,654	33%
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights		3,251	2,848	14%
Net (loss)/gain on disposal of available-for-sale financial investments		(10,549)	12,842	-182%
Loss on disposal of loans and advances		(28,710)	-	-
Operating profit		1,076,240	851,344	26%
Share of profits of associates		1,566	2,373	-34%
Profit before tax		1,077,806	853,717	26%
Income tax expense	(14)			
– Hong Kong		(140,847)	(136,901)	3%
– Overseas		(25,294)	(5,866)	331%
– Deferred tax		4,298	7,965	-46%
Profit attributable to equity holders		915,963	718,915	27%
Declared interim dividend	(15)	355,596	262,114	36%
Earnings per share	(16)	HK\$0.74	HK\$0.64	16%

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2008

(Unaudited)

	Notes	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000	Change %	30 Jun 2007 HK\$'000	Change %
Assets						
Cash and balances with banks and other financial institutions	(17)	30,284,554	43,666,354	-31%	95,804,175	-68%
Placements with and advances to banks and other financial institutions	(18)	906,098	1,005,234	-10%	1,857,956	-51%
Financial assets held for trading	(19)	36,451	54,256	-33%	52,830	-31%
Financial assets designated at fair value through profit or loss	(20)	1,550,788	1,754,742	-12%	1,563,180	-2%
Derivative financial instruments	(21)	1,909,708	1,213,738	57%	788,085	142%
Loans and advances to customers, banks and other financial institutions	(22)	141,897,056	121,703,671	17%	105,615,177	34%
Financial investments:		23,129,089	18,640,728	24%	16,498,090	40%
– Available-for-sale	(23)	18,233,554	15,326,911	19%	12,844,141	42%
– Held-to-maturity	(24)	4,895,535	3,313,817	48%	3,653,949	34%
Investments in associates		185,467	184,054	1%	36,858	403%
Goodwill and other intangible assets		1,027,142	1,043,582	-2%	1,054,007	-3%
Investment properties	(25)	41,576	40,624	2%	–	–
Property, plant and equipment	(26)	259,531	257,753	1%	241,323	8%
Leasehold land and land use rights		44,236	44,604	-1%	61,057	-28%
Other assets	(27)	1,643,651	2,694,720	-39%	1,244,725	32%
Total assets		202,915,347	192,304,060	6%	224,837,463	-10%
Liabilities						
Deposits from banks and other financial institutions		32,286,776	20,235,806	60%	65,370,289	-51%
Derivative financial instruments	(21)	1,761,101	1,351,698	30%	900,156	96%
Deposits from customers	(28)	135,764,254	137,530,227	-1%	124,978,087	9%
– Designated at fair value through profit or loss		301,402	298,274	1%	289,791	4%
– At amortised cost		135,462,852	137,231,953	-1%	124,688,296	9%
Certificates of deposit issued		4,457,808	3,705,396	20%	8,747,652	-49%
– Designated at fair value through profit or loss		3,857,808	3,105,399	24%	4,820,864	-20%
– At amortised cost		600,000	599,997	0%	3,926,788	-85%
Debt securities in issue designated at fair value through profit or loss		3,140,224	3,119,872	1%	3,012,158	4%
Current income tax liabilities		289,626	134,378	116%	276,929	5%
Deferred income tax liabilities	(29)	170,487	336,256	-49%	171,255	0%
Subordinated debts measured at amortised cost	(30)	7,044,690	7,545,620	-7%	7,558,175	-7%
Other liabilities	(31)	2,595,092	3,336,668	-22%	1,911,780	36%
Total liabilities		187,510,058	177,295,921	6%	212,926,481	-12%
Equity						
Share capital	(32)	2,539,970	2,451,904	4%	2,279,255	11%
Retained earnings	(33)	3,599,727	3,481,533	3%	2,934,047	23%
Other reserves	(33)	9,265,592	9,074,702	2%	6,697,680	38%
Total equity		15,405,289	15,008,139	3%	11,910,982	29%
Total equity and liabilities		202,915,347	192,304,060	6%	224,837,463	-10%

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Unaudited)

	Notes	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Total equity as at 1 January		15,008,139	11,085,303
Revaluation deficit on premises	(33)	(154)	–
Changes in fair value reserve of available-for-sale financial investments	(33)	(896,510)	361,871
Transfer from available-for-sale financial investments reserve to income statement on impairment	(33)	22,336	–
Recognition of deferred tax liabilities in revaluation reserves on bank premises and available-for-sale financial investments	(33)	162,222	(63,335)
Exchange differences arising from translation of results of a foreign subsidiary	(33)	68,225	20
Net (expense)/income not recognised in the income statement		(643,881)	298,556
Profit attributable to equity holders	(33)	915,963	718,915
Dividends paid during the period	(33)	(781,708)	(515,779)
Shares issued in lieu of dividends	(32)	608,701	324,017
Shares issued on exercise of warrants	(32)	298,166	–
Share issue expenses	(32), (33)	(91)	(30)
Total equity as at 30 June		15,405,289	11,910,982

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Unaudited)

	Six Months Ended	
	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Net cash (outflow)/inflow from operating activities	(12,688,706)	44,780,344
Net cash inflow/(outflow) from investing activities	1,692,212	(20,144)
Net cash outflow from financing activities	(525,272)	(402,754)
Effects of foreign exchange differences	62,098	32,132
Net (decrease)/increase in cash and cash equivalents	(11,459,668)	44,389,578
Cash and cash equivalents at 1 January	43,694,357	52,021,729
Cash and cash equivalents at 30 June	32,234,689	96,411,307

Components of cash and cash equivalents in the consolidated cash flow statement:

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following balances with an original maturity of three months or less:

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Cash and balances with banks and other financial institutions	2,389,218	780,409
Placements with banks and other financial institutions	27,845,523	95,228,317
Treasury bills (including Exchange Fund Bills)	1,999,948	402,581
	32,234,689	96,411,307

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Principal activities

The principal activities of the Bank are the provision of banking, financial and other financial related services.

2.1 Basis of preparation

The unaudited condensed consolidated interim accounts of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). These accounts also comply with the applicable disclosures provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and disclosure information required under the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The unaudited condensed consolidated interim accounts do not include all the information and disclosures required in the annual accounts, and should be read in conjunction with the Group’s annual accounts for the year ended 31 December 2007.

The preparation of accounts requires management to exercise its judgement and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management were the same as those applied to the consolidated accounts for the year ended 31 December 2007.

2.2 Basis of consolidation

The consolidated accounts include the accounts of the Bank and all its subsidiaries and attributable share of results and reserves of its associates. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries, which are all 100% held by the Bank, include in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Asset Management Company Limited
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Investment Holdings Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBC Asia Wa Pei Limited (in liquidation)
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd.

3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”)

The accounting policies adopted in the preparation of the condensed interim accounts are consistent with those used in the preparation of the Group’s audited accounts for the year ended 31 December 2007, except for the adoption of new HKFRS interpretations set out below.

- *HK(IFRIC) Interpretation 11 “HKFRS 2 – Group and Treasury Share Transactions”*

HK(IFRIC) Interpretation 11 requires arrangements whereby an employee is granted rights to the Group’s equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC) Interpretation 11 also addresses the accounting for sharebased payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

- *HK(IFRIC) Interpretation 12 “Service Concession Arrangements”*

HK(IFRIC) Interpretation 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC) Interpretation 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

- *HK(IFRIC) Interpretation 14 “HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”*

HK(IFRIC) Interpretation 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, HK(IFRIC) Interpretation 14 is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

3.2 Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRS and HKASs, which have been issued but are not yet effective, in these interim accounts:

- *HKFRS 2 Amendment "Share-Based Payments – Vesting Conditions and Cancellations" (effective for accounting period beginning on or after 1 January 2009)*

This amendment to HKFRS 2 Share-based payments was published in March 2008. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Company has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

- *HKFRS 3 (Revised) "Business Combination" and HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective for accounting period beginning on or after 1 July 2009)*

The revised HKFRS 3 and HKAS 27 were issued in March 2008 and become effective for financial years beginning on or after 1 July 2009. The revised HKFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised HKAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised standards must be applied prospectively and will affect future acquisitions and transactions with minority interests.

- *HKFRS 8 "Operating Segments" (effective for accounting period beginning on or after 1 January 2009)*

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

3.2 Impact of issued but not yet effective HKFRSs (continued)

- *HKAS 1 (Revised) "Presentation of Financial Statements" (effective for accounting period beginning on or after 1 January 2009)*

The revised HKAS 1 Presentation of Financial Statements was issued in December 2007. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

- *HKAS 23 (Revised) "Borrowing Costs" (effective for accounting period beginning on or after 1 January 2009)*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

- *HKAS 32 Amendment "Financial Instruments: Presentation" and HKAS 1 Amendment "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective for accounting period beginning on or after 1 January 2009)*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The revised standard is unlikely to have any financial impact on the Group.

- *HK(IFRIC) Interpretation 13 "Customer Loyalty Programmes" (effective for accounting period beginning on or after 1 July 2008)*

HK(IFRIC) Interpretation 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credit is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The adoption of HK(IFRIC) Interpretation 13 is unlikely to have a significant impact on the Group's results of operations and financial position.

The Group expects that the adoption of the above pronouncements will not have significant impacts on the Group as at the date of the interim accounts.

