



廖創興銀行有限公司

LIU CHONG HING BANK LIMITED

(INCORPORATED IN HONG KONG)

2 0 0 6

INTERIM REPORT

**Registered Office**

Ground Floor, New World Tower 2  
16-18 Queen's Road Central, Hong Kong

Telephone : (852) 2841 7417

Facsimile : (852) 2845 9134

Telex : 75700 LCHB HX

SWIFT BIC : LCHB HK HH

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

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

Condensed Consolidated Income Statement .....	2
Condensed Consolidated Balance Sheet .....	3
Condensed Consolidated Statement of Changes in Equity .....	4
Condensed Consolidated Cash Flow Statement .....	6
Notes .....	8
Supplementary Information .....	17
Independent Review Report .....	25
Compliance with the Supervisory Policy Manual “Interim Financial Disclosure by Locally Incorporated Authorised Institutions” .....	26
Interim Dividend .....	26
Closure of Register of Members .....	26
Purchase, Sale or Redemption of the Bank’s Listed Securities .....	26
Directors’ (including the Chief Executive Officer’s) Interests and Short Positions in Securities .....	27
Substantial Shareholders’ Interests and Short Positions in Securities .....	28
Corporate Governance .....	29
Publication of Results on the Website of The Stock Exchange of Hong Kong Limited .....	29
Review and Prospects .....	30
Review of Interim Financial Report .....	32
Board of Directors .....	32

