



創興銀行有限公司
Chong Hing Bank Limited

2011 Interim Report

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CORPORATE INFORMATION

AS OF 10 AUGUST 2011

Honorary Chairman

Mr LIU Lit Man, GBS, JP, FIBA

Board of Directors

Executive Directors

Dr LIU Lit Mo, LLD, 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, LLD, 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

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E-mail : 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, (ii) subordinated notes due 2016 and (iii) subordinated notes due 2020 are (i) 01111 (CHONG HING BANK), (ii) 01510 (CH BANK N1612) and (iii) 04327 (CH BANK N2011), respectively.

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CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	Six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Interest income		624,882	558,193
Interest expense		(238,222)	(146,725)
Net interest income	4	386,660	411,468
Fee and commission income		141,592	133,915
Fee and commission expense		(27,892)	(24,182)
Net fee and commission income	5	113,700	109,733
Net losses on financial assets at fair value through profit or loss	6	(24,661)	(5,032)
Net losses on fair value hedge	6	(23,533)	(238)
Other operating income	7	325,219	73,342
Operating expenses	8	(391,426)	(348,977)
		<u>385,959</u>	<u>240,296</u>
Impairment allowances on loans and advances			
- New allowances		(39,773)	(25,571)
- Amounts reversed	16	115,817	5,835
		<u>76,044</u>	<u>(19,736)</u>
Net (loss) gain on disposal of property and equipment		(11)	82
Net gain on disposal of available-for-sale securities		7	-
Net gain on disposal of and fair value adjustments on investment properties	17	5,863	6,630
Impairment loss on available-for-sale securities		-	(1,818)
Profit from operations		<u>467,862</u>	<u>225,454</u>
Share of profits of jointly controlled entities		13,638	2,883
Profit before taxation		<u>481,500</u>	<u>228,337</u>
Taxation	10		
- Hong Kong		(71,711)	(33,941)
- Overseas		(1,614)	(570)
- Deferred tax		806	(434)
		<u>(72,519)</u>	<u>(34,945)</u>
Profit for the period		<u>408,981</u>	<u>193,392</u>
Earnings per share, basic	11	<u>HK\$0.94</u>	<u>HK\$0.44</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Profit for the period	<u>408,981</u>	<u>193,392</u>
Other comprehensive income		
Exchange differences arising on translation	2,778	2,347
Revaluation of available-for-sale securities:		
Revaluation (loss) gain on available-for-sale securities, net	(1,631)	3,491
Share of other comprehensive (expense) income of jointly controlled entities	(119)	126
Reclassification adjustment upon disposal and impairment	(7)	1,818
	<u>(1,757)</u>	<u>5,435</u>
Income tax relating to available-for-sale securities	<u>(382)</u>	<u>(1,184)</u>
Other comprehensive income for the period (net of tax)	<u>639</u>	<u>6,598</u>
Total comprehensive income for the period	<u><u>409,620</u></u>	<u><u>199,990</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Bank	<u><u>409,620</u></u>	<u><u>199,990</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
ASSETS			
Cash and short-term funds	13	16,981,913	18,249,365
Placements with banks and other financial institutions maturing between one and twelve months		1,770,814	2,282,122
Derivative financial instruments	14	15,938	20,542
Financial assets at fair value through profit or loss	15	1,692,036	1,774,453
Available-for-sale securities	15	1,376,073	1,212,428
Held-to-maturity securities	15	9,107,258	10,878,046
Advances and other accounts	16	41,596,612	38,835,820
Tax recoverable		–	6
Interests in jointly controlled entities		149,388	136,919
Investment properties	17	123,035	116,400
Property and equipment	18	713,585	729,771
Prepaid lease payments for land	19	2,466	2,535
Goodwill		50,606	50,606
Total assets		73,579,724	74,289,013
LIABILITIES			
Deposits and balances of banks and other financial institutions		1,718,638	1,039,991
Financial assets sold under repurchase agreements	20	524,507	–
Deposits from customers	21	60,888,506	63,500,219
Derivative financial instruments	14	252,321	256,426
Other accounts and accruals		638,576	442,834
Current tax liabilities		115,427	50,106
Loan capital	22	2,386,714	2,401,151
Certificates of deposit issued	23	199,803	–
Deferred tax liabilities	24	19,933	20,357
Total liabilities		66,744,425	67,711,084
Shareholders' equity			
Share capital		217,500	217,500
Reserves		6,617,799	6,360,429
Shareholders' funds		6,835,299	6,577,929
Total liabilities and shareholders' equity		73,579,724	74,289,013

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	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 2011 (audited)		217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,976,973	6,577,929
Profit for the period		-	-	-	-	-	-	-	408,981	408,981
Other comprehensive (expense) income for the period		-	-	-	(2,139)	-	2,778	-	-	639
Total comprehensive (expense) income for the period		-	-	-	(2,139)	-	2,778	-	408,981	409,620
Final cash dividend for financial year 2010, paid	12	-	-	-	-	-	-	-	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	66,000	(66,000)	-
At 30 June 2011 (unaudited)		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>104,081</u>	<u>1,388,500</u>	<u>17,879</u>	<u>397,000</u>	<u>3,167,704</u>	<u>6,835,299</u>
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 cash 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>

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	481,500	228,337
Adjustments for:		
Depreciation	26,724	27,353
Release of prepaid lease payments for land	33	32
Net loss (gain) on disposal of property and equipment	11	(82)
Net gain on disposal of and fair value adjustments on investment properties	(5,863)	(6,630)
Net gain on disposal of available-for-sale securities	(7)	-
Impairment loss on available-for-sale securities	-	1,818
(Reversals) impairment allowances on loans and advances	(76,044)	19,736
Net (gains) losses on hedging instruments	(17,456)	7,601
Fair value adjustment of hedged interest rate risk of subordinated notes	51,606	-
Revaluation gain on available-for-sale securities attributable to hedged risk	(10,617)	(7,363)
Dividend income from investments	(4,341)	(4,617)
Share of profits of jointly controlled entities	(13,638)	(2,883)
Interest income from available-for-sale securities and held-to-maturity securities	(116,364)	(174,721)
Interest expense on loan capital	36,851	6,466
Exchange adjustments	1,671	5,753
Operating cash flows before movements in operating assets and liabilities	354,066	100,800
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	(1,321,161)	1,970,103
Exchange fund bills with original maturity over three months	(100,506)	(138,342)
Placements with banks and other financial institutions with original maturity over three months	300,499	(963,204)
Financial assets at fair value through profit or loss	82,417	(270,874)
Bills receivable	(41,538)	(31,773)
Trade bills	(148,617)	(6,003)
Other advances to customers	(2,494,280)	(2,724,127)
Interest receivable and other accounts	(187,560)	160,851
Advances to banks and other financial institutions	194,192	(399,093)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	324,504	1,066
Financial assets sold under repurchase agreements	524,507	-
Certificates of deposit issued	199,803	-
Deposits from customers	(2,611,713)	(273,395)
Other accounts and accruals	179,021	(18,118)
Derivative financial instruments	17,955	(4,148)
Cash used in operations	(4,728,411)	(2,596,257)
Hong Kong Profits Tax paid	(6,405)	(4,998)
Overseas tax paid	(1,593)	(570)
NET CASH USED IN OPERATING ACTIVITIES	(4,736,409)	(2,601,825)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Interest received on available-for-sale securities and held-to-maturity securities	109,390	172,549
Dividends received on investments	4,341	4,617
Dividends received from jointly controlled entities	1,050	1,680
Purchase of available-for-sale securities	(154,711)	(150,286)
Purchase of held-to-maturity securities	(2,977,545)	(18,478,973)
Purchase of property and equipment	(10,516)	(10,096)
Proceeds from sale and redemption of available-for-sale securities	52	–
Proceeds from redemption of held-to-maturity securities	4,748,333	19,499,052
Proceeds from disposals of property and equipment	–	125
Proceeds from disposal of an investment property	–	635
NET CASH GENERATED FROM INVESTING ACTIVITIES	1,720,394	1,039,303
FINANCING ACTIVITIES		
Interest paid on loan capital	(18,870)	(5,978)
Repurchase of loan capital	(66,936)	–
Dividends paid	(152,250)	(87,000)
NET CASH USED IN FINANCING ACTIVITIES	(238,056)	(92,978)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,254,071)	(1,655,500)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	17,025,454	11,074,304
CASH AND CASH EQUIVALENTS AT 30 JUNE	13,771,383	9,418,804
Represented by:		
Cash and balances with banks and other financial institutions	4,424,490	9,461,679
Money at call and short notice	11,908,960	2,498,001
Exchange fund bills	648,463	555,634
Placements with banks and other financial institutions maturing between one and twelve months	1,770,814	3,707,638
Deposits and balances of banks and other financial institutions	(1,718,638)	(2,332,547)
Less: Amounts with original maturity over three months	(3,262,706)	(4,471,601)
	13,771,383	9,418,804

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 (the “Listing Rules”) 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 and method of computation adopted in the 2010 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 2011. The application of the new or revised HKFRSs has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

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

HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets ¹
HKFRS 9	Financial instruments ²
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²
HKAS 1 (as revised in 2011)	Presentation of financial statements ⁴
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets ³
HKAS 19 (as revised in 2011)	Employment benefits ²
HKAS 27 (as revised in 2011)	Separate financial statements ²
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2012.

