



創興銀行有限公司  
Chong Hing Bank Limited

Interim Report 2010

[www.chbank.com](http://www.chbank.com)

## CORPORATE INFORMATION

AS OF 11 AUGUST 2010

### Honorary Chairman

Mr LIU Lit Man, GBS, JP, FIBA

### Board of Directors

#### Executive Directors

Dr LIU Lit Mo, LL.D., MBE, JP  
(Chairman)

Mr LIU Lit Chi  
(Managing Director & Chief Executive Officer)

Mr Don Tit Shing LIU  
(Deputy Chief Executive Officer)

Mr LAU Wai Man  
(Deputy Chief Executive Officer)

Mr Wilfred Chun Ning LIU

Mr TSANG Chiu Wing

Mr WONG Har Kar

#### Non-executive Directors

Mr Timothy George FRESHWATER

Mr WANG Xiaoming

Mr Andrew LIU

Mr Hidemitsu OTSUKA

Mr Christopher Kwun Shing LIU

Mr Alfred Cheuk Yu CHOW, BBS, JP

Mr MENG Qinghui

#### Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LL.D., JP

Mr Wanchai CHIRANAKHORN

Mr CHENG Yuk Wo

Mr Andrew Chiu Cheung MA

### General Managers

Mr Patrick Siu Cheung WAT  
*Retail Banking Division*

Mr Frederick Hoi Kit CHAN  
*Finance & Treasury Management Division*

Mr Kevin Wai Hung CHU  
*Wealth Management Division*

Mr Michael Kin Wah YEUNG  
*Corporate Affairs Division*  
*Company Secretary & Legal Counsel*

Ms Teresa Yuen Wah LEE  
*Corporate & Commercial Banking Division*

### Registered Office

Ground Floor, Chong Hing Bank Centre  
24 Des Voeux Road Central, Hong Kong

Telephone : (852) 3768 1111

Facsimile : (852) 3768 1888

Telex : 75700 LCHB HX

SWIFT BIC : LCHB HK HH

Website : <http://www.chbank.com>

E-mail : [info@chbank.com](mailto:info@chbank.com)

### Principal Legal Advisers

Anthony Chiang & Partners

Deacons

K C Ho & Fong

Kwan & Chow

### Auditors

Deloitte Touche Tohmatsu

### Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

### Stock Codes and Short Names

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (i) shares and (ii) subordinated notes due 2016 are (i) 01111 (CHONG HING BANK) and (ii) 01510 (CH BANK N1612), respectively.

Condensed Consolidated Income Statement .....	2
Condensed Consolidated Statement of Comprehensive Income .....	3
Condensed Consolidated Statement of Financial Position .....	4
Condensed Consolidated Statement of Changes in Equity .....	5
Condensed Consolidated Statement of Cash Flows .....	6
Notes to the Condensed Consolidated Financial Statements .....	8
Supplementary Information .....	31
Report on Review of Interim Financial Information .....	46
Interim Dividend .....	47
Closure of Register of Members .....	47
Purchase, Sale or Redemption of the Bank's Listed Securities .....	47
Disclosure of Changes in Directors' Information .....	48
Directors' (including the Chief Executive Officer's) Interests and Short Positions in Securities .....	51
Substantial Shareholders' Interests and Short Positions in Securities .....	52
Corporate Governance .....	53
Publication of Results on the Websites of The Stock Exchange of Hong Kong Limited and the Bank .....	53
Chairman's Statement .....	54
Review of Interim Financial Information .....	60
Board of Directors .....	60

# CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	<i>Notes</i>	Six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Interest income		558,193	607,759
Interest expense		(146,725)	(211,229)
Net interest income	4	411,468	396,530
Fee and commission income		133,915	137,657
Fee and commission expense		(24,182)	(20,667)
Net fee and commission income	5	109,733	116,990
Net (loss) gain on financial assets at fair value through profit or loss	6	(5,270)	41,961
Other operating income	7	73,342	73,813
Operating expenses	8	(348,977)	(360,869)
		<u>240,296</u>	<u>268,425</u>
Impairment allowances on loans and advances			
- New allowances		(25,571)	(57,520)
- Amounts reversed		5,835	3,389
		<u>(19,736)</u>	<u>(54,131)</u>
Net gain (loss) on disposal of property and equipment		82	(4)
Net gain on disposal of available-for-sale securities		-	20,133
Net gain on disposal of and fair value adjustments on investment properties	17	6,630	1,374
Impairment loss on goodwill	9	-	(10,000)
Impairment loss on available-for-sale securities		(1,818)	(44,292)
Profit from operations		225,454	181,505
Share of profits of jointly controlled entities		2,883	7,257
Profit before taxation		<u>228,337</u>	<u>188,762</u>
Taxation	10		
- Hong Kong		(33,941)	(27,692)
- Overseas		(570)	(854)
- Deferred tax		(434)	413
		<u>(34,945)</u>	<u>(28,133)</u>
Profit for the period		<u>193,392</u>	<u>160,629</u>
Earnings per share, basic	11	<u>HK\$0.44</u>	<u>HK\$0.37</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Profit for the period	<u>193,392</u>	<u>160,629</u>
Other comprehensive income		
Exchange differences arising on translation	2,347	(8)
Revaluation of available-for-sale securities:		
Revaluation gain (loss) on available-for-sale securities, net	3,491	(189)
Share of reserves of jointly controlled entities	126	4,454
Reclassification adjustment upon disposal and impairment	1,818	24,159
	5,435	28,424
Income tax relating to available-for-sale securities	<u>(1,184)</u>	<u>(6,168)</u>
Other comprehensive income for the period (net of tax)	<u>6,598</u>	<u>22,248</u>
Total comprehensive income for the period	<u>199,990</u>	<u>182,877</u>
Total comprehensive income attributable to:		
Owners of the Bank	<u>199,990</u>	<u>182,877</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	<i>Notes</i>	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited and restated)
<b>ASSETS</b>			
Cash and short-term funds	13	12,515,314	15,048,680
Placements with banks and other financial institutions maturing between one and twelve months		3,707,638	2,814,566
Derivative financial instruments	14	6,108	331
Financial assets at fair value through profit or loss	15	847,604	576,730
Available-for-sale securities	15	433,789	272,649
Held-to-maturity securities	15	15,934,387	16,954,466
Advances and other accounts	16	36,253,832	33,267,735
Tax recoverable		4,462	31,925
Interests in jointly controlled entities		120,747	119,418
Investment properties	17	105,970	103,199
Property and equipment	18	745,446	762,657
Prepaid lease payments for land	19	2,532	2,564
Goodwill		50,606	50,606
<b>Total assets</b>		<b><u>70,728,435</u></b>	<b><u>70,005,526</u></b>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions		2,332,547	1,447,718
Deposits from customers	20	60,515,020	60,788,415
Derivative financial instruments	14	53,643	44,413
Other accounts and accruals		537,826	556,016
Current tax liabilities		17,151	15,671
Loan capital	21	971,546	967,199
Deferred tax liabilities	22	13,390	11,772
<b>Total liabilities</b>		<b><u>64,441,123</u></b>	<b><u>63,831,204</u></b>
<b>Shareholders' equity</b>			
Share capital		217,500	217,500
Reserves		6,069,812	5,956,822
<b>Shareholders' funds</b>		<b><u>6,287,312</u></b>	<b><u>6,174,322</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>70,728,435</u></b>	<b><u>70,005,526</u></b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

Note	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 2010 (audited)	217,500	1,542,817	(182)	55,328	1,388,500	8,048	287,000	2,675,311	6,174,322
Profit for the period	-	-	-	-	-	-	-	193,392	193,392
Other comprehensive income for the period	-	-	-	4,251	-	2,347	-	-	6,598
Total comprehensive income for the period	-	-	-	4,251	-	2,347	-	193,392	199,990
Final dividend for financial year 2009, paid	12	-	-	-	-	-	-	(87,000)	(87,000)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	24,000	(24,000)	-
At 30 June 2010 (unaudited)	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>59,579</u>	<u>1,388,500</u>	<u>10,395</u>	<u>311,000</u>	<u>2,757,703</u>	<u>6,287,312</u>
At 1 January 2009 (audited)	217,500	1,542,817	(182)	13,352	1,388,500	7,524	307,000	2,480,113	5,956,624
Profit for the period	-	-	-	-	-	-	-	160,629	160,629
Other comprehensive income (expense) for the period	-	-	-	22,256	-	(8)	-	-	22,248
Total comprehensive income (expense) for the period	-	-	-	22,256	-	(8)	-	160,629	182,877
Final dividends for financial year 2008, paid	12	-	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	(19,000)	19,000	-
At 30 June 2009 (unaudited)	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>35,608</u>	<u>1,388,500</u>	<u>7,516</u>	<u>288,000</u>	<u>2,637,992</u>	<u>6,117,751</u>

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

The general reserve comprises transfers from previous years’ retained profits.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	228,337	188,762
Adjustments for:		
Net (gain) loss on disposal of property and equipment	(82)	4
Net gain on disposal of available-for-sale securities	-	(20,133)
Impairment allowances on loans and advances	19,736	54,131
Impairment loss on goodwill	-	10,000
Impairment loss on available-for-sale securities	1,818	44,292
Dividend income from investments	(4,617)	(5,357)
Share of profits of jointly controlled entities	(2,883)	(7,257)
Net gain on disposal of and fair value adjustments on investment properties	(6,630)	(1,374)
Depreciation	27,353	24,464
Release of prepaid lease payments for land	32	35
Interest income from available-for-sale securities and held-to-maturity securities	(174,721)	(134,745)
Interest expense on loan capital	6,466	12,444
Exchange adjustments	5,753	44
Operating cash flows before movements in operating assets and liabilities	100,562	165,310
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	1,970,103	(684,993)
Exchange fund bills with original maturity over three months	(138,342)	(536,264)
Placements with banks and other financial institutions with original maturity over three months	(963,204)	(33,714)
Financial assets at fair value through profit or loss	(270,874)	111,594
Bills receivable	(31,773)	36,925
Trade bills	(6,003)	39,735
Other advances to customers	(2,724,127)	123,068
Interest receivable and other accounts	160,851	(202,389)
Advances to banks and other financial institutions	(399,093)	1,160
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	1,066	100,018
Deposits from customers	(273,395)	336,049
Other accounts and accruals	(18,118)	97,109
Derivative financial instruments	3,453	22,298
Cash used in operations	(2,588,894)	(424,094)
Hong Kong Profits Tax paid	(4,998)	(5,034)
Overseas tax paid	(570)	(854)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(2,594,462)</b>	<b>(429,982)</b>