## CONDENSED CONSOLIDATED INCOME STATEMENT

	6 months ended 30 June 2006 HK\$'000	6 months ended 30 June 2005 HK\$'000
Interest income	1,336,416	668,178
Interest expense	<u>(895,020)</u>	<u>(313,501)</u>
Net interest income	441,396	354,677
Other operating income <i>(Note 4)</i>	<u>137,128</u>	<u>102,498</u>
Operating income	578,524	457,175
Operating expenses <i>(Note 5)</i>	<u>(278,623)</u>	<u>(238,355)</u>
Operating profit before impairment allowances, fair value adjustments and disposal of long term assets	299,901	218,820
Impairment allowances		
– New allowances	<b>(69,544)</b>	(32,209)
– Amounts reversed	<b>31,255</b>	18,440
	<b>(38,289)</b>	(13,769)
Net gain / (loss) on disposal of property and equipment	36	(800)
Net gain on disposal of available-for-sale securities	<u>27,947</u>	<u>22,353</u>
Profit from operations	289,595	226,604
Share of results of jointly controlled entities	<u>6,391</u>	<u>568</u>
Profit before taxation	295,986	227,172
Taxation <i>(Note 6)</i>		
– Hong Kong	<b>(43,563)</b>	(33,704)
– Overseas	<b>81</b>	(177)
– Deferred tax	<b>(3,663)</b>	(1,302)
	<b>(47,145)</b>	(35,183)
Profit for the period	<u>248,841</u>	<u>191,989</u>
Proposed dividend	<u>82,650</u>	<u>78,300</u>
Earnings per share, basic and diluted <i>(Note 7)</i>	<u>HK\$0.57</u>	<u>HK\$0.44</u>
Proposed dividend per share	<u>HK\$0.19</u>	<u>HK\$0.18</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
<b>Assets</b>		
Cash and short-term funds <i>(Note 9)</i>	9,638,463	11,798,479
Placements with banks and other financial institutions maturing between one and twelve months	4,210,999	2,029,416
Financial assets at fair value through profit or loss <i>(Note 10)</i>	533,590	854,767
Available-for-sale securities <i>(Note 10)</i>	915,862	801,769
Held-to-maturity securities <i>(Note 10)</i>	13,001,827	9,192,906
Advances and other accounts <i>(Note 11)</i>	25,761,648	24,508,061
Interests in jointly controlled entities	72,101	65,710
Loan to a jointly controlled entity	31,000	31,000
Investment properties	76,860	76,860
Property and equipment <i>(Note 12)</i>	271,605	196,760
Prepaid lease payments for land	299,412	300,969
Deferred tax assets	2,786	6,449
Goodwill	110,606	110,606
<b>Total assets</b>	<b><u>54,926,759</u></b>	<b><u>49,973,752</u></b>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	736,177	2,263,504
Deposits from customers <i>(Note 13)</i>	47,727,764	41,506,292
Other accounts and accruals	478,461	340,496
Current tax liabilities	60,410	30,324
<b>Total liabilities</b>	<b><u>49,002,812</u></b>	<b><u>44,140,616</u></b>
<b>Shareholders' equity</b>		
Share capital	217,500	217,500
Reserves	5,706,447	5,615,636
Shareholders' funds	5,923,947	5,833,136
<b>Total liabilities and shareholders' equity</b>	<b><u>54,926,759</u></b>	<b><u>49,973,752</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000
At 1 January 2006	217,500	1,542,817	(182)
Revaluation gains of available-for-sale securities	-	-	-
Exchange differences arising from translation of foreign operations	-	-	-
Net income recognised directly in equity	-	-	-
Profit for the period	-	-	-
Reversal of reserves upon disposal of available-for-sale securities	-	-	-
Total recognised income for the period	-	-	-
Final dividend paid	-	-	-
Earmark of retained profits as regulatory reserve	-	-	-
At 30 June 2006	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>
At 1 January 2005	217,500	1,542,817	(182)
Revaluation gains of available-for-sale securities	-	-	-
Exchange differences arising from translation of foreign operations	-	-	-
Net income recognised directly in equity	-	-	-
Profit for the period	-	-	-
Reversal of reserves upon disposal of available-for-sale securities	-	-	-
Total recognised income for the period	-	-	-
Final dividend paid	-	-	-
Earmark of retained profits as regulatory reserve	-	-	-
At 30 June 2005	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</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 prior years' retained profits and inner reserves.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
163,125	1,388,500	(1,691)	122,837	2,400,230	5,833,136
40,904	-	-	-	-	40,904
-	-	1,327	-	-	1,327
40,904	-	1,327	-	-	42,231
-	-	-	-	248,841	248,841
(17,561)	-	-	-	-	(17,561)
23,343	-	1,327	-	248,841	273,511
-	-	-	-	(182,700)	(182,700)
-	-	-	23,000	(23,000)	-
<u>186,468</u>	<u>1,388,500</u>	<u>(364)</u>	<u>145,837</u>	<u>2,443,371</u>	<u>5,923,947</u>
130,689	1,388,500	(26)	103,883	2,273,501	5,656,682
49	-	-	-	-	49
-	-	(454)	-	-	(454)
49	-	(454)	-	-	(405)
-	-	-	-	191,989	191,989
(6,561)	-	-	-	-	(6,561)
(6,512)	-	(454)	-	191,989	185,023
-	-	-	-	(174,000)	(174,000)
-	-	-	6,799	(6,799)	-
<u>124,177</u>	<u>1,388,500</u>	<u>(480)</u>	<u>110,682</u>	<u>2,284,691</u>	<u>5,667,705</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 June 2006 HK\$'000	6 months ended 30 June 2005 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit from operations	289,595	226,604
Adjustments for:		
Net (gain) / loss on disposal of property and equipment	(36)	800
Net gain on disposal of available-for-sale securities	(27,947)	(22,353)
Impairment allowances	38,289	13,769
Dividend income on equity securities	(6,865)	(5,972)
Depreciation	13,933	17,321
Amortisation of prepaid lease payments for land	2,567	5,499
Interest income from available-for-sale securities and held-to-maturity securities	(205,224)	(75,147)
Exchange adjustments	1,336	(1,401)
Operating cash flows before movements in operating assets and liabilities	105,648	159,120
Increase in placements with banks and other financial institutions (with original maturity over three months)	–	(155,426)
Decrease / (increase) in financial assets at fair value through profit or loss	321,177	(228,584)
Increase in bills receivable	(110,707)	(77,696)
Increase in trade bills	(6,783)	(26,167)
Increase in other advances to customers	(1,125,412)	(1,721,310)
Increase in interest receivable and other accounts	(52,730)	(13,832)
Decrease in advances to banks and other financial institutions	224	685
Increase in deposits from customers	6,221,472	3,766,066
Increase in other accounts and accruals	137,965	230,789
Cash generated from operations	5,490,854	1,933,645
Hong Kong Profits Tax paid	(13,477)	(15,296)
Overseas tax refund / (paid)	81	(177)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>5,477,458</b>	<b>1,918,172</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 June 2006 HK\$'000	6 months ended 30 June 2005 HK\$'000
<b>INVESTING ACTIVITIES</b>		
Interest received from available-for-sale securities and held-to-maturity securities	208,747	57,973
Dividends received on equity securities	6,865	5,972
Purchase of available-for-sale securities	(159,795)	(84,715)
Purchase of held-to-maturity securities	(7,898,583)	(3,779,552)
Purchase of property and equipment	(88,791)	(22,872)
Purchase of prepaid lease payments for land	(1,010)	–
Purchase of a subsidiary	–	(122,959)
Proceeds from sale and redemption of available-for-sale securities	96,992	61,377
Proceeds from redemption of held-to-maturity securities	4,089,662	1,563,620
Proceeds from disposal of property and equipment	49	2,008
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(3,745,864)</b>	<b>(2,319,148)</b>
<b>FINANCING ACTIVITY</b>		
Dividends paid	(182,700)	(174,000)
<b>NET CASH USED IN FINANCING ACTIVITY</b>	<b>(182,700)</b>	<b>(174,000)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,548,894</b>	<b>(574,976)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>11,564,391</b>	<b>13,592,009</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>13,113,285</b>	<b>13,017,033</b>



## 1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Bank's Annual Report for the year ended 31 December 2005 except for the adoption of certain amended Hong Kong Financial Reporting Standards ("HKFRSs"), amended HKASs and new interpretations ("Interpretations") as disclosed in note 2 below.

## 2. Impact of amended HKFRSs, amended HKASs and new Interpretations

The HKICPA has issued a number of amended HKFRSs, amended HKASs and new Interpretations, which are effective for accounting periods beginning after 1 January 2006 or 31 December 2005. The Group has adopted the following amended HKFRSs, amended HKASs and new Interpretations which are pertinent to its operations and relevant to this interim financial report.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts
HK(IFRIC) - Int 4	Determining whether an arrangement contains a lease

The adoption of the above-mentioned amended HKFRSs, amended HKASs and new Interpretations have no material effect on how the results for the current or prior accounting periods are prepared and presented.

The Group has not early adopted the following new standard, amendment and new interpretations which have been issued but not yet effective, in this interim financial report.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives

The Directors of the Bank anticipate that the application of the above new standard, amendment and new interpretations that have been issued but not yet effective will not have significant impact to the results and financial positions on the Group.

