



中國工商銀行(亞洲)

ICBC (Asia)

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 349)

ANNOUNCEMENT OF 2008 FINAL RESULTS

The Board of Directors of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) announces the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2008 as follows:-

ANNUAL ACCOUNTS

The accounting policies and basis of preparation of the final results of the Group are consistent with those adopted in the Group’s audited 2007 annual financial statements, except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”) issued by the Hong Kong Institute of Certified Public Accountants, which are effective for accounting periods beginning on or after 1 January 2008.

(A) Consolidated Income Statement

	Notes	2008 HK\$'000	2007 HK\$'000	Change %
Interest income	(1)	7,753,857	8,845,058	-12%
Interest expense	(1)	(4,755,554)	(6,457,053)	-26%
<b>Net interest income</b>	(1)	<b>2,998,303</b>	<b>2,388,005</b>	<b>26%</b>
Fee and commission income	(2)	756,268	719,362	5%
Fee and commission expense	(2)	(93,166)	(43,647)	113%
<b>Net fee and commission income</b>	(2)	<b>663,102</b>	<b>675,715</b>	<b>-2%</b>
Net trading income	(3)	273,441	185,592	47%
Net loss on financial assets and liabilities designated at fair value through profit or loss	(4)	(230,640)	(95,708)	141%
Dividend income from financial investments	(5)	14,859	3,800	291%
Other operating income	(6)	33,246	21,281	56%
<b>Operating income</b>		<b>3,752,311</b>	<b>3,178,685</b>	<b>18%</b>
Operating expenses	(7)	(1,252,119)	(1,134,895)	10%
<b>Operating profit before impairment losses</b>		<b>2,500,192</b>	<b>2,043,790</b>	<b>22%</b>
(Charge for)/write-back of impairment losses on loans and advances		(408,629)	114,866	-456%
Write-back of impairment losses on held-to-maturity financial investments		156	3,131	-95%
Charge for impairment losses on available-for-sale financial investments		(802,880)	(251,929)	219%
<b>Operating profit after impairment losses</b>		<b>1,288,839</b>	<b>1,909,858</b>	<b>-33%</b>
Revaluation (loss)/gain on investment properties		(498)	2,761	-118%
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment and leasehold land and land use rights		5,513	11,102	-50%
Loss on disposal of loans and advances		(28,710)	-	-
Net (loss)/gain on disposal of available-for-sale financial investments		(201,962)	16,616	-1315%
<b>Operating profit</b>		<b>1,063,182</b>	<b>1,940,337</b>	<b>-45%</b>
Share of profits of associates		655	11,297	-94%
<b>Profit before tax</b>		<b>1,063,837</b>	<b>1,951,634</b>	<b>-45%</b>
Income tax expense	(8)			
- Hong Kong		(77,738)	(326,172)	-76%
- Overseas		(47,610)	(17,594)	171%
- Deferred tax		30,534	920	3219%
<b>Profit attributable to equity holders</b>		<b>969,023</b>	<b>1,608,788</b>	<b>-40%</b>
<b>Dividends</b> - Interim dividend paid during the year	(9)	<b>355,599</b>	262,114	36%
- Underprovision of final dividend in respect of the previous year		9,358	-	-
- Final dividend proposed after the balance sheet date		231,348	772,350	-70%
		<b>596,305</b>	<b>1,034,464</b>	<b>-42%</b>
<b>Earnings per share – Basic</b>	(10)	<b>HK\$0.77</b>	<b>HK\$1.41</b>	<b>-45%</b>

**(B) Consolidated Balance Sheet**

	Notes	2008 HK\$'000	2007 HK\$'000	Change %
<b>Assets</b>				
Cash and balances with banks and other financial institutions		<b>28,678,778</b>	43,666,354	-34%
Placements with and advances to banks and other financial institutions		<b>844,358</b>	1,005,234	-16%
Financial assets held for trading	(11)	<b>52,051</b>	54,256	-4%
Financial assets designated at fair value through profit or loss	(12)	<b>1,488,003</b>	1,754,742	-15%
Derivative financial instruments		<b>2,308,702</b>	1,213,738	90%
Loans and advances to customers, banks and other financial institutions	(13)	<b>137,082,721</b>	121,703,671	13%
Financial investments:		<b>19,379,478</b>	18,640,728	4%
- Available-for-sale	(14)	<b>17,403,075</b>	15,326,911	14%
- Held-to-maturity	(15)	<b>1,976,403</b>	3,313,817	-40%
Investments in associates		<b>184,854</b>	184,054	0%
Goodwill and other intangible assets		<b>1,032,938</b>	1,043,582	-1%
Investment properties		<b>40,126</b>	40,624	-1%
Property, plant and equipment		<b>276,074</b>	257,753	7%
Leasehold land and land use rights		<b>43,860</b>	44,604	-2%
Current income tax assets		<b>130,988</b>	-	-
Deferred income tax assets		<b>151,619</b>	-	-
Other assets		<b>2,869,559</b>	2,694,720	6%
<b>Total assets</b>		<b><u>194,564,109</u></b>	<u>192,304,060</u>	1%
<b>Liabilities</b>				
Deposits from banks and other financial institutions		<b>20,056,756</b>	20,235,806	-1%
Derivative financial instruments		<b>3,296,670</b>	1,351,698	144%
Deposits from customers	(16)	<b>138,183,332</b>	137,530,227	0%
- Designated at fair value through profit or loss		<b>301,216</b>	298,274	1%
- At amortised cost		<b>137,882,116</b>	137,231,953	0%
Certificates of deposit issued		<b>4,312,361</b>	3,705,396	16%
- Designated at fair value through profit or loss		<b>3,489,361</b>	3,105,399	12%
- At amortised cost		<b>823,000</b>	599,997	37%
Debt securities in issue designated at fair value through profit or loss		<b>3,146,399</b>	3,119,872	1%
Current income tax liabilities		<b>10,113</b>	134,378	-92%
Deferred income tax liabilities		<b>14,072</b>	336,256	-96%
Subordinated debts measured at amortised cost	(17)	<b>8,556,348</b>	7,545,620	13%
Other liabilities		<b>3,050,280</b>	3,336,668	-9%
<b>Total liabilities</b>		<b><u>180,626,331</u></b>	<u>177,295,921</u>	2%
<b>Equity</b>				
Share capital		<b>2,570,536</b>	2,451,904	5%
Retained earnings	(18)	<b>3,290,741</b>	3,481,533	-5%
Other reserves	(18)	<b>8,076,501</b>	9,074,702	-11%
<b>Total equity</b>		<b><u>13,937,778</u></b>	<u>15,008,139</u>	-7%
<b>Total equity and liabilities</b>		<b><u>194,564,109</u></b>	<u>192,304,060</u>	1%

**(C) Consolidated Statement of Changes in Equity**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Total equity as at 1 January	<u><b>15,008,139</b></u>	<u>11,085,303</u>
Revaluation surplus on bank premises	<b>7,289</b>	22,666
Changes in fair value reserve of available-for-sale financial investments	<b>(3,419,922)</b>	951,098
Changes in fair value of cash flow hedge	<b>7,853</b>	-
Transfer from available-for-sale financial investments reserve to the income statement on impairment	<b>819,504</b>	234,024
Release/ (Recognition) of deferred tax assets/ (liabilities) in revaluation reserves on bank premises and available-for-sale financial investments	<b>443,982</b>	(221,319)
Exchange differences arising from translation of results of a foreign subsidiary	<u><b>72,778</b></u>	<u>74,319</u>
Net (losses)/profits not recognised in the income statement	<u><b>(2,068,516)</b></u>	<u>1,060,788</u>
Profit attributable to equity holders	<b>969,023</b>	1,608,788
Dividends	<b>(1,137,307)</b>	(777,893)
Shares issued in lieu of dividends	<b>868,160</b>	504,816
Shares issued on exercise of warrants	<b>298,400</b>	1,526,826
Share issue expenses	<b>(121)</b>	(489)
Total equity as at 31 December	<u><b>13,937,778</b></u>	<u>15,008,139</u>