⁴ Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 “Financial instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is considering the implications of HKFRS 9, the impact on the Group and the timing of its adoption by the Group.

2. PRINCIPAL ACCOUNTING POLICIES - continued

The amendments to HKAS 12 titled “Deferred tax: Recovery of underlying assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The board of directors anticipates that the application of the amendments to HKAS 12 may have an impact on deferred tax recognised for investment properties that are measured using the fair value model. As at 30 June 2011, the Group’s carrying amounts of deferred tax liabilities arising from the investment properties which have been considered as recovered through use is HK\$12,344,000 (31 December 2010: HK\$11,191,000). The board of directors considers that, if the Group and the Bank have early applied the amendments to HKAS 12, the deferred tax liabilities arising from the investment properties may be reduced.

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (1) power over an investee, (2) exposure, or rights, to variable returns from its involvement with the investee, and (3) ability to use its power over investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall the application of HKFRS requires a lot of judgment.

HKFRS 11 replaces HKAS 31 “Interests in Joint Ventures”. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties’ rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: joint controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entries under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

The management of the Bank anticipates that the application of the other new and revised Standards or Interpretations will have no material impact on the consolidated financial statements.

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.

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 2011

	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	359,703	263,577	1,602	-	624,882	-	624,882
Interest expense to external customers	(181,651)	(56,571)	-	-	(238,222)	-	(238,222)
Inter-segment interest income (Note)	65,742	-	-	-	65,742	(65,742)	-
Inter-segment interest expense (Note)	-	(65,742)	-	-	(65,742)	65,742	-
Net interest income	243,794	141,264	1,602	-	386,660	-	386,660
Fees and commission income	59,424	-	82,168	-	141,592	-	141,592
Fees and commission expense	(27,596)	-	(296)	-	(27,892)	-	(27,892)
Net gain (losses) on financial assets							
at fair value through profit or loss	116	(24,727)	-	(50)	(24,661)	-	(24,661)
Net losses on fair value hedge	-	(23,533)	-	-	(23,533)	-	(23,533)
Other operating income (expenses)	274,578	35,099	(2)	15,544	325,219	-	325,219
Segment revenue							
- total operating income	550,316	128,103	83,472	15,494	777,385	-	777,385
Comprising:							
- segment revenue from external customers	484,574	193,845	83,472	15,494			
- inter-segment transactions	65,742	(65,742)	-	-			
Operating expenses	(242,867)	(14,622)	(35,067)	(4,663)	(297,219)	-	(297,219)
Impairment allowances on loans and advances	76,044	-	-	-	76,044	-	76,044
Net loss on disposal of property and equipment	(11)	-	-	-	(11)	-	(11)
Net gain on disposal of available-for-sale securities	-	-	-	7	7	-	7
Net gain on disposal of and fair value adjustments on investment properties	-	-	-	5,863	5,863	-	5,863
Segment profit	383,482	113,481	48,405	16,701	562,069	-	562,069
Unallocated expenses							(94,207)
Share of profits of jointly controlled entities							13,638
Profit before taxation							481,500

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 2011

3. SEGMENT INFORMATION – continued

As at 30 June 2011

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets	46,148,536	26,262,928	290,065	425,519	73,127,048
Interests in jointly controlled entities					149,388
Unallocated assets					303,288
Consolidated total assets					73,579,724
Segment liabilities	61,143,900	5,117,892	224,182	47,566	66,533,540
Unallocated liabilities					210,885
Consolidated total liabilities					66,744,425

Other information

Six months ended 30 June 2011

	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	5,771	407	162	35	6,375	4,141	10,516
Depreciation	15,135	794	2,892	55	18,876	7,848	26,724
Release of prepaid lease payments for land	33	-	-	-	33	-	33

3. SEGMENT INFORMATION – continued
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 gains (losses) on financial assets at fair value through profit or loss	206	(5,048)	-	(190)	(5,032)	-	(5,032)
Net losses on fair value hedge	-	(238)	-	-	(238)	-	(238)
Other operating income	36,992	19,314	-	17,036	73,342	-	73,342
Segment revenue							
- total operating income	304,374	184,338	83,715	16,846	589,273	-	589,273
Comprising:							
- segment revenue from external customers	245,192	243,520	83,715	16,846			
- inter-segment transactions	59,182	(59,182)	-	-			
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. SEGMENT INFORMATION – continued

As at 31 December 2010

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment assets	50,693,796	22,512,224	223,495	423,685	73,853,200
Interests in jointly controlled entities					136,919
Unallocated assets					298,894
Consolidated total assets					<u>74,289,013</u>
Segment liabilities	63,652,994	3,730,762	131,636	47,437	67,562,829
Unallocated liabilities					148,255
Consolidated total liabilities					<u>67,711,084</u>

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>

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.

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 subsidiaries responsible for reporting the results or booking the assets.

	Six months ended 30 June 2011		As at 30 June 2011			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	759,127	472,793	71,831,985	65,817,416	17,186,457	10,277
Macau and Shantou	11,715	5,132	1,201,441	828,215	212,775	151
America	6,543	3,575	546,298	98,794	40,154	88
Total	<u>777,385</u>	<u>481,500</u>	<u>73,579,724</u>	<u>66,744,425</u>	<u>17,439,386</u>	<u>10,516</u>

	Six months ended 30 June 2010		As at 31 December 2010			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	575,000	222,778	72,771,971	66,984,755	17,682,021	20,959
Macau and Shantou	7,526	1,605	974,891	607,733	198,247	1,166
America	6,747	3,954	542,151	118,596	42,253	37
Total	<u>589,273</u>	<u>228,337</u>	<u>74,289,013</u>	<u>67,711,084</u>	<u>17,922,521</u>	<u>22,162</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

4. NET INTEREST INCOME

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Interest income		
Short-term funds and placements	116,796	64,252
Investments in securities	135,838	171,824
Loans and advances	349,031	318,750
Interest rate swap	23,217	3,367
	<u>624,882</u>	<u>558,193</u>
Interest expense		
Deposits and balances from banks, other financial institutions and customers	(186,311)	(138,364)
Financial assets sold under repurchase agreements	(852)	-
Interest rate swaps	(14,200)	(1,895)
Certificates of deposit in issue	(8)	-
Loan capital in issue	(36,851)	(6,466)
	<u>(238,222)</u>	<u>(146,725)</u>
Net interest income	<u>386,660</u>	<u>411,468</u>
Included within interest income		
Interest income on impaired loans and advances	<u>243</u>	<u>415</u>

Included within interest income and interest expense are HK\$582,191,000 (2010: HK\$554,084,000) and HK\$224,022,000 (2010: HK\$144,830,000) 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	
	2011	2010
	HK\$'000	HK\$'000
Fee and commission income		
Securities dealings	82,168	83,261
Credit lines	6,359	6,170
Trade finance	5,440	4,890
Credit card services	30,208	25,901
Agency services	11,390	8,532
Others	6,027	5,161
Total fee and commission income	<u>141,592</u>	<u>133,915</u>
Less: Fee and commission expense	<u>(27,892)</u>	<u>(24,182)</u>
Net fee and commission income	<u>113,700</u>	<u>109,733</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

6. NET LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS / NET LOSSES ON FAIR VALUE HEDGE

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Net losses on financial assets at fair value through profit or loss		
- designated at fair value through profit or loss	(24,694)	(5,049)
- held for trading	33	17
	<u>(24,661)</u>	<u>(5,032)</u>
Net losses on fair value hedge		
- net (losses) gains on hedged items attributable to the hedged risk	(40,989)	7,363
- net gains (losses) on hedging instruments	17,456	(7,601)
	<u>(23,533)</u>	<u>(238)</u>