### 3. Business and geographical segments

#### (a) Business segments

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

#### INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	751,890	584,526	–	–	1,336,416
Interest expense to external customers	(857,972)	(37,048)	–	–	(895,020)
Inter-segment income <i>(Note)</i>	403,771	–	–	(403,771)	–
Inter-segment expense <i>(Note)</i>	–	(403,771)	–	403,771	–
Net interest income	297,689	143,707	–	–	441,396
Other operating income	61,107	9,253	66,768	–	137,128
Operating income	358,796	152,960	66,768	–	578,524
Impairment allowances	(38,289)	–	–	–	(38,289)
Net gain on disposal of property and equipment	36	–	–	–	36
Net gain on disposal of available-for-sale securities	–	–	27,947	–	27,947
Operating expenses	(150,422)	(10,478)	(22,004)	–	(182,904)
Segment profit	<u>170,121</u>	<u>142,482</u>	<u>72,711</u>	–	385,314
Unallocated corporate expenses					(95,719)
Profit from operations					289,595
Share of results of jointly controlled entities			<u>6,391</u>		<u>6,391</u>
Profit before taxation					295,986
Taxation					(47,145)
Profit for the period					<u>248,841</u>

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

# NOTES

## 3. Business and geographical segments - continued

### (a) Business segments - continued

Segment information by business segments for the six months ended 30 June 2005 is presented below:

#### INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury and foreign exchange activities HK\$'000	Other business activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	384,292	283,886	–	–	668,178
Interest expense to external customers	(298,584)	(14,917)	–	–	(313,501)
Inter-segment income ( <i>Note</i> )	109,311	–	–	(109,311)	–
Inter-segment expense ( <i>Note</i> )	–	(109,311)	–	109,311	–
Net interest income	195,019	159,658	–	–	354,677
Other operating income	47,243	12,118	43,137	–	102,498
Operating income	242,262	171,776	43,137	–	457,175
Impairment allowances	(13,769)	–	–	–	(13,769)
Net gain / (loss) on disposal of property and equipment	(831)	–	31	–	(800)
Net gain on disposal of available-for-sale securities	–	–	22,353	–	22,353
Operating expenses	(151,696)	(9,251)	(10,346)	–	(171,293)
Segment profit	<u>75,966</u>	<u>162,525</u>	<u>55,175</u>	<u>–</u>	293,666
Unallocated corporate expenses					(67,062)
Profit from operations					226,604
Share of results of jointly controlled entities			<u>568</u>		568
Profit before taxation					227,172
Taxation					<u>(35,183)</u>
Profit for the period					<u>191,989</u>

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

### (b) Geographical segments

Geographical segmentation is analysed based on the locations of the principal operations of the branches and subsidiaries responsible for reporting the results or booking the assets. For both six months ended 30 June 2005 and 30 June 2006, more than 90% of the Group's revenue and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiaries located in Hong Kong.

## 4. Other operating income

	6 months ended 30 June 2006 HK\$'000	6 months ended 30 June 2005 HK\$'000
Fees and commission income	87,432	58,497
Less: Fees and commission expenses	(2,123)	(1,157)
Net fees and commission income	85,309	57,340
Dividend income	6,865	5,972
Net gains on dealing in foreign currencies	9,322	12,118
Gross rents from properties	1,983	2,243
Less: Outgoings	(362)	(322)
Net rental income	1,621	1,921
Safe deposit box rentals	10,558	10,524
Insurance underwriting	7,457	–
Other banking services income	16,200	14,416
Others	(204)	207
	<u>137,128</u>	<u>102,498</u>

## 5. Operating expenses

	6 months ended 30 June 2006 HK\$'000	6 months ended 30 June 2005 HK\$'000
Staff costs		
Salaries and other costs	149,497	119,412
Retirement benefits scheme contributions	10,659	9,093
Total staff costs	160,156	128,505
Depreciation	13,933	17,321
Amortisation of prepaid lease payments for land	2,567	5,499
Premises and equipment expenses, excluding depreciation and amortisation of prepaid lease payments for land		
Rentals and rates for premises	22,004	20,868
Others	9,748	7,264
Other operating expenses	70,215	58,898
	<u>278,623</u>	<u>238,355</u>

## 6. Taxation

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period.

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

## 7. Earnings per share

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of HK\$248,841,000 (2005: HK\$191,989,000) and on 435,000,000 (2005: 435,000,000) ordinary shares in issue during the period.

## 8. Dividend paid

The final dividend for the year ended 31 December 2005 paid during the current period was approximately HK\$182,700,000.

The final dividend for the year ended 31 December 2004 paid during last period was approximately HK\$174,000,000.