**(D) Consolidated Cash Flow Statement**

	2008 HK\$'000	2007 HK\$'000
Operating activities		
Profit before tax	1,063,837	1,951,634
Write-back of impairment losses on held-to-maturity financial investments	(156)	(3,131)
Charge for/(Write-back of) impairment losses on loans and advances	408,629	(114,866)
Charge for impairment losses on available-for-sale financial investments	802,880	251,929
Amortisation of intangible assets	46,835	48,629
Amortisation of leasehold land	744	734
Depreciation	47,595	43,243
Interest paid on subordinated debts measured at amortised cost	292,565	424,241
Recoveries of loans and advances written off	11,594	63,719
Net gain from disposal/reversal of revaluation deficits of property, plant and equipment	(5,513)	(10,249)
Write-back of impairment losses on leasehold land and land use rights	-	(853)
Net revaluation loss/(gain) on investment properties	498	(2,761)
Net loss/(gain) on disposal of available-for-sale financial investments	201,962	(16,616)
Loss on disposal of loans and advances	28,710	-
Share of profits of associates	(655)	(11,297)
Dividend income received from listed financial assets held for trading	(1,133)	(409)
Dividend income received from listed available-for-sale financial investments	(9,747)	-
Dividend income received from unlisted available-for-sale financial investments	(3,979)	(3,391)
Operating profit before working capital changes	<u>2,884,666</u>	<u>2,620,556</u>
(Increase)/decrease in operating assets:		
Treasury bills maturing beyond three months	847,211	(1,508,330)
Placements with and advances to banks and other financial institutions maturing beyond three months	1,589,593	(327,407)
Held-to-maturity financial investments	490,359	819,134
Financial assets held for trading	2,205	2,212
Financial assets designated at fair value through profit or loss	266,739	(50,393)
Available-for-sale financial investments	(5,731,364)	(3,324,784)
Loans and advances to customers, banks and other financial institutions and other assets	(15,810,098)	(47,517,853)
Derivative financial instruments	(1,087,111)	(443,970)
Increase/(decrease) in operating liabilities:		
Deposits from banks and other financial institutions maturity beyond three months	(1,430,820)	6,080,482
Deposits from customers	656,772	39,507,492
Certificates of deposit issued	606,965	(6,616,639)
Debt securities in issue designated at fair value through profit or loss	26,527	122,068
Other liabilities	(405,124)	1,454,496
Derivative financial instruments	1,944,972	522,016
Net cash outflow from operating activities before tax	<u>(15,148,508)</u>	<u>(8,660,920)</u>
Net Hong Kong profits tax paid	(335,533)	(334,870)
Net overseas tax paid	(48,242)	(46,401)
Net cash outflow from operating activities	<u>(15,532,283)</u>	<u>(9,042,191)</u>
Investing activities		
Purchase of a subsidiary	(18,786)	-
Purchase of an associate	-	(138,138)
Purchase of intangible assets	(16,439)	(32,217)
Purchase of property, plant and equipment	(62,014)	(50,803)
Proceeds from disposal of property, plant and equipment	121	8,542
Dividend income received from listed financial assets held for trading investments	1,133	409
Dividend income received from listed available-for-sale financial investments	9,747	-
Dividend income received from unlisted available-for-sale financial investments	3,979	3,391
Net cash outflow from investing activities	<u>(82,259)</u>	<u>(208,816)</u>

**(D) Consolidated Cash Flow Statement (continued)**

	2008 HK\$'000	2007 HK\$'000
Financing activities		
Issuance of a subordinated debt measured at amortised cost	1,550,020	-
Redemption of a subordinated debt measured at amortised cost	(500,000)	-
Issuance of shares on exercise of warrants	298,400	1,526,826
Share issue expenses	(121)	(489)
Interest paid on subordinated debts measured at amortised cost	(292,565)	(424,241)
Dividends paid on ordinary shares	(269,147)	(273,077)
Net cash inflow from financing activities	<u>786,587</u>	<u>829,019</u>
Effects of foreign exchange differences	67,330	94,616
Net decrease in cash and cash equivalents	<u>(14,760,625)</u>	<u>(8,327,372)</u>
Cash and cash equivalents at 1 January	<u>43,694,357</u>	<u>52,021,729</u>
Cash and cash equivalents at 31 December	<u>28,933,732</u>	<u>43,694,357</u>

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

	2008 HK\$'000	2007 HK\$'000
Cash and balances with banks and other financial institutions	9,182,552	1,598,983
Placements with banks and other financial institutions	<u>19,751,180</u>	<u>42,095,374</u>
	<u>28,933,732</u>	<u>43,694,357</u>

## 1. Statutory accounts

The financial information set out in this announcement does not constitute the Group's statutory accounts. There is no material difference between the comparative financial information set out in this announcement and the Group's statutory accounts for the year ended 31 December 2008. The statutory accounts for the year ended 31 December 2008 will be available from the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## 2. Basis of preparation and accounting policies

The accounting policies and basis of preparation adopted in these financial results are consistent with those adopted in the Group's 2007 Annual Report except for the adoption of new / revised HKFRSs and HKASs as disclosed in note 3 below.

## 3. Impact of new and revised Hong Kong Financial Reporting Standards

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adopting these new and revised HKFRSs are as follows:

- (a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures - Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

- (b) HK(IFRIC)-Int 11 HKFRS 2 - Group and Treasury Share Transactions

HK(IFRIC)-Int 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 buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

- (c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

- (d) HK(IFRIC)-Int 14 HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect to the Group.

#### 4. Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial accounts.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>1</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment - Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items <sup>2</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners <sup>2</sup>
HK(IFRIC)-Int 18	Transfer of Assets from Customers <sup>2</sup>

Apart from the above, the HKICPA has issued Improvements to HKFRSs\* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008

\* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) 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.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control 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 revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised 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, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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 credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. The Group currently has customer loyalty award scheme in place and is in the process of making an assessment of the impact of this interpretation upon initial application. So far, it has concluded that this interpretation is unlikely to have a significant impact on the Group's results of operations and financial position.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 Revenue - Pre-completion Contracts for the Sale of Development Properties. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii)



an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 Events after the Balance Sheet Date and HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 clarifies the requirements of HKFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

The interpretation is issued to provide additional guidance on the accounting for those transfers of assets from customers. It clarifies:

- the circumstances in which the definition of an asset is met;
- the recognition of the asset and the measurement of its cost on initial recognition;
- the identification of the separately identifiable services (one or more services in exchange for the transferred asset);
- the recognition of revenue ; and
- the accounting for transfers of cash from customers.

The interpretation is unlikely to have any material financial impact on the Group.

In October 2008, the HKICPA issued its “first Improvements to HKFRSs” which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group are as follows:

- (a) HKFRS 7 Financial Instruments: Disclosures: Removes the reference to “total interest income” as a component of finance costs.
- (b) HKAS 1 Presentation of Financial Statements: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.
- (c) HKAS 16 Property, Plant and Equipment: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.

- (d) HKAS 27 Consolidated and Separate Financial Statements: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- (e) HKAS 28 Investments in Associates: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- (f) HKAS 36 Impairment of Assets: When discounted cash flows are used to estimate “fair value less cost to sell”, additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.
- (g) HKAS 38 Intangible Assets: The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- (h) HKAS 40 Investment Property: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property.

*Notes:*

**(1) Net interest income**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	<b>860,645</b>	1,964,141
Placements with and advances to banks and other financial institutions	<b>175,740</b>	445,676
Loans and advances to customers, banks and other financial institutions	<b>5,795,131</b>	5,589,240
Financial investments – available-for-sale	<b>755,224</b>	586,293
Financial investments – held-to-maturity	<b>79,279</b>	164,922
	<b>7,666,019</b>	8,750,272
Financial assets held for trading	<b>458</b>	652
Financial assets designated at fair value through profit or loss	<b>87,380</b>	94,134
	<b>7,753,857</b>	8,845,058
Interest expense on:		
Deposits from banks and other financial institutions	<b>766,413</b>	748,146
Deposits from customers	<b>3,387,747</b>	4,700,536
Certificates of deposit issued	<b>18,069</b>	186,649
Subordinated debts measured at amortised cost	<b>292,565</b>	424,241
Others	<b>9,617</b>	50,868
	<b>4,474,411</b>	6,110,440
Financial liabilities designated at fair value through profit or loss	<b>281,143</b>	346,613
	<b>4,755,554</b>	6,457,053
Net interest income	<b>2,998,303</b>	2,388,005

Included in the above is interest income accrued on impaired financial assets of HK\$45,236,357 (2007: HK\$55,225,071), including unwinding of discounts on loan impairment losses of HK\$13,212,853 (2007: HK\$915,000).