4. Analysis of assets and liabilities by remaining maturity

The table below summarises the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Group	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
30 June 2008								
Assets								
Cash and balances with banks and other financial institutions	2,389,218	27,895,336	-	-	-	-	-	30,284,554
Placements with and advances to banks and other financial institutions	-	-	511,506	394,592	-	-	-	906,098
Financial assets held for trading	-	-	-	196	1,655	-	34,600	36,451
Financial assets designated at fair value through profit or loss								
- other debt securities	-	-	-	-	491,872	1,058,916	-	1,550,788
Derivative financial instruments	5,747	116,777	367,201	458,746	730,354	230,883	-	1,909,708
Loans and advances to customers, banks and other financial institutions	10,786,408	6,464,586	9,834,362	35,987,856	50,346,992	27,982,764	494,088	141,897,056
Available-for-sale financial investments								
- equity securities	-	-	-	-	-	-	1,999,295	1,999,295
- certificates of deposit held	-	-	49,930	-	-	16,087	-	66,017
- other debt securities	-	-	77,932	648,889	12,436,923	2,998,217	6,281	16,168,242
Held-to-maturity financial investments								
- treasury bills	3,923,891	-	-	-	-	-	-	3,923,891
- other debt securities	-	142,763	-	335,834	397,286	95,761	-	971,644
Investments in associates	-	-	-	-	-	-	185,467	185,467
Goodwill and other intangible assets	-	-	-	-	-	-	1,027,142	1,027,142
Investment properties	-	-	-	-	-	-	41,576	41,576
Property, plant and equipment	-	-	-	-	-	-	259,531	259,531
Leasehold land and land use rights	-	-	-	-	-	-	44,236	44,236
Other assets	38,446	329,463	598,339	500,902	93,958	1,167	81,376	1,643,651
Total assets	17,143,710	34,948,925	11,439,270	38,327,015	64,499,040	32,383,795	4,173,592	202,915,347
Liabilities								
Deposits from banks and other financial institutions	1,655,064	14,236,553	14,884,843	1,510,316	-	-	-	32,286,776
Derivative financial instruments	8,020	114,108	263,048	413,932	730,747	231,246	-	1,761,101
Deposits from customers	20,586,741	80,871,408	25,839,050	8,412,619	44,297	10,139	-	135,764,254
Certificates of deposit issued	-	550,387	505,001	2,739,121	663,299	-	-	4,457,808
Debt securities in issue designated at fair value through profit or loss	-	-	-	-	3,140,224	-	-	3,140,224
Subordinated debts measured at amortised cost	-	-	-	1,169,940	3,378,878	2,495,872	-	7,044,690
Other liabilities, including current and deferred tax liabilities	114,366	962,634	375,071	1,241,204	290,865	-	71,065	3,055,205
Total liabilities	22,364,191	96,735,090	41,867,013	15,487,132	8,248,310	2,737,257	71,065	187,510,058
Net liquidity gap	(5,220,481)	(61,786,165)	(30,427,743)	22,839,883	56,250,730	29,646,538	4,102,527	15,405,289

4. Analysis of assets and liabilities by remaining maturity (continued)

Group	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Indefinite HK\$'000	Total HK\$'000
31 December 2007								
Assets								
Cash and balances with banks and other financial institutions	1,598,983	42,067,371	-	-	-	-	-	43,666,354
Placements with and advances to banks and other financial institutions	-	-	42,826	962,408	-	-	-	1,005,234
Financial assets held for trading	-	-	14,139	-	2,517	-	37,600	54,256
Financial assets designated at fair value through profit or loss								
- certificates of deposit held	-	100,006	-	-	-	-	-	100,006
- other debt securities	-	-	-	-	372,348	1,282,388	-	1,654,736
Derivative financial instruments	-	153,575	101,442	444,175	289,959	224,587	-	1,213,738
Loans and advances to customers, banks and other financial institutions	8,938,589	6,000,707	13,685,754	21,232,446	45,102,686	26,402,701	340,788	121,703,671
Available-for-sale financial investments								
- equity securities	-	-	-	-	-	-	2,467,004	2,467,004
- certificates of deposit held	-	-	-	296,085	-	25,364	-	321,449
- other debt securities	-	224,185	100,010	1,347,441	8,414,379	2,445,719	6,724	12,538,458
Held-to-maturity financial investments								
- treasury bills	1,983,493	-	-	-	-	-	-	1,983,493
- other debt securities	-	-	-	481,339	734,650	114,335	-	1,330,324
Investments in associates	-	-	-	-	-	-	184,054	184,054
Goodwill and other intangible assets	-	-	-	-	-	-	1,043,582	1,043,582
Investment properties	-	-	-	-	-	-	40,624	40,624
Property, plant and equipment	-	-	-	-	-	-	257,753	257,753
Leasehold land and land use rights	-	-	-	-	-	-	44,604	44,604
Other assets	23,042	1,534,632	871,203	165,266	54,536	199	45,842	2,694,720
Total assets	12,544,107	50,080,476	14,815,374	24,929,160	54,971,075	30,495,293	4,468,575	192,304,060
Liabilities								
Deposits from banks and other financial institutions	2,121,774	8,760,248	6,438,863	2,860,880	54,041	-	-	20,235,806
Derivative financial instruments	-	176,866	126,138	430,345	382,882	235,467	-	1,351,698
Deposits from customers	22,081,366	92,119,154	20,642,724	2,347,686	329,156	10,141	-	137,530,227
Certificates of deposit issued	-	471,804	418,308	1,301,300	1,513,984	-	-	3,705,396
Debt securities in issue designated at fair value through profit or loss	-	-	-	-	3,119,872	-	-	3,119,872
Subordinated debts measured at amortised cost	500,000	-	-	-	4,549,364	2,496,256	-	7,545,620
Other liabilities, including current and deferred tax liabilities	107,859	1,724,887	1,130,586	407,176	428,805	4,566	3,423	3,807,302
Total liabilities	24,810,999	103,252,959	28,756,619	7,347,387	10,378,104	2,746,430	3,423	177,295,921
Net liquidity gap	(12,266,892)	(53,172,483)	(13,941,245)	17,581,773	44,592,971	27,748,863	4,465,152	15,008,139

5 Segment reporting

(a) Geographical area

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, assets, liabilities, contingent liabilities or commitments are attributable to the Group's overseas operations.

(b) Class of business

The Group comprises five business segments. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing and credit card business. Treasury and markets represents foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprise corporate banking, the provision of debt capital markets and investment banking. Unallocated items mainly comprise the central management unit, bank premises and any items which cannot be reasonably allocated to a particular business segment.

5 Segment reporting (continued)

(b) Class of business (continued)

	For the six months ended 30 June 2008						Total HK\$'000
	Commercial banking HK\$'000	Retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Inter- segmental elimination HK\$'000	
Net interest income	537,952	277,217	489,388	201,103	21,325	-	1,526,985
Fee and commission income/(expense)	137,144	144,164	10,715	113,996	(3,815)	-	402,204
Fee and commission (expense)/income	(12,562)	(18,381)	23	(12,196)	(4,354)	-	(47,470)
Net fee and commission income/(expense)	124,582	125,783	10,738	101,800	(8,169)	-	354,734
Net trading income	22,959	9,649	26,387	3,193	25,974	-	88,162
Net loss on financial assets and liabilities designated at fair value through profit or loss	-	-	(107,199)	-	(14,846)	-	(122,045)
Dividend income from financial investments	-	-	-	442	13,397	-	13,839
Other operating income/(loss)	(2,654)	1,913	193	(24)	7,898	-	7,326
Inter-segment income	-	140,931	-	-	415	(141,346)	-
Operating income	682,830	555,493	419,507	306,514	45,994	(141,346)	1,869,001
Operating expenses	(194,830)	(271,356)	(54,631)	(35,267)	(91,507)	-	(647,591)
Inter-segment expenses	-	-	-	-	(141,346)	141,346	-
Operating profit/(loss) before impairment losses (Charge for)/write-back of impairment losses on loans and advances	488,009	284,137	364,876	271,247	(186,859)	-	1,221,410
Write-back of impairment losses on held-to maturity financial investments	-	-	779	-	-	-	779
Impairment losses on available-for-sale financial investments	-	-	(22,336)	-	-	-	(22,336)
Operating profit/(loss) after impairment losses	422,858	281,574	342,555	245,903	(180,842)	-	1,112,248
Net gain/(loss) from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights	-	(78)	-	-	3,329	-	3,251
Loss on disposal of loans and advances	(11,075)	(3,600)	(252)	(3,494)	(10,289)	-	(28,710)
Net loss on disposal of available-for-sale financial investments	-	-	(10,549)	-	-	-	(10,549)
Operating profit/(loss)	411,783	277,896	331,754	242,409	(187,602)	-	1,076,240
Share of profits of associates	-	-	-	-	1,566	-	1,566
Profit/(loss) before tax	411,783	277,896	331,754	242,409	(186,036)	-	1,077,806
Segment assets	53,438,088	25,996,374	76,740,335	38,845,547	223,971	-	195,244,315
Investments in associates	-	-	-	-	185,467	-	185,467
Unallocated assets	-	-	-	-	7,485,565	-	7,485,565
Total assets	53,438,088	25,996,374	76,740,335	38,845,547	7,895,003	-	202,915,347
Segment liabilities	43,708,417	48,176,843	35,526,279	44,429,658	277,529	-	172,118,726
Unallocated liabilities	-	-	-	-	15,391,332	-	15,391,332
Total liabilities	43,708,417	48,176,843	35,526,279	44,429,658	15,668,861	-	187,510,058
Capital expenditure	3,489	15,729	37	51	4,255	-	23,561
Depreciation and amortisation charges	8,412	10,434	1,023	253	29,141	-	49,263

5 Segment reporting (continued)

(b) Class of business (continued)

	For the six months ended 30 June 2007						Total HK\$'000
	Commercial banking HK\$'000	Retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Inter- segmental elimination HK\$'000	
Net interest income	364,127	256,822	120,310	137,099	113,507	-	991,865
Fee and commission income	132,512	115,229	7,024	76,510	6,254	-	337,529
Fee and commission expense	(2,886)	(11,423)	(30)	(66)	-	-	(14,405)
Net fee and commission income	129,626	103,806	6,994	76,444	6,254	-	323,124
Net trading income/(loss)	26,306	4,402	26,232	2,096	(3,699)	-	55,337
Net gain/(loss) on financial assets and liabilities designated at fair value through profit or loss	-	-	9,888	-	(4)	-	9,884
Dividend income from financial investment	-	500	-	47	1,963	-	2,510
Other operating income	1,795	1,649	1,155	541	4,222	-	9,362
Inter-segment income	-	-	-	-	26,309	(26,309)	-
Operating income	521,854	367,179	164,579	216,227	148,552	(26,309)	1,392,082
Operating expenses	(137,745)	(229,643)	(42,386)	(24,258)	(65,603)	-	(499,635)
Inter-segment expenses	-	(26,309)	-	-	-	26,309	-
Operating profit before impairment losses	384,109	111,227	122,193	191,969	82,949	-	892,447
(Charge for)/write-back of impairment losses on loans and advances	(26,971)	11,510	(831)	2,940	(45,131)	-	(58,483)
Write-back of impairment losses on held-to- maturity financial investments	-	-	1,690	-	-	-	1,690
Operating profit after impairment losses	357,138	122,737	123,052	194,909	37,818	-	835,654
Net gain/(loss) from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights	(1)	(162)	-	-	3,011	-	2,848
Net gain on disposal of available-for-sale financial investments	-	-	11,496	-	1,346	-	12,842
Operating profit	357,137	122,575	134,548	194,909	42,175	-	851,344
Share of profits of associates	-	-	-	-	2,373	-	2,373
Profit before tax	357,137	122,575	134,548	194,909	44,548	-	853,717
Segment assets	50,275,378	23,701,029	116,386,248	31,332,059	315,410	-	222,010,124
Investments in associates	-	-	-	-	36,858	-	36,858
Unallocated assets	-	-	-	-	2,790,481	-	2,790,481
Total assets	50,275,378	23,701,029	116,386,248	31,332,059	3,142,749	-	224,837,463
Segment liabilities	29,869,848	43,016,294	89,095,831	31,869,406	268,783	-	194,120,162
Unallocated liabilities	-	-	-	-	18,806,319	-	18,806,319
Total liabilities	29,869,848	43,016,294	89,095,831	31,869,406	19,075,102	-	212,926,481
Capital expenditure	971	4,148	2,666	23	14,846	-	22,654
Depreciation and amortisation charges	4,991	7,181	836	81	28,057	-	41,146

6 Net interest income

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	516,447	866,837
Placements with and advances to banks and other financial institutions	25,381	249,940
Loans and advances to customers, banks and other financial institutions	2,896,384	2,432,506
Financial investments – available-for-sale	376,241	263,938
Financial investments – held-to-maturity	46,904	86,346
	3,861,357	3,899,567
Financial assets held for trading	142	212
Financial assets designated at fair value through profit or loss	43,876	48,581
	3,905,375	3,948,360
Interest expense on:		
Deposits from banks and other financial institutions	418,099	287,163
Deposits from customers	1,649,951	2,056,656
Certificates of deposit issued	7,625	121,767
Subordinated debts measured at amortised cost	150,340	210,963
Others	10,540	23,448
	2,236,555	2,699,997
Financial liabilities designated at fair value through profit or loss	141,835	256,498
	2,378,390	2,956,495
Net interest income	1,526,985	991,865

The amount of interest income on impaired financial assets for the first half of 2008 is HK\$16,243,455 (First half of 2007: HK\$8,786,859).

