



創興銀行有限公司  
Chong Hing Bank Limited

# 2007 Interim Report

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# CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June 2007	Six months ended 30 June 2006
	Notes	HK\$'000	HK\$'000
Interest income		1,548,667	1,336,416
Interest expense		<u>(1,102,498)</u>	<u>(895,020)</u>
Net interest income	4	446,169	441,396
Other operating income	5	<u>196,048</u>	<u>137,128</u>
Operating income		642,217	578,524
Operating expenses	6	<u>(309,018)</u>	<u>(278,623)</u>
Operating profit		333,199	299,901
Impairment allowances on loans and advances			
– New allowances		<b>(61,442)</b>	(69,544)
– Amounts reversed		<b>20,333</b>	31,255
		<b>(41,109)</b>	(38,289)
Net (loss) gain on disposal of property and equipment		<b>(60)</b>	36
Net gain on disposal of investment properties	15	14,420	–
Net gain on disposal of available-for-sale securities		35,359	27,947
Impairment loss on goodwill	7	<b>(9,500)</b>	–
Share of results of jointly controlled entities		<u>23,587</u>	<u>6,391</u>
Profit before taxation		355,896	295,986
Taxation	8		
– Hong Kong		<b>(56,401)</b>	(43,563)
– Overseas		<b>(272)</b>	81
– Deferred tax		<b>1,509</b>	(3,663)
		<b>(55,164)</b>	(47,145)
Profit for the period		<u><b>300,732</b></u>	<u>248,841</u>
Earnings per share, basic and diluted	9	<u><b>HK\$0.69</b></u>	<u>HK\$0.57</u>
Dividend paid	10	<u><b>191,400</b></u>	<u>182,700</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2007 HK\$'000	31 December 2006 HK\$'000
<b>Assets</b>			
Cash and short-term funds	11	15,688,740	16,256,859
Placements with banks and other financial institutions maturing between one and twelve months		4,158,230	2,638,461
Derivative financial instruments	12	17,868	4,962
Financial assets at fair value through profit or loss	13	1,121,022	610,811
Available-for-sale securities	13	1,298,580	1,098,141
Held-to-maturity securities	13	14,583,397	13,903,173
Advances and other accounts	14	28,558,976	27,497,020
Interests in jointly controlled entities		120,743	99,256
Loan to a jointly controlled entity		31,000	31,000
Investment properties	15	45,850	82,250
Property and equipment	16	407,087	380,825
Prepaid lease payments for land	17	328,615	316,535
Goodwill		101,106	110,606
<b>Total assets</b>		<b>66,461,214</b>	<b>63,029,899</b>
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions		1,040,782	528,993
Deposits from customers	18	57,464,598	54,675,232
Other accounts and accruals		694,485	754,550
Derivative financial instruments	12	3,063	1,716
Current tax liabilities		63,161	22,463
Deferred tax liabilities	19	23,399	27,839
Loan capital	20	972,814	967,376
<b>Total liabilities</b>		<b>60,262,302</b>	<b>56,978,169</b>
<b>Shareholders' equity</b>			
Share capital		217,500	217,500
Reserves		5,981,412	5,834,230
Shareholders' funds		6,198,912	6,051,730
<b>Total liabilities and shareholders' equity</b>		<b>66,461,214</b>	<b>63,029,899</b>

	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2007	217,500	1,542,817	(182)	142,386	1,388,500	(152)	165,000	2,595,861	6,051,730
Revaluation gains of available-for-sale securities	-	-	-	69,478	-	-	-	-	69,478
Deferred taxation, net	-	-	-	2,931	-	-	-	-	2,931
Exchange differences arising from translation of foreign operations	-	-	-	-	-	800	-	-	800
Net income recognised directly in equity	-	-	-	72,409	-	800	-	-	73,209
Profit for the period	-	-	-	-	-	-	-	300,732	300,732
Reversal of reserves upon disposal of available-for-sale securities	-	-	-	(35,359)	-	-	-	-	(35,359)
Total recognised income for the period	-	-	-	37,050	-	800	-	300,732	338,582
Final dividend paid	-	-	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	22,000	(22,000)	-
At 30 June 2007	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>179,436</u>	<u>1,388,500</u>	<u>648</u>	<u>187,000</u>	<u>2,683,193</u>	<u>6,198,912</u>
At 1 January 2006	217,500	1,542,817	(182)	163,125	1,388,500	(1,691)	122,837	2,400,230	5,833,136
Revaluation gains of available-for-sale securities	-	-	-	40,904	-	-	-	-	40,904
Exchange differences arising from translation of foreign operations	-	-	-	-	-	1,327	-	-	1,327
Net income recognised directly in equity	-	-	-	40,904	-	1,327	-	-	42,231
Profit for the period	-	-	-	-	-	-	-	248,841	248,841
Reversal of reserves upon disposal of available-for-sale securities	-	-	-	(17,561)	-	-	-	-	(17,561)
Total recognised income for the period	-	-	-	23,343	-	1,327	-	248,841	273,511
Final dividend paid	-	-	-	-	-	-	-	(182,700)	(182,700)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	23,000	(23,000)	-
At 30 June 2006	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>186,468</u>	<u>1,388,500</u>	<u>(364)</u>	<u>145,837</u>	<u>2,443,371</u>	<u>5,923,947</u>

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to the shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority ("HKMA").