**(2) Net fee and commission income**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Loans, overdrafts and guarantees	<b>296,175</b>	245,433
Securities and brokerage	<b>128,822</b>	182,803
Trade finance	<b>151,423</b>	140,820
Credit card	<b>55,480</b>	32,951
Remittance	<b>23,413</b>	22,837
Insurance	<b>18,242</b>	11,538
Other retail and commercial banking services	<b>34,722</b>	31,693
Others	<b>47,991</b>	51,287
Fee and commission income	<b>756,268</b>	719,362
Fee and commission expense	<b>(93,166)</b>	(43,647)
Net fee and commission income	<b>663,102</b>	675,715
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	<b>447,598</b>	386,253
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<b>10,405</b>	9,020

**(3) Net trading income**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Equity investments	(16,306)	(976)
Debt securities - financial assets held for trading	1,424	3,591
- available-for-sale financial investments	204,484	61,668
Derivatives	(278,089)	56,161
Foreign exchange	361,928	65,213
Others	-	(65)
Total net trading income	<u>273,441</u>	<u>185,592</u>

**(4) Net loss on financial assets and liabilities designated at fair value through profit or loss**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Financial assets designated at fair value through profit or loss	(158,763)	51,867
Financial liabilities designated at fair value through profit or loss	(71,877)	(147,575)
Total net loss on financial assets and liabilities designated at fair value through profit or loss	<u>(230,640)</u>	<u>(95,708)</u>

**(5) Dividend income from financial investments**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Dividend income from listed financial assets held for trading	1,133	409
Dividend income from listed available-for-sale financial investments	9,747	-
Dividend income from unlisted available-for-sale financial investments	3,979	3,391
Total dividend income from financial investments	<u>14,859</u>	<u>3,800</u>

**(6) Other operating income**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Management fee income	7,500	7,857
Rental income	79	887
Rental income from investment properties	2,372	963
Less: Direct operating expenses arising from investment properties that generated rental income during the year	(115)	(118)
Others	23,410	11,692
Total other operating income	<u>33,246</u>	<u>21,281</u>

**(7) Operating expenses**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Staff costs:		
Salaries and other costs	568,150	526,392
Redundancy payments	-	1,125
Retirement benefits costs	38,491	30,384
	<u>606,641</u>	<u>557,901</u>
Premises and equipment expenses, excluding depreciation and amortisation:		
Rental of premises	222,407	151,888
Others	74,063	65,818
	<u>296,470</u>	<u>217,706</u>
Depreciation and amortisation expenses	95,174	92,606
Auditors' remuneration	5,134	4,598
General administration expenses	35,087	28,062
Business promotion expenses	43,874	39,648
Communication expenses	38,086	42,390
Other operating expenses	131,653	151,984
Total operating expenses	<u>1,252,119</u>	<u>1,134,895</u>

## (8) Taxation

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 year. 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.

## (9) Dividends

### (a) Dividends attributable to the year

	2008 HK\$'000	2007 HK\$'000
Paid interim dividend of HK\$0.28 (2007: HK\$0.23) per ordinary share	355,599	262,114
Final dividend paid in respect of the previous financial year on shares issued from exercise of bonus warrants subsequent to the balance sheet date and before the close of the Register of Members of the Bank, of HK\$0.63 (2007: HK\$0.46)	9,358	-
Proposed final dividend of HK\$0.18 (2007: HK\$0.63) per ordinary share	<u>231,348</u>	<u>772,350</u>
	<u>596,305</u>	<u>1,034,464</u>

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

Final dividend in respect of the prior year, approved and paid during the year, of HK\$0.63 (2007: HK\$0.46) per ordinary share	<u>781,708</u>	<u>515,779</u>
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## (10) Earnings per share

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

	2008	2007
Profit attributable to equity holders (HK\$'000)	969,023	1,608,788
Weighted average number of ordinary shares in issue (thousands)	1,254,631	1,139,221
Basic earnings per share	<u>HK\$0.77</u>	<u>HK\$1.41</u>

Diluted earnings per share amount for the year ended 31 December 2008 has not been disclosed, as the subscription rights attaching to the warrants were lapsed on 6 November 2008.

## (11) Financial assets held for trading

	2008 HK\$'000	2007 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	410	255
Unlisted	<u>30,441</u>	<u>16,401</u>
	<u>30,851</u>	<u>16,656</u>
Equity securities, at fair value:		
Listed in Hong Kong	<u>21,200</u>	<u>37,600</u>
Total trading assets	<u>52,051</u>	<u>54,256</u>

Financial assets held for trading are analysed by category of issuer as follows:

Public sector entities	628	14,553
Banks and other financial institutions	<u>51,423</u>	<u>39,703</u>
	<u>52,051</u>	<u>54,256</u>

**(12) Financial assets designated at fair value through profit or loss**

	2008 HK\$'000	2007 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	340,506	80,983
Listed outside Hong Kong	973,906	715,974
Unlisted	<u>173,591</u>	<u>957,785</u>
Total financial assets designated at fair value through profit or loss	<u><b>1,488,003</b></u>	<u>1,754,742</u>
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	<u>1,488,003</u>	<u>1,654,736</u>
	<u><b>1,488,003</b></u>	<u>1,754,742</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuers as follows:		
Central governments and central banks	202,890	209,143
Public sector entities	200,119	203,410
Banks and other financial institutions	309,333	480,758
Corporate entities	<u>775,661</u>	<u>861,431</u>
	<u><b>1,488,003</b></u>	<u>1,754,742</u>

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

	2008 HK\$'000	2007 HK\$'000
Advances to customers	118,428,192	99,220,723
Advances to banks and other financial institutions	16,731,818	20,641,536
Trade bills	<u>1,609,937</u>	<u>1,565,469</u>
	<u>136,769,947</u>	<u>121,427,728</u>
Accrued interest	974,129	611,505
Gross loans and advances	<u>137,744,076</u>	<u>122,039,233</u>
Less: Impairment allowances		
- Individual	(282,506)	(125,293)
- Collective	<u>(378,849)</u>	<u>(210,269)</u>
	<u><b>137,082,721</b></u>	<u>121,703,671</u>

Impairment allowances on loans and advances to customers, banks and other financial institutions are analysed as follows:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
<b>2008</b>			
Advances to customers	279,794	356,201	635,995
Advances to banks and other financial institutions	-	17,589	17,589
Trade bills	<u>2,712</u>	<u>5,059</u>	<u>7,771</u>
	<u><b>282,506</b></u>	<u><b>378,849</b></u>	<u><b>661,355</b></u>
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
<b>2007</b>			
Advances to customers	123,845	191,968	315,813
Advances to banks and other financial institutions	-	15,050	15,050
Trade bills	<u>1,448</u>	<u>3,251</u>	<u>4,699</u>
	<u>125,293</u>	<u>210,269</u>	<u>335,562</u>

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Gross impaired loans and advances	<b>888,965</b>	646,602
Impairment allowances made in respect of such loans	<b>282,506</b>	125,293
Gross impaired loans and advances as a percentage of total gross loans and advances	<b>0.65%</b>	0.53%
Market value of collateral	<b><u>806,490</u></b>	<u>772,453</u>

Impaired loans and advances 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 31 December 2008 and 31 December 2007, nor were there any individual impairment allowances made for them on these two dates.