7 Net fee and commission income

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Loans, overdrafts and guarantees	171,482	122,989
Securities and brokerage	70,452	67,747
Trade finance	79,663	64,281
Credit card	25,572	12,852
Remittance	11,409	9,831
Insurance	9,602	4,886
Other retail and commercial banking services	17,901	15,752
Others	16,123	39,191
Fee and commission income	402,204	337,529
Fee and commission expense	(47,470)	(14,405)
Net fee and commission income	354,734	323,124
Of which :		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	251,145	187,270
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	5,119	4,846
Of which :		
Fee and commission income by product line constitutes not less than 10% of the total amount of fees and commission income, as follows:		
– syndication loan	80,188	67,514
– securities and brokerage	70,453	67,747
– term loan	65,808	–
– inwards bill	41,255	41,143
– others	–	39,191

8 Net trading income

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Equity investments	(3,000)	(3,800)
Debt securities – financial assets held for trading	983	1,423
– available-for-sale financial investments	(53,880)	(13,573)
Derivatives	114,520	(10,499)
Foreign exchange	29,539	47,486
Others	–	34,300
Total net trading income	88,162	55,337

Included in total net trading income is the gain on financial liabilities measured at amortised cost of HK\$328,000 (First half of 2007: HK\$38,000).

9 Net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Financial assets designated at fair value through profit or loss	(103,753)	(12,311)
Financial liabilities designated at fair value through profit or loss	(18,292)	22,195
Total net (loss)/gain on financial assets and liabilities designated at fair value through profit or loss	(122,045)	9,884

10 Dividend income from financial investments

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Dividend income from listed financial assets held for trading	1,138	–
Dividend income from listed available-for-sale financial investments	9,746	–
Dividend income from unlisted available-for-sale financial investments	2,955	2,510
Total dividend income from financial investments	13,839	2,510

11 Other operating income

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Management fee income	3,750	3,000
Rental income	41	968
Rental income from investment properties	1,184	–
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(42)	–
Others	2,393	5,394
Total other operating income	7,326	9,362

12 Operating expenses

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Staff costs		
– Salaries and other costs	319,562	265,186
– Redundancy payment	–	638
– Retirement benefit cost	18,660	15,295
	338,222	281,119
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	108,264	59,920
– Others	33,424	28,099
	141,688	88,019
Depreciation and amortisation expenses	49,263	41,146
Auditors' remuneration	2,568	2,360
General administration expense	17,900	13,145
Business promotion expense	20,046	14,582
Communication expense	19,204	18,196
Other operating expenses	58,700	41,068
Total operating expenses	647,591	499,635

13 Charge for impairment losses on loans and advances

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Charge for impairment losses on loans and advances		
Individually assessed		
– New allowances	86,810	48,216
– Releases	(10,290)	(31,609)
– Recoveries	(7,703)	(4,112)
Net charge for impairment losses on individually assessed loans and advances	68,817	12,495
Collectively assessed		
– New allowances	18,788	45,988
Net charge for impairment losses on collectively assessed loans and advances	18,788	45,988
Net charge to the income statement	87,605	58,483

14 Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas branch and subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The amount of tax charged to the consolidated income statement represents:

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Current tax – provision for Hong Kong profits tax		
Tax for the period	140,847	136,901
	140,847	136,901
Current tax – provision for overseas tax		
Tax for the period	25,294	5,866
	25,294	5,866
Deferred taxation relating to the origination and reversal of temporary differences (Note 29)	(4,298)	(7,965)
	161,843	134,802

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Profit before tax	1,077,806	853,717
Calculated at a tax rate of 16.5% (2007: 17.5%)	177,838	149,400
Effect of different tax rates in other countries	1,781	3,912
Income not subject to tax	(31,092)	(34,712)
Expenses not deductible for tax purposes	26,910	16,617
Adjustments in respect of current tax of previous periods	(13,594)	–
Share of tax of associates	–	(415)
Tax charge	161,843	134,802

15 Declared interim dividend

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Declared interim dividend of HK\$0.28 (2007: HK\$0.23) per ordinary share	355,596	262,114

At a meeting held on 14 August 2008, the directors declared an interim dividend of HK\$0.28 per ordinary share. The interim dividend will be payable in cash with an option to receive new, fully paid shares in lieu of cash, to shareholders whose names appear on the Register of Members of the Bank at the close of business on Tuesday, 9 September 2008.

16 Earnings per share

Basic earnings per share amount is calculated by dividing the profit for the period attributable to equity holders by the weighted average number of ordinary shares in issue during the period.

	30 Jun 2008	30 Jun 2007
Profit attributable to equity holders (HK\$'000)	915,963	718,915
Weighted average number of ordinary shares in issue (thousands)	1,232,137	1,123,593
Basic earnings per share (HK\$ per share)	HK\$0.74	HK\$0.64

There were 35,375,740 warrants outstanding as at 30 June 2008 (First half of 2007: Nil). Diluted earnings per share amount for the period ended 30 June 2008 has not been disclosed, as the warrants outstanding had an anti-dilutive effect on the basic earnings per share for the period.

17 Cash and balances with banks and other financial institutions

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Cash in hand	212,789	214,809
Balances with central banks	617,219	394,824
Balances with other banks and financial institutions	1,559,210	989,350
Placements with banks and other financial institutions with maturity within one month	27,895,336	42,067,371
	30,284,554	43,666,354

18 Placements with and advances to banks and other financial institutions

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	906,098	955,234
Gross advances to banks and other financial institutions	-	50,000
	906,098	1,005,234

19 Financial assets held for trading

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	345	255
Unlisted	1,506	16,401
	1,851	16,656
Equity securities, at fair value:		
Listed in Hong Kong	34,600	37,600
Total financial assets held for trading	36,451	54,256
Financial assets held for trading are analysed by category of issuer as follows:		
Public sector entities	505	14,553
Banks	35,946	39,703
	36,451	54,256

20 Financial assets designated at fair value through profit or loss

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	70,941	80,983
Listed outside Hong Kong	669,015	715,974
Unlisted	810,832	957,785
Total financial assets designated at fair value through profit or loss	1,550,788	1,754,742
Financial assets designated at fair value through profit or loss are comprised of the following items:		
Certificates of deposit held	–	100,006
Other debt securities	1,550,788	1,654,736
	1,550,788	1,754,742
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Central governments and central banks	205,813	209,143
Public sector entities	197,403	203,410
Banks	343,291	480,758
Corporate entities	804,281	861,431
	1,550,788	1,754,742

21 Derivative financial instruments

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter ("OTC") between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock option).

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

21 Derivative financial instruments (continued)

The following tables summarises the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2008 and 31 December 2007:

At 30 June 2008

	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	100,917,475	937,798	(796,754)
– OTC currency options brought and sold	22,145,619	65,675	(67,230)
Total foreign exchange derivatives		1,003,473	(863,984)
b) Interest rate derivatives			
– Interest rate swaps	27,298,203	836,932	(862,106)
– OTC interest rate options	5,432,998	–	–
– Other interest rate contracts	677,996	1,712	(1,674)
Total interest rate derivatives		838,644	(863,780)
c) Equity derivatives			
– Equity options	120,814	1,968	(1,968)
Total derivative assets/(liabilities) held for trading		1,844,085	(1,729,732)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	3,701,178	65,623	(31,369)
Total derivative assets/(liabilities) held for hedging		65,623	(31,369)
Total recognised derivative assets/(liabilities)		1,909,708	(1,761,101)

21 Derivative financial instruments (continued)

At 31 December 2007

	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	93,761,244	674,483	(705,905)
– OTC currency options brought and sold	28,466,452	97,606	(106,461)
Total foreign exchange derivatives		772,089	(812,366)
b) Interest rate derivatives			
– Interest rate swaps	30,493,902	401,033	(498,197)
– OTC interest rate options	7,484,940	5,171	(5,357)
– Other interest rate contracts	600,000	1,505	(1,505)
Total interest rate derivatives		407,709	(505,059)
c) Equity derivatives			
– Equity options	80,852	1,873	(1,873)
Total derivative assets/(liabilities) held for trading		1,181,671	(1,319,298)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	2,266,544	32,067	(32,400)
Total derivative assets/(liabilities) held for hedging		32,067	(32,400)
Total recognised derivative assets/(liabilities)		1,213,738	(1,351,698)

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risks of the exposures.

21 Derivative financial instruments (continued)

The aggregate replacement costs and credit risk weighted amounts of the contingent liabilities and commitments and derivative financial instruments are:

	30 Jun 2008		31 Dec 2007	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	-	21,773,446	-	11,309,108
Exchange rate contracts	1,447,659	1,333,187	729,825	1,077,183
Interest rate contracts	452,097	328,982	391,006	356,351
Other contracts	1,967	1,118	1,873	872
	1,901,723	23,436,733	1,122,704	12,743,514

The replacement costs and credit risk weighted amounts of the exposures do not take into account the effects of bilateral netting arrangements.