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited and restated)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received on available-for-sale securities and held-to-maturity securities	<b>172,549</b>	124,578
Dividends received on investments	<b>4,617</b>	5,357
Dividends received from jointly controlled entities	<b>1,680</b>	–
Purchase of available-for-sale securities	<b>(157,649)</b>	(6,427)
Purchase of held-to-maturity securities	<b>(18,478,973)</b>	(13,621,510)
Purchase of property and equipment	<b>(10,096)</b>	(7,226)
Proceeds from sale and redemption of available-for-sale securities	–	25,929
Proceeds from redemption of held-to-maturity securities	<b>19,499,052</b>	9,883,837
Proceeds from disposals of land	–	303
Proceeds from disposals of property and equipment	<b>125</b>	139
Proceeds from disposal of an investment property	<b>635</b>	–
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>1,031,940</b>	(3,595,020)
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	<b>(5,978)</b>	(12,485)
Dividends paid	<b>(87,000)</b>	(21,750)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(92,978)</b>	(34,235)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,655,500)</b>	(4,059,237)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>11,074,304</b>	17,533,299
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>9,418,804</b>	13,474,062
Represented by:		
Cash and balances with banks and other financial institutions	<b>9,461,679</b>	3,396,468
Money at call and short notice	<b>2,498,001</b>	13,488,971
Exchange fund bills	<b>555,634</b>	908,373
Placements with banks and other financial institutions maturing between one and twelve months	<b>3,707,638</b>	2,927,805
Deposits and balances of banks and other financial institutions	<b>(2,332,547)</b>	(2,123,625)
Less: Amounts with original maturity over three months	<b>(4,471,601)</b>	(5,123,930)
	<b>9,418,804</b>	13,474,062

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 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 under the historical cost convention except for investment properties and certain financial instruments that are measured at fair values.

The accounting policies adopted in the 2009 annual financial statements have been applied consistently to this interim financial information except for the following:

There are a number of new or revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2010. Except as described below, the adoption of these new or revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

### **Amendment to HKAS 17 Leases**

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, lessees were required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17, that is, whether or not the risks and rewards incidental to ownership of a leased asset have been transferred substantially to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17 Leases, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information which existed at the inception of these leases. Leasehold land which met finance lease classification have been reclassified from prepaid lease payments for land to property and equipment retrospectively, resulting in a reclassification of prepaid lease payments for land with carrying amount of HK\$324,980,000 as at 1 January 2009 and HK\$318,969,000 as at 31 December 2009 as property and equipment that are measured at cost model. The application of the amendment has had no significant financial impact to profit or loss for current or prior accounting periods.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 2. PRINCIPAL ACCOUNTING POLICIES - continued

The effect of changes in accounting policies described above on the financial position of the Group as at 31 December 2009 is as follows:

	As at 31 December 2009 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 31 December 2009 HK\$'000 (restated)
Property and equipment	443,688	318,969	762,657
Prepaid lease payments for land	<u>321,533</u>	<u>(318,969)</u>	<u>2,564</u>

The effect of changes in accounting policies described above on the financial position of the Group as at 1 January 2009 is as follows:

	As at 1 January 2009 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 1 January 2009 HK\$'000 (restated)
Property and equipment	469,724	324,980	794,704
Prepaid lease payments for land	<u>328,127</u>	<u>(324,980)</u>	<u>3,147</u>

The Group has not early applied the following new or revised standards, amendments and interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related party disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of rights issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters <sup>3</sup>
HKFRS 9	Financial instruments <sup>5</sup>
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement <sup>4</sup>
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 2. PRINCIPAL ACCOUNTING POLICIES - continued

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The management of the Bank anticipates that the application of the other new or revised standards, amendments and interpretation will have no material impact on the results and the financial position of the Group.

## 3. SEGMENT INFORMATION

The Group’s operating segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee) for the purpose of allocating resources to segments and assessing their performance, are as follows:

1. Corporate and retail banking
2. Treasury activities
3. Securities dealing
4. Others comprising investment holding, insurance, other investment advisory services and property investments.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 3. SEGMENT INFORMATION – continued

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

### Six months ended 30 June 2010

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	320,918	236,384	891	-	558,193	-	558,193
Interest expense to external customers	(139,833)	(6,892)	-	-	(146,725)	-	(146,725)
Inter-segment interest income (Note)	59,182	-	-	-	59,182	(59,182)	-
Inter-segment interest expense (Note)	-	(59,182)	-	-	(59,182)	59,182	-
Net interest income	240,267	170,310	891	-	411,468	-	411,468
Fees and commission income	50,654	-	83,261	-	133,915	-	133,915
Fees and commission expense	(23,745)	-	(437)	-	(24,182)	-	(24,182)
Net gain (loss) on financial assets at fair value through profit or loss	206	(5,286)	-	(190)	(5,270)	-	(5,270)
Other operating income	36,992	19,314	-	17,036	73,342	-	73,342
Total operating income (segment revenue)	304,374	184,338	83,715	16,846	589,273	-	589,273
Operating expenses	(210,160)	(12,684)	(28,322)	(5,107)	(256,273)	-	(256,273)
Impairment allowances on loans and advances	(19,736)	-	-	-	(19,736)	-	(19,736)
Net gain on disposal of property and equipment	82	-	-	-	82	-	82
Net gain on disposal of and fair value adjustments on investment properties	-	-	-	6,630	6,630	-	6,630
Impairment loss on available-for-sale securities	-	(1,818)	-	-	(1,818)	-	(1,818)
Segment profit	74,560	169,836	55,393	18,369	318,158	-	318,158
Unallocated expenses	-	-	-	-	-	-	(92,704)
Share of profits of jointly controlled entities	-	-	-	-	-	-	2,883
Profit before taxation	-	-	-	-	-	-	228,337

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

### As at 30 June 2010

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets	46,026,309	23,726,979	182,161	359,877	70,295,326
Interests in jointly controlled entities	-	-	-	-	120,747
Unallocated assets	-	-	-	-	312,362
Consolidated total assets	-	-	-	-	70,728,435
Segment liabilities	60,652,713	3,360,784	110,226	42,284	64,166,007
Unallocated liabilities	-	-	-	-	275,116
Consolidated total liabilities	-	-	-	-	64,441,123

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 3. SEGMENT INFORMATION – continued

### Other information

#### Six months ended 30 June 2010

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	3,676	124	533	11	4,344	5,752	10,096
Depreciation	15,651	828	2,813	255	19,547	7,806	27,353
Release of prepaid lease payments for land	<u>32</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32</u>	<u>-</u>	<u>32</u>

#### Six months ended 30 June 2009

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Segment total HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	352,141	255,216	402	-	607,759	-	607,759
Interest expense to external customers	(196,126)	(15,103)	-	-	(211,229)	-	(211,229)
Inter-segment interest income <i>(Note)</i>	85,702	-	-	-	85,702	(85,702)	-
Inter-segment interest expense <i>(Note)</i>	-	(85,702)	-	-	(85,702)	85,702	-
Net interest income	241,717	154,411	402	-	396,530	-	396,530
Fees and commission income	35,650	-	92,810	9,197	137,657	-	137,657
Fees and commission expense	(19,570)	-	(333)	(764)	(20,667)	-	(20,667)
Net gain on financial assets at fair value through profit or loss	-	41,567	-	394	41,961	-	41,961
Other operating income	<u>33,416</u>	<u>16,697</u>	<u>(45)</u>	<u>23,745</u>	<u>73,813</u>	<u>-</u>	<u>73,813</u>
Total operating income (segment revenue)	291,213	212,675	92,834	32,572	629,294	-	629,294
Operating expenses	(204,410)	(13,179)	(25,087)	(11,638)	(254,314)	-	(254,314)
Impairment allowances on loans and advances	(54,131)	-	-	-	(54,131)	-	(54,131)
Net loss on disposal of property and equipment	(4)	-	-	-	(4)	-	(4)
Net gain on disposal of available-for-sale securities	-	-	-	20,133	20,133	-	20,133
Net gain on disposal of and fair value adjustments on investment properties	-	-	-	1,374	1,374	-	1,374
Impairment loss on goodwill	-	-	-	(10,000)	(10,000)	-	(10,000)
Impairment loss on available-for-sale securities	-	(44,292)	-	-	(44,292)	-	(44,292)
Segment profit	<u>32,668</u>	<u>155,204</u>	<u>67,747</u>	<u>32,441</u>	<u>288,060</u>	<u>-</u>	<u>288,060</u>
Unallocated expenses							(106,555)
Share of profits of jointly controlled entities							<u>7,257</u>
Profit before taxation							<u>188,762</u>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 3. SEGMENT INFORMATION – continued

As at 31 December 2009

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets	37,788,842	31,059,086	304,754	402,153	69,554,835
Interests in jointly controlled entities					119,418
Unallocated assets					<u>331,273</u>
Consolidated total assets					<u>70,005,526</u>
Segment liabilities	60,987,105	2,464,100	240,003	41,854	63,733,062
Unallocated liabilities					<u>98,142</u>
Consolidated total liabilities					<u>63,831,204</u>