**(14) Available-for-sale financial investments**

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Debt securities:		
Listed in Hong Kong	<b>1,916,434</b>	914,530
Listed outside Hong Kong	<b>8,752,054</b>	4,998,696
Unlisted	<b><u>5,456,666</u></b>	<u>6,946,262</u>
	<b><u>16,125,154</u></b>	<u>12,859,488</u>
Equity securities:		
Listed in Hong Kong	<b>1,198,756</b>	2,387,531
Unlisted	<b><u>79,165</u></b>	<u>79,892</u>
	<b><u>1,277,921</u></b>	<u>2,467,423</u>
Total available-for-sale financial investments	<b><u>17,403,075</u></b>	<u>15,326,911</u>
Market value of listed securities	<b><u>11,867,244</u></b>	<u>8,300,757</u>
Debt securities after taking into account of impairment loss are comprised of the following items:		
Certificates of deposit held	<b>7,931</b>	321,449
Other debt securities	<b><u>16,117,223</u></b>	<u>12,538,039</u>
	<b><u>16,125,154</u></b>	<u>12,859,488</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	<b>1,353,598</b>	576,654
Public sector entities	<b>753,638</b>	811,415
Banks and other financial institutions	<b>7,401,455</b>	6,495,092
Corporate entities	<b>7,893,403</b>	7,442,304
Others	<b><u>981</u></b>	<u>1,446</u>
	<b><u>17,403,075</u></b>	<u>15,326,911</u>

**(15) Held-to-maturity financial investments**

	2008 HK\$'000	2007 HK\$'000
Debt securities:		
Listed in Hong Kong	78,605	-
Listed outside Hong Kong	575,811	562,630
Unlisted	<u>1,324,366</u>	<u>2,753,722</u>
	<u>1,978,782</u>	<u>3,316,352</u>
Less: Impairment loss	<u>(2,379)</u>	<u>(2,535)</u>
Total held-to-maturity financial investments	<u>1,976,403</u>	<u>3,313,817</u>
Market value of listed securities	<u>630,681</u>	<u>560,972</u>
Debt securities after taking into account of impairment loss are comprised of the following items:		
Treasury bills	1,136,282	1,983,493
Other debt securities	<u>840,121</u>	<u>1,330,324</u>
	<u>1,976,403</u>	<u>3,313,817</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	1,214,640	2,143,923
Public sector entities	83,539	114,335
Banks and other financial institutions	238,354	326,911
Corporate entities	<u>439,870</u>	<u>728,648</u>
	<u>1,976,403</u>	<u>3,313,817</u>

**(16) Deposits from customers**

	2008 HK\$'000	2007 HK\$'000
Demand deposits and current accounts	4,986,854	5,347,433
Savings deposits	20,034,376	16,564,063
Time, call and notice deposits	<u>113,162,102</u>	<u>115,618,731</u>
	<u>138,183,332</u>	<u>137,530,227</u>

**(17) Subordinated debt**

The subordinated debt represents floating rate notes qualifying for inclusion as supplementary capital in accordance with the Banking (Capital) Rules.

**(18) Reserves**

	2008 HK\$'000	2007 HK\$'000
Ordinary share premium	8,209,593	7,161,786
Bank premise revaluation reserve	52,469	46,835
Investment revaluation reserve	(681,710)	1,473,070
Cash flow hedge reserve	7,853	-
Exchange reserve	141,906	69,129
General reserve	346,390	323,882
Retained earnings*	<u>3,290,741</u>	<u>3,481,533</u>
	<u>11,367,242</u>	<u>12,556,235</u>
Proposed dividend not provided for	<u>231,348</u>	<u>772,350</u>

\*As at 31 December 2008, the Group has earmarked a "regulatory reserve" of HK\$781,317,000 (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.

## (19) Contingent liabilities and commitments and derivative financial instruments

### (a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each of the significant classes of contingent liabilities and commitments:

	<b>2008</b>	<b>2008</b>	2007	2007
	<b>Contractual</b>	<b>Credit risk</b>	Contractual	Credit risk
	<b>amount</b>	<b>weighted amount</b>	amount	weighted amount
	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000
Direct credit substitutes	<b>14,701,288</b>	<b>7,777,596</b>	2,746,878	1,161,243
Transaction-related contingencies	<b>314,227</b>	<b>101,271</b>	370,190	79,906
Trade-related contingencies	<b>2,978,820</b>	<b>534,506</b>	3,456,524	588,696
Other commitments:				
That are unconditionally cancellable	<b>58,436,103</b>	-	66,783,098	-
With original maturity of less than one year	<b>278,817</b>	<b>55,763</b>	1,123,559	223,738
With original maturity of over one year	<b>10,697,995</b>	<b>5,210,014</b>	14,847,747	7,423,184
Forward assets purchased	-	-	270,000	270,000
Forward forward deposits placed	<b>2,310,099</b>	<b>462,020</b>	7,811,705	1,562,341
	<b>89,717,349</b>	<b>14,141,170</b>	<b>97,409,701</b>	<b>11,309,108</b>

### (b) Derivative financial instruments

The following is a summary of the contractual or notional amounts of each of the significant types of derivative financial instruments:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Exchange rate contracts:		
Forwards	<b>37,707,168</b>	34,629,999
Swaps	<b>56,841,707</b>	59,131,245
Currency options purchased	<b>6,258,859</b>	14,354,602
Currency options written	<b>6,080,840</b>	14,111,850
	<b>106,888,574</b>	<b>122,227,696</b>
Interest rate contracts:		
Interest rate swaps	<b>28,144,269</b>	32,760,446
Interest rate options purchased	<b>300,000</b>	4,042,470
Interest rate options written	<b>300,000</b>	4,042,470
	<b>28,744,269</b>	<b>40,845,386</b>
Other contracts:		
Equity options purchased	<b>15,065</b>	40,426
Equity options written	<b>15,065</b>	40,426
	<b>30,130</b>	<b>80,852</b>
Total	<b>135,662,973</b>	<b>163,153,934</b>

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.



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

	2008		2007	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	-	14,141,170	-	11,309,108
Exchange rate contracts	1,445,092	875,337	729,825	1,077,183
Interest rate contracts	512,542	504,046	391,006	356,351
Other contracts	-	181	1,873	872
	<u>1,957,634</u>	<u>15,520,734</u>	<u>1,122,704</u>	<u>12,743,514</u>

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

## (20) Segment information - By 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 market and investment banking. Unallocated items mainly comprise the central management unit, bank premises and any items which cannot be reasonably allocated to specific business segments.

	Commercial banking HK\$'000	Retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Total HK\$'000
<b>2008</b>						
Net interest income	1,120,539	526,553	909,282	443,610	(1,681)	2,998,303
Operating profit/(loss) before impairment losses	1,002,436	476,316	844,393	602,514	(425,467)	2,500,192
Profit/(loss) before tax	718,140	443,248	(96,469)	497,200	(498,282)	1,063,837
Inter-segment elimination	-	(253,769)	-	-	253,769	-
Profit/(loss) before tax and excluding inter-segment transactions	<u>718,140</u>	<u>189,479</u>	<u>(96,469)</u>	<u>497,200</u>	<u>(244,513)</u>	<u>1,063,837</u>
<b>2007</b>						
Net interest income	810,496	527,977	576,057	321,141	152,334	2,388,005
Operating profit/(loss) before impairment losses	764,002	628,273	510,797	415,802	(275,084)	2,043,790
Profit/(loss) before tax	740,176	648,180	280,396	487,939	(205,057)	1,951,634
Inter-segment elimination	-	(312,070)	-	-	312,070	-
Profit before tax and excluding inter-segment transactions	<u>740,176</u>	<u>336,110</u>	<u>280,396</u>	<u>487,939</u>	<u>107,013</u>	<u>1,951,634</u>

**(E) Supplementary Financial Information (Unaudited)****(1) Loans and advances to customers, banks and other financial institutions**