# NOTES

## 9. Cash and short-term funds

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Cash and balances with banks and other financial institutions	747,170	1,047,503
Money at call and short notice	8,370,827	10,264,463
Exchange fund bills	<u>520,466</u>	<u>486,513</u>
	<u><u>9,638,463</u></u>	<u><u>11,798,479</u></u>

## 10. Investments in securities / Certificates of deposits held

	Financial assets at fair value through profit or loss		Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
	Trading assets HK\$'000	Assets designated at fair value HK\$'000			
<b>30 June 2006</b>					
Equity securities:					
Listed in Hong Kong	900	–	293,427	–	294,327
Listed overseas	–	–	6,734	–	6,734
	<u>900</u>	<u>–</u>	<u>300,161</u>	<u>–</u>	<u>301,061</u>
Unlisted	–	–	293,062	–	293,062
	<u>900</u>	<u>–</u>	<u>593,223</u>	<u>–</u>	<u>594,123</u>
Debt securities:					
Certificates of deposits held	–	–	–	1,702,073	1,702,073
Other debt securities - Unlisted	–	513,066	322,639	11,299,754	12,135,459
	<u>–</u>	<u>513,066</u>	<u>322,639</u>	<u>13,001,827</u>	<u>13,837,532</u>
Derivatives	<u>19,624</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,624</u>
Total:					
Listed in Hong Kong	900	–	293,427	–	294,327
Listed overseas	–	–	6,734	–	6,734
Unlisted	<u>19,624</u>	<u>513,066</u>	<u>615,701</u>	<u>13,001,827</u>	<u>14,150,218</u>
	<u>20,524</u>	<u>513,066</u>	<u>915,862</u>	<u>13,001,827</u>	<u>14,451,279</u>
Market value of listed securities:					
Listed in Hong Kong	900	–	293,427	–	294,327
Listed overseas	–	–	6,734	–	6,734
	<u>900</u>	<u>–</u>	<u>300,161</u>	<u>–</u>	<u>301,061</u>
As analysis by issuing entities:					
Central government and central banks	–	–	–	289,887	289,887
Public sector entities	–	–	–	21,154	21,154
Banks and other financial institutions	2,009	201,657	35,186	10,848,672	11,087,524
Corporate entities	40	–	246,306	1,842,114	2,088,460
Others	<u>18,475</u>	<u>311,409</u>	<u>634,370</u>	<u>–</u>	<u>964,254</u>
	<u>20,524</u>	<u>513,066</u>	<u>915,862</u>	<u>13,001,827</u>	<u>14,451,279</u>

## 10. Investments in securities / Certificates of deposits held - continued

	Financial assets at fair value through profit or loss				
	Trading assets HK\$'000	Assets designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
<b>31 December 2005</b>					
Equity securities:					
Listed in Hong Kong	562	–	268,756	–	269,318
Listed overseas	–	–	6,385	–	6,385
	<u>562</u>	<u>–</u>	<u>275,141</u>	<u>–</u>	<u>275,703</u>
Unlisted	–	–	248,232	–	248,232
	<u>562</u>	<u>–</u>	<u>523,373</u>	<u>–</u>	<u>523,935</u>
Debt securities:					
Certificates of deposits held	–	–	278,396	1,960,915	2,239,311
Other debt securities - Unlisted	–	808,598	–	7,231,991	8,040,589
	<u>–</u>	<u>808,598</u>	<u>278,396</u>	<u>9,192,906</u>	<u>10,279,900</u>
Derivatives	<u>45,607</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>45,607</u>
Total:					
Listed in Hong Kong	562	–	268,756	–	269,318
Listed overseas	–	–	6,385	–	6,385
Unlisted	<u>45,607</u>	<u>808,598</u>	<u>526,628</u>	<u>9,192,906</u>	<u>10,573,739</u>
	<u>46,169</u>	<u>808,598</u>	<u>801,769</u>	<u>9,192,906</u>	<u>10,849,442</u>
Market value of listed securities:					
Listed in Hong Kong	562	–	268,756	–	269,318
Listed overseas	–	–	6,385	–	6,385
	<u>562</u>	<u>–</u>	<u>275,141</u>	<u>–</u>	<u>275,703</u>
As analysis by issuing entities:					
Central government and central banks	–	–	–	95,109	95,109
Public sector entities	1	–	2	25,274	25,277
Banks and other financial institutions	46,024	163,158	28,804	7,129,927	7,367,913
Corporate entities	–	–	227,121	1,942,596	2,169,717
Others	<u>144</u>	<u>645,440</u>	<u>545,842</u>	<u>–</u>	<u>1,191,426</u>
	<u>46,169</u>	<u>808,598</u>	<u>801,769</u>	<u>9,192,906</u>	<u>10,849,442</u>

The fair value of held-to-maturity securities as at 30 June 2006 amounted to HK\$13,014,270,000 (31 December 2005: HK\$9,172,671,000).

Certain held-to-maturity certificates of deposit of approximately HK\$24,444,000 (31 December 2005: HK\$23,924,000) 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.

Other debt securities under assets designated at fair value above represented bonds investment trust funds, credit linked notes and convertible debt securities.

# NOTES

## 11. Advances and other accounts

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Advances to customers		
Bills receivable	440,416	330,409
Trade bills	138,332	131,549
Other advances to customers	<u>24,869,716</u>	<u>23,834,686</u>
	25,448,464	24,296,644
Interest receivable	205,779	196,225
Impairment allowances		
– Individually assessed	(24,294)	(54,640)
– Collectively assessed	(109,495)	(131,933)
	<u>(133,789)</u>	<u>(186,573)</u>
	25,520,454	24,306,296
Advances to banks and other financial institutions	<u>56,985</u>	<u>57,209</u>
	25,577,439	24,363,505
Other accounts	<u>184,209</u>	<u>144,556</u>
	<u>25,761,648</u>	<u>24,508,061</u>

Included in the “Advances to banks and other financial institutions” of the Group is an amount of approximately HK\$56,985,000 (31 December 2005: HK\$57,209,000) placed as reserve funds with the financial institutions in the People’s Republic of China by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the People’s Republic of China.