22 Loans and advances to customers, banks and other financial institutions

a) Loans and advances to customers, banks and other financial institutions

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Advances to customers	113,023,824	99,220,723
Advances to banks and other financial institutions	25,524,617	20,641,536
Trade bills	2,744,374	1,565,469
Gross loans and advances to customers, banks and other financial institutions	141,292,815	121,427,728
Accrued interest	1,008,190	611,505
	142,301,005	122,039,233
Less: impairment allowances		
– Individually assessed	(174,892)	(125,293)
– Collectively assessed	(229,057)	(210,269)
	141,897,056	121,703,671
	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Gross impaired loans and advances	638,807	646,602
Individual impairment allowances	174,892	125,293
Gross impaired loans and advances as a percentage of total gross loans and advances	0.5%	0.5%
Market value of collateral	752,402	772,453

22 Loans and advances to customers, banks and other financial institutions (continued)

a) Loans and advances to customers, banks and other financial institutions (continued)

Impaired loans and advances which have been classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality according to the guidelines issued by the Hong Kong Monetary Authority and are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

There were no impaired advances to banks and other financial institutions as at 30 June 2008 and 31 December 2007 nor were there any individual impairment allowances made for them on these two dates.

b) Overdue advances to customers, banks and other financial institutions (excluding trade bills and receivables)

The gross amount of the Group's advances to customers, banks and other financial institutions (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
As at 30 June 2008						
Six months or less but over three months	124,581	0.1	30,086	26,495	98,086	53,239
One year or less but over six months	38,546	0.0	33,555	29,935	8,611	8,447
Over one year	10,327	0.0	3,680	2,175	8,152	11,437
	173,454	0.1	67,321	58,605	114,849	73,123
As at 31 December 2007						
Six months or less but over three months	44,540	0.0	39,209	33,079	11,461	10,857
One year or less but over six months	43,207	0.0	27,340	20,284	22,923	21,881
Over one year	14,554	0.0	9,238	4,365	10,189	13,215
	102,301	0.0	75,787	57,728	44,573	45,953

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a moveable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

22 Loans and advances to customers, banks and other financial institutions *(continued)*

(c) Other overdue assets

	30 Jun 2008 Accrued interest HK\$'000	30 Jun 2008 Other assets HK\$'000	31 Dec 2007 Accrued interest HK\$'000	31 Dec 2007 Other assets HK\$'000
Six months or less but over three months	-	200	25	-
Over one year	1	1,448	1	1,448
	1	1,648	26	1,448
Rescheduled assets	-	-	2	-
	1	1,648	28	1,448

Other assets refer to trade bills and receivables.

There were no debt securities which were overdue for over 3 months, nor were there any rescheduled assets as at 30 June 2008 and 31 December 2007.

(d) Rescheduled advances

	30 Jun 2008 HK\$'000	As % of advances to customers	31 Dec 2007 HK\$'000	As % of advances to customers
Rescheduled advances (excluding overdue loans over three months)	108,340	0.1	109,883	0.1

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in (b) above.

There were no advances to banks and other financial institutions which were overdue for over 3 months; nor were there any rescheduled advances to banks and other financial institutions as at 30 June 2008 and 31 December 2007.

(e) Repossessed assets

At 30 June 2008, the estimated market value of the repossessed assets of the Group amounted to HK\$29,150,000 (31 December 2007: HK\$34,360,000). They only comprise properties which the Group has acquired access or control (e.g. through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part on the obligations of the borrowers.

23 Available-for-sale financial investments

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Debt securities:		
Listed in Hong Kong	1,242,970	914,530
Listed outside Hong Kong	5,753,813	5,232,720
Unlisted	9,494,254	6,946,681
	16,491,037	13,093,931
Equity securities:		
Listed in Hong Kong	1,919,401	2,387,531
Unlisted	97,381	97,378
	2,016,782	2,484,909
Less: impairment loss – debt securities	(256,779)	(234,024)
– equity securities	(17,486)	(17,905)
Total available-for-sale financial investments	18,233,554	15,326,911
Market value of listed securities	8,659,824	8,300,756
Debt securities after taking into account of impairment loss are comprised of the following items:		
Certificates of deposit held	66,017	321,449
Other debt securities	16,168,241	12,538,458
	16,234,258	12,859,907
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	437,472	576,654
Public sector entities	789,301	811,415
Banks	7,637,812	6,495,092
Corporate entities	9,367,965	7,442,304
Others	1,004	1,446
	18,233,554	15,326,911

24 Held-to-maturity financial investments

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Debt securities:		
Listed outside Hong Kong	405,588	562,630
Unlisted	4,491,703	2,753,722
	4,897,291	3,316,352
Less: Impairment loss	(1,756)	(2,535)
Total held-to-maturity financial investments	4,895,535	3,313,817
Market value of listed securities	399,034	560,972
Debt securities after taking into account of impairment loss are comprised of the following items:		
Treasury bills	3,923,891	1,983,493
Other debt securities	971,644	1,330,324
	4,895,535	3,313,817
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	4,004,192	2,143,923
Public sector entities	95,761	114,335
Banks	210,149	326,911
Corporate entities	585,433	728,648
	4,895,535	3,313,817

25 Investment properties

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Carrying amount at 1 January	40,624	–
Transfer from property, plant and equipment and leasehold land and land use rights	–	37,770
Net revaluation gain	–	2,761
Exchange and other adjustments	952	93
Carrying amount at period/year end	41,576	40,624

26 Property, plant and equipment

	Bank premises and properties HK\$'000	Leasehold improve- ments HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2007 and 1 January 2008:				
Cost or valuation	139,411	192,153	251,664	583,228
Accumulated depreciation and impairment	(42,423)	(100,919)	(182,133)	(325,475)
Net book value at 31 December 2007 and 1 January 2008	96,988	91,234	69,531	257,753
Additions	-	7,006	12,520	19,526
Disposals	-	-	(83)	(83)
Depreciation provided during the period	(6,309)	(8,295)	(8,659)	(23,263)
Exchange rate and other adjustments	5,330	414	(146)	5,598
Net book value at 30 June 2008	96,009	90,359	73,163	259,531
At 30 June 2008:				
Cost or valuation	146,964	196,085	260,596	603,645
Accumulated depreciation and impairment	(50,955)	(105,726)	(187,433)	(344,114)
Net book value at 30 June 2008	96,009	90,359	73,163	259,531
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2008:				
At cost	-	196,085	260,596	456,681
At valuation	140,683	-	-	140,683
	140,683	196,085	260,596	597,364

26 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improve- ments HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2006 and 1 January 2007:				
Cost or valuation	144,745	169,425	233,841	548,011
Accumulated depreciation and impairment	(41,006)	(83,820)	(173,768)	(298,594)
Net book value at 31 December 2006 and 1 January 2007	103,739	85,605	60,073	249,417
Transfer to investment properties	(12,716)	–	–	(12,716)
Additions	–	26,055	24,748	50,803
Disposals	(6,323)	(51)	(505)	(6,879)
Revaluation	13,623	–	–	13,623
Depreciation provided during the year	(7,430)	(20,916)	(14,897)	(43,243)
Exchange rate and other adjustments	6,095	541	112	6,748
Net book value at 31 December 2007	96,988	91,234	69,531	257,753
At 31 December 2007:				
Cost or valuation	139,411	192,153	251,664	583,228
Accumulated depreciation and impairment	(42,423)	(100,919)	(182,133)	(325,475)
Net book value at 31 December 2007	96,988	91,234	69,531	257,753
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2007:				
At cost	–	192,153	251,664	443,817
At valuation	133,130	–	–	133,130
	133,130	192,153	251,664	576,947

27 Other assets

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Interest receivable	437,402	599,164
Prepayments	139,910	123,155
Settlement accounts	167,441	851,106
Others	898,898	1,121,295
	1,643,651	2,694,720

28 Deposits from customers

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Demand deposits and current accounts	4,216,851	5,347,433
Savings deposits	16,218,186	16,564,063
Time, call and notice deposits	115,329,217	115,618,731
	135,764,254	137,530,227

29 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2007: 17.5%).

The movements in the deferred tax asset/(liability) accounts are as follows:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
At 1 January	(336,256)	(115,885)
Credited to income statement (Note 14)	4,298	920
Credited/(debited) to equity (Note 33)	162,222	(221,319)
Exchange difference	(751)	28
At the end of the period/year	(170,487)	(336,256)

Deferred income tax assets and liabilities are offset when there is a legally enforceable rights to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Deferred income tax assets:		
to be recovered after more than 12 months	100,632	32,390
	100,632	32,390
Deferred income tax liabilities:		
to be settled after more than 12 months	(262,808)	(358,000)
to be settled within 12 months	(8,311)	(10,646)
	(271,119)	(368,646)
Deferred income tax liabilities, net	(170,487)	(336,256)

30 Subordinated debts measured at amortised cost

	30 Jun 2008		31 Dec 2007	
	HK\$'000	Interest rate %	HK\$'000	Interest rate %
Subordinated floating rate notes				
– with a final maturity on 2 July 2011	584,970	2.7125%	585,060	4.8500%
– with a final maturity on 12 December 2011	623,968	3.3588%	624,064	4.8463%
– with a final maturity on 26 March 2012	545,972	3.3588%	546,056	4.8463%
– with a final maturity on 8 December 2012	–	–	500,000	4.3507%
– with a final maturity on 28 April 2014 (callable on 28 April 2009)	1,169,940	4.1088%	1,170,120	5.5963%
– with a final maturity on 29 June 2016 (callable on 30 June 2011)	623,968	3.7831%	624,064	5.7025%
– perpetual (callable on 10 December 2012)	1,000,000	2.8129%	1,000,000	3.9507%
– perpetual (callable on 9 July 2013)	935,952	3.2831%	936,096	5.2025%
– perpetual (callable on 30 June 2016)	1,559,920	4.3831%	1,560,160	6.3025%
	7,044,690		7,545,620	

Subordinated debts were raised by the Bank for the development and expansion of business and have been fully subscribed by the ultimate holding company and its branch. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Banking (Capital) Rules.

31 Other liabilities

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Interest payable	761,611	942,930
Salaries and welfare payable	77,418	83,234
Settlement accounts	167,492	478,768
Others	1,588,571	1,831,736
	2,595,092	3,336,668

32 Share capital

	Number of shares thousands	Ordinary shares HK\$'000	Ordinary share premium HK\$'000	Preference share premium HK\$'000
At 1 January 2008	1,225,952	2,451,904	7,161,786	–
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2007	29,125	58,250	550,451	–
Warrants exercised	14,908	29,816	268,350	–
Share issue expenses (Note 33)	–	–	(91)	–
At 30 June 2008	1,269,985	2,539,970	7,980,496	–
At 1 January 2007	1,121,259	2,242,518	5,323,893	16,126
Allotment of new shares regarding the scrip dividend scheme of final dividend for the year ended 31 December 2006	18,368	36,736	287,281	–
Allotment of new shares regarding the scrip dividend scheme of interim dividend for the period ended 30 June 2007	9,983	19,966	160,833	–
Warrants exercised	76,342	152,684	1,374,142	–
Share issue expenses (Note 33)	–	–	(489)	–
Transfer of preference share premium to ordinary share premium (Note 33)	–	–	16,126	(16,126)
At 31 December 2007	1,225,952	2,451,904	7,161,786	–

The total number of authorised ordinary shares is 2,000 million shares (2007: 2,000 million shares) with a par value of HK\$2 per share (2007: HK\$2 per share). All issued shares are fully paid.