The general reserve comprises transfers from prior years' retained profits.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	355,896	295,986
Adjustments for:		
Share of results of jointly controlled entities	(23,587)	(6,391)
Net loss (gain) on disposal of property and equipment	60	(36)
Net gain on disposal of investment properties	(14,420)	-
Impairment loss on goodwill	9,500	-
Net gain on disposal of available-for-sale securities	(35,359)	(27,947)
Impairment allowances on loans and advances	41,109	38,289
Dividend income on equity securities	(6,064)	(6,865)
Depreciation	16,970	13,933
Amortisation of prepaid lease payments for land	2,620	2,567
Interest income from available-for-sale securities and held-to-maturity securities	(303,073)	(205,224)
Interest expense on loan capital	31,370	-
Exchange adjustments	5,734	1,336
Operating cash flows before movements in operating assets and liabilities	80,756	105,648
Decrease in money at call and short notice with original maturity over three months	452,491	519,145
Decrease (increase) in exchange fund bills with original maturity over three months	65,894	(133,081)
Increase in placements with banks and other financial institutions with original maturity over three months	(1,728,988)	(1,275,719)
(Increase) decrease in financial assets at fair value through profit or loss	(521,770)	321,177
Increase in bills receivable	(37,718)	(110,707)
Increase in trade bills	(63,092)	(6,783)
Increase in other advances to customers	(961,283)	(1,125,412)
Increase in interest receivable and other accounts	(23,356)	(52,730)
(Increase) decrease in advances to banks and other financial institutions	(60)	224
Increase (decrease) in deposits and balances of banks and other financial institutions with original maturity over three months	21,828	(34,564)
Increase in deposits from customers	2,789,366	6,221,472
(Decrease) increase in other accounts and accruals	(59,397)	137,965
Cash generated from operations	14,671	4,566,635
Hong Kong Profits Tax paid	(15,703)	(13,477)
Overseas tax (paid) refund	(272)	81
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>	<b>(1,304)</b>	<b>4,553,239</b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
<b>INVESTING ACTIVITIES</b>		
Interest received from available-for-sale securities and held-to-maturity securities	285,517	208,747
Dividends received on equity securities	6,064	6,865
Dividends received from jointly controlled entities	2,100	–
Purchase of available-for-sale securities	(298,428)	(159,795)
Purchase of held-to-maturity securities	(9,179,035)	(7,898,583)
Purchase of property and equipment	(43,303)	(88,791)
Prepaid lease payments for land	(14,700)	(1,010)
Proceeds from sale and redemption of available-for-sale securities	167,467	96,992
Proceeds from redemption of held-to-maturity securities	8,498,811	4,089,662
Proceeds from disposal of investment properties	50,820	–
Proceeds from disposal of property and equipment	15	49
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(524,672)</b>	<b>(3,745,864)</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	(31,538)	–
Dividends paid	(191,400)	(182,700)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(222,938)</b>	<b>(182,700)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(748,914)</b>	<b>624,675</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>14,115,214</b>	<b>9,990,602</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>13,366,300</b>	<b>10,615,277</b>
Represented by		
Cash and balances with banks and other financial institutions	2,676,483	747,170
Money at call and short notice	10,293,169	8,370,827
Exchange fund bills	2,719,088	520,466
Placements with banks and other financial institutions maturing between one to twelve months	4,158,230	4,210,999
Less: Amounts with original maturity over three months	(5,439,888)	(2,498,008)
Deposits and balances of banks and other financial institutions	(1,040,782)	(736,177)
	<b>13,366,300</b>	<b>10,615,277</b>



## 1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

## 2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments : Disclosures <sup>1</sup>
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) - Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standard or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) - Int 11	HKFRS 2 Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) - Int 12	Service Concession Arrangements <sup>3</sup>

<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 March 2007

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

The directors of the Bank anticipate that the application of these standard or interpretations will have no material impact on the results and the financial position of the Group.

### 3. Business and geographical segments

#### (a) Business segments

Segment information by business segments for the six months ended 30 June 2007 is presented below:

#### INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	774,316	771,125	3,226	-	-	1,548,667
Interest expense to external customers	(1,047,637)	(54,861)	-	-	-	(1,102,498)
Inter-segment interest income <i>(Note)</i>	533,643	-	-	-	(533,643)	-
Inter-segment interest expense <i>(Note)</i>	-	(533,643)	-	-	533,643	-
Net interest income	260,322	182,621	3,226	-	-	446,169
Other operating income	51,356	31,363	75,409	37,920	-	196,048
Operating income	311,678	213,984	78,635	37,920	-	642,217
Impairment allowances on loans and advances	(41,109)	-	-	-	-	(41,109)
Net loss on disposal of property and equipment	(60)	-	-	-	-	(60)
Net gain on disposal of investment properties	-	-	-	14,420	-	14,420
Net gain on disposal of available-for-sale securities	-	-	-	35,359	-	35,359
Impairment loss on goodwill	-	-	-	(9,500)	-	(9,500)
Operating expenses	(175,657)	(11,924)	(19,545)	(10,767)	-	(217,893)
Segment profit	94,852	202,060	59,090	67,432	-	423,434
Unallocated corporate expenses						(91,125)
Share of results of jointly controlled entities				23,587		23,587
Profit before taxation						355,896
Taxation						(55,164)
Profit for the period						300,732

*Note: Inter-segment pricing is charged at prevailing customer deposits interest rates.*

### 3. Business and geographical segments (continued)

#### (a) Business segments (continued)

Segment information by business segments for the six months ended 30 June 2006 is presented below:

#### INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other financial services business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	749,646	584,526	2,244	-	-	1,336,416
Interest expense to external customers	(857,972)	(37,048)	-	-	-	(895,020)
Inter-segment interest income (Note)	403,771	-	-	-	(403,771)	-
Inter-segment interest expense (Note)	-	(403,771)	-	-	403,771	-
Net interest income	295,445	143,707	2,244	-	-	441,396
Other operating income	61,107	9,253	38,074	28,694	-	137,128
Operating income	356,552	152,960	40,318	28,694	-	578,524
Impairment allowances on loans and advances	(38,289)	-	-	-	-	(38,289)
Net gain on disposal of property and equipment	36	-	-	-	-	36
Net gain on disposal of available-for-sale securities	-	-	-	27,947	-	27,947
Operating expenses	(150,422)	(10,478)	(14,030)	(7,974)	-	(182,904)
Segment profit	<u>167,877</u>	<u>142,482</u>	<u>26,288</u>	<u>48,667</u>	<u>-</u>	<u>385,314</u>
Unallocated corporate expenses						(95,719)
Share of results of jointly controlled entities				6,391		6,391
Profit before taxation						295,986
Taxation						(47,145)
Profit for the period						<u>248,841</u>

Note: Inter-segment pricing is charged at prevailing customer deposits interest rates.

#### (b) Geographical segments

Geographical segmentation is analysed based on the locations of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets.

Details of geographical segmentation are set out below.

	Six months ended 30 June 2007		Six months ended 30 June 2006	
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total operating income HK\$'000	Profit before taxation HK\$'000
Hong Kong	608,698	312,011	548,828	275,869
Asia Pacific (excluding Hong Kong)	21,911	34,899	21,873	16,838
America	11,608	8,986	7,823	3,279
Total	<u>642,217</u>	<u>355,896</u>	<u>578,524</u>	<u>295,986</u>

**4. Net interest income**

	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
Interest income		
Cash and short term funds and placements with banks and other financial institutions	451,187	369,679
Investments in securities	326,968	214,847
Loans and advances	770,512	751,890
	<u>1,548,667</u>	<u>1,336,416</u>
Interest expense		
Banks and customers	(1,071,128)	(895,020)
Loan capital in issue	(31,370)	–
Net interest income	<u>446,169</u>	<u>441,396</u>

Included within interest income and interest expense are HK\$1,524,772,000 (2006: HK\$1,326,793,000) and HK\$1,102,498,000 (2006: HK\$895,020,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