Details of the impaired loans are as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Gross impaired loans	560,395	642,788
Less: Impairment allowances under individual assessment	<u>(24,294)</u>	<u>(54,640)</u>
Net impaired loans	<u>536,101</u>	<u>588,148</u>
Gross impaired loans as a percentage of gross advances to customers	<u>2.20%</u>	<u>2.65%</u>
Market value of collateral pledged	<u>545,846</u>	<u>617,345</u>

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

## 12. Property and equipment

During the six months ended 30 June 2006, the Group purchased property and equipment as follows:

	HK\$'000
Buildings	33,258
Equipment	24,955
Construction in progress	30,578
	<u>88,791</u>

## 13. Deposits from customers

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Demand deposits and current accounts	2,132,081	2,144,820
Savings deposits	7,194,219	6,462,001
Time, call and notice deposits	<u>38,401,464</u>	<u>32,899,471</u>
	<u>47,727,764</u>	<u>41,506,292</u>

## 14. Maturity profiles

The maturity profiles of certain assets and liabilities of the Group as at 30 June 2006 are analysed as follows:

	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and short-term funds	<u>853,372</u>	<u>8,415,223</u>	<u>289,965</u>	<u>79,903</u>	–	–	<u>9,638,463</u>
Placements with banks and other financial institutions	–	<u>4,210,999</u>	–	–	–	–	<u>4,210,999</u>
Advances to customers	<u>1,597,340</u>	<u>4,108,850</u>	<u>3,750,188</u>	<u>9,076,163</u>	<u>6,306,044</u>	<u>609,879</u>	<u>25,448,464</u>
Advances to banks and other financial institutions	–	<u>18,985</u>	<u>38,000</u>	–	–	–	<u>56,985</u>
Debt securities included in:							
– Financial assets at fair value through profit or loss	–	101,597	–	411,469	–	–	513,066
– Available-for-sale securities	–	–	70,975	155,398	96,266	–	322,639
– Held-to-maturity securities	–	<u>5,628,662</u>	<u>1,985,581</u>	<u>5,164,414</u>	<u>223,170</u>	–	<u>13,001,827</u>
	–	<u>5,730,259</u>	<u>2,056,556</u>	<u>5,731,281</u>	<u>319,436</u>	–	<u>13,837,532</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	<u>83,276</u>	<u>652,901</u>	–	–	–	–	<u>736,177</u>
Deposits from customers	<u>9,334,875</u>	<u>36,144,986</u>	<u>2,150,511</u>	<u>97,392</u>	–	–	<u>47,727,764</u>



# NOTES

## 14. Maturity profiles - continued

The maturity profiles of certain assets and liabilities of the Group as at 31 December 2005 are analysed as follows:

	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and short-term funds	<u>1,140,954</u>	<u>10,319,189</u>	<u>99,501</u>	<u>228,835</u>	<u>10,000</u>	<u>-</u>	<u>11,798,479</u>
Placements with banks and other financial institutions	<u>-</u>	<u>2,029,416</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,029,416</u>
Advances to customers	<u>1,615,723</u>	<u>4,635,235</u>	<u>3,254,009</u>	<u>8,116,115</u>	<u>6,087,700</u>	<u>587,862</u>	<u>24,296,644</u>
Advances to banks and other financial institutions	<u>-</u>	<u>19,209</u>	<u>38,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,209</u>
Debt securities included in:							
- Financial assets at fair value through profit or loss	<u>16,024</u>	<u>164,920</u>	<u>50,968</u>	<u>498,309</u>	<u>78,377</u>	<u>-</u>	<u>808,598</u>
- Available-for-sale securities	<u>-</u>	<u>-</u>	<u>38,388</u>	<u>144,857</u>	<u>95,151</u>	<u>-</u>	<u>278,396</u>
- Held-to-maturity securities	<u>-</u>	<u>2,741,346</u>	<u>2,298,402</u>	<u>3,849,468</u>	<u>303,690</u>	<u>-</u>	<u>9,192,906</u>
	<u>16,024</u>	<u>2,906,266</u>	<u>2,387,758</u>	<u>4,492,634</u>	<u>477,218</u>	<u>-</u>	<u>10,279,900</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	<u>529,613</u>	<u>1,733,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,263,504</u>
Deposits from customers	<u>8,630,741</u>	<u>31,289,581</u>	<u>1,385,276</u>	<u>200,694</u>	<u>-</u>	<u>-</u>	<u>41,506,292</u>

## SUPPLEMENTARY INFORMATION

### 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 2006 HK\$'000	31 December 2005 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	1,756,557	1,609,344
– Property investment	5,550,694	5,853,131
– Financial concerns	1,564,722	1,229,845
– Stockbrokers	324,307	321,693
– Wholesale and retail trade	652,652	569,231
– Manufacturing	1,019,326	839,950
– Transport and transport equipment	319,199	210,865
– Others	4,580,350	4,461,475
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	739,392	790,925
– Loans for the purchase of other residential properties	3,447,830	3,403,990
– Credit card advances	89,660	125,134
– Others	1,320,141	1,222,148
	21,364,830	20,637,731
Trade finance	778,123	653,624
Loans for use outside Hong Kong	3,305,511	3,005,289
	25,448,464	24,296,644

### 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:

	Total advances		Advances overdue for over three months	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Hong Kong	22,699,499	21,712,908	476,736	510,679
People's Republic of China	307,466	346,814	149,695	165,146
Macau	1,242,071	1,131,352	–	–
America	345,487	554,673	–	–
Others	853,941	550,897	–	–
	25,448,464	24,296,644	626,431	675,825