The total number of the convertible non-cumulative preference shares is 232 million shares (2007: 232 million shares) with a par value of HK\$5 per share (2007: HK\$5 per share). There was no convertible non-cumulative preference share in issue as at 30 June 2008 (2007: Nil).

The Bank adopted a scrip dividend scheme (the “Scheme”) allowing the shareholders to have the options to receive (1) dividends in cash; or (2) an allotment of new shares in lieu of cash; or (3) a combination of cash and new shares. Certain shareholders have selected to receive new shares as dividends amounted to HK\$608.7 million (2007: HK\$504.8 million).

Warrants

During the year of 2007, a bonus issue of warrants was made in the proportion of one warrant for every nine shares held by members on the Register of Members on 15 October 2007, resulting in 126,625,283 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$2 per share at a subscription price of HK\$20 per share, from the date of issue to 6 November 2008.

During the period, 14,908,309 warrants (2007: 76,341,234 warrants) were exercised for subscription of 14,908,309 shares (2007: 76,341,234 shares) of HK\$2 each at a price of HK\$20 per share. At the balance sheet date, the Bank had 35,375,740 warrants (2007: 50,284,049 warrants) outstanding. The exercise in full of such warrants would, under the present capital structure of the Bank, result in the issue of 35,375,740 additional shares (2007: 50,284,049 additional shares) of HK\$2 each.

32 Share capital (continued)

Share options

Share Option Scheme

During the period, no option has been granted and at 30 June 2008, there was no option outstanding.

The Share Option Scheme was approved by the shareholders of the Bank at its general meeting held on 10 May 2007.

The adoption of the Share Option Scheme is subject to the approval of the shareholders of ICBC, the holding company of the Bank.

33 Reserves

	Ordinary share premium HK\$'000	Convertible non- cumulative preference share premium HK\$'000	Bank premises revaluation HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2008	7,161,786	-	46,835	1,473,070	69,129	323,882	3,481,533	12,556,235
Issue of shares	818,801	-	-	-	-	-	-	818,801
Share issue expenses (Note 32)	(91)	-	-	-	-	-	-	(91)
Change in fair value of available-for-sale financial investments	-	-	-	(890,417)	-	-	-	(890,417)
Reserve realised on disposal of available-for-sale financial investments	-	-	-	(6,093)	-	-	-	(6,093)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	-	-	-	22,336	-	-	-	22,336
Revaluation deficit on bank premises	-	-	(154)	-	-	-	-	(154)
Exchange differences	-	-	-	-	68,225	-	-	68,225
Partial transfer of retained earnings to general reserve	-	-	-	-	-	16,061	(16,061)	-
Profit for the period	-	-	-	-	-	-	915,963	915,963
Change in deferred tax (Note 29)	-	-	117	162,105	-	-	-	162,222
2007 final dividend paid	-	-	-	-	-	-	(781,708)	(781,708)
At 30 June 2008	7,980,496	-	46,798	761,001	137,354	339,943	3,599,727	12,865,319

33 Reserves (continued)

	Ordinary share premium HK\$'000	Convertible non- cumulative preference share premium HK\$'000	Bank premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2007	5,323,893	16,126	38,142	495,344	-	235,014	2,734,266	8,842,785
Issue of shares	1,822,256	-	-	-	-	-	-	1,822,256
Transfer of share premium (Note 32)	16,126	(16,126)	-	-	-	-	-	-
Share issue expenses (Note 32)	(489)	-	-	-	-	-	-	(489)
Change in fair value of available-for-sale financial investments	-	-	-	965,978	-	-	-	965,978
Reserve realised on disposal of available-for-sale financial investments	-	-	-	(14,880)	-	-	-	(14,880)
Transfer from available-for-sale financial investments reserve to the income statement on impairment	-	-	-	234,024	-	-	-	234,024
Disposal of bank premise Revaluation surplus on bank premises	-	-	(51)	-	-	-	51	-
Exchange differences	-	-	22,666	-	-	-	-	22,666
Partial transfer of retained earnings to general reserve	-	-	-	1	69,129	372	4,817	74,319
Profit for the year	-	-	-	-	-	88,496	(88,496)	-
Change in deferred tax (Note 29)	-	-	(13,922)	(207,397)	-	-	-	(221,319)
2006 final dividend paid	-	-	-	-	-	-	(515,779)	(515,779)
2007 interim dividend paid (Note 15)	-	-	-	-	-	-	(262,114)	(262,114)
At 31 December 2007	7,161,786	-	46,835	1,473,070	69,129	323,882	3,481,533	12,556,235

(a) The general reserve of the Group comprised:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary represents 10% of the profit after tax appropriation as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

(b) As at 30 June 2008, the Group has earmarked a "Regulatory Reserve" of HK\$970,177,000 (2007: HK\$819,332,000) from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

34 Balances with group companies

(a) Included in the following balance sheet items are balances with the ultimate holding company:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
On-balance sheet		
Cash and balances with banks and other financial institutions	2,349,847	1,789,679
Placements with and advances to banks and other financial institutions maturing between one and twelve months	343,182	343,235
Loans and advances to customers, banks and other financial institutions	25,615,582	20,045,203
Other assets	59,399	67,452
	28,368,010	22,245,569
Deposits from banks and other financial institutions	23,502,002	11,678,919
Certificates of deposit issued	779,960	780,080
Other liabilities	147,867	147,282
Subordinated debts measured at amortised cost	7,044,690	7,545,620
	31,474,519	20,151,901

Note:

Included in deposits from banks and other financial institutions is an amount of HK\$8,579,560 (2007: HK\$1,560,160,000) representing the utilisation of a standby credit facility of US\$2,500,000,000 (2007: US\$3,000,000,000) granted by the ultimate holding company to the Bank for working capital purposes.

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Off-balance sheet		
Foreign exchange contracts - contractual amount	14,643,135	8,461,947
Interest rate swaps - notional principal	5,298,966	6,195,955
Interest rate options - contractual amounts		
– options purchased	–	22,500
– options written	1,051,429	1,570,117
	1,051,429	1,592,617
Other commitments with maturity within one year		
– overdraft facility	2,250,000	2,770,283

34 Balances with group companies *(continued)*

(b) Included in the following balance sheet items are balances with fellow subsidiaries:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
On-balance sheet		
Cash and balances with banks and other financial institutions	800,000	78,008
Loans and advances to customers, banks and other financial institutions	100,133	–
Other assets	623	3,878
	900,756	81,886
Deposits from banks and other financial institutions	597,518	438,959
Deposits from customers	830,991	1,040,266
Other liabilities	5,612	9,815
	1,434,121	1,489,040
Off-balance sheet		
Foreign exchange contracts - contractual amount	–	201,795
Interest rate swaps - notional principal	23,399	234,024

(c) Included in the following balance sheet items are related party transaction balances with a shareholder with a significant influence over the ultimate holding company:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
On-balance sheet		
Available-for-sale financial investments	572,412	438,086
Other assets	4,112	5,103
	576,524	443,189
Deposits from customers	389,980	499,251
Other liabilities	153	61
	390,133	499,312

34 Balances with group companies (continued)

(d) Included in the following balance sheet items are balances with associates:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
On-balance sheet		
Other assets	1,165	1,401
	1,165	1,401
Deposits from customers	25,999	51,127
Other liabilities	–	18
	25,999	51,145
Off-balance sheet		
Interest rate swaps - notional principal	100,000	100,000

35 Related party transactions

During the period, the Group entered into various transactions in the normal course of business with related parties, including the ultimate holding company, fellow subsidiaries and associates.

(a) Summary of transactions entered into during the ordinary course of business with related parties

The aggregated incomes and expenses arising from related party transactions with the ultimate holding company, fellow subsidiaries and associates are summarised as follows:

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Interest income		
– Placement (Note (i))	27,756	52,109
– Interest rate swaps (Note (ii))	100,108	259,563
– Loans and advances (Note (iii))	523,486	32,358
Interest expense		
– Deposits (Note (iv))	(278,359)	(235,274)
– Interest rate swaps (Note (ii))	(127,195)	(305,181)
– Certificates of deposit issued (Note (v))	(21,287)	(107,589)
– Subordinated debts measured at amortised cost (Note (vi))	(150,340)	(210,963)
Net option premium expense (Note (vii))	(101)	(781)
Management fee income (Note (viii))	3,750	3,000
Premises income (Notes (ix) & (x))	11,200	5,267
Dividend services income (Note (xi))	257	–
Custodian and trustee services income (Note (xii))	3,210	–
Commission income (Note (xiii))	5,963	–
Commission expense (Note (xiv))	(46)	–
Data processing service fee expense (Note (xv))	(7,257)	(6,456)
Premises expense (Note (xvi))	(2,700)	(3,731)
Mainland China loan service fee expense (Note (xvii))	(103)	(18)
Fee expense on sub-participation of loans (Note (xviii))	(26,304)	(1,976)

35 Related party transactions *(continued)*

(a) Summary of transactions entered into during the ordinary course of business with related parties *(continued)*

Notes

- (i) Interest income was received on inter-bank deposits placed with the ultimate holding company and fellow subsidiaries at prevailing market rates.
- (ii) Interest income and expense was received from and paid to the ultimate holding company and fellow subsidiaries on the interest rate swaps at prevailing market rates. These transactions included interest rate swaps entered on a back-to-back basis with the ultimate holding company and fellow subsidiaries.
- (iii) Interest income was received from loans and advances to the ultimate holding company and fellow subsidiaries.
- (iv) Interest expense was paid on the deposits taken from the ultimate holding company, fellow subsidiaries and associates.
- (v) Interest expense was paid to the ultimate holding company for fixed rate certificates of deposit issued by the Bank which were fully subscribed by the branch of the ultimate holding company with a total nominal value of US\$100 million (First half of 2007: US\$500 million).
- (vi) Interest expense was paid to the ultimate holding company for subordinated floating rate notes issued by the Bank which were subscribed by the ultimate holding company and its branch totalling US\$775 million and HK\$1,000 million (First half of 2007: US\$775 million and HK\$1,500 million).
- (vii) Net option premium expense was paid to the ultimate holding company on the various option contracts at prevailing market rates.
- (viii) In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 28 September 2007, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
- (ix) In accordance with the licence agreement dated 31 May 2007, premises expense was paid by the Branch to the Bank for using a portion of floor area on the 28th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (x) In accordance with the licence Agreement dated 30 May 2007, premises expenses was paid by ICEA Services Limited to the Bank for using Suites 2501-2 and the 26th floor, ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (xi) In accordance with the dividend services agreement dated 4 June 2007, service fees were paid by the ultimate holding company to the Bank for providing services in relation to distribution and payment of dividends payable by the ultimate holding company to the holders of its H shares.
- (xii) In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreement dated 16 May 2008, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
- (xiii) Commission income was received from banking services provided to the ultimate holding company, fellow subsidiaries and associates.
- (xiv) Commission expense was paid on banking services rendered by the ultimate holding company.
- (xv) In accordance with the service levels agreements with the Bank dated 21 February 2002 and 19 February 2008, and the service levels agreement with the subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.
- (xvi) In accordance with the collaboration agreement dated 3 July 2001, the supplemental collaboration agreement dated 4 February 2005 and the licence agreement dated 27 December 2001, premises expense was paid to the Branch for using a portion of floor area rented by the Branch. This transaction was expired from 1 April 2006 followed the acquisition of the credit card business of the Branch. In accordance with the tenancy agreement dated 31 July 2006, premises expense was paid to a fellow subsidiary for using a portion of the first floor of No.9 Queen's Road Central, Hong Kong.
- (xvii) Service fee was paid to related ICBC branches for assisting the Bank in the Mainland China loan business.
- (xviii) Fee was paid to the Branch on sub-participation of loans.