### Other information

Six months ended 30 June 2009

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Segment total HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	4,490	49	1,272	108	5,919	1,307	7,226
Depreciation (restated)	15,096	695	541	431	16,763	7,701	24,464
Release of prepaid lease payments for land (restated)	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35</u>	<u>-</u>	<u>35</u>

Segment profit represents the profit earned by each segment without allocation of central administration costs and share of results of jointly-controlled entities. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance. There is no operating income with a single external customer amounts to 10% of the Group's total operating income.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 3. SEGMENT INFORMATION – continued

### Geographical information

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

	Six months ended 30 June 2010		As at 30 June 2010			Capital expenditure during the period HK\$'000
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	
Hong Kong	575,000	222,778	68,956,561	63,408,164	17,250,043	9,970
Macau and Shantou	7,526	1,605	1,166,055	808,551	140,881	93
America	6,747	3,954	605,819	224,408	53,328	33
Total	<u>589,273</u>	<u>228,337</u>	<u>70,728,435</u>	<u>64,441,123</u>	<u>17,444,252</u>	<u>10,096</u>

	Six months ended 30 June 2009		As at 31 December 2009			Capital expenditure during the year HK\$'000
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	
Hong Kong	608,971	176,626	68,439,215	62,917,441	15,331,875	20,682
Macau and Shantou	13,085	7,622	1,108,307	753,065	174,768	530
America	7,238	4,514	458,004	160,698	79,603	114
Total	<u>629,294</u>	<u>188,762</u>	<u>70,005,526</u>	<u>63,831,204</u>	<u>15,586,246</u>	<u>21,326</u>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 4. NET INTEREST INCOME

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Interest income		
Short-term funds and placements	64,252	119,087
Investments in securities	175,191	139,093
Loans and advances	318,750	349,579
	<u>558,193</u>	<u>607,759</u>
Interest expense		
Deposits and balances from banks and customers	(140,259)	(198,785)
Loan capital in issue	(6,466)	(12,444)
	<u>(146,725)</u>	<u>(211,229)</u>
Net interest income	<u>411,468</u>	<u>396,530</u>
Included within interest income		
Interest income on impaired loans and advances	<u>415</u>	<u>1,707</u>

Included within interest income and interest expense are HK\$557,451,000 (2009: HK\$603,411,000) and HK\$146,725,000 (2009: HK\$211,229,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

## 5. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Fees and commission income		
Securities dealings	83,261	92,810
Credit lines	6,170	4,374
Trade finance	4,890	5,723
Credit card services	25,901	21,917
Agency services	8,532	9,197
Others	5,161	3,636
Total fees and commission income	<u>133,915</u>	<u>137,657</u>
Less: Fees and commission expense	<u>(24,182)</u>	<u>(20,667)</u>
Net fees and commission income	<u>109,733</u>	<u>116,990</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 6. NET (LOSS) GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Net (loss) gain on financial assets at fair value through profit or loss		
- Designated at fair value through profit or loss	(5,049)	64,215
- Held for trading	17	(22,254)
Net losses on fair value hedge	(238)	-
	<u>(5,270)</u>	<u>41,961</u>

### 7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Dividend income	4,617	5,357
- Listed investments	2,337	3,075
- Unlisted investments	2,280	2,282
Net gains on dealing in foreign currencies	19,314	16,697
Net rental income	6,583	5,972
- Gross rents from properties	7,024	6,657
- Less: Outgoings	(441)	(685)
Safe deposit box rentals	12,233	12,208
Insurance underwriting profit	5,855	7,047
Other banking services income	22,571	19,422
Others	2,169	7,110
	<u>73,342</u>	<u>73,813</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 8. OPERATING EXPENSES

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(restated)</b>
Auditor's remuneration	1,850	1,751
Staff costs:		
Salaries and other costs	189,673	190,181
Retirement benefits scheme contributions	10,721	11,601
Total staff costs	<b>200,394</b>	201,782
Depreciation	<b>27,353</b>	24,464
Release of prepaid lease payments for land	<b>32</b>	35
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
Rentals and rates for premises	<b>21,634</b>	20,998
Others	<b>9,305</b>	8,660
Other operating expenses	<b>88,409</b>	103,179
	<b><u>348,977</u></b>	<b><u>360,869</u></b>

## 9. IMPAIRMENT LOSS ON GOODWILL

For the six-month period ended 30 June 2010, the management has reviewed the goodwill for impairment testing purposes. The review comprises of a comparison of the carrying amount and the value in use of an acquired subsidiary (the 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 with a stable growth beyond the five-year projection 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. Key assumptions include a growth rate of 4% (2009: 0%) in revenues and selection of discount rates of 12% (2009: 12%).

The management of the Group determines that there is no impairment loss on the goodwill for the six-month period ended 30 June 2010.

A goodwill impairment loss of HK\$10,000,000, representing the excess of the carrying amount above the value in use of the cash generating unit described above, was recognised for the six-month period ended 30 June 2009.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 10. TAXATION

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the period.

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

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$193,392,000 (2009: HK\$160,629,000) and on 435,000,000 (2009: 435,000,000) ordinary shares in issue during the period.

There is no potential dilutive ordinary shares in issue during both periods.

## 12. DIVIDENDS

On 29 April 2010, a dividend of HK\$0.20 per share totalling HK\$87,000,000 was paid to shareholders as the final dividend for 2009.

On 30 April 2009, a dividend of HK\$0.05 per share totalling HK\$21,750,000 was paid to shareholders as the final dividend for 2008.

The directors have determined that a total amount of interim dividend in respect of the financial year ending 31 December 2010 of HK\$43,500,000 (2009: HK\$34,800,000) at a rate of HK\$0.10 (2009: HK\$0.08) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 22 September 2010.

## 13. CASH AND SHORT-TERM FUNDS

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Cash and balances with banks and other financial institutions	9,461,679	4,427,240
Money at call and short notice	2,498,001	6,704,160
Exchange fund bills	555,634	3,917,280
	<u>12,515,314</u>	<u>15,048,680</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2010</b>		
	<b>Notional amount HK\$'000</b>	<b>Fair values</b>	
		<b>Assets HK\$'000</b>	<b>Liabilities HK\$'000</b>
Derivatives held for trading:			
- Foreign currency related contracts	95,363	1,191	1,723
- Interest rate swaps	580,000	4,917	44,191
Derivatives held for hedging:			
- Interest rate swaps	210,203	-	7,729
		<u>6,108</u>	<u>53,643</u>

	<b>31 December 2009</b>		
	<b>Notional amount HK\$'000</b>	<b>Fair values</b>	
		<b>Assets HK\$'000</b>	<b>Liabilities HK\$'000</b>
Derivatives held for trading:			
- Foreign currency related contracts	57,830	331	131
- Interest rate swaps	535,100	-	44,154
Derivatives held for hedging:			
- Interest rate swaps	54,285	-	128
		<u>331</u>	<u>44,413</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 15. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
<b>30 June 2010</b>					
Equity securities:					
Listed in Hong Kong	409	-	138,831	-	139,240
Listed overseas	-	-	7,074	-	7,074
	<u>409</u>	<u>-</u>	<u>145,905</u>	<u>-</u>	<u>146,314</u>
Unlisted	-	-	35,183	-	35,183
	<u>409</u>	<u>-</u>	<u>181,088</u>	<u>-</u>	<u>181,497</u>
Debt securities:					
Certificates of deposits	-	-	-	707,571	707,571
Structured products	-	847,195	-	-	847,195
Other debt securities - Unlisted	-	-	252,701	15,226,816	15,479,517
	<u>-</u>	<u>847,195</u>	<u>252,701</u>	<u>15,934,387</u>	<u>17,034,283</u>
Total:					
Listed in Hong Kong	409	-	138,831	-	139,240
Listed overseas	-	-	7,074	-	7,074
Unlisted	-	847,195	287,884	15,934,387	17,069,466
	<u>409</u>	<u>847,195</u>	<u>433,789</u>	<u>15,934,387</u>	<u>17,215,780</u>
Market value of listed securities:					
Listed in Hong Kong	409	-	138,831	-	139,240
Listed overseas	-	-	7,074	-	7,074
	<u>409</u>	<u>-</u>	<u>145,905</u>	<u>-</u>	<u>146,314</u>
As analysed by issuing entities:					
Central government and central banks	-	-	-	180,447	180,447
Public sector entities	-	-	56,858	57,268	114,126
Banks and other financial institutions	3	150,178	54,897	13,920,454	14,125,532
Corporate entities	406	697,017	315,344	1,776,218	2,788,985
Others	-	-	6,690	-	6,690
	<u>409</u>	<u>847,195</u>	<u>433,789</u>	<u>15,934,387</u>	<u>17,215,780</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 15. INVESTMENTS IN SECURITIES – continued

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
<b>31 December 2009</b>					
Equity securities:					
Listed in Hong Kong	140	–	135,287	–	135,427
Listed overseas	–	–	6,912	–	6,912
	<u>140</u>	<u>–</u>	<u>142,199</u>	<u>–</u>	<u>142,339</u>
Unlisted	–	–	36,902	–	36,902
	<u>140</u>	<u>–</u>	<u>179,101</u>	<u>–</u>	<u>179,241</u>
Debt securities:					
Certificates of deposits	–	–	–	347,510	347,510
Structured products	–	576,590	–	–	576,590
Other debt securities - Unlisted	–	–	93,548	16,606,956	16,700,504
	<u>–</u>	<u>576,590</u>	<u>93,548</u>	<u>16,954,466</u>	<u>17,624,604</u>
Total:					
Listed in Hong Kong	140	–	135,287	–	135,427
Listed overseas	–	–	6,912	–	6,912
Unlisted	–	576,590	130,450	16,954,466	17,661,506
	<u>140</u>	<u>576,590</u>	<u>272,649</u>	<u>16,954,466</u>	<u>17,803,845</u>
Market value of listed securities:					
Listed in Hong Kong	140	–	135,287	–	135,427
Listed overseas	–	–	6,912	–	6,912
	<u>140</u>	<u>–</u>	<u>142,199</u>	<u>–</u>	<u>142,339</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	182,203	182,203
Public sector entities	–	–	54,947	56,328	111,275
Banks and other financial institutions	45	82,389	54,067	14,766,614	14,903,115
Corporate entities	95	494,201	155,225	1,949,321	2,598,842
Others	–	–	8,410	–	8,410
	<u>140</u>	<u>576,590</u>	<u>272,649</u>	<u>16,954,466</u>	<u>17,803,845</u>

The fair value of held-to-maturity securities as at 30 June 2010 amounted to HK\$15,979,761,000 (31 December 2009: HK\$16,975,145,000).