7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Dividend income	4,341	4,617
- Listed investments	2,341	2,337
- Unlisted investments	2,000	2,280
Net gains on dealing in foreign currencies	35,099	19,314
Net rental income	6,598	6,583
- Gross rents from properties	7,094	7,024
- Less: Outgoings	(496)	(441)
Safe deposit box rentals	14,889	12,233
Insurance underwriting profit	4,605	5,855
Other banking services income	22,664	22,571
Recovery of amounts previously written-off in relation to Minibonds Repurchase Scheme (Note)	234,632	-
Others	2,391	2,169
	<u>325,219</u>	<u>73,342</u>

Note: The Bank announced on 28 March 2011 that it has entered into an agreement ("Agreement") with the Lehman Brothers, the trustee and the receiver for the Lehman Brothers Minibonds ("Minibonds"), and fifteen other distributing banks in relation to the recovery of the Minibonds underlying collateral ("Collateral"). Pursuant to the Agreement, the Bank received recoveries of amounts previously written-off amounting to HK\$234,632,000 from the Collateral during the period, net of an ex-gratia payment to customers who held the Minibonds.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

8. OPERATING EXPENSES

	Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Auditor's remuneration	1,901	1,850
Staff costs:		
Salaries and other costs	198,011	189,673
Retirement benefits scheme contributions	13,983	10,721
Total staff costs	211,994	200,394
Depreciation	26,724	27,353
Release of prepaid lease payments for land	33	32
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
Rentals and rates for premises	23,182	21,634
Others	8,892	9,305
Other operating expenses	118,700	88,409
	<u>391,426</u>	<u>348,977</u>

9. IMPAIRMENT LOSS ON GOODWILL

For the six-month period ended 30 June 2011, 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 an average growth rate of 4% (2010: 4%) in revenues and selection of discount rates of 12% (2010: 12%).

The management of the Group determines that there is no impairment loss on the goodwill for the six-month period ended 30 June 2011 and 30 June 2010.

10. TAXATION

Hong Kong Profits Tax is calculated at 16.5% (2010: 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\$408,981,000 (2010: HK\$193,392,000) and on 435,000,000 (2010: 435,000,000) ordinary shares in issue during the period.

The Group has no potential ordinary shares in issue during both periods.

12. DIVIDENDS

On 30 April 2011, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final cash dividend for 2010.

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

Subsequent to the end of the interim period, the board of directors has declared that a total amount of interim cash dividend in respect of the financial year ending 31 December 2011 of HK\$65,250,000 (2010: HK\$43,500,000) at a rate of HK\$0.15 (2010: HK\$0.10) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 22 September 2011.

13. CASH AND SHORT-TERM FUNDS

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	4,424,490	11,677,098
Money at call and short notice	11,908,960	6,024,310
Exchange fund bills	648,463	547,957
	<u>16,981,913</u>	<u>18,249,365</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2011		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading:			
- Foreign currency related contracts	780,902	1,174	7,415
- Interest rate swaps	1,165,678	6,107	163,697
Derivatives held for hedging:			
Derivatives designated as hedging instruments in fair value hedges:			
- Interest rate swaps	2,622,534	8,478	77,536
- Cross-currency interest rate swaps	233,306	179	3,673
		<u>15,938</u>	<u>252,321</u>

	31 December 2010		
	Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading:			
- Foreign currency related contracts	537,681	247	6,603
- Interest rate swaps	1,343,081	2,610	142,130
Derivatives held for hedging:			
Derivatives designated as hedging instruments in fair value hedges:			
- Interest rate swaps	2,467,306	15,033	104,887
- Cross-currency interest rate swaps	233,306	2,652	2,806
		<u>20,542</u>	<u>256,426</u>

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
30 June 2011					
Equity securities:					
Listed in Hong Kong	272	-	187,820	-	188,092
Listed overseas	-	-	10,169	-	10,169
	<u>272</u>	<u>-</u>	<u>197,989</u>	<u>-</u>	<u>198,261</u>
Unlisted	-	-	33,064	-	33,064
	<u>272</u>	<u>-</u>	<u>231,053</u>	<u>-</u>	<u>231,325</u>
Debt securities:					
Certificates of deposit	-	-	-	1,104,078	1,104,078
Structured products	-	1,691,764	-	-	1,691,764
Other debt securities - Unlisted	-	-	1,145,020	8,003,180	9,148,200
	<u>-</u>	<u>1,691,764</u>	<u>1,145,020</u>	<u>9,107,258</u>	<u>11,944,042</u>
Total:					
Listed in Hong Kong	272	-	187,820	-	188,092
Listed overseas	-	-	10,169	-	10,169
Unlisted	-	1,691,764	1,178,084	9,107,258	11,977,106
	<u>272</u>	<u>1,691,764</u>	<u>1,376,073</u>	<u>9,107,258</u>	<u>12,175,367</u>
Market value of listed securities:					
Listed in Hong Kong	272	-	187,820	-	188,092
Listed overseas	-	-	10,169	-	10,169
	<u>272</u>	<u>-</u>	<u>197,989</u>	<u>-</u>	<u>198,261</u>
As analysed by issuing entities:					
Central government and central banks	-	-	-	132,021	132,021
Public sector entities	-	-	56,932	95,116	152,048
Banks and other financial institutions	31	455,131	287,970	7,451,430	8,194,562
Corporate entities	241	1,236,633	1,026,600	1,428,691	3,692,165
Others	-	-	4,571	-	4,571
	<u>272</u>	<u>1,691,764</u>	<u>1,376,073</u>	<u>9,107,258</u>	<u>12,175,367</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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	
31 December 2010					
Equity securities:					
Listed in Hong Kong	573	–	184,800	–	185,373
Listed overseas	–	–	10,471	–	10,471
	<u>573</u>	<u>–</u>	<u>195,271</u>	<u>–</u>	<u>195,844</u>
Unlisted	–	–	35,563	–	35,563
	<u>573</u>	<u>–</u>	<u>230,834</u>	<u>–</u>	<u>231,407</u>
Debt securities:					
Certificates of deposit	–	–	–	917,838	917,838
Structured products	–	1,773,880	–	–	1,773,880
Other debt securities - Unlisted	–	–	981,594	9,960,208	10,941,802
	<u>–</u>	<u>1,773,880</u>	<u>981,594</u>	<u>10,878,046</u>	<u>13,633,520</u>
Total:					
Listed in Hong Kong	573	–	184,800	–	185,373
Listed overseas	–	–	10,471	–	10,471
Unlisted	–	1,773,880	1,017,157	10,878,046	13,669,083
	<u>573</u>	<u>1,773,880</u>	<u>1,212,428</u>	<u>10,878,046</u>	<u>13,864,927</u>
Market value of listed securities:					
Listed in Hong Kong	573	–	184,800	–	185,373
Listed overseas	–	–	10,471	–	10,471
	<u>573</u>	<u>–</u>	<u>195,271</u>	<u>–</u>	<u>195,844</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	142,902	142,902
Public sector entities	–	–	56,267	93,779	150,046
Banks and other financial institutions	250	305,385	281,434	9,011,811	9,598,880
Corporate entities	323	1,468,495	867,656	1,629,554	3,966,028
Others	–	–	7,071	–	7,071
	<u>573</u>	<u>1,773,880</u>	<u>1,212,428</u>	<u>10,878,046</u>	<u>13,864,927</u>

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\$116,699,000 (31 December 2010: HK\$116,718,000). Impairment losses of approximately HK\$115,700,000 (31 December 2010: HK\$116,561,000) has been recognised for these investments.

Unlisted equity securities classified as available-for-sale amounting to approximately HK\$32,974,000 (31 December 2010: HK\$32,974,000) are measured at cost less impairment because their fair value cannot be reliably measured.

15. INVESTMENTS IN SECURITIES – continued

The fair value of held-to-maturity securities as at 30 June 2011 amounted to approximately HK\$9,115,272,000 (31 December 2010: HK\$10,934,849,000). Debt securities classified as held-to-maturity amounted to approximately HK\$132,021,000 (31 December 2010: HK\$142,902,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of People’s Republic of China.

Certain held-to-maturity certificates of deposit of approximately HK\$15,564,000 (31 December 2010: HK\$15,567,000) 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.