35 Related party transactions (continued)

(b) Purchase and sale of certain assets from/to related parties

Sub-participation of loans

During the six months ended 30 June 2008, the Bank entered into various capital market transactions with the ultimate holding company and the branches of the ultimate holding company ("the Branches"). These transactions included sub-participation in loans of the Bank by the Branch, the ultimate holding company and the Branches for a total of HK\$123,999,716,000 (First half of 2007: HK\$38,978,933,000) and similar sub-participation in loans of the Branch by the Bank for a total of HK\$65,141,053,000 (First half of 2007: HK\$12,521,644,000). Fee attributable to the above transactions of HK\$26,304,000 was paid (First half of 2007: HK\$1,976,000). These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent loan members.

Purchase and sale of debt securities

During the six months ended 30 June 2008, the Bank did not purchase debt securities (First half of 2007: HK\$6,433,000) from the ultimate holding company and the Branches. Debt securities with total carrying value of HK\$218,389,000 (First half of 2007: HK\$164,068,000) were sold by the Bank to the Branch and the fellow subsidiaries. These transactions were entered into on normal commercial terms with reference to prevailing market rates.

(c) Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was issued by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement pursuant to which the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000 the payment obligations of certain customers whose "large exposures" were transferred to the Bank pursuant to a business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. The amount of such on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2008 was HK\$39,438,000 (First half of 2007: HK\$144,157,000).

(d) Included in the following income statement items are related party transactions with a shareholder with a significant influence over the ultimate holding company:

	30 Jun 2008 HK\$'000	30 Jun 2007 HK\$'000
Income Statement		
Interest income from		
– Available-for-sale financial investments	12,313	38,791
– Designated at fair value through profit or loss securities	–	495
– Interest rate swap	–	2,502
Gain on disposal of available-for-sale financial investments	–	8,808
Change in fair value of designated at fair value through profit or loss securities	–	(37)
Other income	–	4,687
Interest expense from deposits	9,599	42,179

35 Related party transactions *(continued)*

(e) Transactions with other state-controlled entities

Following the listing of the ultimate holding company on the Stock Exchange, in 2006, the Group follows the definitions of related parties adopted by the ultimate holding company and only the following state-controlled entities are considered as related parties:

- The Ministry of Finance PRC ("MOF")
- Central SAFE Investments Limited ("Huijin")
- Banks and financial institutions under the direction of the PRC government in which Huijin has equity interests
- Related parties which the Group enters into transactions within the Group's ordinary course of business on normal commercial terms. These transactions include loans, deposits, investment securities, money market transactions and off-balance sheet exposures and they are executed at the relevant market rates at the time of the transactions.

The significant outstanding balances of related party transactions at the period/year end, and the related major incomes and/or expenses for the period/year are as follows:

(i) *Loans and advances to customers, banks and other financial institutions*

	30 Jun 2008 HK\$'million	31 Dec 2007 HK\$'million
Outstanding balance at the end of the period/year	–	30
	Six months ended	
	30 Jun 2008 HK\$'million	30 Jun 2007 HK\$'million
Interest income recognised during the period/year	15	7

(ii) *Investment securities*

	30 Jun 2008 HK\$'million	31 Dec 2007 HK\$'million
Outstanding balance at the end of the period/year		
– available-for-sale financial investments	23	–
– financial assets held for trading	36	61
	Six months ended	
	30 Jun 2008 HK\$'million	30 Jun 2007 HK\$'million
Other operating expense recognised during the period/year	3	4

35 Related party transactions (continued)

(e) Transactions with other state controlled entities (continued)

(iii) Placements with and advances to banks and financial institutions

	30 Jun 2008 HK\$'million	31 Dec 2007 HK\$'million
Outstanding balance at the end of the period/year	1,485	1,499
	Six months ended	
	30 Jun 2008 HK\$'million	30 Jun 2007 HK\$'million
Interest income recognised during the period/year	20	31

(iv) Deposits from banks and financial institutions

	30 Jun 2008 HK\$'million	31 Dec 2007 HK\$'million
Outstanding balance at the end of the period/year	494	1,926
	Six months ended	
	30 Jun 2008 HK\$'million	30 Jun 2007 HK\$'million
Interest expense recognised during the period/year	14	5

(v) Deposits from customers

	30 Jun 2008 HK\$'million	31 Dec 2007 HK\$'million
Outstanding balance at the end of the period/year	1,278	2,000
	Six months ended	
	30 Jun 2008 HK\$'million	30 Jun 2007 HK\$'million
Interest expense recognised during the period/year	12	9

35 Related party transactions (continued)

(e) Transactions with other state controlled entities (continued)

(vi) Others

	Six months ended	
	30 Jun 2008	30 Jun 2007
	HK\$'million	HK\$'million
Other expense recognised during the period/year	–	(1)

(vii) Off balance sheet exposures

	30 Jun 2008	31 Dec 2007
	HK\$'million	HK\$'million
Outstanding balance at the end of the period/year	1,143	435

(f) Key management personnel remuneration

Remuneration for key management personnel is as follow:

	Six months ended	
	30 Jun 2008	30 Jun 2007
	HK\$'000	HK\$'000
Employee benefits	11,160	13,237

(g) Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties including key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

Material transactions conducted with key management personnel and related parties of the Group and the Bank are as follows:

	Six months ended	
	30 Jun 2008	30 Jun 2007
	HK\$'000	HK\$'000
Loans and advances	6,107	4,461
Deposits	7,091	30,853
Interest income	97	135
Interest expense	215	227

36 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following are the summaries of the contractual amounts of each of the significant classes of contingent liabilities and commitments:

	30 Jun 2008	30 Jun 2008	31 Dec 2007	31 Dec 2007
	Contractual	Credit risk	Contractual	Credit risk
	amount	weighted	amount	weighted
	HK\$'000	amount	HK\$'000	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	25,151,023	12,385,511	2,746,878	1,161,243
Transaction-related contingencies	645,740	279,048	370,190	79,906
Trade-related contingencies	3,268,918	565,520	3,456,524	588,696
Other commitments				
– That are unconditionally cancellable	55,415,686	–	66,783,098	–
– With original maturity of less than one year	215,505	42,845	1,123,559	223,738
– With original maturity of over one year	15,313,466	7,655,476	14,847,747	7,423,184
Forward assets purchased	–	–	270,000	270,000
Forward forward deposits placed	4,225,231	845,046	7,811,705	1,562,341
	104,235,569	21,773,446	97,409,701	11,309,108

(b) Capital commitments

Capital commitments outstanding for the period/year not provided for in the accounts were as follows:

	30 Jun 2008	31 Dec 2007
	HK\$'000	HK\$'000
Expenditure contracted but not provided for	44,592	3,685
Expenditure authorised but not contracted for	–	24
	44,592	3,709

36 Off-balance sheet exposures (continued)

(c) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases for the period/year as follows:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Land and buildings		
– Not later than one year	218,237	207,100
– Later than one year and not later than five years	606,875	611,810
– More than five years	99,814	160,048
	924,926	978,958

(d) Operating lease arrangements

The Group leases its investment properties (Note 25 to the accounts) and car parks under operating lease arrangements, with leases negotiated for terms ranging from one to eight years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Within one year	2,407	2,253
In the second to fifth years, inclusive	3,613	4,194
After five years	234	549
	6,254	6,996

During the period/year, the Group has no unrecognised contingent rentals receivable (2007: Nil).

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

The following information is disclosed as part of the accompanying information to the accounts.

1 Capital adequacy and capital base

	30 Jun 2008	31 Dec 2007
Core capital ratio	8.9%	7.3%
Capital adequacy ratio	14.2%	13.0%

The components of the total capital base after deductions include the following items:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
Core capital:		
Paid up ordinary share capital	2,539,970	2,451,904
Share premium	7,980,496	7,161,786
Reserves	2,013,172	1,476,433
Income statement	548,213	545,763
Deduct: Goodwill	(978,576)	(973,419)
Other intangible assets	(45,285)	(66,882)
50% of total unconsolidated investments and other deductions	(420,321)	(459,898)
	11,637,669	10,135,687
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	5,378	5,378
Fair value (losses)/gains on the revaluation of available-for-sale equities and debt securities	(531,166)	21,899
Unrealised fair value gains arising from equities and debt securities designated at fair value through profit or loss	–	37,330
Collective impairment allowances and regulatory reserve	1,200,989	1,032,136
Perpetual subordinated debts	3,495,872	3,496,256
Subordinated debts measured at amortised cost	3,197,836	3,807,539
Deduct: 50% of total unconsolidated investments and other deductions	(420,321)	(459,898)
	6,948,588	7,940,640
Total capital base before deductions	18,586,257	18,076,327
Deductions from total capital base	–	–
Total capital base after deductions	18,586,257	18,076,327
Risk-weighted assets		
Credit risk	123,356,041	130,839,560
Market risk	1,951,163	3,120,400
Operational risk	5,521,575	4,914,788
Total risk-weighted assets	130,828,779	138,874,748