## SUPPLEMENTARY INFORMATION

### 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 2006			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	8,597,423	67,243	1,039,728	9,704,394
- of which - Australia	2,848,036	705	2,926	2,851,667
North and South America	1,899,355	14,713	1,213,826	3,127,894
Europe	12,537,816	1,577	591,223	13,130,616
- of which - United Kingdom	3,181,426	679	255,502	3,437,607
- of which - Germany	<u>2,893,157</u>	<u>726</u>	<u>4,578</u>	<u>2,898,461</u>
	31 December 2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	6,544,341	63,428	1,188,122	7,795,891
- of which - Australia	3,053,656	1,077	102,101	3,156,834
North and South America	1,490,869	16,235	991,315	2,498,419
Europe	11,244,111	2,259	383,957	11,630,327
- of which - United Kingdom	2,696,447	1,099	356,529	3,054,075
- of which - Germany	<u>3,666,446</u>	<u>999</u>	<u>8,603</u>	<u>3,676,048</u>

**4. Overdue and rescheduled advances**

	30 June 2006		31 December 2005	
	Gross advances HK\$'000	% to total advances	Gross advances HK\$'000	% to total advances
Advances overdue for				
– 6 months or less but over 3 months	36,337	0.1	62,520	0.3
– 1 year or less but over 6 months	50,410	0.2	24,381	0.1
– Over 1 year	<u>539,684</u>	<u>2.1</u>	<u>588,924</u>	<u>2.4</u>
Total overdue advances	<u>626,431</u>	<u>2.4</u>	<u>675,825</u>	<u>2.8</u>
Rescheduled advances	<u>282,063</u>	<u>1.1</u>	<u>300,473</u>	<u>1.2</u>
Secured overdue amounts	611,827		655,448	
Unsecured overdue amounts	<u>14,604</u>		<u>20,377</u>	
Total overdue advances	<u>626,431</u>		<u>675,825</u>	
Market value of securities held against secured overdue advances	<u>896,740</u>		<u>977,315</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 2006 and 31 December 2005, nor were there any rescheduled advances to banks and other financial institutions.

Repossession assets held by the Group as at 30 June 2006 amounted to HK\$116,880,000 (31 December 2005: HK\$146,822,000).

## SUPPLEMENTARY INFORMATION

### 5. 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 2006			Total
	USD	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	11,053,028	81,652	266,524	11,401,204
Spot liabilities	(10,674,131)	(86,561)	(260,360)	(11,021,052)
Forward purchases	99,058	–	–	99,058
Forward sales	(464,178)	–	–	(464,178)
Net long / (short) position	<u>13,777</u>	<u>(4,909)</u>	<u>6,164</u>	<u>15,032</u>
				<b>MOP</b>
Net structural position				<u>48,545</u>
	31 December 2005			Total
	USD	MOP	RMB	
Equivalent in thousands of HK\$				
Spot assets	10,218,181	84,168	302,187	10,604,536
Spot liabilities	(10,120,222)	(74,005)	(294,232)	(10,488,459)
Forward purchases	72,533	–	–	72,533
Forward sales	(156,901)	(4,004)	–	(160,905)
Net long position	<u>13,591</u>	<u>6,159</u>	<u>7,955</u>	<u>27,705</u>
				<b>MOP</b>
Net structural position				<u>48,545</u>

## SUPPLEMENTARY INFORMATION

**6. The contractual or notional amounts of each of the following classes of off-balance sheet exposures outstanding are:**

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Contingent liabilities and commitments – contractual amounts		
– Direct credit substitutes	1,045,414	972,847
– Trade-related contingencies	353,158	371,150
– Other commitments	9,006,476	7,896,143
– Capital commitments	291,364	369,588
	<u>10,696,412</u>	<u>9,609,728</u>
Derivatives – notional amounts		
– Exchange rate contracts	439,871	111,566
– Interest rate swap contracts	411,803	657,654

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

	30 June 2006		31 December 2005	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	3,106,431	N/A	2,820,689
Exchange rate contracts	59	935	451	514
Interest rate contracts	19,624	9,403	45,607	17,490
	<u>19,683</u>	<u>3,116,769</u>	<u>46,058</u>	<u>2,838,693</u>

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

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

## SUPPLEMENTARY INFORMATION

### 7. Capital adequacy and liquidity ratio

	30 June 2006	31 December 2005
	%	%
Capital adequacy ratio	<u>14.79</u>	<u>15.20</u>
	6 months ended 30 June 2006	6 months ended 30 June 2005
	%	%
Average liquidity ratio for the period	<u>55.39</u>	<u>48.73</u>

The capital adequacy ratio is calculated as the ratio, expressed as a percentage, of the capital base to the risk assets, as specified in the Third Schedule of the Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited, and Gallbraith Limited.

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

### 8. Other financial information

The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return are as follows:

	30 June 2006	31 December 2005
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	217,500	217,500
Share premium account	1,542,817	1,542,817
Reserves (eligible for inclusion in core capital)	<u>3,429,280</u>	<u>3,266,501</u>
	<u>5,189,597</u>	5,026,818
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	24,722	24,722
Reserves on revaluation of holding of securities not held for trading purposes	45,439	40,646
Impairment allowance under collective assessment and regulatory reserve	<u>255,332</u>	<u>254,770</u>
Total capital base before deductions	<u>5,515,090</u>	5,346,956
Deductions from total capital base	<u>(538,038)</u>	<u>(493,223)</u>
Total capital base after deductions	<u>4,977,052</u>	<u>4,853,733</u>

## 9. Risk management

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

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

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

### (i) Capital management

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

### (ii) Credit risk

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

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

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.