## 5. Other operating income

	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
Fees and commission income		
Securities dealings	76,277	38,074
Credit lines	3,214	9,606
Trade finance	7,301	6,271
Credit card services	18,941	12,380
Agency services	23,018	13,658
Other fees and commission income	6,009	7,443
Total fees and commission income	134,760	87,432
Less: Fees and commission expense	(19,849)	(2,123)
Net fees and commission income	114,911	85,309
Dividend income	6,064	6,865
Listed investments	4,084	4,660
Unlisted investments	1,980	2,205
Net gains on dealing in foreign currencies	17,744	9,322
Net gains on financial assets at fair value through profit or loss	13,708	69
Designated at fair value through profit or loss	13,667	69
Held for trading	41	–
Gross rents from properties	6,130	1,983
Less: Outgoings	(2,341)	(362)
Net rental income	3,789	1,621
Safe deposit box rentals	11,532	10,558
Insurance underwriting	6,653	7,457
Other banking services income	20,001	16,200
Others	1,646	(273)
	<u>196,048</u>	<u>137,128</u>

## 6. Operating expenses

	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
Staff costs:		
Salaries and other costs	176,116	149,497
Retirement benefits scheme contributions	13,538	10,659
Total staff costs	189,654	160,156
Depreciation	16,970	13,933
Amortisation of prepaid lease payments for land	2,620	2,567
Premises and equipment expenses, excluding depreciation and amortisation of prepaid lease payments for land		
Rentals and rates for premises	16,552	22,004
Others	9,816	9,748
Other operating expenses	73,406	70,215
	<u>309,018</u>	<u>278,623</u>

## 7. Impairment loss on goodwill

For the period ended 30 June 2007, the management has reviewed goodwill for impairment. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on five year financial budgets approved by management and estimated terminal value at the end of the five year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and selection of discount rates.

Value in use is derived at by discounting the expected future cash flows at 13% discount rate. Management's financial model assumes an overall growth in gross written premium of 7% per annum during the first 5 years. Cash flows beyond five years are extrapolated using a terminal growth rate of 3.5%. A goodwill impairment loss of HK\$9,500,000 (2006: Nil), representing the excess of the carrying amount above the value in use, has been recognised for the period ended 30 June 2007.

## 8. Taxation

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 9. Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of HK\$300,732,000 (2006: HK\$248,841,000) and on 435,000,000 (2006: 435,000,000) ordinary shares in issue during the period.

## 10. Dividend paid

On 26 April 2007, a dividend of HK\$0.44 per share was paid to shareholders as the final dividend for 2006.

On 27 April 2006, a dividend of HK\$0.42 per share was paid to shareholders as the final dividend for 2005.

The directors have determined that an interim dividend of HK\$0.21 per share (2006: HK\$0.19) should be paid to the shareholders of the Bank whose names appear in the Register of Members on 14 September 2007.

**11. Cash and short-term funds**

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Cash and balances with banks and other financial institutions	2,676,483	997,461
Money at call and short notice	10,293,169	14,744,553
Exchange fund bills	<u>2,719,088</u>	<u>514,845</u>
	<u>15,688,740</u>	<u>16,256,859</u>

**12. Derivative financial instruments**

	30 June 2007		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading:			
– Exchange rate contracts	79,585	4,165	22
– Interest rate contracts	841,264	<u>13,703</u>	<u>3,041</u>
		<u>17,868</u>	<u>3,063</u>

	31 December 2006		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading:			
– Exchange rate contracts	565,509	3,409	128
– Interest rate contracts	345,014	<u>1,553</u>	<u>1,588</u>
		<u>4,962</u>	<u>1,716</u>

## 13. Investments in securities

	Financial assets at fair value through profit or loss				
	Trading assets HK\$'000	Assets designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
30 June 2007					
Equity securities:					
Listed in Hong Kong	308	–	302,537	–	302,845
Listed overseas	–	–	8,634	–	8,634
	<u>308</u>	<u>–</u>	<u>311,171</u>	<u>–</u>	<u>311,479</u>
Unlisted	–	–	416,524	–	416,524
	<u>308</u>	<u>–</u>	<u>727,695</u>	<u>–</u>	<u>728,003</u>
Debt securities:					
Certificates of deposits held	–	–	–	1,861,187	1,861,187
Other debt securities – Unlisted	–	1,120,714	570,885	12,722,210	14,413,809
	<u>–</u>	<u>1,120,714</u>	<u>570,885</u>	<u>14,583,397</u>	<u>16,274,996</u>
Total:					
Listed in Hong Kong	308	–	302,537	–	302,845
Listed overseas	–	–	8,634	–	8,634
Unlisted	–	1,120,714	987,409	14,583,397	16,691,520
	<u>308</u>	<u>1,120,714</u>	<u>1,298,580</u>	<u>14,583,397</u>	<u>17,002,999</u>
Market value of listed securities:					
Listed in Hong Kong	308	–	302,537	–	302,845
Listed overseas	–	–	8,634	–	8,634
	<u>308</u>	<u>–</u>	<u>311,171</u>	<u>–</u>	<u>311,479</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	363,012	363,012
Public sector entities	–	–	–	14,823	14,823
Banks and other financial institutions	54	420,126	48,977	14,064,012	14,533,169
Corporate entities	33	467,360	217,269	141,550	826,212
Others	221	233,228	1,032,334	–	1,265,783
	<u>308</u>	<u>1,120,714</u>	<u>1,298,580</u>	<u>14,583,397</u>	<u>17,002,999</u>



## 13. Investments in securities (continued)

	Financial assets at fair value through profit or loss				Total HK\$'000
	Trading assets HK\$'000	Assets designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
	31 December 2006				
Equity securities:					
Listed in Hong Kong	423	–	359,134	–	359,557
Listed overseas	–	–	6,991	–	6,991
	<u>423</u>	<u>–</u>	<u>366,125</u>	<u>–</u>	<u>366,548</u>
Unlisted	–	–	259,940	–	259,940
	<u>423</u>	<u>–</u>	<u>626,065</u>	<u>–</u>	<u>626,488</u>
Debt securities:					
Certificates of deposits held	–	–	–	1,863,937	1,863,937
Other debt securities – Unlisted	–	610,388	472,076	12,039,236	13,121,700
	<u>–</u>	<u>610,388</u>	<u>472,076</u>	<u>13,903,173</u>	<u>14,985,637</u>
Total:					
Listed in Hong Kong	423	–	359,134	–	359,557
Listed overseas	–	–	6,991	–	6,991
Unlisted	–	610,388	732,016	13,903,173	15,245,577
	<u>423</u>	<u>610,388</u>	<u>1,098,141</u>	<u>13,903,173</u>	<u>15,612,125</u>
Market value of listed securities:					
Listed in Hong Kong	423	–	359,134	–	359,557
Listed overseas	–	–	6,991	–	6,991
	<u>423</u>	<u>–</u>	<u>366,125</u>	<u>–</u>	<u>366,548</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	359,143	359,143
Public sector entities	–	–	–	18,508	18,508
Banks and other financial institutions	53	372,463	85,518	13,384,170	13,842,204
Corporate entities	199	50,679	246,749	141,352	438,979
Others	171	187,246	765,874	–	953,291
	<u>423</u>	<u>610,388</u>	<u>1,098,141</u>	<u>13,903,173</u>	<u>15,612,125</u>

The fair value of held-to-maturity securities as at 30 June 2007 amounted to HK\$14,580,922,000 (31 December 2006: HK\$13,945,888,000).