Included in available-for-sale securities (other debt securities-unlisted) are financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,748,000 (31 December 2009: HK\$116,294,000). Impairment losses of HK\$115,749,000 (31 December 2009: HK\$115,018,000) has been recognised for these investments.

Certain held-to-maturity certificates of deposit of approximately HK\$15,571,000 (31 December 2009: HK\$15,510,000) 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 16. ADVANCES AND OTHER ACCOUNTS

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Advances to customers		
Bills receivable	334,759	302,986
Trade bills	124,261	118,258
Other advances to customers	35,093,684	32,372,335
	<u>35,552,704</u>	<u>32,793,579</u>
Interest receivable	103,839	90,429
Impairment allowances		
- Individually assessed	(33,563)	(25,905)
- Collectively assessed	(117,435)	(108,096)
	<u>35,505,545</u>	<u>32,750,007</u>
Advances to banks and other financial institutions	513,776	114,683
	<u>36,019,321</u>	<u>32,864,690</u>
Other accounts	234,511	403,045
	<u>36,253,832</u>	<u>33,267,735</u>

Included in the “Advances to banks and other financial institutions” of the Group of HK\$125,113,000 (31 December 2009: HK\$114,683,000) are amounts placed as reserve funds with 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.

Included in the “other accounts” of the Group is retirement benefits scheme assets of HK\$52,000 (31 December 2009: HK\$52,000) due to the excess of scheme assets over defined benefit obligations.

Details of the impaired loans are as follows:

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Gross impaired loans	43,692	53,707
Less: Impairment allowances under individual assessment	(33,563)	(25,905)
Net impaired loans	<u>10,129</u>	<u>27,802</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.12%</u>	<u>0.16%</u>
Market value of collateral pledged	<u>92,184</u>	<u>103,950</u>

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



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 17. INVESTMENT PROPERTIES

	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January	<b>103,199</b>	129,801
Disposals	<b>(1,060)</b>	(32,000)
Net increase in fair value recognised in the consolidated income statement	<b>3,500</b>	5,148
Exchange difference	<b>331</b>	250
At 30 June / 31 December	<b><u>105,970</u></b>	<b><u>103,199</u></b>

Net gain on disposal and fair value adjustments on investment properties:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net gain on disposal of investment properties	<b>3,130</b>	–
Net gain on fair value adjustments on investment properties	<b><u>3,500</u></b>	<u>1,374</u>
	<b><u>6,630</u></b>	<u>1,374</u>

Investment properties owned by the Group were revalued at 30 June 2010 on an open market value basis by Vigers Hong Kong Limited, independent professionally qualified valuers. The market value is mainly arrived at by reference to comparable market transactions for similar properties.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 18. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2010	396,264	316,663	498,720	1,211,647
Additions	-	-	10,096	10,096
Disposals	-	-	(2,434)	(2,434)
Exchange adjustments	-	-	94	94
At 30 June 2010	<u>396,264</u>	<u>316,663</u>	<u>506,476</u>	<u>1,219,403</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2010	77,295	40,746	330,949	448,990
Provided for the period	3,003	3,320	21,030	27,353
Eliminated on disposals	-	-	(2,391)	(2,391)
Exchange adjustments	-	-	5	5
At 30 June 2010	<u>80,298</u>	<u>44,066</u>	<u>349,593</u>	<u>473,957</u>
<b>CARRYING AMOUNTS</b>				
At 30 June 2010	<u>315,966</u>	<u>272,597</u>	<u>156,883</u>	<u>745,446</u>

	Leasehold land HK\$'000 (restated)	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000 (restated)
<b>COST</b>				
At 1 January 2009, as originally stated	-	316,883	477,734	794,617
Adjustment on application of amendment to HKAS 17	396,264	-	-	396,264
At 1 January 2009, as restated	396,264	316,883	477,734	1,190,881
Additions	-	-	21,326	21,326
Disposals	-	(220)	(344)	(564)
Exchange adjustments	-	-	4	4
At 31 December 2009, as restated	<u>396,264</u>	<u>316,663</u>	<u>498,720</u>	<u>1,211,647</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2009, as originally stated	-	34,204	290,689	324,893
Adjustment on application of amendment to HKAS 17	71,284	-	-	71,284
At 1 January 2009, as restated	71,284	34,204	290,689	396,177
Provided for the year	6,011	6,624	40,589	53,224
Eliminated on disposals	-	(82)	(329)	(411)
At 31 December 2009, as restated	<u>77,295</u>	<u>40,746</u>	<u>330,949</u>	<u>448,990</u>
<b>CARRYING AMOUNTS</b>				
At 31 December 2009, as restated	<u>318,969</u>	<u>275,917</u>	<u>167,771</u>	<u>762,657</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 19. PREPAID LEASE PAYMENTS FOR LAND

	<b>HK\$'000</b> <b>(restated)</b>
At 1 January 2009, as originally stated	328,127
Adjustment on application of amendment to HKAS 17	(324,980)
At 1 January 2009, as restated	<u>3,147</u>
Release to profit or loss	(64)
Disposal	<u>(519)</u>
At 31 December 2009, as restated	2,564
Release to profit or loss	<u>(32)</u>
At 30 June 2010	<u><u>2,532</u></u>

## 20. DEPOSITS FROM CUSTOMERS

	<b>30 June 2010</b> <b>HK\$'000</b>	<b>31 December 2009</b> <b>HK\$'000</b>
Demand deposits and current accounts	<b>4,283,118</b>	4,790,745
Savings deposits	<b>19,134,870</b>	19,644,533
Time, call and notice deposits	<b><u>37,097,032</u></b>	<u>36,353,137</u>
	<b><u>60,515,020</u></b>	<u>60,788,415</u>

## 21. LOAN CAPITAL

	<b>30 June 2010</b> <b>HK\$'000</b>	<b>31 December 2009</b> <b>HK\$'000</b>
US\$125 million callable floating rate subordinated notes due 2016	<b><u>971,546</u></b>	<u>967,199</u>

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

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 22. DEFERRED TAXATION

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

	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 2010	15,533	(19,645)	8,919	6,965	11,772
(Credit) charge to profit or loss for the period	(1,087)	1,042	479	-	434
Charge to other comprehensive income for the period	-	-	-	1,184	1,184
At 30 June 2010	<u>14,446</u>	<u>(18,603)</u>	<u>9,398</u>	<u>8,149</u>	<u>13,390</u>
At 1 January 2009	15,645	(18,428)	12,557	(3,491)	6,283
Credit to profit or loss for the year	(112)	(1,217)	(3,638)	-	(4,967)
Charge to other comprehensive income for the year	-	-	-	10,456	10,456
At 31 December 2009	<u>15,533</u>	<u>(19,645)</u>	<u>8,919</u>	<u>6,965</u>	<u>11,772</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 23. MATURITY PROFILES

The maturity profile of assets and liabilities shown on the condensed consolidated statement of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date in accordance with the guideline issued by the Hong Kong Monetary Authority, is shown below:

	Repayable on demand HK\$'000	Repayable within 1 month (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable 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 HK\$'000	Total HK\$'000
<b>At 30 June 2010</b>								
<b>Assets</b>								
Cash and short-term funds	9,272,023	2,535,163	454,441	253,687	-	-	-	12,515,314
Placements with banks and other financial institutions	-	-	1,324,218	2,383,420	-	-	-	3,707,638
Derivative financial instruments	-	67	559	565	4,917	-	-	6,108
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	409	409
- Designated at fair value	-	-	-	-	817,331	29,864	-	847,195
Available-for-sale securities	-	-	-	-	251,702	999	181,088	433,789
Held-to-maturity securities	-	4,822,391	1,410,151	3,137,523	6,564,322	-	-	15,934,387
Advances to customers	1,386,202	2,450,901	2,851,138	6,710,862	12,024,857	10,048,822	79,922	35,552,704
Advances to banks and other financial institutions	13,245	60,752	420,204	19,575	-	-	-	513,776
Other assets	176,195	72,428	36,439	52,260	643	-	879,150	1,217,115
<b>Total assets</b>	<b>10,847,665</b>	<b>9,941,702</b>	<b>6,497,150</b>	<b>12,557,892</b>	<b>19,663,772</b>	<b>10,079,685</b>	<b>1,140,569</b>	<b>70,728,435</b>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	19,100	2,313,447	-	-	-	-	-	2,332,547
Deposits from customers	23,436,555	24,660,745	9,233,013	3,173,419	11,288	-	-	60,515,020
Derivative financial instruments	-	76	198	26,835	26,534	-	-	53,643
Loan capital	-	-	-	-	-	971,546	-	971,546
Other liabilities	437,396	24,990	27,049	50,912	28,020	-	-	568,367
<b>Total liabilities</b>	<b>23,893,051</b>	<b>26,999,258</b>	<b>9,260,260</b>	<b>3,251,166</b>	<b>65,842</b>	<b>971,546</b>	<b>-</b>	<b>64,441,123</b>
Net position - total assets and liabilities	<u>(13,045,386)</u>	<u>(17,057,556)</u>	<u>(2,763,110)</u>	<u>9,306,726</u>	<u>19,597,930</u>	<u>9,108,139</u>	<u>1,140,569</u>	<u>6,287,312</u>
Of which certificates of deposits included in:								
Held-to-maturity securities	-	52,000	-	375,571	280,000	-	-	707,571
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	-	817,331	29,864	-	847,195
Available-for-sale securities	-	-	-	-	251,702	999	-	252,701
Held-to-maturity securities	-	4,822,391	1,410,151	3,137,523	6,564,322	-	-	15,934,387
	<u>-</u>	<u>4,822,391</u>	<u>1,410,151</u>	<u>3,137,523</u>	<u>7,633,355</u>	<u>30,863</u>	<u>-</u>	<u>17,034,283</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 23. MATURITY PROFILES – continued