### (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.



### 9. Risk management - continued

#### (v) Foreign exchange risk

The Group does not have any significant foreign exchange risk as foreign exchange dealing is minimal. 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 under the requirements of HKAS 39. Interest rate risk arises primarily from the timing differences in the repricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

#### (vii) Operational and legal risk

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

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

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

#### (viii) Reputation risk

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

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

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

*(Incorporated in Hong Kong with limited liability)*

### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 2 to 16.

### **Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with 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.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Company's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, the comparative condensed consolidated statement of changes in equity, and the comparative condensed consolidated cash flow statement for the six months ended 30 June 2005 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

### **Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong, 16 August 2006

## **COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL "INTERIM FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS"**

The Bank has fully complied with the Supervisory Policy Manual "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" which was issued by the Hong Kong Monetary Authority.

## **INTERIM DIVIDEND**

The Directors have declared an interim cash dividend for 2006 of HK\$0.19, payable on Thursday, 21 September 2006 to shareholders whose names are on the Register of Members on Friday, 15 September 2006.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Wednesday, 13 September 2006 to Friday, 15 September 2006 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2006 interim dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's Share Registrars 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 4:00 pm on Tuesday, 12 September 2006.

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

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2006.

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

As at 30 June 2006, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

### *Interests in securities*

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Man	3,447,928	–	239,145,628 <i>Note (1)</i>	242,593,556	55.76863
Liu Lit Mo	1,009,650	–	239,145,628 <i>Note (1)</i>	240,155,278	55.20811
Liu Lit Chi	313,248	–	241,408,839 <i>Notes (1) &amp; (2)</i>	241,722,087	55.56830
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	60,000	–	–	60,000	0.01379

#### **Notes:**

- (1) 239,145,628 shares in the Bank are attributed as follows:
- (i) 199,145,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45 percent 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"), formerly known as The Bank of Tokyo-Mitsubishi, Ltd. Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,018,000 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 at 30 June 2006, none of the directors (including the chief executive officer), nor their respective associates, had any other interests (nor any short positions) in any securities (nor in any underlying securities) in the Bank and its associated corporations. Moreover, as at 30 June 2006, none of the directors (including the chief executive officer), nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities in the Bank and its associated corporations, much less had any such rights exercised.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2006, 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	199,145,628 <i>Notes (1) and (3)</i>	45.78
Liu Chong Hing Investment Limited	Interest of a controlled corporation	199,145,628 <i>Notes (1) and (3)</i>	45.78
Liu's Holdings Limited	Interest of a controlled corporation	199,145,628 <i>Notes (1) and (3)</i>	45.78
Bauhinia 97 Ltd	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Investment Holdings Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China COSCO Holdings Company Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd (formerly known as "The Bank of Tokyo-Mitsubishi, Ltd")	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc (formerly known as "Mitsubishi Tokyo Financial Group, Inc")	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66
Third Avenue Management LLC	Investment manager	26,241,000 <i>Note (4)</i>	6.03

### Notes:

- (1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Liu's Holdings Limited, a private company, had interest in about 45 percent of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 199,145,628 shares in question all relate to the same block of 199,145,628 shares held by Liu Chong Hing Estate.
- (2) China Ocean Shipping (Group) Company has a 63.5 percent interest in China COSCO Holdings Company Limited ("COSCO Holdings"), which in turn wholly owns COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment Holdings"). COSCO Pacific Investment Holdings has a 51.58 percent interest in COSCO Pacific Limited ("COSCO Pacific"). Both COSCO Holdings and COSCO Pacific are public companies listed on the Stock Exchange. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Ltd, which is a company wholly-owned by COSCO Pacific.
- (3) The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ"), formerly known as The Bank of Tokyo-Mitsubishi, Ltd, is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc, formerly known as Mitsubishi Tokyo Financial Group, Inc. The references to the 42,000,000 shares in question both relate to the same block of 42,000,000 shares registered in the name of Bank of Tokyo-Mitsubishi UFJ.  
Pursuant to an agreement in 1994, 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 40,000,000 of the 42,000,000 shares in question and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such 40,000,000 shares to Liu Chong Hing Estate in certain circumstances.
- (4) Third Avenue Management LLC ("Third Avenue Management"), a United States based Registered Investment Adviser, acts as adviser to various portfolios held for the benefit of mutual funds, private partnerships, institutions, individuals, etc. Third Avenue Management has investment advisory authority over portfolios holding in the aggregate of 26,241,000 shares in the Bank.

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as at 30 June 2006.

The directors confirm that, for the accounting period for the six months ended 30 June 2006, the Bank has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Corporate Governance Code") except, under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board, 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 2006, 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 WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

This Interim Report 2006, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

## REVIEW AND PROSPECTS

The Hong Kong economy continued to grow robustly in the first half of 2006. The gross domestic product of the territory increased noticeably, marking the upward trend for the eleventh quarter in a row. The economy expanded rapidly over a wide spectrum, tending towards a full recovery. On the external front: although the business environment still faces various unknowns, Hong Kong's export trades continued to grow on the back of the flourishing markets in both the Euro zone and the United States. Re-export trades continued to surge, evidencing that Hong Kong plays a major role in promoting the flow of commerce between the mainland and other parts of the world. The service industry, having performed well in 2005, continued to boom. The inbound tourism industry led the pack, fuelling the sustained vitality of the transit and transportation, hotel, restaurant, and retail industries, among others. On the internal front: the growth in personal consumption figures expanded in the first half of the year, thanks mainly to the boost brought about by the improvement in the employment situation as well as the increase in income, and partly to the improvement in the quality of the assets held by the populace and the effect of the resultant wealth occasioned by the increase in stock values and the rebound of the property market. Although interest rates were further raised during the period, consumption sentiment remained optimistic in the light of consistently moderate inflationary pressure.