Certain held-to-maturity certificates of deposit of approximately HK\$25,221,000 (31 December 2006: HK\$24,479,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

**14. Advances and other accounts**

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Advances to customers		
Bills receivable	521,838	484,375
Trade bills	201,429	138,337
Other advances to customers	<u>27,170,106</u>	<u>26,251,826</u>
	<b>27,893,373</b>	<b>26,874,538</b>
Interest receivable	296,384	267,337
Impairment allowances		
– Individually assessed	(41,000)	(32,161)
– Collectively assessed	<u>(93,476)</u>	<u>(104,464)</u>
	<b>(134,476)</b>	<b>(136,625)</b>
	<u>28,055,281</u>	<u>27,005,250</u>
Advances to banks and other financial institutions	57,485	57,425
	<u>28,112,766</u>	<u>27,062,675</u>
Other accounts	446,210	434,345
	<u>28,558,976</u>	<u>27,497,020</u>

Included in the “Advances to banks and other financial institutions” of the Group is an amount of approximately HK\$57,485,000 (31 December 2006: HK\$57,425,000) placed as reserve funds with the financial institutions in the People’s Republic of China by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the People’s Republic of China.

Details of the impaired advances are as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Gross impaired advances	269,060	329,660
Less: Impairment allowances under individual assessment	(41,000)	(32,161)
Net impaired advances	<u>228,060</u>	<u>297,499</u>
Gross impaired advances as a percentage of gross advances to customers	<u>0.96%</u>	<u>1.23%</u>
Market value of collateral pledged	<u>255,495</u>	<u>313,786</u>

In addition to the individually assessed impairment allowance, the Group has also provided collectively assessed impairment allowance for advances that are individually insignificant or advances where no impairment has been identified individually.

**15. Investment properties**

	2007 HK\$'000	2006 HK\$'000
At 1 January	82,250	76,860
Disposals	<u>(36,400)</u>	—
At 30 June	<u>45,850</u>	<u>76,860</u>

During the period, the Group disposed of investment properties with a total carrying amount of HK\$36,400,000 for a net consideration of HK\$50,820,000, resulting in a profit on disposal of HK\$14,420,000.

At 30 June 2007, the directors considered the carrying amount of the Group's investment properties do not differ significantly from the fair values.

**16. Property and equipment**

	Buildings HK\$'000	Equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2007	284,080	351,348	—	635,428
Additions	15,557	27,746	—	43,303
Disposals	—	(3,639)	—	(3,639)
Exchange adjustments	—	11	—	11
At 30 June 2007	<u>299,637</u>	<u>375,466</u>	—	<u>675,103</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2007	21,562	233,041	—	254,603
Provided for the period	2,955	14,015	—	16,970
Eliminated on disposals	—	(3,564)	—	(3,564)
Exchange adjustments	—	7	—	7
At 30 June 2007	<u>24,517</u>	<u>243,499</u>	—	<u>268,016</u>
<b>CARRYING AMOUNTS</b>				
At 30 June 2007	<u>275,120</u>	<u>131,967</u>	—	<u>407,087</u>

**16. Property and equipment (continued)**

	Buildings HK\$'000	Equipment HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2006	80,511	308,643	40,454	429,608
Additions	33,258	24,955	30,578	88,791
Disposals	–	(868)	–	(868)
At 30 June 2006	<u>113,769</u>	<u>332,730</u>	<u>71,032</u>	<u>517,531</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2006	19,498	213,350	–	232,848
Provided for the period	1,033	12,900	–	13,933
Eliminated on disposals	–	(855)	–	(855)
At 30 June 2006	<u>20,531</u>	<u>225,395</u>	<u>–</u>	<u>245,926</u>
<b>CARRYING AMOUNTS</b>				
At 30 June 2006	<u>93,238</u>	<u>107,335</u>	<u>71,032</u>	<u>271,605</u>

**17. Prepaid lease payments for land**

	2007 HK\$'000	2006 HK\$'000
At 1 January	316,535	300,969
Additions	14,700	1,010
Amortisation of prepaid operating lease payments	<u>(2,620)</u>	<u>(2,567)</u>
At 30 June	<u>328,615</u>	<u>299,412</u>

**18. Deposits from customers**

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Demand deposits and current accounts	2,863,029	2,479,907
Savings deposits	9,977,133	9,377,813
Time, call and notice deposits	<u>44,624,436</u>	<u>42,817,512</u>
	<u>57,464,598</u>	<u>54,675,232</u>

## 19. Deferred taxation

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Total HK\$'000
At 1 January 2007	10,403	(17,263)	7,574	27,125	27,839
Charge (credit) to income statement for the period	1,611	1,675	(4,795)	–	(1,509)
Credit to equity for the period	–	–	–	(2,931)	(2,931)
At 30 June 2007	<u>12,014</u>	<u>(15,588)</u>	<u>2,779</u>	<u>24,194</u>	<u>23,399</u>
At 1 January 2006	9,353	(22,433)	6,631	–	(6,449)
(Credit) charge to income statement for the period	(416)	4,079	–	–	3,663
At 30 June 2006	<u>8,937</u>	<u>(18,354)</u>	<u>6,631</u>	<u>–</u>	<u>(2,786)</u>

## 20. Loan capital

On 15 December 2006 the Bank issued loan capital of face value of US\$125,000,000 subordinated notes qualifying as tier 2 capital.

The above subordinated notes will mature on 16 December 2016 and are redeemable at the option of the Group in December 2011 at their principal amount.

The floating rate notes bear interest at the rate of three month LIBOR plus 0.93%, payable quarterly from the issue date to the call option date. Thereafter, if the notes are not redeemed on the call option date, the interest rate will be reset to three month LIBOR plus 1.93%, payable quarterly.