<b>(a) Gross advances to customers, banks and other financial institutions - by industry sectors</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>Gross advances</b>	<b>% of secured</b>	<b>Gross advances</b>	<b>% of secured</b>
	<b>HK\$'000</b>	<b>advances</b>	<b>HK\$'000</b>	<b>advances</b>
		<b>%</b>		<b>%</b>
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	<b>8,352,343</b>	<b>40.67%</b>	6,932,715	29.30%
- Property investment	<b>20,070,465</b>	<b>76.87%</b>	17,544,326	65.74%
- Financial concerns	<b>6,932,161</b>	<b>2.95%</b>	5,044,113	2.60%
- Stockbrokers	<b>5,429</b>	<b>100.00%</b>	115,996	98.87%
- Wholesale and retail trade	<b>5,180,477</b>	<b>46.06%</b>	3,730,013	54.47%
- Civil engineering works	<b>209,574</b>	<b>65.11%</b>	380,307	31.23%
- Manufacturing	<b>4,005,977</b>	<b>51.91%</b>	3,854,159	45.91%
- Transport and transport equipment	<b>8,102,202</b>	<b>68.01%</b>	7,865,445	59.99%
- Electricity and gas	<b>42,014</b>	<b>100.00%</b>	60,366	96.76%
- Information technology	<b>1,510,208</b>	<b>0.43%</b>	2,030,657	0.15%
- Recreational activities	<b>2,491</b>	<b>100.00%</b>	7,121	100%
- Hotels, boarding houses and catering	<b>760,375</b>	<b>80.73%</b>	930,369	8.48%
- Others	<b>5,632,521</b>	<b>28.90%</b>	4,746,507	26.23%
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	<b>373,563</b>	<b>90.68%</b>	310,275	84.49%
- Loans for the purchase of other residential properties	<b>11,823,488</b>	<b>99.89%</b>	11,789,246	97.84%
- Credit card advances	<b>86,965</b>	<b>0.00%</b>	100,844	0.00%
- Others	<b>2,096,453</b>	<b>97.08%</b>	1,501,626	96.02%
Trade finance	<b>22,495,570</b>	<b>12.34%</b>	27,688,336	9.92%
Loans for use outside Hong Kong	<b>39,087,671</b>	<b>32.00%</b>	26,795,307	18.04%
	<b><u>136,769,947</u></b>	<b><u>44.53%</u></b>	<b><u>121,427,728</u></b>	<b><u>36.78%</u></b>

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:

	<b>2008</b>	<b>2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Property investment</b>		
Individually impaired loans	<b>244,043</b>	186,068
Overdue loans and advances over three months	<b>166,530</b>	37,822
Individual impairment allowances	<b>9,738</b>	3,035
Collective impairment allowances	<b>62,392</b>	36,460
New impairment allowances charged to income statement	<b>32,635</b>	21,509
Impaired loans and advances written off during the year	<b>-</b>	503
<b>(b) Trade Finance</b>		
Individually impaired loans	<b>186,185</b>	70,209
Overdue loans and advances over three months	<b>34,490</b>	-
Individual impairment allowances	<b>93,767</b>	31,636
Collective impairment allowances	<b>33,762</b>	29,830
New impairment allowances charged to income statement	<b>66,048</b>	51,643
Impaired loans and advances written off during the year	<b>43,828</b>	30,366
<b>(c) Loans for use outside Hong Kong</b>		
Individually impaired loans	<b>195,495</b>	146,581
Overdue loans and advances over three months	<b>56,270</b>	12,924
Individual impairment allowances	<b>103,922</b>	73,096
Collective impairment allowances	<b>108,327</b>	41,282
New impairment allowances charged to income statement	<b>97,871</b>	42,749
Impaired loans and advances written off during the year	<b>24,739</b>	-

(b) Advances to customers, banks and other financial institutions - by geographical areas

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

	Gross advances to banks and customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
<b>2008</b>					
Hong Kong	77,727,521	291,595	808,496	242,859	296,671
Mainland China	49,801,743	-	80,469	39,647	34,146
Macau	1,597,665	-	-	-	6,024
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	2,511,335	-	-	-	14,718
United Kingdom	9,563	-	-	-	93
Others	5,122,120	-	-	-	27,197
	<u>136,769,947</u>	<u>291,595</u>	<u>888,965</u>	<u>282,506</u>	<u>378,849</u>
	Gross advances to banks and customers HK\$'000	Overdue advances for over three months HK\$'000	Impaired loans and advances HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowances HK\$'000
<b>2007</b>					
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
	<u>121,427,728</u>	<u>103,749</u>	<u>646,602</u>	<u>125,293</u>	<u>210,269</u>

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.

(2) **Overdue, rescheduled and repossessed assets**

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

	<b>Gross advances HK\$'000</b>	<b>% of advances to customers</b>	<b>Market value of collateral HK\$'000</b>	<b>Amount of secured balance HK\$'000</b>	<b>Amount of unsecured balance HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>
<b>2008</b>						
<b>Six months or less but over three months</b>	<b>241,726</b>	<b>0.2</b>	<b>313,680</b>	<b>186,712</b>	<b>55,014</b>	<b>34,592</b>
<b>One year or less but over six months</b>	<b>35,196</b>	<b>0.0</b>	<b>9,499</b>	<b>9,331</b>	<b>25,865</b>	<b>25,632</b>
<b>Over one year</b>	<b>13,007</b>	<b>0.0</b>	<b>5,461</b>	<b>3,224</b>	<b>9,783</b>	<b>13,007</b>
	<b>289,929</b>	<b>0.2</b>	<b>328,640</b>	<b>199,267</b>	<b>90,662</b>	<b>73,231</b>
<b>2007</b>						
<b>Six months or less but over three months</b>	44,540	0.0	39,209	33,079	11,461	10,857
<b>One year or less but over six months</b>	43,207	0.0	27,340	20,284	22,923	21,881
<b>Over one year</b>	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 right 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 the bank has the means of locating its whereabouts.

The eligible collateral is mainly properties, deposits and shares.

(b) **Other overdue assets**

	<b>2008 HK\$'000</b>	<b>2008 HK\$'000</b>	<b>2007 HK\$'000</b>	<b>2007 HK\$'000</b>
	<b>Accrued interest</b>	<b>Other assets</b>	<b>Accrued interest</b>	<b>Other assets</b>
Six months or less but over three months	25	227	25	-
One year or less but over six months	-	-	-	-
Over one year	1	1,439	1	1,448
	26	1,666	26	1,448
Rescheduled assets	2	-	2	-
	28	1,666	28	1,448

Other assets refer to trade bills and receivables.

(c) **Rescheduled advances**

	<b>2008 HK\$'000</b>	<b>2007 HK\$'000</b>
Rescheduled advances (excluding overdue loans of more than three months)	<b>161,662</b>	<b>109,883</b>
	<b>2008</b>	<b>2007</b>
As % of advances to customers	<b>0.1</b>	<b>0.1</b>

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 (a) above.

There were no advances to banks and other financial institutions which were overdue for more than three months, nor were there any rescheduled advances to banks and other financial institutions as at 31 December 2008 and 31 December 2007.

(d) **Reposessed assets**

At 31 December 2008, the estimated market value of the reposessed assets of the Group amounted to HK\$49,023,000 (31 December 2007: HK\$34,360,000).

(3) **Capital adequacy ratio, capital base and liquidity ratio**

(a) **Capital adequacy ratio**

	2008	2007
Core capital ratio	<u>7.3%</u>	<u>7.3%</u>
Capital adequacy ratio	<u>13.6%</u>	<u>13.0%</u>

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

	2008 HK\$'000	2007 HK\$'000
Core capital:		
Paid up ordinary share capital	2,570,536	2,451,904
Share premium	8,209,593	7,161,786
Reserves	621,457	1,476,433
Income statement	407,616	545,763
Deduct: Goodwill	(980,154)	(973,419)
Other intangible assets	(31,318)	(66,882)
Net deferred tax assets	(137,547)	-
50% of total unconsolidated investments and other deductions	(431,507)	(459,898)
	<u>10,228,676</u>	<u>10,135,687</u>
Eligible supplementary capital:		
Fair value gains on the revaluation of land and buildings	5,095	5,378
Fair value gains on the revaluation of available-for-sale equities and debt securities	-	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	1,162,545	1,032,136
Perpetual subordinated debts	3,480,032	3,496,256
Subordinated debts measured at amortised cost	4,487,308	3,807,539
Deduct: 50% of total unconsolidated investments and other deductions	(431,507)	(459,898)
	<u>8,703,473</u>	<u>7,940,640</u>
Total capital base before deductions	18,932,149	18,076,327
Deductions from total capital base	-	-
Total capital base after deductions	<u>18,932,149</u>	<u>18,076,327</u>
Risk-weighted assets		
Credit risk	130,373,943	130,839,560
Market risk	2,937,625	3,120,400
Operational risk	6,059,438	4,914,788
Total risk-weighted assets	<u>139,371,006</u>	<u>138,874,748</u>

The capital ratios as at 31 December 2008 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, ICBC (Asia) Investment Management Company Limited and ICBC (Asia) Wa Pei Nominees Limited.