16. ADVANCES AND OTHER ACCOUNTS

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
Advances to customers		
Bills receivable	406,163	364,625
Trade bills	291,096	142,479
Other advances to customers	40,028,754	37,420,575
	40,726,013	37,927,679
Interest receivable	154,856	127,602
Impairment allowances		
- Individually assessed	(50,260)	(21,564)
- Collectively assessed	(134,277)	(125,089)
	40,696,332	37,908,628
Advances to banks and other financial institutions	435,570	629,762
	41,131,902	38,538,390
Other accounts	464,710	297,430
	41,596,612	38,835,820

Included in the “Advances to banks and other financial institutions” of the Group of HK\$145,334,000 (31 December 2010: HK\$104,862,000) 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”.

Other accounts as at 30 June 2011 included a reversal on advances amounting to HK\$109,000,000 that was written-off in previous years, the amount was received subsequent to the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

16. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
Gross impaired loans	85,228	35,610
Less: Impairment allowances under individual assessment	<u>(50,260)</u>	<u>(21,564)</u>
Net impaired loans	<u>34,968</u>	<u>14,046</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.21%</u>	<u>0.09%</u>
Market value of collateral pledged	<u>137,129</u>	<u>84,804</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.

17. INVESTMENT PROPERTIES

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
At 1 January	116,400	103,199
Disposals	-	(1,060)
Net increase in fair value recognised in the condensed consolidated income statement	5,863	12,765
Exchange difference	<u>772</u>	<u>1,496</u>
At 30 June / 31 December	<u>123,035</u>	<u>116,400</u>

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Net gain on disposal of investment properties	-	3,130
Net gain on fair value adjustments on investment properties	<u>5,863</u>	<u>3,500</u>
	<u>5,863</u>	<u>6,630</u>

Investment properties owned by the Group were revalued on 30 June 2011 on an open market value basis by Vigers Hong Kong Limited, independent professional 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 2011

18. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2011	396,264	316,663	515,369	1,228,296
Additions	-	-	10,516	10,516
Disposals	-	-	(8,148)	(8,148)
Exchange adjustments	-	-	91	91
At 30 June 2011	<u>396,264</u>	<u>316,663</u>	<u>517,828</u>	<u>1,230,755</u>
ACCUMULATED DEPRECIATION				
At 1 January 2011	83,303	47,266	367,956	498,525
Depreciation	3,003	3,183	20,538	26,724
Eliminated on disposals	-	-	(8,137)	(8,137)
Exchange adjustments	-	-	58	58
At 30 June 2011	<u>86,306</u>	<u>50,449</u>	<u>380,415</u>	<u>517,170</u>
CARRYING AMOUNTS				
At 30 June 2011	<u>309,958</u>	<u>266,214</u>	<u>137,413</u>	<u>713,585</u>

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2010	396,264	316,663	498,720	1,211,647
Additions	-	-	22,162	22,162
Disposals	-	-	(5,876)	(5,876)
Exchange adjustments	-	-	363	363
At 31 December 2010	<u>396,264</u>	<u>316,663</u>	<u>515,369</u>	<u>1,228,296</u>
ACCUMULATED DEPRECIATION				
At 1 January 2010	77,295	40,746	330,949	448,990
Depreciation	6,008	6,634	42,475	55,117
Eliminated on disposals	-	-	(5,672)	(5,672)
Exchange adjustments	-	(114)	204	90
At 31 December 2010	<u>83,303</u>	<u>47,266</u>	<u>367,956</u>	<u>498,525</u>
CARRYING AMOUNTS				
At 31 December 2010	<u>312,961</u>	<u>269,397</u>	<u>147,413</u>	<u>729,771</u>

19. PREPAID LEASE PAYMENTS FOR LAND

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,466</u>	<u>2,535</u>
Net book value at 1 January	<u>2,535</u>	2,564
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	<u>(36)</u>	37
Net book value at 31 December	<u>2,466</u>	<u>2,535</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,400</u>	<u>2,469</u>
Total	<u>2,466</u>	<u>2,535</u>

20. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Analysed by collateral type:		
Debt securities classified as available-for-sale	<u>524,507</u>	<u>–</u>

21. DEPOSITS FROM CUSTOMERS

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Demand deposits and current accounts	4,722,071	4,389,690
Savings deposits	19,046,853	20,568,661
Time, call and notice deposits	<u>37,119,582</u>	<u>38,541,868</u>
	<u>60,888,506</u>	<u>63,500,219</u>

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FOR THE SIX MONTHS ENDED 30 JUNE 2011

22. LOAN CAPITAL

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
US\$91.9 million (2010: US\$100.5 million) callable floating rate subordinated notes due 2016 (Note (a))	714,801	781,372
US\$225 million fixed rate subordinated notes due 2020 under fair value hedge (after adjustment of hedge interest rate risk) (Note (b))	1,671,913	1,619,779
	<u>2,386,714</u>	<u>2,401,151</u>

Notes:

(a) This represented subordinated notes qualifying as tier 2 capital issued on 15 December 2006.

The notes will mature on 16 December 2016 and are redeemable at the option of the Group in December 2011 at their principal amount. The notes bear interest at the rate of three months 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 months LIBOR plus 1.93%, payable quarterly.

During the six months ended 30 June 2011, the Bank repurchased a portion of the notes with a total principal amount of US\$8,600,000 (during the year ended 31 December 2010: US\$24,500,000). Such repurchased notes were cancelled after receiving prior approval of the Hong Kong Monetary Authority (the "HKMA"). At 30 June 2011, the remaining outstanding principal amount of the notes is US\$91.9 million (31 December 2010: US\$100.5 million).

(b) This represented subordinated notes qualifying as tier 2 capital with face value of US\$225,000,000 listed on 5 November 2010. The notes will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the notes is no longer fully qualified as term subordinated debts for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the notes by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the notes shall thereafter constitute unsubordinated obligations and the rate of interest on the notes shall be reduced from 6% per annum to 5.5% per annum.

23. CERTIFICATES OF DEPOSIT ISSUED

On 22 June 2011, the Bank issued certificates of deposit which will be matured on 29 June 2012 and the interest rate is 1.2% per annum.

24. 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 2011	13,302	(20,031)	11,191	15,895	20,357
(Credit) charge to consolidated income statement for the period	(411)	(1,548)	1,153	-	(806)
Charge to other comprehensive income for the period	-	-	-	382	382
At 30 June 2011	<u>12,891</u>	<u>(21,579)</u>	<u>12,344</u>	<u>16,277</u>	<u>19,933</u>
At 1 January 2010	15,533	(19,645)	8,919	6,965	11,772
(Credit) charge to consolidated income statement for the year	(2,231)	(386)	2,272	-	(345)
Charge to other comprehensive income for the year	-	-	-	8,930	8,930
At 31 December 2010	<u>13,302</u>	<u>(20,031)</u>	<u>11,191</u>	<u>15,895</u>	<u>20,357</u>

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25. 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	Past due / Undated HK\$'000	Total HK\$'000
At 30 June 2011								
Assets								
Cash and short-term funds	3,803,446	12,209,014	898,552	70,901	-	-	-	16,981,913
Placements with banks and other financial institutions	-	-	1,529,294	241,520	-	-	-	1,770,814
Derivative financial instruments	-	-	326	848	10,670	4,094	-	15,938
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	272	272
- Designated at fair value	-	-	-	328,141	1,363,623	-	-	1,691,764
Available-for-sale securities	-	-	-	39,054	993,811	112,155	231,053	1,376,073
Held-to-maturity securities	-	555,845	1,062,047	2,071,105	5,174,408	243,853	-	9,107,258
Advances to customers	1,849,681	3,761,656	2,677,806	6,357,447	13,434,056	11,159,898	1,485,469	40,726,013
Advances to banks and other financial institutions	9,640	90,584	38,265	297,081	-	-	-	435,570
Other assets	286,581	193,234	68,139	64,567	872	-	860,716	1,474,109
Total assets	5,949,348	16,810,333	6,274,429	9,470,664	20,977,440	11,520,000	2,577,510	73,579,724
Liabilities								
Deposits and balances of banks and other financial institutions	14,295	1,336,458	367,885	-	-	-	-	1,718,638
Financial assets sold under repurchase agreements	-	241,242	-	283,265	-	-	-	524,507
Deposits from customers	23,788,433	22,427,696	10,405,614	4,248,074	18,689	-	-	60,888,506
Certificates of deposit issued	-	-	-	199,803	-	-	-	199,803
Derivative financial instruments	-	2,191	155	58,288	123,630	68,057	-	252,321
Loan capital	-	-	-	-	-	2,386,714	-	2,386,714
Other liabilities	467,900	43,871	44,145	182,842	35,178	-	-	773,936
Total liabilities	24,270,628	24,051,458	10,817,799	4,972,272	177,497	2,454,771	-	66,744,425
Net position - total assets and liabilities	<u>(18,321,280)</u>	<u>(7,241,125)</u>	<u>(4,543,370)</u>	<u>4,498,392</u>	<u>20,799,943</u>	<u>9,065,229</u>	<u>2,577,510</u>	<u>6,835,299</u>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	99,993	315,782	27,604	660,699	-	-	1,104,078
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	328,141	1,363,623	-	-	1,691,764
Available-for-sale securities	-	-	-	39,054	993,812	112,154	-	1,145,020
Held-to-maturity securities	-	555,845	1,062,047	2,071,105	5,174,408	243,853	-	9,107,258
	-	555,845	1,062,047	2,438,300	7,531,843	356,007	-	11,944,042