## 21. Maturity profiles

The maturity profiles of certain assets and liabilities of the Group as at 30 June 2007 are analysed as follows:

	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Payable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated or overdue HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and short-term funds	2,764,045	12,729,248	195,447	–	–	–	15,688,740
Placements with banks and other financial institutions	–	3,560,050	598,180	–	–	–	4,158,230
Advances to customers	1,927,755	4,564,468	4,284,142	8,565,587	8,059,511	491,910	27,893,373
Advances to banks and other financial institutions	–	19,485	38,000	–	–	–	57,485
Debt securities included in:							
– financial assets at fair value through profit or loss	–	185,799	54,398	880,517	–	–	1,120,714
– available-for-sale securities	–	39,372	–	196,581	334,932	–	570,885
– held-to-maturity securities	–	5,156,320	3,706,229	5,705,999	14,849	–	14,583,397
	–	5,381,491	3,760,627	6,783,097	349,781	–	16,274,996
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	15,684	1,025,098	–	–	–	–	1,040,782
Deposits from customers	12,819,687	41,816,612	2,789,934	38,365	–	–	57,464,598
Loan capital	–	–	–	–	972,814	–	972,814

The maturity profiles of certain assets and liabilities of the Group as at 31 December 2006 are analysed as follows:

	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Payable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated or overdue HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and short-term funds	1,145,253	14,879,291	232,315	–	–	–	16,256,859
Placements with banks and other financial institutions	–	2,453,461	185,000	–	–	–	2,638,461
Advances to customers	1,486,391	4,410,927	4,243,045	9,007,982	7,349,957	376,236	26,874,538
Advances to banks and other financial institutions	–	19,425	38,000	–	–	–	57,425
Debt securities included in:							
– financial assets at fair value through profit or loss	–	104,825	79,083	426,480	–	–	610,388
– available-for-sale securities	–	76,209	38,897	194,482	162,488	–	472,076
– held-to-maturity securities	–	4,738,140	2,841,907	6,304,607	18,519	–	13,903,173
	–	4,919,174	2,959,887	6,925,569	181,007	–	14,985,637
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	19,140	509,853	–	–	–	–	528,993
Deposits from customers	11,783,183	40,279,921	2,518,105	94,023	–	–	54,675,232
Loan capital	–	–	–	–	967,376	–	967,376

## 22. Related parties transactions

During the period, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest and rental expenses	
	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
Investing enterprises having significant influence on the Group	<u>5,698</u>	<u>2,025</u>	<u>8,546</u>	<u>6,277</u>
Jointly controlled entities	<u>5,933</u>	<u>4,073</u>	<u>4,858</u>	<u>2,651</u>
Directors and their associates	<u>15,010</u>	<u>26,411</u>	<u>12,979</u>	<u>16,115</u>

The above transactions were carried out at market rates.

At the balance sheet date, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	30 June 2007 HK\$'000	31 December 2006 HK\$'000	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Investing enterprises having significant influence on the Group	<u>78,078</u>	<u>77,785</u>	<u>122,715</u>	<u>127,187</u>
Jointly controlled entities	<u>31,000</u>	<u>31,000</u>	<u>263,606</u>	<u>147,701</u>
Directors and their associates	<u>568,302</u>	<u>1,006,461</u>	<u>683,501</u>	<u>618,282</u>

The amounts due from related parties and amounts due to related parties are included in advances and other accounts and deposits from customers, respectively, and bear interest at rates similar to those made available to non-related parties.

### Compensation of key management personnel

The remuneration of directors and other members of the key management during the period was as follows:

	Six months ended 30 June 2007 HK\$'000	Six months ended 30 June 2006 HK\$'000
Short term benefits	<u>26,665</u>	<u>25,042</u>
Post employment	<u>1,453</u>	<u>1,334</u>
	<u>28,118</u>	<u>26,376</u>

The remuneration of directors and key management is reviewed by Remuneration Committee having regard to the performance of individuals and market trends.

**23. Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

**24. List of subsidiaries for financial reporting consolidation**

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Liu Chong Hing Banking Corporation, Cayman

Right Way Investments Limited



1. Advances to customers - by industry sectors

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

	30 June 2007				
	Gross loans and advances	Collective impairment allowances	Individual impairment advances	Loans and advances covered by collateral	Gross impaired advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	1,742,401	10,229	5,000	506,824	8,005
– Property investment	6,157,825	1,874	651	5,878,394	23,018
– Financial concerns	1,864,082	–	–	202,645	–
– Stockbrokers	850,100	–	–	758,228	–
– Wholesale and retail trade	826,648	1,842	1,626	692,328	11,693
– Manufacturing	1,598,982	1,747	6,722	930,119	2,082
– Transport and transport equipment	270,815	19	–	47,547	–
– Recreational activities	47,956	–	–	1,968	–
– Information technology	34	–	–	8	–
– Others	4,114,104	8,021	6,509	1,862,402	66,536
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	654,636	–	721	653,959	4,221
– Loans for the purchase of other residential properties	3,913,700	3,477	473	3,906,603	3,548
– Credit card advances	100,228	4,832	162	–	3,430
– Others	1,421,896	6,441	3,301	1,348,612	9,787
	<u>23,563,407</u>	<u>38,482</u>	<u>25,165</u>	<u>16,789,637</u>	<u>132,320</u>
Trade finance	985,097	7,719	2,835	407,812	8,133
Loans for use outside Hong Kong	3,344,869	47,275	13,000	2,230,881	128,607
	<u>27,893,373</u>	<u>93,476</u>	<u>41,000</u>	<u>19,428,330</u>	<u>269,060</u>

## 1. Advances to customers - by industry sectors (continued)

31 December 2006

	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment advances HK\$'000	Loans and advances covered by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	1,576,165	9,374	1,000	648,696	23,599
– Property investment	6,073,467	20,054	2,313	5,789,072	27,045
– Financial concerns	1,555,454	–	–	198,072	174
– Stockbrokers	420,851	–	–	307,898	–
– Wholesale and retail trade	768,422	4,143	619	637,609	6,017
– Manufacturing	1,114,492	2,888	87	483,248	2,045
– Transport and transport equipment	326,560	28	1	46,317	375
– Recreational activities	15,012	–	–	2,080	–
– Information technology	–	–	–	–	–
– Others	4,868,117	9,682	6,235	3,036,122	63,680
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	676,673	473	708	675,860	5,408
– Loans for the purchase of other residential properties	3,476,285	4,352	459	3,468,184	8,708
– Credit card advances	127,460	6,962	139	–	4,036
– Others	1,315,471	12,345	4,102	1,242,061	15,898
	<u>22,314,429</u>	<u>70,301</u>	<u>15,663</u>	<u>16,535,219</u>	<u>156,985</u>
Trade finance	823,153	804	3,498	325,366	10,348
Loans for use outside Hong Kong	<u>3,736,956</u>	<u>33,359</u>	<u>13,000</u>	<u>2,328,549</u>	<u>162,327</u>
	<u>26,874,538</u>	<u>104,464</u>	<u>32,161</u>	<u>19,189,134</u>	<u>329,660</u>

**2. Advances to customers - by geographical areas**

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

	30 June 2007				
	Total advances	Advances overdue for over three months	Impaired advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	25,392,460	372,737	603,681	40,000	72,453
People's Republic of China	242,936	108,608	17,299	1,000	1,440
Macau	1,299,185	-	-	-	12,104
America	378,488	-	-	-	5,535
Others	580,304	-	-	-	1,944
	<u>27,893,373</u>	<u>481,345</u>	<u>620,980</u>	<u>41,000</u>	<u>93,476</u>