**(b) Liquidity ratio**

	<b>2008</b>	2007
Average liquidity ratio for the year	<u><u>37.0%</u></u>	<u><u>43.9%</u></u>

The average liquidity ratio for the year 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.

**(4) Currency concentration**

The net position in foreign currencies are disclosed when each currency constitutes 10% or more of the total net position in all foreign currencies.

	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
<b>2008</b>				
Spot assets	74,119,558	8,794,490	20,082,368	102,996,416
Spot liabilities	(90,047,326)	(7,892,910)	(8,276,179)	(106,216,415)
Forward purchases	53,942,597	13,214,944	12,222,094	79,379,635
Forward sales	(37,207,089)	(13,231,607)	(23,771,758)	(74,210,454)
Net option position	(850)	-	(8,733)	(9,583)
Net long position	<u><u>806,890</u></u>	<u><u>884,917</u></u>	<u><u>247,792</u></u>	<u><u>1,939,599</u></u>
<b>2007</b>				
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	<u><u>869,066</u></u>	<u><u>860,645</u></u>	<u><u>(468,067)</u></u>	<u><u>1,261,644</u></u>

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

There was no net structural position in a particular foreign currency which constitutes (in absolute terms) not less than 10% of its total net structural position in all currencies as at 31 December 2008 and 31 December 2007.

**(5) Cross-border claims**

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account of transfer of risk with respect to claims guaranteed by a party in a country different from that of the counter party. 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
<b>2008</b>				
Asia Pacific excluding Hong Kong	32,334	2,617	38,827	73,778
North and South America	8,881	1,104	6,041	16,026
Europe	<u><u>10,249</u></u>	<u><u>-</u></u>	<u><u>565</u></u>	<u><u>10,814</u></u>
<b>2007</b>				
Asia Pacific excluding Hong Kong	25,857	2,889	15,323	44,069
Europe	<u><u>40,875</u></u>	<u><u>-</u></u>	<u><u>884</u></u>	<u><u>41,759</u></u>

**(6) Non-bank Mainland exposures**

The analysis of non-bank Mainland exposure is based on the categories of non-bank counter parties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the completion instructions for 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.

	<b>On-balance sheet exposure HK\$'000</b>	<b>Off-balance sheet exposure HK\$'000</b>	<b>Total exposures HK\$'000</b>	<b>Individually assessed allowances HK\$'000</b>
<b>2008</b>				
<b>Mainland entities</b>	<b>18,246,241</b>	<b>1,144,763</b>	<b>19,391,004</b>	<b>-</b>
<b>Companies and individuals outside the Mainland where the credit is granted for use in the Mainland</b>	<b>14,747,579</b>	<b>1,104,903</b>	<b>15,852,482</b>	<b>121,849</b>
<b>Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure</b>	<b>996,813</b>	<b>26,459</b>	<b>1,023,272</b>	<b>24,428</b>
	<b><u>33,990,633</u></b>	<b><u>2,276,125</u></b>	<b><u>36,266,758</u></b>	<b><u>146,277</u></b>
<b>2007</b>				
<b>Mainland entities</b>	<b>16,100,628</b>	<b>1,329,091</b>	<b>17,429,719</b>	<b>-</b>
<b>Companies and individuals outside the Mainland where the credit is granted for use in the Mainland</b>	<b>7,660,219</b>	<b>1,093,919</b>	<b>8,754,138</b>	<b>74,657</b>
<b>Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure</b>	<b>2,039,396</b>	<b>629,079</b>	<b>2,668,475</b>	<b>5,558</b>
	<b><u>25,800,243</u></b>	<b><u>3,052,089</u></b>	<b><u>28,852,332</u></b>	<b><u>80,215</u></b>

## **RESULTS**

The Board of Directors announces that the Group has achieved a consolidated profit attributable to equity holders of HK\$969 million for the year ended 31 December 2008, representing a decrease of 40% as compared to HK\$1,609 million in 2007. Earnings per share was HK\$0.77 (2007: HK\$1.41). Return on average assets and return on average common equity were 0.48% and 6.80% respectively (2007: 1% and 13.6%).

## **FINAL DIVIDEND**

The Board of Directors is pleased to recommend a final dividend of HK\$0.18 per ordinary share for the year ended 31 December 2008 (2007: final dividend of HK\$0.63). The final 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 Friday, 22 May 2009. Details of the scrip dividend and the election form will be sent to shareholders on or about Tuesday, 26 May 2009. The scrip dividend scheme is conditional upon the Listing Committee of 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, 26 June 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Friday, 15 May 2009 to Friday, 22 May 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above final dividend, all transfer documents, accompanied by the relevant share certificates 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 Thursday, 14 May 2009.

## **FINANCIAL REVIEW**

The Group has achieved a consolidated profit attributable to equity holders of HK\$969 million for the year ended 31 December 2008, representing a decrease of 40% as compared to HK\$1,609 million in 2007.

Net interest income for the year ended 31 December 2008 increased HK\$610 million or 26% to HK\$2,998 million. The improvement was attributable to the slight improvement of overall net interest margin from 1.47% to 1.55% given lower cost of funds, due to US interest rate cuts in 4Q 2008.

Net fee and commission income decreased slightly by 2% to HK\$663 million from HK\$676 million for 2007. The decrease was mainly due to a slowdown in local stock market, impacting the commission income derived from stock broking business. Overall, the ratio of total net fee and commission and other operating income to the total operating income decreased to 20%, as compared to 25% in 2007.

Operating expenses increased HK\$117 million or 10% to HK\$1,252 million from HK\$1,135 million in 2007. The cost to income ratio dropped from 35.6% to 33.3%, mainly due to the increase in total operating income, together with effective cost control over the year.

The consolidated impairment losses increased by HK\$1,077 million to HK\$1,211 million in 2008. This included HK\$721 million impairment losses on available-for-sale financial investments issued by Lehman Brothers (HK\$77 million), the three Icelandic Banks (HK\$611 million) and on note issued by a structured investment vehicle (HK\$33 million). For 2008, HK\$409 million impairment losses were made for loans and advances to customers as compared to a write-back of HK\$115 million of 2007. For equities investment, HK\$81 million impairment loss was made on holdings of Alibaba shares.

The Group incurred HK\$202 million losses from disposal of investment securities, as compared to the disposal gain of HK\$17 million in 2007.

Share of profits from associates reduced to HK\$0.66 million from HK\$11 million of 2007.



## **Balance Sheet**

The consolidated total assets of the Group reached HK\$194,564 million as at 31 December 2008, representing a slight increase of HK\$2,260 million or 1% as compared to HK\$192,304 million as at 31 December 2007.

Consolidated total loans and advances increased by HK\$15,379 million or 13% to HK\$137,083 million as at 31 December 2008, as compared to HK\$121,704 million as at 31 December 2007.

Total customer deposits amounted to HK\$138,183 million, as compared to HK\$137,530 million as at 31 December 2007.

Total certificates of deposit issued amounted to HK\$4,312 million, representing an increase of 16% as compared to HK\$3,705 million as at 31 December 2007.

## **Capital and Liquidity Management**

At the end of 2008, the capital adequacy ratio for the Group was 13.6% (2007: 13.0%). The Group maintained an adequate level of capital in 2008. The average liquidity ratio amounted to 37.0% (2007: an average of 43.9%).

## **Asset Quality**

Consolidated impaired loans increased by HK\$242 million to HK\$889 million as at 31 December 2008, as compared to HK\$647 million as at 31 December 2007. As a result, the consolidated impaired loan ratio was up slightly from 0.53% to 0.65%.

As at 31 December 2008, the cumulative loan impairment allowances aggregated to HK\$661 million (2007: HK\$335 million). This included HK\$282 million (2007: HK\$125 million) of individual impairment allowance and HK\$379 million (2007: HK\$210 million) of collective impairment allowances. The increase of the impairment allowance was mainly due to the drastic slowdown of the global economy, impacting the credit environment of the financial markets.