	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable 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 HK\$'000	Total HK\$'000
<b>At 31 December 2009</b>								
<b>Assets</b>								
Cash and short-term funds	4,204,022	10,409,504	235,383	199,771	-	-	-	15,048,680
Placements with banks and other financial institutions	-	-	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	175	119	37	-	-	-	331
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	140	140
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	179,101	272,649
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
Advances to customers	1,456,020	2,234,769	1,501,287	4,773,751	13,014,912	9,628,458	184,382	32,793,579
Advances to banks and other financial institutions	9,958	60,466	30,961	13,298	-	-	-	114,683
Other assets	341,785	86,790	22,146	67,812	703	-	910,606	1,429,842
<b>Total assets</b>	<b>6,011,785</b>	<b>16,934,508</b>	<b>3,872,976</b>	<b>11,447,272</b>	<b>20,835,022</b>	<b>9,629,734</b>	<b>1,274,229</b>	<b>70,005,526</b>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	10,218	1,437,500	-	-	-	-	-	1,447,718
Deposits from customers	24,492,361	23,282,401	8,369,759	4,487,837	156,057	-	-	60,788,415
Derivative financial instruments	-	296	20	1,373	42,724	-	-	44,413
Loan capital	-	-	-	-	-	967,199	-	967,199
Other liabilities	462,336	20,846	23,489	48,633	28,155	-	-	583,459
<b>Total liabilities</b>	<b>24,964,915</b>	<b>24,741,043</b>	<b>8,393,268</b>	<b>4,537,843</b>	<b>226,936</b>	<b>967,199</b>	<b>-</b>	<b>63,831,204</b>
Net position - total assets and liabilities	<u>(18,953,130)</u>	<u>(7,806,535)</u>	<u>(4,520,292)</u>	<u>6,909,429</u>	<u>20,608,086</u>	<u>8,662,535</u>	<u>1,274,229</u>	<u>6,174,322</u>
Of which certificates of deposits included in:								
Held-to-maturity securities	-	-	-	67,510	280,000	-	-	347,510
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	-	93,548
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
	-	4,142,804	1,431,063	4,230,054	7,819,407	1,276	-	17,624,604

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

## 24. RELATED PARTY 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	Six months ended	Six months ended	Six months ended
	30 June 2010 HK\$'000	30 June 2009 HK\$'000	30 June 2010 HK\$'000	30 June 2009 HK\$'000
Investing enterprises having significant influence on the Group	<u>3,867</u>	<u>3,515</u>	<u>11,530</u>	<u>11,617</u>
Jointly controlled entities	<u>5,875</u>	<u>6,197</u>	<u>1,135</u>	<u>1,593</u>
Directors of the Bank and their associates	<u>2,449</u>	<u>8,149</u>	<u>2,138</u>	<u>3,752</u>

At the end of the reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Group	<u>-</u>	<u>-</u>	<u>207,137</u>	<u>59,749</u>
Jointly controlled entities	<u>51,647</u>	<u>53,790</u>	<u>116,456</u>	<u>96,034</u>
Directors of the Bank and their associates	<u>913,563</u>	<u>1,434,806</u>	<u>532,372</u>	<u>530,733</u>

### Compensation of key management personnel

The remuneration of directors and key management was as follows:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Short term benefits	<u>24,949</u>	<u>24,128</u>
Post employment benefits	<u>1,757</u>	<u>1,399</u>
	<u>26,706</u>	<u>25,527</u>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 25. LIST OF SUBSIDIARIES FOR FINANCIAL INFORMATION 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 2010				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,599,156	4,586	-	732,977	-
- Property investment	7,916,679	-	1,179	6,884,901	1,773
- Financial concerns	2,237,340	3	-	1,322,467	-
- Stockbrokers	454,659	162	-	418,330	-
- Wholesale and retail trade	1,108,256	-	33	743,114	696
- Manufacturing	1,208,552	3,258	13,187	631,774	13,714
- Transport and transport equipment	786,891	-	-	160,328	-
- Recreational activities	1,445	5	-	851	-
- Information technology	402	40	-	177	-
- Others	7,418,377	26,705	2,223	3,253,718	3,341
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	594,979	-	11	594,979	582
- Loans for the purchase of other residential properties	6,076,070	416	171	6,070,537	3,651
- Credit card advances	79,733	1,779	44	-	44
- Others	1,272,390	-	2,228	1,193,202	3,345
	<u>30,754,929</u>	<u>36,954</u>	<u>19,076</u>	<u>22,007,355</u>	<u>27,146</u>
Trade finance	766,922	19,328	13,182	235,923	13,182
Loans for use outside Hong Kong	<u>4,030,853</u>	<u>61,153</u>	<u>1,305</u>	<u>2,020,209</u>	<u>3,364</u>
	<u><u>35,552,704</u></u>	<u><u>117,435</u></u>	<u><u>33,563</u></u>	<u><u>24,263,487</u></u>	<u><u>43,692</u></u>

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 1. Advances to customers - by industry sectors – continued

31 December 2009

	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,516,107	7,545	-	694,641	-
- Property investment	7,712,459	-	1,179	6,709,546	1,773
- Financial concerns	1,989,693	-	-	1,236,433	-
- Stockbrokers	311,064	167	-	256,687	-
- Wholesale and retail trade	1,018,952	-	33	685,397	696
- Manufacturing	1,414,234	381	12,820	592,610	13,356
- Transport and transport equipment	641,908	-	-	131,451	-
- Recreational activities	1,832	8	-	1,159	-
- Information technology	328	38	-	118	-
- Others	6,318,840	23,116	2,223	2,726,628	3,341
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	617,860	-	28	617,782	599
- Loans for the purchase of other residential properties	5,917,720	-	171	5,911,151	3,651
- Credit card advances	97,227	2,198	331	-	494
- Others	1,497,919	-	2,168	1,436,357	3,285
	29,056,143	33,453	18,953	20,999,960	27,195
Trade finance	692,339	20,255	5,393	231,044	10,156
Loans for use outside Hong Kong	3,045,097	54,388	1,559	1,595,524	16,356
	<u>32,793,579</u>	<u>108,096</u>	<u>25,905</u>	<u>22,826,528</u>	<u>53,707</u>

**1. Advances to customers - by industry sectors – continued**

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the six months ended 30 June 2010 and 2009 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	<b>2010</b>		
<b>Advances overdue for over three months as at 30 June HK\$'000</b>	<b>New impairment allowances during the six months ended 30 June HK\$'000</b>	<b>Advances written off during the six months ended 30 June HK\$'000</b>	
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	2,838	10	-
- Others	3,485	62	-
Individuals			
- Loans for the purchase of other residential properties	10,379	104	-
Loans for use outside Hong Kong	<u>3,364</u>	<u>154</u>	<u>-</u>
<b>2009</b>			
<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>New impairment allowances during the six months ended 30 June HK\$'000</b>	<b>Advances written off during the six months ended 30 June HK\$'000</b>	
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	2,838	9	-
- Others	4,874	2,611	1,982
Individuals			
- Loans for the purchase of other residential properties	6,698	658	380
Loans for use outside Hong Kong	<u>16,356</u>	<u>42,231</u>	<u>41,293</u>

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 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 2010				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	34,022,927	73,592	40,328	32,258	107,923
People's Republic of China	347,256	3,364	3,364	1,305	3,181
Macau	158,472	-	-	-	881
America	394,458	-	-	-	5,450
Others	629,591	-	-	-	-
	<u>35,552,704</u>	<u>76,956</u>	<u>43,692</u>	<u>33,563</u>	<u>117,435</u>

	31 December 2009				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	31,088,554	32,085	37,351	24,346	98,748
People's Republic of China	396,303	3,642	3,642	1,305	3,557
Macau	143,159	-	-	-	616
America	388,867	12,714	12,714	254	5,175
Others	776,696	-	-	-	-
	<u>32,793,579</u>	<u>48,441</u>	<u>53,707</u>	<u>25,905</u>	<u>108,096</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 2010			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	13,327,802	161,693	838,117	14,327,612
- of which - China	5,869,436	24,411	636,752	6,530,599
- of which - Australia	3,692,200	1,478	-	3,693,678
Western Europe	7,745,269	2,580	172,270	7,920,119
- of which - France	<u>3,034,907</u>	<u>-</u>	<u>133</u>	<u>3,035,040</u>
	31 December 2009			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	12,509,722	119,294	754,727	13,383,743
- of which - China	5,159,827	24,266	578,685	5,762,778
- of which - Australia	3,226,306	936	518	3,227,760
- of which - Japan	3,004,146	937	8,807	3,013,890
North America	934,459	16,036	1,986,426	2,936,921
Western Europe	10,703,175	1,334	10,866	10,715,375
- of which - United Kingdom	3,320,357	339	246	3,320,942
- of which - France	<u>3,065,360</u>	<u>-</u>	<u>88</u>	<u>3,065,448</u>

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 4. Overdue and rescheduled assets

	30 June 2010		31 December 2009	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
- 6 months or less but over 3 months	9,262	0.0	11,936	0.0
- 1 year or less but over 6 months	49,716	0.1	5,136	0.0
- Over 1 year	<u>17,978</u>	<u>0.1</u>	<u>31,369</u>	<u>0.1</u>
Total overdue advances	<u>76,956</u>	<u>0.2</u>	<u>48,441</u>	<u>0.1</u>
Rescheduled advances	<u>307,118</u>	<u>0.9</u>	<u>321,447</u>	<u>1.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>33,488</u>		<u>10,475</u>	
Covered portion of overdue loans and advances	49,533		25,724	
Uncovered portion of overdue loans and advances	<u>27,423</u>		<u>22,717</u>	
	<u>76,956</u>		<u>48,441</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>214,402</u>		<u>159,183</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 2010 and 31 December 2009, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 30 June 2010 amounted to HK\$23,334,000 (31 December 2009: HK\$21,238,000).