	31 December 2006				
	Total advances	Advances overdue for over three months	Impaired advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$
Hong Kong	24,417,811	320,852	204,854	31,161	82,383
People's Republic of China	271,592	124,806	124,806	1,000	1,447
Macau	1,460,076	-	-	-	13,684
America	356,916	-	-	-	5,518
Others	368,143	-	-	-	1,432
	<u>26,874,538</u>	<u>445,658</u>	<u>329,660</u>	<u>32,161</u>	<u>104,464</u>

### 3. Cross-border claims

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

	30 June 2007			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	11,638,081	78,288	1,322,878	13,039,247
– of which – Australia	3,606,975	1,172	2,073	3,610,220
North America	2,920,650	15,045	1,303,173	4,238,868
Western Europe	15,459,744	2,371	762,473	16,224,588
– of which – Germany	<u>4,382,360</u>	<u>1,365</u>	<u>4,628</u>	<u>4,388,353</u>

	31 December 2006			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	10,101,438	65,696	1,339,099	11,506,233
– of which – Australia	3,929,675	2,138	995	3,932,808
North America	2,811,117	17,569	1,278,823	4,107,509
Western Europe	16,004,492	2,902	725,986	16,733,380
– of which – United Kingdom	3,741,074	1,478	310,507	4,053,059
– of which – Germany	<u>3,471,632</u>	<u>1,278</u>	<u>3,980</u>	<u>3,476,890</u>

4. Overdue and rescheduled advances

	30 June 2007		31 December 2006	
	Gross advances HK\$'000	% to total advances	Gross advances HK\$'000	% to total advances
Advances overdue for				
– 6 months or less but over 3 months	168,094	0.6	59,715	0.2
– 1 year or less but over 6 months	14,250	0.1	29,325	0.1
– Over 1 year	299,001	1.1	356,618	1.3
Total overdue advances	<u>481,345</u>	<u>1.8</u>	<u>445,658</u>	<u>1.6</u>
Rescheduled advances	<u>356,674</u>	<u>1.3</u>	<u>257,203</u>	<u>1.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>36,665</u>		<u>26,012</u>	
Covered portion of overdue loans and advances	474,686		430,789	
Uncovered portion of overdue loans and advances	6,659		14,869	
	<u>481,345</u>		<u>445,658</u>	
Covered market value of collateral held against covered portion of overdue loans and advances	<u>955,572</u>		<u>704,123</u>	

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 30 June 2007 and 31 December 2006, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 30 June 2007 amounted to HK\$80,380,000 (31 December 2006: HK\$103,480,000).

5. Non-bank Mainland exposures

	30 June 2007			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Types of counterparties				
Mainland entities	675,138	401,190	1,076,328	9,000
Companies and individuals outside Mainland where the credit is granted for use in Mainland	1,688,522	1,107,035	2,795,557	10,072
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	2,379	–	2,379	–
	<u>2,366,039</u>	<u>1,508,225</u>	<u>3,874,264</u>	<u>19,072</u>

	31 December 2006			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Types of counterparties				
Mainland entities	603,657	390,199	993,856	10,000
Companies and individuals outside Mainland where the credit is granted for use in Mainland	1,696,688	707,562	2,404,250	12,658
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	2,742	–	2,742	142
	<u>2,303,087</u>	<u>1,097,761</u>	<u>3,400,848</u>	<u>22,800</u>

**6. Currency risk**

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

	30 June 2007			Total
	USD	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	14,443,928	70,784	349,392	14,864,104
Spot liabilities	(14,747,259)	(68,683)	(345,900)	(15,161,842)
Forward purchases	399,906	–	1,340	401,246
Forward sales	(76,124)	–	–	(76,124)
Net long position	<u>20,451</u>	<u>2,101</u>	<u>4,832</u>	<u>27,384</u>
				<b>MOP</b>
Net structural position				<u>48,545</u>
	31 December 2006			Total
	USD	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	13,633,746	59,251	286,962	13,979,959
Spot liabilities	(13,359,547)	(49,829)	(283,551)	(13,692,927)
Forward purchases	185,772	–	2,192	187,964
Forward sales	(455,999)	–	–	(455,999)
Net long position	<u>3,972</u>	<u>9,422</u>	<u>5,603</u>	<u>18,997</u>
				<b>MOP</b>
Net structural position				<u>48,545</u>

**7. The contractual amounts of each of the following classes of contingent liabilities and commitments outstanding are:**

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	1,081,921	1,221,388
Trade-related contingencies	540,303	346,531
Forward asset purchases	48,242	77,725
Other commitments		
– Which are unconditionally cancellable without prior notice	5,079,837	4,082,935
– With an original maturity of one year and under	6,732,717	4,602,428
– With an original maturity of over one year	2,060,623	1,820,862
	<u>15,543,643</u>	<u>12,151,869</u>

The replacement cost and credit risk weighted amounts of the contingent liabilities, commitments and derivatives exposures are as follows:

	30 June 2007		31 December 2006	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	N/A	3,147,633	N/A	3,329,570
Exchange rate contracts	4,165	3,953	3,409	2,195
Interest rate contracts	13,703	6,294	1,553	710
	<u>17,868</u>	<u>3,157,880</u>	<u>4,962</u>	<u>3,332,475</u>

The above amounts do not take into account the effects of bilateral netting arrangements.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking the outstanding contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

The credit risk weighted amounts at 30 June 2007 were calculated in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA, which became effective on 1 January 2007. The corresponding amounts at 31 December 2006 were calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance (the “Third Schedule”). The amount calculated is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.



**8. Capital adequacy and liquidity ratio**

	<b>30 June 2007</b>	<b>31 December 2006</b>
	%	%
Capital adequacy ratio	<u><b>15.58</b></u>	<u>15.60</u>
	<b>Six months ended</b>	<b>Six months ended</b>
	<b>30 June 2007</b>	<b>30 June 2006</b>
	%	%
Average liquidity ratio for the period	<u><b>55.85</b></u>	<u>55.39</u>

The core capital ratio as at 30 June 2007 calculated in accordance with the Capital Rules, which became effective on 1 January 2007, was 13.12%.

Capital adequacy ratio at 30 June 2007 was compiled in accordance with the Capital Rules under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord, which became effective on 1 January 2007. In accordance with the Capital Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk and “basic indicator approach” for the calculation of operation risk. The capital adequacy ratio is consolidated, under the Capital Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited and Card Alliance Company Limited.

The capital adequacy ratio at 31 December 2006 was compiled in accordance with the Third Schedule under the “Basel I” capital accord.