Overdue loans increased from HK\$104 million as at 31 December 2007 to HK\$292 million as at 31 December 2008, which represents 0.2% of advances to customers.

## **BUSINESS REVIEW**

Below are the summaries of the performance of our individual business operations in 2008 and their respective outlook for 2009.

### **Retail Banking**

Our Retail Banking business experienced a challenging year in 2008. The outbreak of the global financial tsunami in the third quarter of 2008 had led to a sharp downturn of the economic and market conditions in Hong Kong. In particular, the Lehman Brothers' minibond incidents caused serious and extensive impact on the banking industry. As a result, profit contribution from our Retail Banking business shrunk significantly to HK\$189 million as compared to HK\$336 million in 2007.

Property prices suffered a decline since the end of the first quarter of 2008, which fell even further after the occurrence of the financial crisis in September 2008. The residential mortgage market was adversely affected by a reduction in transaction volume of the property market. Also, the upsurge of inter-bank market rates during mid 2008 had eroded profit margin of the prime-based mortgage loan portfolio. Despite of such difficulties, we were still able to grow our mortgage loan portfolio during 2008 by approximately 8% as compared to the end of 2007.

On the other hand, we achieved a close to 10% increase in our customer deposits during 2008 as compared to 2007. This contributed to a reduction in funding cost, which partially offset the negative

effect of the upsurge of inter-bank market rates.

We continued our branch network rationalization projects and set up the first new branch since 2006. In order to strengthen the geographic coverage of our branch network, we opened our Aberdeen Branch in May and our Ngau Tau Kok Branch in September. We also relocated our Jordan Branch in July and our Tsim Sha Tsui Branch in August to expand our business scope and scale in the locality. By the end of 2008, we had 43 branches in which more than 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.

The other important developments of our Retail Banking business during the year are as follows:

#### *Securities and brokerage*

Amid the downturn in the stock market, our securities and brokerage business was adversely affected by poor investment sentiment. Despite the weak market environment, we strived to promote our securities and brokerage business through competitive marketing campaigns and cross-referral mechanism, which led to an increase in our number of securities customers. While the overall profitability shrunk much compared with 2007, our market share slightly increased.

#### *Wealth Management*

Throughout the earlier months of 2008, we had been making discernible progress in developing our “Elite Club” wealth management service. Unfortunately, the momentous financial tsunami since September, leading to the collapse of several global financial institutions, completely wiped out those advances. As a consequence of the maelstrom, investors’ risk aversion rocketed and slowed down wealth management related businesses. However, toward the year-end, there appeared encouraging sign of steady clients’ acquisition (i.e. for Elite Club members), even in a volatile business environment.

#### *Private Banking*

In order to acquire more high net worth customers, we launched our Private Banking services in June 2008, which focus to provide high quality, dedicated and comprehensive wealth management service.

#### *Asset Management*

We completed the acquisition of Worldsec Asset Management Limited on 1 September 2008, which subsequently changed its name to ICBC (Asia) Investment Management Company Limited.

#### *Bancassurance*

We continuously follow the philosophy of providing comprehensive financial services to our customers with satisfying their investment and protection needs. In the adversity, we continue to provide different kinds of insurance products (life & general) as well as tailored-made insurance products to meet the needs of our customers.

#### *Hire Purchase and Leasing*

We remained as an active market player in taxi and public light bus financing business in 2008. While our business revenue continued to increase, the overall profitability declined due to fierce price competition, which resulted in the tightening of interest margin.

The outlook of our Retail Banking business for 2009 is summarized below.

Due to the likely economic downturn in 2009, we expect that it will be difficult to achieve any significant growth in the Bank’s retail deposit, loan and investment business. The severe competition in the form of price war will continue and lower the Bank’s interest margin. Increase of credit risk along with the worsening economic and market environment will have negative impact on the Bank’s mortgage, taxi and PLB hire purchase and other retail loans. Fee income from stock brokerage would be adversely affected following the slowdown in local stock market.

Despite of all these unfavorable factors, we shall continue to expand our retail business as a long run strategy. We shall continue our branch network rationalization projects in the coming year and expand our branch network.

We shall also enhance our electronic channel services including improving the existing Personal Internet

Banking Services and offering new Internet Securities Services functionalities, Automated Phone Securities Services, and Commercial Internet Banking.

Above all, the Bank will keep on upgrading the IT system platform, improving the new Customer Relationship Management System and Sales Target Management System to raise our marketing capability and quality, and to provide more comprehensive, convenient and quality banking services to our different segments of customers.

## **Treasury and Markets**

In 2008, our Treasury & Markets (“T&M”) business experienced a turbulent year. In the first three quarters of the year, our treasury business was in an expanding stage and the operating results were encouraging. The net interest income set a record high. The proprietary trading as well as cooperative business operation with ICBC Head Office and branches in Mainland achieved fruitful results. New products, such as interest rate futures, interest rate swap and digital option, were launched. In the meantime, we strengthened the capacity of new product development and risk management, revised the policies and procedures, and upgraded the computer systems to be commensurate with the latest business needs.

Our bond portfolio inevitably suffered from the outbreak of the financial tsunami in September 2008. Fortunately, we had already shifted our focus on sovereignty and utility sectors in the first half of the year. The losses from bond investment were therefore much limited. In 2008, we made a further impairment of HK\$33 million for SIV investment. In addition, we had 100% write-off against our bond investment of HK\$689 million (about 3.5% of our bond portfolio) in the collapsed Lehman Brothers Holdings Inc and three Icelandic banks. As a result, our T&M business recorded a loss of HK\$96 million in 2008 as compared to a profit of HK\$280 million in 2007.

In 2009, we shall continue to respond quickly to market changes and remain focused on executing our proven strategy. At the same time, in addition to the development of customer services and proprietary trading businesses, we shall continue to take opportunity to cross sell investment products across ICBC network and to provide excellent financial solutions to our customers. Simultaneously, we shall continue to make our efforts on the implementation of risk assessment and control by bringing in advanced technology that will assist us in the upgrade of market risk analysis and monitoring.

## **Commercial Banking**

Small and Medium-sized Enterprises (SMEs) in Hong Kong were under pressure as a result of the slowdown of the global and local economy as well as the inevitable credit crunch on SME lending. As a result, the delinquency for SME loans has caused much concern to the banking industry. Notwithstanding the difficult environment, profit contribution from our Commercial Banking business declined only slightly to HK\$718 million as compared to HK\$740 million in 2007. In addition, we managed to maintain a below market average loan impairment ratio.

By offering tailor-made banking and financial services to customers, our Diamond Trade Finance, European Banking and Indian Banking continued to enjoy good reputation in the Hong Kong banking sector. Furthermore, our cross-border co-operations with ICBC had achieved great success and generated significant contribution to the business growth. Such co-operations will continue and we aim to collaborate with more ICBC branches in future.

In 2009, we shall continue to provide tailor-made and “one stop” banking facilities to our customers to strengthen our competitive position in the market, by investing in human resources and business outlets. Also, we shall expand our professional relationship management team to actively pursue new businesses and to serve our existing customers. We shall enhance our e-banking solutions and to promote IPO, trade finance and factoring services that will generate stable non-interest income and enhance interest income.

## Corporate and Investment Banking

Our Corporate and Investment Banking business has been focusing in providing financing solutions to prime corporate customers in the Greater China region with the aim to enhance overall yield without sacrificing assets quality and to enlarge our deposit base. In 2008, we continued our strategy to diversify our income base to non-traditional corporate banking business. We also strengthened our competitiveness through product innovations. Along with our client relationship, resources have been designated to foster debt capital market product development aiming at providing comprehensive and innovative financing solutions to our clients.

2008 was a challenging year for credit risk management as well. Amidst the deteriorating economic environment and shrinking market liquidity, we have adopted a prudent approach in expanding new businesses. For existing asset portfolio, we have conducted periodic review and monitoring and reacted promptly to reduce or even avoid any potential loss. Though it might not be possible to eliminate credit loss completely, we have endeavored to minimize it and to maintain a non-performing loan ratio well below that of the bank or even the industry average.