1 Capital adequacy and capital base (continued)

The capital ratios as at 30 June 2008 and as at 31 December 2007 were computed in accordance with the Banking (Capital) Rules (the "Capital Rules") issued by the Hong Kong Monetary Authority under section 98A of the Hong Kong Banking Ordinance for the implementation of the "Basel II" with effect from 1 January 2007. In view of the Capital Rules, the Bank has adopted the "standardised (credit risk) approach" for the calculation of the risk-weighted assets for credit risk, "basic indicator approach" for the calculation of the operational risk and the "standardised (market risk) approach" for the calculation of market risk. Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are "regulated financial entities" (e.g. insurance and securities companies) as defined by the Capital Rules. Accordingly the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries. Unconsolidated subsidiaries include UB China Business Management Co. Ltd, ICBC (Asia) Investment Holdings Limited, ICBC (Asia) Bullion Company Limited, ICBC (Asia) Securities Limited, ICBC (Asia) Trustee Company Limited, ICBC (Asia) Asset Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

2 Liquidity ratio

The average liquidity ratio for the six months ended is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

	30 Jun 2008	30 Jun 2007
Average liquidity ratio for the six months ended	35.9%	43.7%

3 Segmental information

(a) Loans and advances to customers, banks and other financial institutions

Advances to customers, banks and other financial institutions by geographical area

The Group's gross advances to customers, banks and other financial institutions by country or geographical area after taking into account the risk transfers are as follows:

As at 30 Jun 2008	Gross advances to customers, banks and other financial institutions HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	87,796,344	175,102	635,056	174,892	180,109
Mainland China	38,092,403	-	3,751	-	18,599
Macau	1,558,051	-	-	-	3,118
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	4,843,751	-	-	-	9,702
United Kingdom	14,891	-	-	-	5
Others	8,987,375	-	-	-	17,524
	141,292,815	175,102	638,807	174,892	229,057

3 Segmental information (continued)

(a) Loans and advances to customers, banks and other financial institutions (continued)

As at 31 Dec 2007	Gross advances to customers, banks and other financial institutions HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	80,072,327	98,122	640,984	119,703	168,449
Mainland China	25,100,485	5,557	5,548	5,590	15,688
Macau	796,440	70	70	-	1,366
Asia Pacific Region (excluding Hong Kong, Mainland China and Macau)	5,461,426	-	-	-	10,353
United Kingdom	1,188,098	-	-	-	1,527
Others	8,808,952	-	-	-	12,886
	121,427,728	103,749	646,602	125,293	210,269

Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

(b) Cross-border claims

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account of the transfers of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas that constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions HK\$ million	Public sector entities HK\$ million	Others HK\$ million	Total HK\$ million
As at 30 Jun 2008				
Asia Pacific (excluding Hong Kong)	38,940	3,166	63,413	105,519
Europe	20,869	-	497	21,366
As at 31 Dec 2007				
Asia Pacific (excluding Hong Kong)	25,857	2,889	15,323	44,069
Europe	40,875	-	884	41,759

3 Segmental information (continued)

(c) Non-bank Mainland exposures

The analysis of non-bank Mainland exposure is based on the categories of non-bank counterparties and the types of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the completion instructions in note 6 of the "Returns of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A", which includes the Mainland exposures extended by the Bank and its overseas subsidiary and branch.

	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total exposures HK\$'000	Individually assessed allowance HK\$'000
As at 30 Jun 2008				
Mainland entities	18,153,767	729,438	18,883,205	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	12,716,043	1,204,611	13,920,654	120,192
Other counterparties whose exposure is considered by the Bank to be non-bank Mainland exposure	1,908,682	60,546	1,969,228	–
	32,778,492	1,994,595	34,773,087	120,192
As at 31 Dec 2007				
Mainland entities	16,100,628	1,329,091	17,429,719	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	7,660,219	1,093,919	8,754,138	74,657
Other counterparties whose exposure is considered by the Bank to be non-bank Mainland exposure	2,039,396	629,079	2,668,475	5,558
	25,800,243	3,052,089	28,852,332	80,215

4 Loans and advances to customers, banks and other financial institutions

Gross loans and advances to customers, banks and other financial institutions by industry sector

	30 Jun 2008 Gross loans and advances HK\$'000	30 Jun 2008 % of secured advances	31 Dec 2007 Gross loans and advances HK\$'000	31 Dec 2007 % of secured advances
Loans for uses in Hong Kong				
Industrial, commercial and financial				
– Property development	7,060,620	24.06%	6,932,715	29.30%
– Property investment	19,410,500	71.38%	17,544,326	65.74%
– Financial concerns	4,356,018	3.81%	5,044,113	2.60%
– Stockbrokers	20,207	98.98%	115,996	98.87%
– Wholesale and retail trade	4,138,732	64.21%	3,730,013	54.47%
– Civil engineering works	280,277	55.40%	380,307	31.23%
– Manufacturing	4,522,280	44.61%	3,854,159	45.91%
– Transport and transport equipment	8,120,340	69.29%	7,865,445	59.99%
– Electricity and gas	45,235	100.00%	60,366	96.76%
– Information technology	2,095,690	0.02%	2,030,657	0.15%
– Recreational activities	5,804	100.00%	7,121	100.00%
– Hotels, boarding houses and catering	1,108,688	35.05%	937,490	9.18%
– Others	4,884,093	29.25%	4,739,386	26.12%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	339,281	89.34%	310,275	84.49%
– Loans for the purchase of other residential properties	12,412,992	99.92%	11,789,246	97.84%
– Credit card advances	80,929	0.00%	100,844	0.00%
– Others	1,978,450	96.23%	1,501,626	96.02%
Trade finance	33,276,335	8.57%	27,688,336	9.92%
Loans for uses outside Hong Kong	37,156,344	23.85%	26,795,307	18.04%
	141,292,815	38.49%	121,427,728	36.78%

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers, banks and other financial institutions are as follows:

	30 Jun 2008 HK\$'000	31 Dec 2007 HK\$'000
(a) Property investment		
Individually impaired loans	148,702	186,068
Overdue loans and advances over three months	148,704	186,068
Individual impairment allowance	2,375	3,035
Collective impairment allowance	38,549	36,460
New impairment allowances charged to income statement	3,063	21,509
Impaired loans and advances written off during the period/year	–	503
(b) Trade Finance		
Individually impaired loans	102,813	70,209
Overdue loans and advances over three months	102,813	70,894
Individual impairment allowance	48,079	31,636
Collective impairment allowance	30,592	29,830
New impairment allowances charged to income statement	50,005	51,643
Impaired loans and advances written off during the period/year	18,410	30,366

5 Currency concentration

The table below summaries the net foreign currency positions of the Group. The net position in a foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies.

As at 30 June 2008	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
Non-structural position:				
Spot assets	88,961,791	9,144,922	11,382,607	109,489,320
Spot liabilities	(89,668,694)	(8,184,940)	(9,599,443)	(107,453,077)
Forward purchases	50,166,346	23,472,451	5,053,108	78,691,905
Forward sales	(49,309,342)	(23,407,349)	(6,629,564)	(79,346,255)
Net option position	(245)	–	6,629	6,384
Net long position	149,856	1,025,084	213,337	1,388,277

As at 31 December 2007	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
Non-structural position:				
Spot assets	89,116,280	6,525,871	9,971,669	105,613,820
Spot liabilities	(70,308,657)	(5,781,351)	(6,878,080)	(82,968,088)
Forward purchases	36,820,381	20,766,501	4,410,669	61,997,551
Forward sales	(55,872,158)	(20,650,376)	(7,061,411)	(83,583,945)
Net option position	1,113,220	–	(910,914)	202,306
Net long/(short) position	869,066	860,645	(468,067)	1,261,644

Foreign currency exposures include those arising from trading and non-trading positions. The net option position is calculated using the delta equivalent approach.

There was no net structural position in a particular foreign currency that constitutes (in absolute terms) 10% or more of the net structural position in all currencies as at 30 June 2008 and 31 December 2007.

6 Risk management

The Group has established policies and procedures for the identification, measurement, control and monitoring of risk factors (including credit, liquidity, market, interest rate, operational, legal and compliance risks). The management and the relevant functional committees review and revise these policies and procedures on a regular basis, and the Group's Internal Audit Department also performs regular checks to ensure due compliance with policies and procedures.

(a) Credit risk management

Credit risk is the risk that a borrower or counter-party of the Group will be unable or unwilling to honour a repayment obligation. The Group has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group devotes considerable resources to maintaining sound credit risk management. The management has set credit policies and system to identify, measure, monitor and control risks inherent in various lending businesses. This process ensures prudence, minimises operational omissions in credit matters, and aims at early detection of potential problems, thereby minimizing business loss. With the enlarged lending operation of the Bank to SMEs after merging, credit policies and practice apposite to their risk monitoring are adopted or modified to maintain the desired credit standard as the Bank increasingly penetrates into the SME sector.

High-level credit policies of the Group are set, reviewed and constantly updated by the relevant functional departments and committees, and for prominent issues, by the Board of Director to take balanced accounts of dynamic market situation, regulatory requirement, the Group's usual prudent lending practices and its latest business strategies. All these credit policies, processes and practices, as they are developed, updated, reviewed and revised, are written now and then into Credit Manuals and supplementary lending product manuals for internal control and compliance purposes. Given the Basel II capital accord implemented since January 2007, the Group has been adjusting its credit risk management practice in line with relevant guidelines releases of the Hong Kong Monetary Authority and for the sake of enhancing internal credit control processing efficiency and products competitiveness.

Credit authorities are delegated to individual approvers for efficiency and productivity purposes. Except for taxi loans, small business loans and consumer loans, no business originating units can singly approve any loan. Loans singly approved by business originating units are nevertheless still subject to approval criteria pre-set by the Credit Function or Credit Committee. Otherwise, the Group generally requires "Dual" approval whereby loan proposals shall require joint approval by the Business Line and Credit Function. The Bank's Credit Committee, which approves all credit policies and large loans, shall not pass any credit related proposal if its Credit Function approvers disagree. Only the loan proposals approved by Credit Committee would be submitted to Chief Executive Officer for signature if and where it is needed.

The Credit Analysis and Administration Department is the centralized department in the Bank mandated to carry out credit policies. It performs independent credit assessment, post-approval credit administration and other credit control functions to ensure that the credit process complies with credit policies and guidelines laid down by the management. Apart from the independent credit assessment and matrix approval process, regular post approval inspection by Risk Management Department and credit audits are conducted on specific loan portfolio or operating units in the credit process. To maintain its independence, the Credit Analysis and Administration Department of the Bank has a direct reporting line to a Deputy General Manager independent of business.

The management spares no efforts in monitoring the quality and behavior of the loan portfolio. The Group's internal credit risk grading system consists of 15 grades built on Basel II - compliant attributes is adopted for credit risk differentiation purpose. With internal data to be constantly enriched through years of experience, it is expected that the Group can make further use of the credit statistics to profile and track down credit risk migration, to measure loan default probabilities and to practise other credit risk management processes, of which the new credit rating model is and will substantially be an integral part.