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

## 9. Other financial information

The capital base after deductions used in the calculation of the capital adequacy ratios as at 30 June 2007 and 31 December 2006 is analysed as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Core capital		
Paid up ordinary share capital	217,500	217,500
Share premium account	1,542,817	1,542,817
Reserves (eligible for inclusion in core capital)	3,398,274	3,225,758
Profit and loss account	172,384	168,048
Total core capital	<u>5,330,975</u>	<u>5,154,123</u>
Total deductions from core capital	<u>(345,578)</u>	<u>–</u>
Core capital after deductions	4,985,397	5,154,123
Eligible supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	5,696	27,835
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	21,531	39,572
Fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	–	2,796
Regulatory reserve for general banking risks	187,000	165,000
Collective impairment allowance	93,476	104,464
Term subordinated debt	972,814	967,376
Total supplementary capital	<u>1,280,517</u>	<u>1,307,043</u>
Total deductions from supplementary capital	<u>(345,576)</u>	<u>–</u>
Supplementary capital after deductions	934,941	1,307,043
Total deductions from capital base	<u>–</u>	<u>(633,406)</u>
Total capital base after deductions	<u><u>5,920,338</u></u>	<u><u>5,827,760</u></u>

Deductions from total capital base include investments in subsidiaries of which their risk weighted assets have not been consolidated into the total risk weighted assets of the Group, which mainly conduct non-banking related business. Those subsidiaries are Chong Hing Commodities and Futures Limited, Chong Hing Insurance Company Limited, Chong Hing (Management) Limited, Chong Hing (Nominees) Limited and Chong Hing Securities Limited.

**10. Statement of compliance**

This interim financial report contains the disclosure information required under the Banking (Disclosure) Rules issued by the HKMA.

**11. Basis of consolidation**

This interim financial report covers the consolidated financial information of the Bank and all its subsidiaries and included the attributable share of interest in the Group's jointly controlled entities.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's jointly controlled entities whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other businesses incidental to banking business.

**12. Net interest income**

Included within interest income is interest income accrued on impaired loans and advances of HK\$807,000 (2006: HK\$1,531,000).

**13. Other operating income**

Included within fees and commission income and fees and commission expense, other than amounts included in determining the effective interest rate, are HK\$32,850,000 (2006: HK\$31,433,000) and HK\$16,925,000 (2006: Nil) arising from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

## 14. Risk management

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

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

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

### (i) Capital management

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

### (ii) Credit risk

Credit risk is the risk that a customer or counter-party may fail to meet a commitment when it falls due.

The Group's lending policy sets out in detail the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established in accordance with the requirements and provisions of the Banking Ordinance and the guidelines issued by the HKMA.

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors.

**14. Risk management (continued)****(iii) Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.

**(iv) Market risk**

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (v) foreign exchange risk.

**(v) Foreign exchange risk**

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Structural foreign exchange exposure arising from investments in foreign branches and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury Management Department within approved limits.

The Group takes on exposure to effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Off-balance sheet notional position represents the contractual amounts of foreign currencies bought and sold under foreign exchange contracts. Bought currency is represented by positive amount and sold currency is represented by negative amount.

**14. Risk management (continued)****(vi) Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The Group does not carry interest rate positions on its trading book. Certain interest rate contracts entered into to manage the Group's own risk are classified as trading securities. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

**(vii) Operational and legal risk**

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

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

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

**(viii) Reputation risk**

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

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

## TO THE BOARD OF DIRECTORS OF CHONG HING BANK LIMITED

### Introduction

We have reviewed the interim financial information set out on pages 2 to 23 which comprises the condensed consolidated balance sheet of Chong Hing Bank Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

### Deloitte Touche Tohmatsu

Certified Public Accountants  
Hong Kong

9 August 2007

The Directors have declared an interim cash dividend for 2007 of HK0.21 per share, payable on Thursday, 20 September 2007 to shareholders whose names are listed in the register of members of the Bank on Friday, 14 September 2007.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Wednesday, 12 September 2007 to Friday, 14 September 2007 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2007 interim cash dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 11 September 2007.

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

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2007.



As at 30 June 2007, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

**Interests in securities**

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Man	3,447,928	–	240,071,628 <i>Note (1)</i>	243,519,556	55.98151
Liu Lit Mo	1,009,650	–	240,071,628 <i>Note (1)</i>	241,081,278	55.42098
Liu Lit Chi	313,248	–	242,334,839 <i>Notes (1) &amp; (2)</i>	242,648,087	55.78117
Don T S Liu	15,000	–	–	15,000	0.00345
Robin Y H Chan	48,400	–	1,181,000 <i>Note (3)</i>	1,229,400	0.28262
Timothy G Freshwater	396	–	–	396	0.00009
Andrew Liu	60,000	–	–	60,000	0.01379

**Notes:**

- (1) 240,071,628 shares in the Bank are attributed as follows:
  - (i) 200,071,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
  - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,181,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) Limited, Asia Insurance Company, Limited, Asia Investment Services Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

**Other interests and short positions in securities**

Under the SFO, other than those interests disclosed above, as at 30 June 2007, none of the directors (including the chief executive officer), nor their respective associates, had any other interests (nor any short positions) in any securities (nor in any underlying securities) in the Bank and its associated corporations. Moreover, as at 30 June 2007, none of the directors (including the chief executive officer), nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities in the Bank and its associated corporations, much less had any such rights exercised.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2007, the register maintained under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors (including the chief executive officer), the following parties had interests and short positions in the securities and underlying securities in the Bank:

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Liu Chong Hing Estate Company, Limited	Beneficial owner	200,071,628 <i>Notes (1) and (3)</i>	45.99
Liu Chong Hing Investment Limited	Interest of a controlled corporation	200,071,628 <i>Notes (1) and (3)</i>	45.99
Liu's Holdings Limited	Interest of a controlled corporation	200,071,628 <i>Notes (1) and (3)</i>	45.99
Bauhinia 97 Ltd	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Investment Holdings Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China COSCO Holdings Company Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66
Third Avenue Management LLC	Investment manager	26,241,000 <i>Note (4)</i>	6.03

### Notes:

(1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Liu's Holdings Limited, a private company, had interest in about 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 200,071,628 shares in question all relate to the same block of 200,071,628 shares held by Liu Chong Hing Estate.

(2) China Ocean Shipping (Group) Company has a 63.83% interest in China COSCO Holdings Company Limited ("COSCO Holdings"), which in turn wholly owns COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment Holdings"). COSCO Pacific Investment Holdings has a 51.06% interest in COSCO Pacific Limited ("COSCO Pacific"). Both COSCO Holdings and COSCO Pacific are public companies listed on the Stock Exchange. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Ltd, which is a company wholly-owned by COSCO Pacific.

(3) The Bank of Tokyo-Mitsubishi UFJ, Ltd is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. The references to the 42,000,000 shares in question both relate to the same block of 42,000,000 shares registered in the name of Bank of Tokyo-Mitsubishi UFJ.

Pursuant to an agreement in 1994, The Bank of Tokyo-Mitsubishi UFJ, Ltd has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase 40,000,000 of the 42,000,000 shares in question and The Bank of Tokyo-Mitsubishi UFJ, Ltd is required to offer to sell all such 40,000,000 shares to Liu Chong Hing Estate in certain circumstances.