**5. Non-bank Mainland exposures**

	<b>30 June 2010</b>			
	<b>On-balance sheet exposure HK\$'000</b>	<b>Off-balance sheet exposure HK\$'000</b>	<b>Total HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>
Types of counterparties				
Mainland entities	846,249	30,000	876,249	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,417,641	974,675	4,392,316	16,286
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>7,941</u>	<u>–</u>	<u>7,941</u>	<u>–</u>
	<u><b>4,271,831</b></u>	<u><b>1,004,675</b></u>	<u><b>5,276,506</b></u>	<u><b>16,286</b></u>

	<b>31 December 2009</b>			
	<b>On-balance sheet exposure HK\$'000</b>	<b>Off-balance sheet exposure HK\$'000</b>	<b>Total HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>
Types of counterparties				
Mainland entities	978,122	180,000	1,158,122	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,299,484	723,477	4,022,961	3,622
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>10,047</u>	<u>–</u>	<u>10,047</u>	<u>–</u>
	<u><b>4,287,653</b></u>	<u><b>903,477</b></u>	<u><b>5,191,130</b></u>	<u><b>3,622</b></u>

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 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 2010			
	US\$	RMB	JPY	Total
Equivalent in thousand of HK\$				
Spot assets	9,520,517	1,398,666	155,384	11,074,567
Spot liabilities	(9,577,943)	(1,367,241)	(81,213)	(11,026,397)
Forward purchases	138,604	7,774	2,643	149,021
Forward sales	(77,892)	(28,750)	(73,540)	(180,182)
Net long position	<u>3,286</u>	<u>10,449</u>	<u>3,274</u>	<u>17,009</u>
		MOP	RMB	Total
Net structural position		<u>48,545</u>	<u>105,169</u>	<u>153,714</u>

	31 December 2009				
	US\$	MOP	RMB	AUD	Total
Equivalent in thousand of HK\$					
Spot assets	10,635,242	115,003	1,079,649	3,684,953	15,514,847
Spot liabilities	(10,754,629)	(116,923)	(1,046,456)	(3,688,974)	(15,606,982)
Forward purchases	188,874	-	3,749	14,306	206,929
Forward sales	(67,026)	-	(28,403)	(8,473)	(103,902)
Net long (short) position	<u>2,461</u>	<u>(1,920)</u>	<u>8,539</u>	<u>1,812</u>	<u>10,892</u>
		MOP	RMB	Total	
Net structural position		<u>48,545</u>	<u>105,169</u>	<u>153,714</u>	



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

	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Contingent liabilities and commitments		
- contractual amounts		
Direct credit substitutes	825,257	790,690
Trade related contingencies	361,278	283,739
Forward asset purchases	3,855	3,234
Other commitments:		
Which are unconditionally cancellable without prior notice	5,905,815	4,969,184
With an original maturity of one year and under	7,543,983	7,717,628
With an original maturity of over one year	<u>2,804,064</u>	<u>1,821,771</u>
	<u><u>17,444,252</u></u>	<u><u>15,586,246</u></u>

Most of contingent liabilities and commitments are denominated in Hong Kong dollars.

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

	30 June 2010		31 December 2009	
	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	3,244,641	N/A	2,833,343
Exchange rate contracts	1,191	1,855	331	535
Interest rate contracts	<u>4,917</u>	<u>3,727</u>	-	<u>1,004</u>
	<u><u>6,108</u></u>	<u><u>3,250,223</u></u>	<u><u>331</u></u>	<u><u>2,834,882</u></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 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 amount is the amount which has been calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"), which came into operation on 1 January 2007, and the guidelines issued by the HKMA.

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 8. Capital adequacy and liquidity ratio

	30 June 2010	31 December 2009
	%	%
Capital adequacy ratio	15.24	15.95
Core capital ratio	<u>12.11</u>	<u>12.72</u>
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	%	%
Average liquidity ratio for the period	<u>45.01</u>	<u>47.96</u>

The capital adequacy ratio is compiled in accordance with the Capital Rules under section 98A of the Banking Ordinance (Chapter 155 of the Laws of 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, “standardised (market risk) approach” for the calculation of market 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 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 above capital adequacy ratios as at 30 June 2010 and 31 December 2009 and reported to the Hong Kong Monetary Authority is analysed as follows:

	<b>30 June 2010</b>	<b>31 December 2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Core capital		
Paid up ordinary share capital	<b>217,500</b>	217,500
Share premium	<b>1,542,817</b>	1,542,817
Published reserves	<b>3,383,868</b>	3,491,579
Profit and loss account	<b>91,645</b>	(87,537)
Total core capital	<b>5,235,830</b>	5,164,359
Other deductions from core capital	<b>(121,744)</b>	(122,809)
Core capital after deductions	<b>5,114,086</b>	5,041,550
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	<b>5,293</b>	5,502
Collective impairment allowances	<b>117,431</b>	108,096
Regulatory reserve for general banking risks	<b>311,000</b>	287,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	<b>17,773</b>	13,611
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	<b>22,185</b>	24,206
Term subordinated debt	<b>971,546</b>	967,199
Total supplementary capital	<b>1,445,228</b>	1,405,614
Other deductions from supplementary capital	<b>(121,744)</b>	(122,809)
Supplementary capital after deductions	<b>1,323,484</b>	1,282,805
Total capital base after deductions	<b>6,437,570</b>	6,324,355
Total risk-weighted amount	<b>42,229,704</b>	39,644,144

Deductions from total capital base mainly 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.

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 10. Statement of compliance

In preparing the interim financial information for 2010, the Bank has fully complied with the Banking (Disclosure) Rules.

### 11. Basis of consolidation

This interim financial information covers the condensed consolidated financial statements 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. 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\$39,475,000 (2009: HK\$33,159,000) and HK\$22,666,000 (2009: HK\$19,518,000) arising from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

### 13. 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 meetings every two weeks, 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 Department and the Finance Department with the assistance of various qualitative and quantitative analyses.

**13. Risk management – continued**

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.

**(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.

## SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 13. Risk management – continued

#### (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.

#### (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.

**13. Risk management – continued****(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 30 which comprises the condensed consolidated statement of financial position of Chong Hing Bank Limited (the “Bank”) and of its subsidiaries (collectively referred to as the “Group”) as of 30 June 2010 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 “Interim Financial Reporting” 34 (“HKAS 34”) 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

11 August 2010



The directors have declared an interim cash dividend for 2010 of HK0.10 per share, payable on Thursday, 30 September 2010 to shareholders whose names are listed on the register of members of the Bank on Wednesday, 22 September 2010.

---

**CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Bank will be closed from Monday, 20 September 2010 to Wednesday, 22 September 2010 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2010 interim cash dividend, all transfer documents, along 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 Friday, 17 September 2010.

---

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

Chong Hing Securities Limited ("CHS"), a wholly-owned subsidiary of the Bank, sold 3,000 ordinary shares in the Bank (which were previously purchased by CHS inadvertently during its normal course of stockbroking business) on 8 March 2010 on The Stock Exchange of Hong Kong Limited for HK\$42,420. Save for the above, neither the Bank nor any of its other subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2010.

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rules 13.51B(1) and 13.51B(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE"), the changes in directors' information are set out as follows:

**Dr Robin Yau Hing CHAN** received an emolument in the form of director's fee amounting to HK\$130,000 in 2009 having reference to his position as the Bank's Independent Non-executive Director. Dr Chan's director's fee for 2010 has earlier been changed to HK\$150,000.

**Mr CHENG Yuk Wo** received an emolument in the form of director's fee amounting to HK\$130,000 in 2009 having reference to his position as the Bank's Independent Non-executive Director with committee responsibilities. Mr Cheng's director's fee for 2010 has earlier been changed to HK\$150,000. Moreover, Mr Cheng has been an independent non-executive director of 21 Holdings Limited (formerly known as GFT Holdings Limited) since 1 October 2007 before his redesignation as its executive director with effect from 1 May 2010. Mr Cheng has also been an independent non-executive director of Imagi International Holdings Limited since 1 July 2010. Both are public companies listed on the HKSE.

**Mr Wanchai CHIRANAKHORN** received an emolument in the form of director's fee amounting to HK\$130,000 in 2009 having reference to his position as the Bank's Independent Non-executive Director with committee responsibilities. Mr Chiranakhorn's director's fee for 2010 has earlier been changed to HK\$150,000.

**Mr Alfred Cheuk Yu CHOW** received an emolument in the form of director's fee amounting to HK\$130,000 in 2009 having reference to his position as the Bank's Non-executive Director with committee responsibilities. Mr Chow's director's fee for 2010 has earlier been changed to HK\$150,000.

**Mr Timothy George FRESHWATER** received an emolument package comprising director's fee and other benefits amounting to HK\$210,000 in 2009 having reference to his position as the Bank's Non-executive Director with committee responsibilities. Mr Freshwater's director's fee for 2010 has earlier been changed from HK\$130,000 to HK\$150,000.