6 Risk management (continued)

(b) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure adequate cash flows to meet all financial obligations under both normal and contingency circumstances in a cost-effective manner and within regulatory requirements. To manage liquidity risk, the Group has established asset and liquidity management policies that are reviewed by the relevant functional committees, with prominent issues approved by the Board of Directors. Liquidity is also managed and forecast on a daily basis to enable Treasury and Markets ("T&M") and the relevant functional committee to act proactively according to changing market conditions and to implement contingency plans on a timely basis. Stress tests are regularly performed to assess contingent funding needs and the adequacy of funds to meet them. In case of shortage identified, corresponding remedial measures will be planned. To strengthen our liquidity risk control, a software system is in installation by which the Bank will be in a better position to predict its funding position. The Group continues to explore and diversify funding channels to capitalise on opportunities for the Group's business expansion. Concrete funding availability from the parent company, ICBC, is proven in strengthening our liquidity capability. As at 30 June 2008, the Group has a total of approximately HKD4.5 billion certificates of deposit issued to secure longer term funding.

The liquidity position remained affluent throughout the first half of 2008 with an average liquidity ratio at 35.9% (Average for the first half of 2007: 43.7%), that was well above the statutory requirement of 25%.

(c) Capital management

The Group manages its capital to execute its strategic business plans and support its growth and investments in an efficient way. The Group's capital base and capital ratio as at 30 June 2008 remained strong, with capital adequacy ratios above the regulatory requirements. The Group's core capital ratio and capital adequacy ratio were 8.9% and 14.2% respectively as at 30 June 2008. The Group adjusts its business and loan booking strategy from time to time to optimize its risk-return profile. A capital planning and allocation policy is in process in complying with Basel II and Pillar II and related HKMA requirements.

(d) Market risk management

Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group market risk is associated with its positions in foreign exchange, debt securities, derivatives and recently, stocks. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken for hedging purpose.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the management and the Asset and Liability Management Committee ("ALCO"), and for prominent issues, by the Board of Directors. Trading limits are increased for opportunities in the market. Exposures are measured and monitored against limits on positions, stop-loss, value-at-risk, sensitivity, delta, gamma, etc. Daily risk monitoring is carried out by an independent Risk Management Department, which ensures all dealing activities are conducted within approved limits. The Group's market risk exposures are reviewed by the ALCO and the Risk Management Committee. All exceptions to limits are reported to the ALCO. Important deviations, if any, will be escalated to Board's attention. Stress tests are performed regularly to estimate the possible losses under extreme circumstances. The Group's Internal Audit Department also performs regular review and testing on dealing activities to ensure compliance with all internal guidelines.

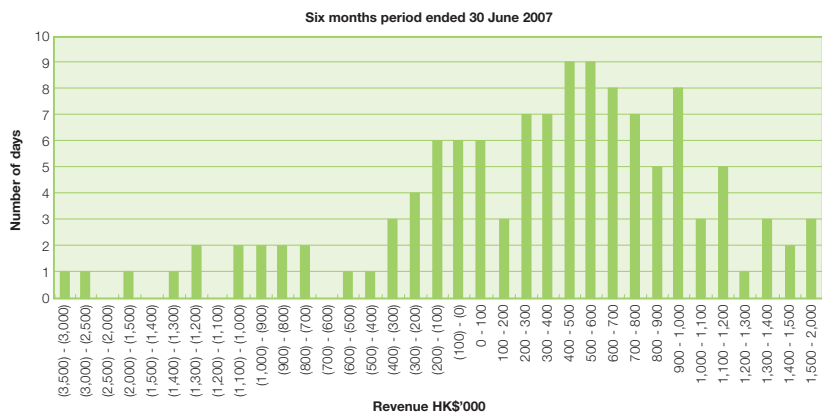
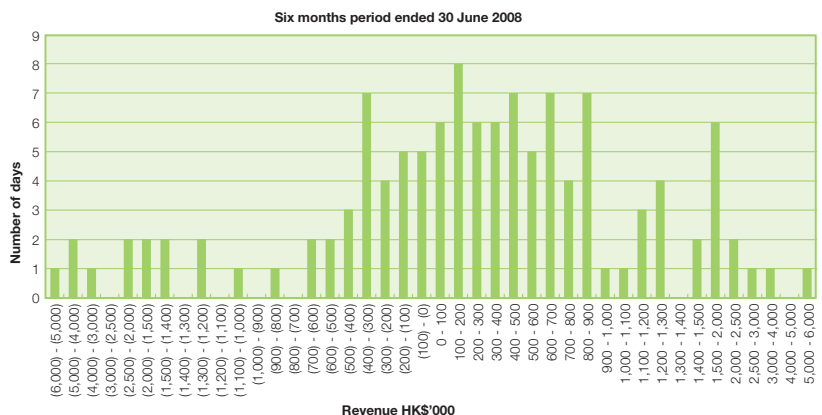
Besides, various reputable treasury systems are being used to further strengthen the functions of control and monitoring, supplemented as mentioned by, among others, predetermined stop loss limits to keep the risk of increased trading limits at bay.

6 Risk management (continued)

(d) Market risk management (continued)

The average daily revenue earned from the Group's market risk related activities during the period ended 30 June 2008 was HK\$196,135 (First half of 2007: HK\$299,139) and the standard deviation for such daily revenue was HK\$1,325,793 (First half of 2007: HK\$782,330). An analysis of the frequency distribution of daily revenue showed that losses were recorded on 42 days out of 120 trading days for the first half of 2008 (35 Days out of 121 trading days for the first half of 2007). The maximum daily loss was HK\$5.20 million (HK\$3.04 million for the first half of 2007). The highest daily revenue was HK\$5.32 million (HK\$1.88 million for the first half of 2007). In respect of proprietary trading and customers' expectation, the Group will gradually increase its market risk activities to complement its conventional reliance on loan assets for revenue. In the process, the Group will watch out for the resulting market risk, and counter-party credit risks, liquidity and capital implications.

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months end 30 June 2008 and 30 June 2007.



6 Risk management (continued)

(e) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. Interest rate risk arises mainly from the maturity mismatch of interest bearing assets and liabilities and yield curve movement. Interest rate risk exposure is managed within risk limits approved and monitored by ALCO with the participation of the Risk Management Department.

The Group manages its interest rate risk by way of entering into on or off balance sheet interest rate risk hedging instruments. The effectiveness of the hedging activities is assessed regularly in accordance with the Hong Kong Accounting Standard 39. The Group interest rate risk position is further regularly reported to and scrutinized by the Risk Management Committee.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to neutralize foreign exchange risk.

The Group will count and counts on stop loss, management trigger limits, stress test and a software system in installation to manage its interest rate risk.

(f) Operational risk management

Operational risk is the risk of unexpected financial losses resulting from inadequate or failed internal processes, people, systems and from external events. It is inherent to every business organization and covers a wide spectrum of issues. Enhanced efforts in identifying and understanding the underlying operational risks in processes are taken. This is part of the job of the Risk Management Department. Its capability for handling operational risk management is enhanced. An Operational Risk Committee is in place in forging ahead with the initiatives. Such risk is further mitigated through the implementation of comprehensive internal control systems, adequate insurance cover, offshore computer back-up sites and contingency plans with periodic drills. The Group's Internal Audit Department also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively. More active and proactive operational risk management practice will be pursued going forward in accordance with relevant Basel II and HKMA guidelines and principles.

(g) Legal and compliance risk management

Legal and compliance risk is the prospective risk of legal and regulatory sanctions, financial loss, or reputation loss that the Group may suffer as a result for violations of, or non-compliance with, all applicable laws, regulations, internal policies with respect to the conduct of business.

Legal and compliance staff members advise the management on the legal and regulatory developments and assist them in establishing policies, procedures and monitoring program to ensure compliance with the legal and regulatory requirements. They conduct regular compliance checking so that the Group can identify any potential non-compliance issue and take remedial action on a timely basis. They also issue monthly bulletin and arrange training at least quarterly to enrich the knowledge of all staff in the legal and regulatory requirements. Furthermore, regular reports on non-compliance issue and the legal and regulatory developments are made to the General Management Committee.

7 Disclosures pursuant to Rule 13.20 of the Listing Rules

As at 30 June 2008, the types of Relevant Advances and the balance of the relevant outstanding amounts due from, and all guarantees given on behalf of, the ICBC Group were as follows:

	HK\$'000
<hr/>	
Type of the Relevant Advances	
Trade Loan to ICBC outstanding	25,715,715
Confirmed ICBC Standby Letter of Credit outstanding	1,192,100
Money Market to ICBC Group outstanding	3,493,029
<hr/>	
Total Relevant Advances to ICBC Group	30,400,844
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The interest rates charged for the Relevant Advances mostly are floating interest rates based on the prevailing interbank offer rate, except for money market placement whose interest rates are set by the ICBC Group and based on the prevailing interbank bid rate. The Relevant Advances are repayable in full at maturity, and the maturity date for the Relevant Advances generally ranges from overnight to 1 year, or longer than 1 year on capital market instruments and standby letter of credit/guarantee (if applicable). The Relevant Advances to the ICBC Group are not secured by any collateral.

The Relevant Advances to the ICBC Group were made by the Group in the ordinary course of the Group's banking business, and on normal commercial terms commensurate with customers of the Group having similar credit ratings or financial strengths.

8 Additional disclosures on special purpose entities

As at 30 June 2008, the bank has no exposure to collateralised debt obligations (CDO) and U.S. subprime mortgages but has limited exposures to structured-investment vehicles (SIVs) and commercial mortgage-backed securities (CMBSs).

In 2007, the Bank took HK\$234 million or 75% write-downs for SIV investment issued by Cullinan Finance Limited and this SIV investment was restructured into 2 separate entities, namely Barion Funding Limited and Mazarin Funding Limited, which comprised of 1 slow pay senior income notes with credit rating of BBB and 1 junior income notes issued by each entity respectively in February 2008. The Bank took a further HK\$22 million or 7% write-downs for SIV investments in the second quarter of 2008 and ended the period with HK\$56 million of SIV exposures remaining after the impairment. As a result of the additional write-downs, the Bank has made a total of 82% all in all write-downs for SIV investments.

The Bank also has exposures on CMBS investments with total nominal value of HK\$254 million and carrying value of HK\$237 million at the end of the period. Among these, investments of carrying value of HK\$98 million ranked AAA which include retail mall properties in Hong Kong and investments of carrying value of HK\$139 million ranked A- which include retail mall properties in Mainland China. Majority of them are denominated in HK\$ and US\$ under available-for-sale financial investment portfolio.