(4) Third Avenue Management LLC ("Third Avenue Management"), a United States based Registered Investment Adviser, acts as adviser to various portfolios held for the benefit of mutual funds, private partnerships, institutions, individuals, etc. Third Avenue Management has investment advisory authority over portfolios holding in the aggregate of 26,241,000 shares in the Bank.

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as at 30 June 2007.

The directors confirm that, for the accounting period for the six months ended 30 June 2007, the Bank has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Corporate Governance Code") except, under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank's practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Securities Transactions Code"). After specific enquiry by the Bank, all of the directors confirmed that, for the accounting period for the six months ended 30 June 2007, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank's own code in question.

## PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK

The Bank's Interim Report 2007, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, has been published on the websites of The Stock Exchange of Hong Kong Limited and the Bank.

In the first half of 2007, the economy of Hong Kong maintained its growth momentum. Gross domestic product ("GDP") for the first quarter recorded an increase of 5.6% from the same period in 2006, marking the fourteenth consecutive quarter to record an above-trend growth rate. This reflected economic expansion in a wide variety of sectors.

As a result of robust domestic demand and a favourable business environment, the labour market continued to improve with unemployment rate remaining low at 4.3%. Rise in individual income and spending together with continued increase in overall investment expenditures painted a rosy picture of prosperity. On the exports front, effect of the weak US market was substantially offset by strong foreign trade of the Mainland and sustained demand from European markets. Exports performance for the period was rather satisfactory. Significant growth was recorded in financial and commercial services sectors. The Hong Kong stock market remained on the rise due to a number of welcome developments, such as expansion of the Qualified Domestic Institutional Investors ("QDII") scheme and announced plans of several red chip companies returning to the Mainland's A-share market. Hang Seng Index kept hitting record highs with an accumulated hike of over 9% for the first half of the year, achieving remarkable records for single day transaction volume of over HK\$100 billion and for total market value of over HK\$16,000 billion. Encouraging signs of recovery were also seen in the property market. Flat buyers were more eager to enter into the market under the combined pocketbook effects of a series of factors, including tax reduction, rates waiver, interest cut, strong stock market, general pay rise as well as developments in QDII policy. The number of transactions in both first-hand and second-hand properties increased significantly, reaching new highs in recent years.

Turning to the banking sector, interest rate remained steady, as local banks follow in the footsteps of the US Federal Reserve Board, which has maintained the Federal Funds Rate unchanged at 5.25% in recent meetings. However, the sector still saw keen competition. In particular, banks compete by successive rate cuts for customers in residential mortgage loan business. With initial public offerings of shares adding fuel to the fire, business in areas such as new share subscription financing and share margin financing continued to grow. The overall robust economy of Hong Kong facilitated the expansion of wealth management services. Banks strove for innovation and improvement amid this competitive environment.

The Bank's unaudited, consolidated results for the first half of 2007 improved in comparison with those of the corresponding period in 2006. Net interest income rose 1.08% to HK\$446,169,000. Operating profit increased 11.10% to HK\$333,199,000. Impairment allowances newly made for the first half of 2007 declined by 11.65% to HK\$61,442,000 from HK\$69,544,000 for the corresponding period in 2006. Impairment allowances reversed during the period decreased by 34.94% to HK\$20,333,000 from HK\$31,255,000 for the corresponding period in 2006. As such, impairment allowances for the first half of 2007 increased 7.37% to HK\$41,109,000. Profit attributable to shareholders amounted to HK\$300,732,000, an increase of 20.85%. As of 30 June 2007, total customers' deposits increased 5.10% to HK\$57,464,598,000 compared with the corresponding figure as of 31 December 2006. Total loans and advances to customers (after impairment allowances) increased 3.89% over the corresponding figure as of 31 December 2006 to HK\$28,055,281,000. Total assets amounted to HK\$66,461,214,000, an increase of 5.44% over the corresponding figure as of 31 December 2006. As of 30 June 2007, unadjusted capital adequacy ratio decreased 0.13% to 15.58% against the corresponding ratio as of 31 December 2006. Average liquidity ratio for the six months ended 30 June 2007 rose 0.83% to 55.85% against the corresponding ratio in 2006. As of 30 June 2007, loan-to-deposit ratio stood at 44.34%, a drop of 1.31% against the corresponding ratio as of 31 December 2006. Earnings per share for the first half of 2007 amounted to HK\$0.69, a 20.85% increase (amounting to a rise of HK\$0.12 per share) over the corresponding figure for the first half of 2006.

## REVIEW AND PROSPECTS

Blessed with a good business environment and close ties with the Mainland, Hong Kong has robust potential for further economic development. Recently, Hong Kong and the Mainland entered into Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement (“CEPA”) which will come into force on 1 January 2008. Under the Supplement, the Mainland will introduce 40 liberalisation measures in 28 services areas, benefiting an extensive range of Hong Kong businesses. Since the end of June this year, mainland financial institutions have been permitted to issue renminbi (“RMB”) bonds in Hong Kong. This boosted the development of local RMB businesses and further strengthened the status of Hong Kong as an international financial centre. In addition, the Shenzhen Bay Port has opened, accelerating the flow of passengers and goods across the border. All these helped to generate economic synergies between Hong Kong and the Mainland, creating a win-win situation and bright prospects for both sides.

For the banking sector, under Supplement IV to the CEPA, the minimum total asset requirement for a Hong Kong bank to acquire shareholding in a Mainland bank will be lowered from US\$10 billion to US\$6 billion. Furthermore, green lanes will be established for fast-track processing of applications from Hong Kong banks to set up branches in the central western and north eastern areas, as well as the Guangdong Province, of the Mainland. Hong Kong banks will be encouraged to set up rural banks in rural areas on the Mainland as well, thereby opening up immense business opportunities. The Bank will continue to capitalise on such opportunities by both expanding its branch network to absorb more customers and actively developing a wider range of multifaceted products to serve customers with better banking services.

## REVIEW OF INTERIM FINANCIAL REPORT

This interim financial report is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

## BOARD OF DIRECTORS

As at the date of this interim report (namely, 9 August 2007), the executive directors of the Bank are Mr Liu Lit Man (Executive Chairman), Dr Liu Lit Mo (Vice Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Executive Director & Deputy Chief Executive Officer), Mr Lau Wai Man (Executive Director & Deputy Chief Executive Officer), Mr Wilfred Chun Ning Liu, Mr Frank Shui Sang Jin, Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong; the non-executive directors are Mr Timothy George Freshwater, Mr Xu Minjie, Mr Andrew Liu, Mr Eiichi Yoshikawa, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Wang Zhi; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.

By Order of the Board

**Liu Lit Man**

*Executive Chairman*

9 August 2007