25. 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	Past due / Undated HK\$'000	Total HK\$'000
At 31 December 2010								
Assets								
Cash and short-term funds	11,534,709	6,044,642	602,956	67,058	-	-	-	18,249,365
Placements with banks and other financial institutions	-	-	1,063,271	1,218,851	-	-	-	2,282,122
Derivative financial instruments	-	41	166	17	13,181	7,137	-	20,542
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	573	573
- Designated at fair value	-	-	-	309,808	1,310,741	153,331	-	1,773,880
Available-for-sale securities	-	-	-	38,581	828,393	114,620	230,834	1,212,428
Held-to-maturity securities	-	335,019	729,502	3,600,365	6,211,160	2,000	-	10,878,046
Advances to customers	1,803,197	3,748,913	2,390,371	6,415,681	12,761,926	10,632,459	175,132	37,927,679
Advances to banks and other assets financial institutions	14,894	362,679	240,621	11,568	-	-	-	629,762
Other assets	243,755	93,273	29,431	50,399	866	-	896,892	1,314,616
Total assets	13,596,555	10,584,567	5,056,318	11,712,328	21,126,267	10,909,547	1,303,431	74,289,013
Liabilities								
Deposits and balances of banks and other financial institutions	17,850	995,465	26,676	-	-	-	-	1,039,991
Deposits from customers	24,974,680	26,541,874	8,117,105	3,844,185	15,316	-	7,059	63,500,219
Derivative financial instruments	-	203	298	33,305	124,556	98,064	-	256,426
Loan capital	-	-	-	-	-	2,401,151	-	2,401,151
Other liabilities	299,067	39,248	22,053	114,053	38,876	-	-	513,297
Total liabilities	25,291,597	27,576,790	8,166,132	3,991,543	178,748	2,499,215	7,059	67,711,084
Net position - total assets and liabilities	(11,695,042)	(16,992,223)	(3,109,814)	7,720,785	20,947,519	8,410,332	1,296,372	6,577,929
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	360,000	115,502	442,336	-	-	917,838
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	309,808	1,310,741	153,331	-	1,773,880
Available-for-sale securities	-	-	-	38,581	828,393	114,620	-	981,594
Held-to-maturity securities	-	335,019	729,502	3,600,365	6,211,160	2,000	-	10,878,046
	-	335,019	729,502	3,948,754	8,350,294	269,951	-	13,633,520

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26. 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 2011	30 June 2010	30 June 2011	30 June 2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Group	<u>3,867</u>	<u>3,867</u>	<u>12,620</u>	<u>11,530</u>
Jointly controlled entities	<u>8,257</u>	<u>5,875</u>	<u>1,466</u>	<u>1,135</u>
Directors of the Bank and their associates	<u>2,926</u>	<u>2,449</u>	<u>2,663</u>	<u>2,138</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 2011	31 December 2010	30 June 2011	31 December 2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Group	<u>-</u>	<u>-</u>	<u>154,105</u>	<u>142,239</u>
Jointly controlled entities	<u>41,409</u>	<u>43,552</u>	<u>36,433</u>	<u>128,358</u>
Directors of the Bank and their associates	<u>790,037</u>	<u>767,225</u>	<u>507,908</u>	<u>615,771</u>

Compensation of key management personnel

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Short term benefits	<u>28,304</u>	<u>24,949</u>
Post employment benefits	<u>2,117</u>	<u>1,757</u>
	<u>30,421</u>	<u>26,706</u>

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

27. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Liu Chong Hing Banking Corporation, Cayman - in dissolution*

Right Way Investments Limited

** Dissolved on 6 July 2011.*

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 2011				
	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	2,015,798	3,305	-	396,507	-
- Property investment	8,138,283	-	2,120	7,770,260	1,773
- Financial concerns	2,581,930	-	-	1,635,590	-
- Stockbrokers	1,192,712	358	-	1,028,732	-
- Wholesale and retail trade	1,578,264	-	10,721	798,285	15,660
- Manufacturing	1,675,826	2,822	10,788	803,113	10,789
- Transport and transport equipment	954,377	-	1	424,322	1
- Recreational activities	1,020	4	-	1,020	-
- Information technology	405	41	-	162	-
- Others	7,882,876	24,605	6,368	3,430,290	28,205
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	567,735	-	6	567,729	6
- Loans for the purchase of other residential properties	6,289,160	334	-	6,286,148	-
- Credit card advances	69,058	2,079	257	2,575	333
- Others	1,664,678	542	6,313	1,326,021	10,480
	<u>34,612,122</u>	<u>34,090</u>	<u>36,574</u>	<u>24,470,754</u>	<u>67,247</u>
Trade finance	1,104,967	25,679	10,698	338,614	14,954
Loans for use outside Hong Kong	5,008,924	74,508	2,988	2,319,475	3,027
	<u>40,726,013</u>	<u>134,277</u>	<u>50,260</u>	<u>27,128,843</u>	<u>85,228</u>

1. Advances to customers - by industry sectors – continued

	31 December 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	1,554,102	3,870	-	403,798	-
- Property investment	8,125,124	-	1,179	7,481,839	1,773
- Financial concerns	2,256,049	3	-	1,406,878	-
- Stockbrokers	775,702	252	-	650,776	-
- Wholesale and retail trade	1,168,289	-	1,096	787,384	1,277
- Manufacturing	1,374,929	3,036	7,983	645,491	12,611
- Transport and transport equipment	1,118,264	-	-	318,203	-
- Recreational activities	1,078	4	-	846	-
- Information technology	359	38	-	123	-
- Others	8,020,036	25,876	2,221	3,503,235	3,339
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	589,467	-	6	589,467	6
- Loans for the purchase of other residential properties	6,199,566	386	-	6,199,458	-
- Credit card advances	102,259	2,075	136	-	175
- Others	1,279,645	-	54	1,203,997	55
	<u>32,564,869</u>	<u>35,540</u>	<u>12,675</u>	<u>23,191,495</u>	<u>19,236</u>
Trade finance	850,888	19,567	7,776	302,162	13,182
Loans for use outside Hong Kong	<u>4,511,922</u>	<u>69,982</u>	<u>1,113</u>	<u>2,037,889</u>	<u>3,192</u>
	<u><u>37,927,679</u></u>	<u><u>125,089</u></u>	<u><u>21,564</u></u>	<u><u>25,531,546</u></u>	<u><u>35,610</u></u>

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 2011 and 2010 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2011		
	Advances overdue for over three months as at 30 June HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during the six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	13,113	10	-
- Others	10,194	8,859	-
Individuals			
- Loans for the purchase of other residential properties	2,730	-	-
Loans for use outside Hong Kong	<u>3,027</u>	<u>1,957</u>	<u>-</u>
	2010		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the six months ended 30 June HK\$'000	Advances written-off during the six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	13,178	10	-
- Others	4,291	62	-
Individuals			
- Loans for the purchase of other residential properties	2,746	104	-
Loans for use outside Hong Kong	<u>3,192</u>	<u>154</u>	<u>-</u>

2. Advances to customers - by geographical areas

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

	30 June 2011				
	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	39,249,784	193,054	82,201	49,147	124,678
People's Republic of China	372,009	3,027	3,027	1,113	3,430
Macau	127,565	-	-	-	722
America	410,253	-	-	-	5,447
Others	566,402	-	-	-	-
	<u>40,726,013</u>	<u>196,081</u>	<u>85,228</u>	<u>50,260</u>	<u>134,277</u>