**Mr LAU Wai Man** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$2,422,000 in 2009 having reference to his position as the Bank's Executive Director and Deputy Chief Executive Officer in charge of its China and Overseas Banking Division. Mr Lau's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000. Moreover, Mr Lau has been a director of Chong Hing Insurance Company Limited and Right Way Investments Limited since 17 June 2010 and 29 April 2010 respectively, both of which are wholly-owned subsidiaries of the Bank.

**Mr Andrew LIU** received an emolument package comprising director's fee and other benefits amounting to HK\$100,000 in 2009 having reference to his position as the Bank's Non-executive Director. Mr Liu's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000.

**Mr Wilfred Chun Ning LIU** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$2,302,000 in 2009 having reference to his position as the Bank's Executive Director in charge of its Securities Business Division. Mr Liu's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000.

**Mr Christopher Kwun Shing LIU** received an emolument in the form of director's fee amounting to HK\$70,000 in 2009 having reference to his position as the Bank's Non-executive Director. Mr Liu's director's fee for 2010 has earlier been changed to HK\$100,000.

**Mr LIU Lit Chi** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$5,506,000 in 2009 having reference to his position as the Bank's Managing Director and Chief Executive Officer. Mr Liu's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000. Moreover, Mr Liu resigned as a director of Liu Chong Hing Banking Corporation, Cayman, which is a wholly-owned subsidiary of the Bank, on 9 June 2010.

**Dr LIU Lit Mo** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$588,000 in 2009 having reference to his position as the Bank's Chairman and Executive Director. Dr Liu's director's fee for 2010 has earlier been changed from HK\$75,000 to HK\$150,000. Moreover, Dr Liu resigned as a director of Liu Chong Hing Banking Corporation, Cayman, which is a wholly-owned subsidiary of the Bank, on 9 June 2010.

**Mr Don Tit Shing LIU** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$2,940,000 in 2009 having reference to his position as the Bank's Executive Director and Deputy Chief Executive Officer. Mr Liu's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000. Moreover, Mr Liu resigned as a director of Liu Chong Hing Banking Corporation, Cayman, which is a wholly-owned subsidiary of the Bank, on 9 June 2010.

**Mr Andrew Chiu Cheung MA** received an emolument in the form of director's fee amounting to HK\$130,000 in 2009 having reference to his position as the Bank's Independent Non-executive Director. Mr Ma's director's fee for 2010 has earlier been changed to HK\$150,000.

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

**Mr MENG Qinghui** received an emolument in the form of director's fee amounting to HK\$70,000 in 2009 having reference to his position as the Bank's Non-executive Director. Mr Meng's director's fee for 2010 has earlier been changed to HK\$100,000.

**Mr TSANG Chiu Wing** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$2,225,000 in 2009 having reference to his position as the Bank's Executive Director in charge of its Information Technology Division. Mr Tsang's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000. Moreover, Mr Tsang has been a director of Chong Hing (Management) Limited, Gallbraith Limited and Right Way Investments Limited since 29 April 2010. Mr Tsang has also been a director of Chong Hing Insurance Company Limited since 17 June 2010. All of the foregoing four companies are wholly-owned subsidiaries of the Bank.

**Mr WANG Xiaoming** received an emolument in the form of director's fee amounting to HK\$70,000 in 2009 having reference to his position as the Bank's Non-executive Director. Mr Wang's director's fee for 2010 has earlier been changed to HK\$100,000.

**Mr WONG Har Kar** received an emolument package comprising director's fee, contribution to retirement benefits scheme, and salary and other benefits amounting to HK\$2,124,000 in 2009 having reference to his position as the Bank's Executive Director in charge of its Credit Risk Management Division. Mr Wong's director's fee for 2010 has earlier been changed from HK\$70,000 to HK\$100,000. Moreover, Mr Wong has been a director of Chong Hing Insurance Company Limited and Right Way Investments Limited since 17 June 2010 and 29 April 2010 respectively, both of which are wholly-owned subsidiaries of the Bank.

**Mr Eiichi YOSHIKAWA** resigned as the Bank's Non-executive Director on 11 August 2010 because of the reallocation of duties within the Bank of Tokyo Mitsubishi UFJ Group. He received an emolument in the form of director's fee amounting to HK\$70,000 in 2009 having reference to his position as the Bank's then Non-executive Director. Mr Yoshikawa's director's fee for 2010, fixed having reference to his then position as the Bank's Non-executive Director, has earlier been changed to HK\$100,000. Moreover, Mr Yoshikawa also resigned as a non-executive director of Dah Sing Financial Holdings Limited, a public company listed on the HKSE, on 2 July 2010.

Other than those disclosed above, there is no other information in respect of the above directors and any other directors of the Bank required to be disclosed pursuant to Rules 13.51B(1) and 13.51B(3) of the Rules Governing the Listing of Securities on the HKSE.

## DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES

As of 30 June 2010, 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 Mo	1,009,650	–	251,040,628 <i>Note (1)</i>	252,050,278	57.94259
Liu Lit Chi	313,248	–	253,303,839 <i>Notes (1) &amp; (2)</i>	253,617,087	58.30278
Don T S Liu	15,000	–	–	15,000	0.00345
Robin Y H Chan	48,400	–	1,018,000 <i>Note (3)</i>	1,066,400	0.24515
Timothy G Freshwater	396	–	–	396	0.00009
Andrew Liu	177,000	–	–	177,000	0.04069

#### **Notes:**

- (1) 251,040,628 shares in the Bank are attributed as follows:
  - (i) 211,040,628 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 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 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) 1,018,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) 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 of 30 June 2010, 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 of 30 June 2010, 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 of 30 June 2010, 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	211,040,628 <i>Notes (1) and (3)</i>	48.52
Liu Chong Hing Investment Limited	Interest of a controlled corporation	211,040,628 <i>Notes (1) and (3)</i>	48.52
Liu's Holdings Limited	Interest of a controlled corporation	211,040,628 <i>Notes (1) and (3)</i>	48.52
Bauhinia 97 Limited	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO (Hong Kong) Group 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

### 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. 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 211,040,628 shares in question all relate to the same block of 211,040,628 shares held by Liu Chong Hing Estate.
- (2) Bauhinia 97 Limited is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited, which in turn is a wholly-owned subsidiary of China Ocean Shipping (Group) Company. 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 Limited.
- (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 The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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.

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 of 30 June 2010.

The directors confirm that, for the accounting period for the six months ended 30 June 2010, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and 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 2010, 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 2010, 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.

### Economic Review

The year of 2010 started off with Hong Kong economy showing substantial recovery. Compared with that of the same period last year, gross domestic product for the first quarter increased by 8.2% in real terms. Unemployment rate gradually came down to 4.6% since the third quarter last year. Although market sentiment was subdued because of the introduction by the Hong Kong Government in May of certain measures to tighten real estate marketing practices, second-hand sales remained active. In the first half of 2010, total value of registered sale and purchase agreements for second-hand private residential properties exceeded that of the second half of the previous year. As for the stock market, Hang Seng Index zigzagged downwards due to external factors including the European debt crisis and mainland China's tightening of policies. As of the last trading day of the first half year, Hang Seng Index barely stood above 20,000 points, recording a decline for the second quarter in a row.

After its rate-fixing meeting in June, the US Federal Reserve Board ("FRB") announced that it would keep the target range for the federal funds rate at 0% to 0.25%, and restated that it would maintain a low rate for a relatively extended period. In spite of external instability arising from deficit-cutting measures introduced feverishly by various countries in Europe, the FRB stated that the US economy was recovering with an improving labour market. However, in light of factors such as high unemployment rate and credit crunch concerns, the FRB expected the pace of recovery to remain moderate for a considerable period.

### Results Announcement

For the first half of 2010, on an unaudited, consolidated basis, profit attributable to shareholders amounted to HK\$193 million, an improvement of 20.4% over that for the corresponding period in previous year, translating into earnings of HK\$0.44 per share. Net asset value per share (before interim dividend), compared with that of the corresponding period in previous year, edged up 2.8% to HK\$14.45. An increase in net interest income, lower impairment allowances required on loans and advances, and a reduction in impairment loss on available-for-sale securities had contributed to the improvement in profit attributable to shareholders.

As of 30 June 2010, compared with the figures as of 31 December 2009, total customers' deposits ebbed 0.5% to HK\$60,515 million and total loans to customers (after accounting for impairment allowances) rose 8.4% to HK\$35,506 million. The loan increases were attributable mainly to those loans made to corporate customers for use in Hong Kong and mainland China. Capital adequacy ratio eased 4.5% to 15.24%, while average liquidity ratio for the six months ended 30 June 2010 lessened 6.2% to 45.01%. Loan-to-deposit ratio grew 8.6% to 53.81%. Gross impaired loans as a percentage of gross advances to customers fell 25% to 0.12%. Total assets gained 1% to HK\$70,728 million. Shareholders' funds (before interim dividend) ascended 1.8% to HK\$6,287 million. Your board has recommended paying the interim cash dividend of HK\$0.10 per share for the six months ended 30 June 2010 to shareholders whose names appear in the Register of Members at the close of business on Wednesday, 22 September 2010.