Despite the challenge of the turbulent financial market, profit contribution of corporate and investment banking marked a slight growth of 2% to HK\$497 million as compared to HK\$488 million in 2007, driven by both surge in fee income.

In addition to traditional bilateral facilities, we continued to take active roles in the syndication market. Although syndication activity in the region slowed down remarkably, we took leading roles in many prominent deals, including the HK\$20.38 billion syndicated loan to Hong Kong Telecommunications (HKT) Ltd., the US\$1.18 billion syndicated loan to finance the second phase of the China-Kazakhstan Natural Gas Pipe Line, the HK\$6 billion syndication loan to Wheelock and Company Limited, the HK\$2.2 billion syndicated loan to Shanghai Industrial Investment (Holdings) Company Limited, the US\$2.23 billion and GBP796 million syndicated loan to Borse Dubai and the HK\$2,954 million syndicated loan to the Champion REIT for the acquisition of the Langham Place. We have also concluded a HK\$2.1 billion facility for GZI REIT and a HK\$1.8 billion facility for Yue Xiu Enterprises (Holdings) Ltd. on club deal basis.

Besides playing an active role in the primary markets, we also acted strategically in loan assets trading, which not only enhanced our yield and increased fee income but also paved the way for effective portfolio management.

We continue to leverage on our wholly owned subsidiary, Chinese Mercantile Bank, in Mainland China to provide one-stop cross-border financial services to existing and potential clients. We established our presence in the RMB syndication market in Mainland China by acting as advisor to a RMB2.7 billion acquisition financing for an enterprise in Mainland China. We received overwhelming response from local and international banks for such acquisition financing. Our cross border solution in cash management have earned interest from prime customers and enlarged our RMB deposit base in Mainland China.

The challenge that we shall face in 2009 will not be less than that in 2008. But opportunities still exist in certain strategic industries in China and in areas including financial advisory and M&A activities in the Greater China region. We shall continue our prudent risk management approach in asset selection and monitoring and will leverage our established network and competitive edge to overcome any challenge.

## **Financial Institutions**

In 2008, our Financial Institutions business achieved excellent results especially for trade finance related products through our close cooperation with various branches of ICBC, which ranked us one of the leaders in the market. In addition, other transactional banking services such as cash management also contributed significantly to our profitability.

The transaction volume of trade finance related products with ICBC is likely to decline in 2009 in view of the reducing demand from end customers in Mainland China. We shall therefore focus on the financial institutions market, but in view of the intense competition, we shall continue our strategy to diversify our client base and to enhance our quality of service to customers.

## **Credit Card Business**

During 2008, our Credit Card business recorded further growth. Total revenue was approximately 80% higher than the past year. Average monthly borrowing balance was up by 12%, which could be attributed to the success of our borrowing stimulation strategy and the cross selling of installment loans. Merchant business continued to grow very fast at the rate of 65%. All these remarkable records resulted from a combination of marketing strategies including all-year-round purchase privileges, monthly spending programs, anti-attrition programs and customer segment promotion. New products such as Platinum Card and Zurich Co-brand Card added momentum to the business growth. We also spent a lot of effort in improving the delinquency and risk management of both the card issuance and merchant business, typical examples of which include the issuance of the EMV card, adoption of more sophisticated roll-over model, strengthening of collector performance measurement and introduction of daily turnover ceiling for each merchant.

In spite of the predicted economic downturn in 2009, we still see opportunities in our Credit Card business. We shall aim at expanding the market share by taking a more aggressive approach in card acquisition. A number of co-brand cards with different themes are under preparation. Our basic card features will also be enhanced. Titanium Cards will be launched. A closer linkage with our Retail Banking business will be established in both card acquisition and utilization to gain synergy effect between credit card and retail products. Meanwhile, more concrete actions in delinquency and collection management improvement will be adopted to support the aggressive marketing activities and to cope with the expected deterioration in economic environment.

## **Chinese Mercantile Bank**

In 2008, Chinese Mercantile Bank (“CMB”) achieved remarkable results. According to Hong Kong Accounting Standards, its profit increased by HK\$130 million or 153% to HK\$215 million in 2008 as compared to HK\$85 million in 2007. Net interest income increased by HK\$191 million or 165% to HK\$307 million as compared with HK\$116 million in 2007. Net fee and commission income increased by HK\$16 million or 100% to HK\$32 million as compared with HK\$16 million in 2007. Total assets of CMB was HK\$10,398 million as at 31 December 2008, representing an increase of 30% over the end of 2007. Total customers’ loan and deposit balance as at 31 December 2008 was HK\$8,826 million and HK\$4,217 million respectively.

CMB focuses to provide one-stop cross-border financial services to existing and potential clients through close cooperation with the Bank. These include traditional services such as trade finance and remittance service, as well as more sophisticated products such as M&A financing. In this regard, CMB completed a RMB2.7 billion acquisition financing for an enterprise in Mainland China during 2008, in conjunction with the Corporate and Investment Banking team of the Bank.

During 2008, CMB successfully upgraded its core banking system in order to cater for future business growth. Also, the China Banking Regulatory Commission approved the opening of its Guangzhou Branch at the end of 2008. Looking forward, CMB will continue its branch network expansion in the Pearl River Delta region in 2009.

## **Human Resources**

The number of staff of the Bank as at 31 December 2008 was 1,454. During 2008, measures were in place to enhance our position to attract, develop, and retain the knowledgeable and skillful employees. These included active and flexible recruitment and selection effort, emphasis of business-oriented training programs, promotion of job skills development, a more productive work environment for employees, and closer communication with employees to better understand their needs.

At the same time, we offer support to our Staff Association to organise and promote various recreational and social gathering activities for staff, such as picnics, buffet gatherings, interest classes and sports events, in order to maintain and promote good employer-employee relationship and a better work and life balance for employees.

## **Corporate Social Responsibility**

The Hong Kong Council of Social Service awarded the Bank with the Caring Company '5 Year Plus Award Logo' in recognition of Bank and its staff's contribution and commitment to the community over all these years. The Caring Company Logo is to recognise private companies with business operations in Hong Kong that demonstrated good corporate citizenship.

The Bank was honored to be appointed again as the Chairman of the Caritas Fund Raising Committee for the year 2008-2009. The Bank and its staff volunteers were committed to support Caritas-Hong Kong by soliciting donations from business associates and customers through various fund raising activities including donation boxes at branches, television charity show, walkathon, sales of raffle tickets and bazaars. The Bank also donated to Caritas-Hong Kong part of retail spending revenue from the jointly issued affinity card, Caritas-HK MasterCard.

The Bank sponsored the reconstruction of a primary school in mountainous area of the Yunnan Province. The new school building enables the children to study in a safe environment and at a permanent site. In late October 2008, our staff and volunteers of "Sowers Action" visited the school and also the students' home to understand more about their learning and living conditions.

The Bank, our staff and customers also raised the donation of over HK\$2 million to aid the Sichuan earthquake victims. The donation was sent via Hong Kong Red Cross to the victims.

In respect of contribution to cultural development, the Bank sponsored a concert of Hong Kong Chinese Orchestra while a number of underprivileged persons from several charity organizations were invited to attend the concert. We also sponsored another concert of Hong Kong Philharmonic Orchestra in order to promote appreciation of philharmonic music in Hong Kong.

In 2009, the Bank will continue to contribute to the community service and demonstrate good corporate citizenship towards a harmonious society.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

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 the 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2008, except for the following deviations: -

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 the annual general meetings in accordance with the Bank's Articles of Association.

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 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 will be set out in the Corporate Governance Report of the Bank's 2008 Annual Report.

The Audit Committee of the Bank has reviewed the results for the year ended 31 December 2008.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Bank has adopted the model code for securities transactions by directors set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transaction. The Bank confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code for the year ended 31 December 2008.

### **PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES**

During the year, 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.

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

Hong Kong, 24 March 2009

*As at the date of this announcement, the Board of Directors comprises Mr. Chen Aiping, Mr. Wong Yuen Fai and Mr. Zhang Yi as Executive Directors, Dr. Jiang Jianqing, Ms. Wang Lili and Mr. Hu Hao 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.*