	31 December 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	36,379,383	61,482	32,418	20,451	115,968
People's Republic of China	344,543	3,192	3,192	1,113	2,964
Macau	133,795	-	-	-	709
America	426,380	-	-	-	5,448
Others	643,578	-	-	-	-
	<u>37,927,679</u>	<u>64,674</u>	<u>35,610</u>	<u>21,564</u>	<u>125,089</u>

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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 2011			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	15,039,831	111,541	721,450	15,872,822
- of which - China	8,407,654	51,217	546,307	9,005,178
Western Europe	<u>7,448,268</u>	<u>2,387</u>	<u>181,349</u>	<u>7,632,004</u>
	31 December 2010			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	10,426,222	124,906	715,265	11,266,393
- of which - China	5,735,058	52,049	542,351	6,329,458
- of which - Australia	3,427,563	2,213	-	3,429,776
- of which - Japan	41,879	3,412	3,222	48,513
North America	1,608,580	32,981	1,607,133	3,248,694
Western Europe	7,775,750	2,501	168,397	7,946,648
- of which - United Kingdom	796,862	934	158,662	956,458
- of which - France	<u>3,162,961</u>	<u>-</u>	<u>854</u>	<u>3,163,815</u>

4. Overdue and rescheduled assets

	30 June 2011		31 December 2010	
	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	141,361	0.3	11,704	0.0
- 1 year or less but over 6 months	15,603	0.0	6,224	0.0
- Over 1 year	39,117	0.1	46,746	0.1
Total overdue advances	<u>196,081</u>	<u>0.5</u>	<u>64,674</u>	<u>0.2</u>
Rescheduled advances	<u>250,184</u>	<u>0.6</u>	<u>264,476</u>	<u>0.7</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>36,174</u>		<u>21,499</u>	
Covered portion of overdue loans and advances	169,618		37,472	
Uncovered portion of overdue loans and advances	<u>26,463</u>		<u>27,202</u>	
	<u>196,081</u>		<u>64,674</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>524,907</u>		<u>198,709</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 2011 and 31 December 2010, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 30 June 2011 amounted to HK\$55,000,000 (31 December 2010: HK\$17,004,000).

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

5. Non-bank Mainland exposures

	30 June 2011			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	1,642,935	135,000	1,777,935	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,559,940	949,055	5,508,995	12,588
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	39,645	–	39,645	–
	<u>6,242,520</u>	<u>1,084,055</u>	<u>7,326,575</u>	<u>12,588</u>

	31 December 2010			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	911,503	168,917	1,080,420	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,424,365	1,028,352	4,452,717	10,360
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	16,404	–	16,404	–
	<u>4,352,272</u>	<u>1,197,269</u>	<u>5,549,541</u>	<u>10,360</u>

6. Currency risk

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

	30 June 2011		
	US\$	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	11,653,993	4,847,469	16,501,462
Spot liabilities	(10,836,960)	(4,685,405)	(15,522,365)
Forward purchases	424,124	122,754	546,878
Forward sales	(1,193,751)	(232,327)	(1,426,078)
Net long position	<u>47,406</u>	<u>52,491</u>	<u>99,897</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>105,169</u>	<u>153,714</u>

	31 December 2010		
	RMB	AUD	Total
Equivalent in thousand of HK\$			
Spot assets	2,134,499	3,099,254	5,233,753
Spot liabilities	(2,101,882)	(3,099,460)	(5,201,342)
Forward purchases	12,430	2,382	14,812
Forward sales	–	(20,005)	(20,005)
Net long position	<u>45,047</u>	<u>(17,829)</u>	<u>27,218</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>105,169</u>	<u>153,714</u>

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Contingent liabilities and commitments		
- contractual amounts		
Direct credit substitutes	1,199,353	1,148,074
Trade related contingencies	413,048	361,532
Forward asset purchases	8,612	8,034
Other commitments:		
Which are unconditionally cancellable without prior notice	7,733,519	7,081,907
With an original maturity of one year and under	5,979,821	7,460,718
With an original maturity of over one year	2,105,033	1,862,256
	<u>17,439,386</u>	<u>17,922,521</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 2011		31 December 2010	
	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	2,965,513	N/A	2,971,294
Exchange rate contracts	1,353	9,933	2,899	8,939
Interest rate contracts	14,585	14,183	17,643	13,285
	<u>15,938</u>	<u>2,989,629</u>	<u>20,542</u>	<u>2,993,518</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.

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

Assets pledged

As at 30 June 2011, debt securities which are classified as available for sale with carrying amount of approximately HK\$659,200,000 (31 December 2010: Nil) were pledged under securities sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from end of the reporting period.

8. Capital adequacy ratio and liquidity ratio

	30 June 2011	31 December 2010
	%	%
Capital adequacy ratio	16.94	17.91
Core capital ratio	<u>10.79</u>	<u>11.22</u>
	Six months ended 30 June	
	2011	2010
	%	%
Average liquidity ratio for the period	<u>41.79</u>	<u>45.01</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 operational risk. The capital adequacy ratio is consolidated, under the Capital Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, 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, Right Way Investments Limited and Gallbraith Limited.

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

9. Other financial information

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2011 and 31 December 2010 and reported to the Hong Kong Monetary Authority is analysed as follows:

	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,261,600	3,367,739
Profit and loss account	322,719	(40,632)
Total core capital	5,344,636	5,087,424
Other deductions from core capital	(122,256)	(122,650)
Core capital after deductions	5,222,380	4,964,774
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	5,293	5,293
Collective impairment allowances	134,275	125,075
Regulatory reserve for general banking risks	397,000	331,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	32,253	22,734
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	77,264	79,774
Term subordinated debt	2,449,649	2,515,692
Total supplementary capital	3,095,734	3,079,568
Other deductions from supplementary capital	(122,256)	(122,651)
Supplementary capital after deductions	2,973,478	2,956,917
Total capital base after deductions	8,195,858	7,921,691
Total risk-weighted amount	48,390,987	44,239,387

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.

10. Statement of compliance

In preparing the interim financial information for 2011, 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 fee and commission income and fee and commission expense, other than amounts included in determining the effective interest rate, are HK\$45,143,000 (2010: HK\$39,475,000) and HK\$27,184,000 (2010: HK\$22,666,000) 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.

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 the Group's behalf do not jeopardise its 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 33 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 2011 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 34 “Interim Financial Reporting” (“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

10 August 2011

INTERIM DIVIDEND

The directors have declared an interim cash dividend for 2011 of HK\$0.15 per share, payable on Thursday, 29 September 2011 to shareholders whose names are listed on the register of members of the Bank on Thursday, 22 September 2011 (2010 interim cash dividend: HK\$0.10 per share paid on 30 September 2010).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Tuesday, 20 September 2011 to Thursday, 22 September 2011 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2011 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 Monday, 19 September 2011.

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

The Bank purchased a total nominal amount of US\$8,600,000 of its US\$125,000,000 Floating Rate Subordinated Notes due 2016 in the open market in April and June 2011 for about US\$8,566,000. Save for the above, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2011.

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\$150,000 in 2010 having reference to his position as the Bank's Independent Non-executive Director. Dr Chan's director's fee for 2011 has earlier been changed to HK\$200,000.

Mr CHENG Yuk Wo received an emolument in the form of director's fee amounting to HK\$150,000 in 2010 having reference to his position as the Bank's Independent Non-executive Director with committee responsibilities. Mr Cheng's director's fee for 2011 has earlier been changed to HK\$200,000. Moreover, Mr Cheng has been an Independent Non-executive Director of Top Spring International Holdings Limited since 30 November 2010, which is a public company listed on the HKSE on 23 March 2011.

Mr Wanchai CHIRANAKHORN received an emolument in the form of director's fee amounting to HK\$150,000 in 2010 having reference to his position as the Bank's Independent Non-executive Director with committee responsibilities. Mr Chiranakhorn's director's fee for 2011 has earlier been changed to HK\$200,000.

Mr Alfred Cheuk Yu CHOW received an emolument in the form of director's fee amounting to HK\$150,000 in 2010 having reference to his position as the Bank's Non-executive Director with committee responsibilities. Mr Chow's director's fee for 2011 has earlier been changed to HK\$200,000.

Mr Timothy George FRESHWATER received an emolument package comprising director's fee and other benefits amounting to HK\$230,000 in 2010 having reference to his position as the Bank's Non-executive Director with committee responsibilities. Mr Freshwater's director's fee for 2011 has earlier been changed from HK\$150,000 to HK\$200,000.