## Profit Analysis

For the first half of 2010, on an unaudited, consolidated basis, net interest income moved up 3.8% from that of the corresponding period in 2009 to HK\$411 million. Increase in loans and advances to customers together with interest rate and liquidity management in treasury activities had helped to boost net interest income. Net interest margin widened 4.2% from 1.2% to 1.25%. After accounting for the net fee and commission income, which amounted to HK\$110 million, net losses on financial assets at fair value through profit or loss, which amounted to HK\$5 million and other operating income, which amounted to HK\$73 million, total operating income was HK\$589 million and total operating expense was HK\$349 million. Even though the number of customers for the securities dealings services continued to grow, fee and commission income from the services moved down by 10% because investors' sentiments were affected by the volatility in the Hong Kong stock market in the first half of 2010. Cost-to-income ratio increased 3.3% to 59.22%. Operating profit before impairment allowances and net gain on disposal dropped 10.5% to HK\$240 million. The Bank made impairment allowances on loans and advances in the amount of HK\$20 million, a shrinkage of 63.5% against those made for the corresponding period in 2009. Asset quality of loans and advances continued to improve with gross impaired loans as a percentage of gross advances to customers descended by 25% from 0.16% in December 2009 to 0.12% in June 2010 and gross rescheduled loans as a percentage of gross advances to customers diminished by 10% from 1% in December 2009 to 0.9% in June 2010. As of 30 June 2010, the Bank recorded a comfortable 346% provision coverage of impaired loans and advances (compared with that of 204% as of 30 June 2009). The Bank's exposures to financial institutions are confined to those with high credit ratings and its exposures to countries are likewise limited to those with strong financial positions. The Bank's core business lines and overall financial health are sound, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements. Moreover, the Bank's non-performing loan ratio is low and its asset quality good.

## Business Review

### Corporate and Retail Banking

#### Loan and Deposit Business

In the first half of 2010, the number of mortgage loan applications received through branches was on the rise. Compared with the same period last year, residential mortgage loans more than doubled in both the number of cases and the size of loan amounts. Besides, the Bank, dedicated to expanding its customer base for deposit and personal loans, launched a variety of preferential offers and marketing campaigns to actively attract a broader spectrum of customers.

## CHAIRMAN'S STATEMENT

In respect of corporate loans, the Bank highly supported the Hong Kong Government's Loan Guarantee Scheme and Special Loan Guarantee Scheme for the small and medium-sized enterprises ("SMEs" collectively and "SME" singly) to foster the Bank's business growth. In March 2010, the Bank participated in the "Intellectual Capital Management Consultancy Programme" organised by the Intellectual Property Department. By becoming one of the five "Partnering Lending Institutions" under the Programme, the Bank assists participating SMEs to maximise their business potential and attain mutual growth. The Bank also strove to enlarge its corporate clientele and adopted a proactive strategy, resulting in a steady growth in the relevant business for the first half of 2010 compared with that of the corresponding period last year.

In addition, the Bank has continued striving to provide the most cordial, flexible and tailor-made banking services to SMEs. Such efforts were highly recognised by the industry, as the Bank was again granted the "Best SME's Partner Award" by the Hong Kong Chamber of Small and Medium Business.

### Card Business

Compared with the same period last year, the Bank recorded growth in both the number of credit cards issued and the amount of credit card spending for the first quarter of 2010. Merchant-billed turnover recorded a double-digit growth, in which the amount from China Unionpay merchants was admirable with a substantial rise of over 50%. In March 2010, the Bank received the "Largest International Incoming Volume Growth" award from VISA. Looking ahead, the Bank will continue to maintain healthy business growth by expanding its card business.

In light of the robust economic development of mainland China, the number of tourists from there is expected to increase considerably. The Bank will further expand its China Unionpay merchant acquiring services. Besides, the Bank will offer customers with more diversified services. Concerted efforts will be devoted to developing new credit card products to cater for customer needs at different levels.

### Treasury Activities

Treasury activities mainly comprise money market operations and foreign exchange services. Money market operations include centralised cash management for deposit taking, interbank funding and investments in the capital markets. All these activities are carried out under prudent risk management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts.

It was noticeable that, since the first half of 2010, financial stability has returned to Asia. In Hong Kong, the competition among banks for customer deposits became fierce in the second quarter. The Bank has striven to continually maintain both its market share in customer deposits and the spread of net interest margin. The Bank managed to maintain a positive growth in net interest income and margin compared with that of the same period last year through interest rate and liquidity management in the money market operations and increases in advances to customers and investments in the capital markets.

## Securities Dealing

Affected by the gradually tightening measures introduced by the Central Government to finetune the economy as well as the European debt crisis, the Hong Kong stock market experienced a prolonged decline in the number of transactions and total funds raised through initial public offerings in early 2010. However, Chong Hing Securities Limited ("Chong Hing Securities"), a wholly-owned subsidiary of the Bank, managed to achieve satisfactory results against such a lackluster market. In January this year, Chong Hing Securities launched "Chong Hing Mobile Securities Services", a mobile securities trading platform compatible with all mobile networks and various smartphone systems in Hong Kong. The platform enables customers to deal with their securities investments anytime, anywhere. With the launch of a well-executed marketing campaign, the service was positively received by the customers. Compared with that of the same period last year, the number of users of electronic securities trading services rose by more than 20% for the first half of the year. For the rest of the year, provided the China, US and European stock markets restabilise, Chong Hing Securities can look forward to continually growing its business by benefiting from the securities turnover in the Hong Kong market, which is expected to pick up gradually as capital flows back.

## Others

### Insurance Business

Chong Hing Insurance Company Limited ("Chong Hing Insurance"), a wholly-owned subsidiary of the Bank, further expanded its commercial and individual insurance businesses, offering comprehensive coverage to customers. The insurance business grew steadily for the first half of the year, with satisfactory increase in premium income. Chong Hing Insurance will continue to adopt a more proactive marketing strategy in a bid to achieve even better results.

## Corporate Responsibility

In order to practise the preaching of serving as a "community bank" and providing a comprehensive range of high quality banking services to the local community, the Bank continued to optimise its service network. In June 2010, the branch at Tin Tsz Estate in Tin Shui Wai was relocated to Kingswood Ginza in the same district so as to provide a better service environment and a more convenient outlet for a larger population in that district. Apart from the headquarters in Central, the number of local branches stands at 51.

In recognition of the Bank's commitment to community services, the Hong Kong Council of Social Service awarded the Bank with the "Caring Company" logo for the third year in a row.

### Corporate Governance

We are aware of the importance that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to the effective and efficient operation of the Bank. We have, therefore, deployed considerable resources, as well as adopted and implemented relevant measures, to ensure that the relevant statutory and regulatory requirements with regard to such matters as anti-money laundering and counter-terrorist financing controls, not to mention the enhanced complaint handling procedures concerning investment products, are complied with and that a high standard of corporate governance practices is maintained.

### Economic Outlook

In early 2009, the National Development and Reform Commission published the "Outline of the Plan for the Reform and Development of the Pearl River Delta" ("Outline"), which for the first time elevated Guangdong-Hong Kong cooperation to the level of national development. In April this year, the Hong Kong Government and the Guangdong Provincial Government entered into a "Framework Agreement on Hong Kong / Guangdong Cooperation" ("Framework Agreement"), which embodies the policy guidelines in the Outline. The Framework Agreement aims to create a new world-class economic zone, with Hong Kong taking the lead with its financial systems to be supported by financial resources and services in the Pearl River Delta cities. Specific financial initiatives include increasing the participants of pilot scheme for cross-border trade settlement in renminbi to include more regions, banks and industries and supporting the establishment of cross-boundary subsidiaries for financial institutions from Hong Kong and Guangdong. Major tasks in the coming years include exploring specific arrangements for the issuance of renminbi bonds in Hong Kong by Guangdong enterprises, advancing the pilot scheme for cross-border trade settlement in renminbi, and encouraging more Guangdong enterprises to list in Hong Kong.

In May this year, Supplement VII to the "Mainland and Hong Kong Closer Economic Partnership Arrangement" was signed. The two governments entered into agreement regarding 35 market liberalisation as well as trade and investment facilitation measures in 19 sectors. The banking sector of Hong Kong is again at the receiving end of benefits. A Hong Kong bank's operating institution in mainland China can apply to conduct renminbi business if it has been operating for more than two years and profitable for one year before the application. Moreover, a Hong Kong bank that has maintained a representative office in mainland China for more than one year can apply to set up a wholly foreign-funded bank or a foreign bank branch. As such, we at the Bank are well-positioned to have our representative offices there upgraded at the opportune time to further harness our share of cross-border business.

In July this year, the People's Bank of China ("PBoC") and the Hong Kong Monetary Authority ("HKMA") signed a supplementary memorandum of cooperation on the expansion of the renminbi trade settlement scheme. The PBoC and Bank of China (Hong Kong) Limited, the renminbi clearing bank, also signed a revised "Settlement Agreement on the Clearing of Renminbi Businesses". Under the new arrangements, individuals and corporations can conduct renminbi transfers through the banks; HKMA allows the banks to open renminbi deposit accounts for all corporate clients while lifting the restriction on the maximum amount of exchange from Hong Kong dollar to renminbi by corporations; and the banks can also conduct interbank lending and exchange of renminbi. Apart from facilitating the development of more renminbi financial products, the new arrangements also encourage the growth of renminbi deposits in Hong Kong, thereby promoting the territory's development as renminbi businesses' offshore centre.

Recently, the economy of Hong Kong has shown marked improvement. Financial measures of the Central and the Hong Kong Governments are also conducive to the sustained development of the banking sector. The Bank will seize the moment to maximise return for its shareholders, while at the same time fulfilling its calling as a community bank by providing the public with enhanced services.

### **Sincere Acknowledgements**

I, on behalf of your board, would like to express my heartfelt thanks to our many customers and shareholders for their trust and support, to all my fellow directors for their wise stewardship, and to the management and the staff for their commitment and dedication. We will continue to leverage on these much-cherished strengths to keep honing our reputation as a caring financial institution serving our community, while taking advantage of opportunities, both local and overseas, that crop up from time to time to sustain our long-term growth in the interest of our stakeholders.

## REVIEW OF INTERIM FINANCIAL INFORMATION

This interim financial information 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 of the date of this interim report (namely, 11 August 2010), the seven executive directors of the Bank are Dr Liu Lit Mo (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 Tsang Chiu Wing and Mr Wong Har Kar; the seven non-executive directors are Mr Timothy George Freshwater, Mr Wang Xiaoming, Mr Andrew Liu, Mr Hidemitsu Otsuka, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and the four 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 Mo**

*Chairman*

11 August 2010