The United States started to raise interest rates more than two years ago. This rate-hiking cycle, which affects the whole world, is currently showing signs of gradually reaching the peak. The changing of the guard at the helm of the US Federal Reserve Board earlier this year only saw the continued implementation of its already established monetary policy. With the exception of the decision earlier this August to leave the federal funds rate unchanged, the US Federal Reserve Board had consistently raised rates by 25 basis points after each of its policy meetings. This had an adverse effect on the interest rates of the local currency, which is pegged to the greenback. Investment sentiment subsided and the property market gradually simmered down. Property developers had hardly launched any new developments for sale in the first half of the year, thereby shackling banks' mortgage business in the area of primary market properties. Banks, in order to maintain their bread and butter, had to settle for mortgages for secondary market properties and mortgage refinancing while reducing mortgage rates to attract customers. The intensity of the competition, therefore, calls for no further elaboration. On the other hand, ever since the deregulation of the interest rate rules some years ago, banks, large and small, have competed fiercely for customer deposits by offering higher rates. Deposit rates published by banks are merely for reference only and banks would generally volunteer to offer rates higher than those published so as to lure customers. This has substantially increased funding costs for banks. Competition in the area of lending business has also intensified, squeezing interest margins even further. It is, therefore, easy to see that banks' profits have been affected under these difficult operating conditions.

The Bank's unaudited, consolidated results for the first half of this year improved markedly in comparison with those of the corresponding period last year. Net interest income rose 24.45 percent to HK\$441.396 million. Operating profit before impairment allowances increased 37.05 percent to HK\$299.901 million. Impairment allowances newly made for the first half of this year rose significantly by 115.91 percent to HK\$69.544 million from HK\$32.209 million for the corresponding period last year. However, the impairment allowances reversed during the period increased sharply by 69.50 percent to HK\$31.255 million from HK\$18.44 million for the corresponding period last year. As such, impairment allowances for the first half of this year increased 178.08 percent to HK\$38.289 million. Profit attributable to shareholders amounted to HK\$248.841 million, an increase of 29.61 percent. As of 30 June 2006, total customers' deposits increased 14.99 percent to HK\$47.728 billion compared with the corresponding figure as of 31 December 2005. Total loans and advances to customers (after impairment allowances) increased 4.99 percent over the corresponding figure as of 31 December 2005 to HK\$25.520 billion. Total assets amounted to HK\$54.927 billion, an increase of 9.91 percent over the corresponding figure as of 31 December 2005. As of 30 June 2006, unadjusted capital adequacy ratio fell 2.70 percent to 14.79 percent against the corresponding ratio as of 31 December 2005. Average liquidity ratio for the six months ended 30 June 2006 rose 13.67 percent to 55.39 percent against the corresponding ratio last year. As of 30 June 2006, loan-to-deposit ratio stood at 47.91 percent, a drop of 5.48 percent against the corresponding ratio as of 31 December 2005. Earnings per share for the first half of 2006 amounted to HK\$0.57, a 29.61 percent increase (amounting to a rise of HK\$0.13 per share) over the corresponding figure for the first half of 2005. The increase in profit is due mainly to the continual recovery of the local economy and the satisfactory growth of our deposit-taking and lending business, not to mention the benefits reaped from our having a large pool of liquid funds in a rising interest rate environment.

The once rather thriving property market and the hi-tech fad have both cooled down. In the light of the gradual slackening of economic growth and the coming under control of inflationary pressure, the US Federal Reserve Board has hinted that the rate-hiking cycle is nearing its end soon. It is expected that interest rate-sensitive industries, such as the securities, real estate and banking industries, would be on the go. The stock markets have recently risen from their lows and the property developers have also been positioning themselves to launch their new development projects to the market shortly. Mortgage business can thus be expected to resume picking up momentum gradually. Competition will, however, continue to be keen. Banks will have to operate by a "large-volume-yet-slim-profit" policy in order to increase their market share. Looking ahead, the banking industry can expect to have a more stable development. We have hence capitalized on the current good economic environment by vigorously expanding our branch network so as to serve a broader clientele.



## REVIEW OF INTERIM FINANCIAL REPORT

The interim financial report is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” 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, 16 August 2006), the executive directors of the Bank are Mr Liu Lit Man (Executive Chairman), Dr Liu Lit Mo (Vice Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Executive Director & Deputy Chief Executive Officer), Mr Wilfred Chun Ning Liu, Mr Lau Wai Man, Mr Frank Shui Sang Jin, Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong; the non-executive directors are Mr Timothy George Freshwater, Mr Toshiaki Arai, Mr Andrew Liu, Dr Sun Jiakang, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Wang Zhi; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn and Mr Cheng Yuk Wo.

By Order of the Board  
**Liu Lit Man**  
*Executive Chairman*

16 August 2006