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\$2,552,000 in 2010 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 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

Mr Andrew LIU received an emolument package comprising director's fee and other benefits amounting to HK\$129,000 in 2010 having reference to his position as the Bank's Non-executive Director. Mr Liu's director's fee for 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

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\$2,254,000 in 2010 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 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

Mr Christopher Kwun Shing LIU received an emolument in the form of director's fee amounting to HK\$100,000 in 2010 having reference to his position as the Bank's Non-executive Director. Mr Liu's director's fee for 2011 has earlier been changed to HK\$150,000.

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\$5,499,000 in 2010 having reference to his position as the Bank's Managing Director and Chief Executive Officer. Mr Liu's director's fee for 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

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\$671,000 in 2010 having reference to his position as the Bank's Chairman and Executive Director. Dr Liu's director's fee for 2011 has earlier been changed from HK\$150,000 to HK\$250,000.

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\$5,614,000 in 2010 having reference to his position as the Bank's Executive Director and Deputy Chief Executive Officer. Mr Liu's director's fee for 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

Mr Andrew Chiu Cheung MA received an emolument in the form of director's fee amounting to HK\$150,000 in 2010 having reference to his position as the Bank's Independent Non-executive Director. Mr Ma's director's fee for 2011 has earlier been changed to HK\$200,000.

Mr MENG Qinghui received an emolument in the form of director's fee amounting to HK\$100,000 in 2010 having reference to his position as the Bank's Non-executive Director. Mr Meng's director's fee for 2011 has earlier been changed to HK\$150,000. Moreover, Mr Meng resigned as a Non-executive Director of Soundwill Holdings Limited, which is a public company listed on the HKSE, on 26 April 2011.

Mr Hidemitsu OTSUKA received an emolument in the form of director's fee amounting to HK\$39,000 in 2010 having reference to his position as the Bank's Non-executive Director. Mr Otsuka's director's fee for 2011 has earlier been changed to HK\$150,000.

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\$2,362,000 in 2010 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 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

Mr WANG Xiaoming received an emolument in the form of director's fee amounting to HK\$100,000 in 2010 having reference to his position as the Bank's Non-executive Director. Mr Wang's director's fee for 2011 has earlier been changed to HK\$150,000.

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\$2,232,000 in 2010 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 2011 has earlier been changed from HK\$100,000 to HK\$150,000.

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 2011, 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) & (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 2011, 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 2011, 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 2011, 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, in which each of Messrs Liu Lit Mo, Liu Lit Chi and Liu Lit Chung, members of the Liu's family, is deemed under the SFO to be interested through Liu's Holdings Limited.
- (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. By virtue of the respective interests of Messrs Liu Lit Mo, Liu Lit Chi and Liu Lit Chung in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such 40,000,000 shares.

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 2011.

The directors confirm that, for the accounting period for the six months ended 30 June 2011, 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 2011, 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 2011, 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 2011 started off with the Hong Kong economy staying robust. Compared with that of the same period last year, gross domestic product for the first quarter leaped by 7.2% in real terms. Taking the first six months of 2011 together, total retail sales increased by 24.4% in value and 19.1% in volume on the back of rising local consumption demand and tourist spending compared with those of the same period last year. The labour market saw further widespread improvement, with unemployment rate coming down progressively to 3.5%. On the stock market front, Hang Seng Index zigzagged downwards in the wake of challenges in external environment. Subsequent to considerable movements in June, the index closed at 22,398 on the last trading day of the first half of the year, representing a drop of around 3% for the period.

Being the second largest economy in the world, China has been experiencing increasing inflation since 2010. Signs of economic slowdown in the mainland have emerged from the monetary tightening policy with the Central Government fine-tuning its macro economic policy.

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 that the policy of low rate is expected to continue for an extended period. In addition, the FRB would keep on purchasing US Treasury securities with the principal payments from its securities holdings after the completion of the Quantitative Easing 2 exercise as scheduled.

Results Announcement and Profit Analysis

The results for the six months ended 30 June 2011 of the Bank, on an unaudited, consolidated basis, are summarised below:

Key Financial Data	Six months ended 30 June 2011 HK\$'000 (unless otherwise specified)	Six months ended 30 June 2010 HK\$'000 (unless otherwise specified)	Variance %
1. Net operating profit before impairment	385,959	240,296	+60.62
2. Profit attributable to shareholders	408,981	193,392	+111.48
3. Return on equity	12.32%	7.55%	+63.18
	(annualised)	(for Year 2010)	
4. Earnings per share	HK\$0.94	HK\$0.44	+111.48
5. Net interest income	386,660	411,468	-6.03
6. Net interest margin	1.11%	1.25%	-11.20
7. Net fee and commission income	113,700	109,733	+3.62
8. Other operating income	325,219	73,342	+343.43
9. Operating expenses	391,426	348,977	+12.16
10. Cost-to-income ratio	50.35%	59.22%	-14.98
11. Impairment allowances on loans and advances			
- Net (amounts reversed) allowances	(76,044)	19,736	-485.31
12. Total loans and advances to customers	40,726,013	37,927,679	+7.38
		(as of December 2010)	
13. Impaired loan ratio	0.21%	0.09%	+133.33
		(as of December 2010)	
14. Provision coverage of impaired loans and advances	216.52%	411.83%	-47.42
		(as of December 2010)	
15. Rescheduled loan ratio	0.61%	0.70%	-12.86
		(as of December 2010)	
16. Total customer deposits	60,888,506	63,500,219	-4.11
		(as of December 2010)	
17. Loan-to-deposit ratio	60.58%	54.78%	+10.59
		(as of December 2010)	
18. Total assets	73,579,724	74,289,013	-0.95
		(as of December 2010)	
19. Net asset value per share	HK\$15.71	HK\$15.12	+3.91
	(before interim cash dividend)	(before final cash dividend)	
		(as of December 2010)	
20. Capital adequacy ratio	16.94%	17.91%	-5.42
		(as of December 2010)	
21. Core capital ratio	10.79%	11.22%	-3.83
		(as of December 2010)	
22. Average liquidity ratio	41.79%	45.01%	-7.15

Analysis of Key Financial Data

For the first half of 2011, on an unaudited, consolidated basis, net operating profit before impairment amounted to HK\$386 million, an increase of 60.6% or HK\$146 million over that for the corresponding period in previous year. Net interest income decreased by HK\$25 million to HK\$387 million as net interest margin narrowed 14 basis points from 1.25% for the first half of 2010 and 10 basis points from 1.21% for Year 2010 to 1.11%. As the Hong Kong dollar prime rate had not increased and the HIBOR rates increased by around 5 basis points year-on-year, the interest income from the Bank's property-related loans and advances could not be increased by much and yet competitive pricing on time deposits by other banks had caused the interest expense on deposits from customers to increase. The subordinated notes issued in November 2010 contributed to the increase in the interest expense on loan capital in issue and the interest income on interest rate swap, but the Bank had already put in place a portfolio of debt securities which helped to further mitigate the interest expense on the subordinated notes. Securities dealing fees and commission income recorded HK\$82 million, similar to those of the corresponding period in previous year. Net gains on dealing in foreign currencies rose 82% to HK\$35 million as volume of foreign exchange business increased significantly, particularly in the Renminbi exchange business. The recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme was HK\$235 million and was included under other operating income for the first half of 2011. A total amount of HK\$304 million had been incurred as expenses relating to the Lehman Brothers Minibonds Repurchase Scheme in 2009 and 2010, resulting in a net loss to the Bank of HK\$69 million after the recovery of the Lehman Brothers Minibonds collateral, the ex-gratia payment to customers and the obligation under the Expenses Funding Agreement in question. Moreover, subsequent to 30 June 2011, a delinquent borrower agreed to repay a secured loan that was previously written-off by the Bank. An amount of HK\$109 million was recovered by the Bank from the borrower on 28 July 2011. This recovered amount was reflected in the income statement as of 30 June 2011 as a reversal of impairment allowances on loans and advances. On the other fronts, operating expenses increased by HK\$42 million from the corresponding period in previous year as staff costs increased by 6% and the Bank continued to invest in the branch network and develop its wealth management business.

Profit attributable to shareholders amounted to HK\$409 million, an improvement of 111.5% or HK\$216 million over that for the corresponding period in previous year, translating into earnings of HK\$0.94 per share and annualised return on equity of 12.3%. The recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme and the reversal of impairment allowances on loans and advances contributed to the significant improvement in profit attributable to shareholders.

As of 30 June 2011, compared with the figures as of 31 December 2010, total loans and advances to customers increased by 7.4% to HK\$40,726 million. Asset quality of loans and advances continued to be good with impaired loan ratio at 0.21%, provision coverage of impaired loans and advances at 216.52%, and rescheduled loan ratio at 0.61%. In line with development in the banking industry, the Bank increased its level of regulatory reserve by HK\$66 million in the first half of 2011 to HK\$397 million such that the total of regulatory reserve and collectively assessed impairment allowances was 1.3% of total advances to customers in June 2011 and increased from 1.2% in December 2010. Total customer deposits decreased by 4.1% to HK\$60,889 million. Loan-to-deposit ratio increased from 54.78% in December 2010 to 60.58% in June 2011 and average liquidity ratio dropped by 7.2% to 41.8% year-on-year. Capital adequacy ratio eased 5.4% to 16.94% after the increase in loans, and core capital ratio was at 10.79%. Total assets decreased by HK\$709 million to HK\$73,580 million. The Bank's net asset value continued to grow with net asset value per share (before the payment of the interim cash dividend declared for 2011) at HK\$15.71 as of 30 June 2011 which grew by 3.9% and HK\$0.59 from 31 December 2010.

All in all, the Bank's core business lines and overall financial health are sound, its non-performing loan ratio low and asset quality good, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements.

Interim Dividend

Your board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel 3". As such, your board has declared that the interim cash dividend of HK\$0.15 per share for the six months ended 30 June 2011 be payable on Thursday, 29 September 2011 to shareholders whose names appear in the Register of Members of the Bank on Thursday, 22 September 2011 (2010 interim cash dividend: HK\$0.10 per share paid on 30 September 2010).

Certificate of Deposit Programme

Following the Bank's subordinated notes issuance amounting to US\$225 million in November 2010, the Bank established a HK\$10 billion Certificate of Deposit Programme in May 2011. This programme enables the Bank to access longer-term funding from different investor bases in Hong Kong and overseas to facilitate its expansion and asset growth. Under the programme, the Bank can issue fixed rate, floating rate or discount certificates of deposit in major currencies. The Bank will manage the programme in a prudent manner under its risk management framework.

The Bank issued its first certificate of deposit under the above-mentioned programme with a term of one year totalling HK\$200 million in June 2011.

Business Review

Corporate and Retail Banking

Loan and Deposit Business

Against the backdrop of slowing turnover in the property market and rising mortgage rates of banks, the Bank still managed to record growth in the size of loan amounts for the first half of 2011 compared with that of the same period last year. The deposit and retail loan business expanded its customer base by proactively sourcing target customers with good potential for developing banking relationships during the year. In addition, a wide variety of cross-selling promotional campaigns were implemented to boost and reinforce the ties between the Bank and its customers.

As a result of global economic recovery and rate adjustment of banks, the total amounts and interest income arising from the Bank's corporate loans increased by 15% and 9% respectively compared with those of the same period last year. In addition, there was also moderate growth in income of non-interest services. To further foster its loan business growth, after joining the Hong Kong Government's Loan Guarantee Scheme for the small and medium-sized enterprises ("SMEs" collectively and "SME" singly), the Bank also actively participated in the SME Financing Guarantee Scheme launched by The Hong Kong Mortgage Corporation Limited earlier this year.

Furthermore, the Bank has been committed to providing flexible and diversified banking services to SMEs. The Bank's efforts in SME services were highly recognised by the industry as it entered the nomination for, and received, the "Best SME's Partner Award" from the Hong Kong Chamber of Small and Medium Business for the third time.

With the aim of expanding its clientele, the Bank will continue to optimise its corporate loan portfolio and strengthen its cooperation with quality corporate customers in exploring business opportunities in a prudent manner.

Card Business

For the first half of 2011, the Bank recorded an increase in the number of credit cards issued and a satisfactory double-digit growth of merchant-billed turnover compared with those of the same period last year. In December 2010, the Bank launched the Chong Hing China UnionPay Dual Currency Diamond Card. Being the first prestigious China UnionPay credit card launched in Hong Kong, it offered more diversified credit card services to customers and received the "Innovative Award" from China UnionPay.

China Business

The Bank continued to develop its mainland business. In the area of cross-border Renminbi business, the Bank's head office collaborated with its Shantou Branch as well as its fellow banks in completing cross-border Renminbi trade transactions.

Furthermore, the Bank has plans to apply for the establishment of a branch or sub-branch in Guangdong Province to actively support its business development.

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 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.

The Bank has always taken a prudent approach to liquidity management and maintains a relatively high level of liquidity position. The challenge to the Bank in respect of liquidity management is increasing with the introduction of “Basel 3” liquidity management standard and the tightening of monetary policy in China. As a result, the Bank has enhanced its liquidity management by introducing liability products, such as certificate of deposit programme and collateral swap, to tap longer-term funding from the professional markets.

In managing the net interest margin, the Bank has maintained its investments in debt securities to mitigate the stress on interest income because of the low and flattening money market yield curves and the fierce competition for retail deposits.

In the area of the developing Renminbi businesses, the Bank is adopting a prudent and stable approach. The volume in Renminbi exchange business for customers in the first half of 2011 has increased by 174% compared with that of the same period last year. The Bank offers treasury products and services such as interbank fundings, non-deliverable forward contracts, foreign currency swaps and bond investments. In May 2011, the Bank was granted access to the interbank bond market in the mainland by The People's Bank of China for Renminbi bond investment within a prescribed limit, providing a certain value-adding channel for the Renminbi funding of the Bank.

Securities Dealing

In the second quarter of 2011, the Hong Kong stock market's turnover continued to shrink with lukewarm response for the subscription of new stocks because of the tightening of monetary liquidity by the Central Government and the deterioration of European debt crisis. Nevertheless, the wide range of quality securities services, such as “Chong Hing Mobile Securities Services”, offered by Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, is well-received by its customers. Overall, the Bank remains cautiously optimistic about its securities business.

Other Related Businesses

Insurance Business

As Hong Kong's economy continues to improve, Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, recorded double-digit growth in operating results and profit for the first half of 2011. For the rest of the year, Chong Hing Insurance will operate in tandem with the Bank's approach and explore more insurance business opportunities to achieve better performance.

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 expand its service network. On 7 June 2011, Lek Yuen Estate Branch was opened in Shatin to increase the number of local branches to 52 besides the head office in Central.

In addition, the Bank has also actively participated in a number of social improvement and public welfare activities, the Hong Kong Council of Social Service awarded the Bank with the "Caring Company" logo for the fourth year in a row.

Corporate Governance

We are aware 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 are complied with and that a high standard of corporate governance practices is maintained.

Economic Outlook

In view of the lowering the long-term sovereign credit rating on the US, the deteriorating European debt crisis, supply chain disruptions associated with the earthquake and nuclear crisis in Japan, weak labour market indicators and sustained rise in inflation in the US, the US Federal Reserve Board lowered the forecast gross domestic product for the current and the next years with a bearish view on the economic prospects.

On the other hand, during the first half of 2011, The People's Bank of China raised the reserve requirement ratio six times, up to a historic high of 21.5%. Moreover, the National 12th Five-Year Plan (the "Plan") devotes historically a dedicated chapter on Hong Kong and Macau. The Plan serves as a nexus connecting the motherland and Hong Kong and has significant implications for promoting Hong Kong's cooperation with the international community, the mainland, and other regional areas.

Subsequent to the revision of the "Settlement Agreement on the Clearing of Renminbi Businesses" in July 2010, Hong Kong's Renminbi market has been constantly expanding. Total volumes of Renminbi deposits and cross-border trade settlement remittances have been surging each month. Demand for related products and services is fierce. Such developments have a positive impact on the further expansion of Hong Kong's Renminbi offshore businesses, reinforcing the role of Hong Kong as an offshore Renminbi business centre.

In addition, the Hong Kong economy grew steadily in the first half of 2011. Leveraging on the internationalisation of Renminbi and the promising prospects for Renminbi businesses in Hong Kong, not to mention the continuing buoyant local consumption demand and tourist spending contributing to the robust local retail market in particular and the vibrant Hong Kong economy in general, the Bank will continue to seize the moment to further its sustained steady growth through ongoing diversification and enhancement of its products and services.

Sincere Acknowledgements

Last but not least, on behalf of your board, I would like to express my heartfelt gratitude to our many customers and shareholders for their trust and support, and to the management and the staff for their invaluable dedication to the sustained and steady growth of the Bank.

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, 10 August 2011), 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

10 August 2011