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2009 FINAL RESULTS

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the audited consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2009, together with the comparative figures for the corresponding year in 2008.

CONSOLIDATED INCOME STATEMENT

	NOTES	2009 HK\$'000	2008 HK\$'000	Variance %
Interest income		1,184,922	2,171,336	– 45.43
Interest expense		(361,591)	(1,307,010)	– 72.33
Net interest income	4	823,331	864,326	– 4.74
Fee and commission income		307,299	265,220	+ 15.87
Fee and commission expense		(43,670)	(48,419)	– 9.81
Net fee and commission income	5	263,629	216,801	+21.60
Net gains (losses) on financial assets at fair value through profit or loss	6	76,760	(48,299)	+ 258.93
Other operating income	7	146,222	146,566	– 0.23
Operating expenses	8	(978,415)	(772,431)	+ 26.67
		331,527	406,963	– 18.54
Impairment allowances on loans and advances	15	(102,289)	(91,334)	+ 11.99
Net gain on disposal of prepaid lease payments for land		362	–	–
Net (loss) gain on disposal of property and equipment		(14)	294	– 104.76
Net gain on disposal of available-for-sale securities		24,810	108,706	– 77.18
Net gain on disposal of and fair value adjustments on investment properties	16	31,148	39,560	– 21.26
Impairment loss on available-for-sale securities		(43,571)	(264,654)	– 83.54
Impairment loss on goodwill	23	(10,000)	(20,000)	– 50.00
Profit from operations		231,973	179,535	+ 29.21
Share of profit (loss) of jointly controlled entities		32,410	(90,240)	+ 135.92
Profit before taxation		264,383	89,295	+ 196.08
Taxation	9	(32,635)	(28,675)	+ 13.81
Profit for the year		231,748	60,620	+ 282.30
Earnings per share	11	HK\$0.53	HK\$0.14	+ 282.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009 HK\$'000	2008 HK\$'000
Profit for the year	<u>231,748</u>	<u>60,620</u>
Other comprehensive income		
Exchange differences arising on translation	524	7,194
Available-for-sale securities investment revaluation reserve:		
- Revaluation gain (loss)	29,662	(300,495)
- Reclassification adjustment upon disposal and impairment	18,761	155,948
- Share of reserve of a jointly controlled entity	4,009	(841)
Income tax relating to components of other comprehensive income and expenses	<u>(10,456)</u>	<u>20,060</u>
Other comprehensive income (expense) for the year (net of tax)	<u>42,500</u>	<u>(118,134)</u>
Total comprehensive income (expense) for the year	<u>274,248</u>	<u>(57,514)</u>
Total comprehensive income (expense) attributable to:		
Owners of the Bank	<u>274,248</u>	<u>(57,514)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2009 HK\$'000	2008 HK\$'000	Variance %
Assets				
Cash and short-term funds	12	15,048,680	17,659,927	– 14.79
Placements with banks and other financial institutions maturing between one to twelve months		2,814,566	5,367,858	– 47.57
Derivative financial instruments	13	331	429	– 22.84
Financial assets at fair value through profit or loss	14	576,730	680,680	– 15.27
Available-for-sale securities	14	272,649	196,527	+ 38.73
Held-to-maturity securities	14	16,954,466	9,727,685	+ 74.29
Advances and other accounts	15	33,267,735	33,634,842	– 1.09
Tax recoverable		31,925	38,113	– 16.24
Interests in jointly controlled entities		119,418	82,999	+ 43.88
Investment properties	16	103,199	129,801	– 20.49
Property and equipment	17	443,688	469,724	– 5.54
Prepaid lease payments for land	18	321,533	328,127	– 2.01
Goodwill	23	50,606	60,606	– 16.50
Total assets		<u>70,005,526</u>	<u>68,377,318</u>	+ 2.38
Liabilities				
Deposits and balances of banks and other financial institutions		1,447,718	1,525,509	– 5.10
Deposits from customers	19	60,788,415	59,401,660	+ 2.33
Derivative financial instruments	13	44,413	39,303	+ 13.00
Other accounts and accruals		556,016	477,381	+ 16.47
Current tax liabilities		15,671	5,104	+ 207.03
Loan capital	20	967,199	965,454	+ 0.18
Deferred tax liabilities	22	11,772	6,283	+ 87.36
Total liabilities		<u>63,831,204</u>	<u>62,420,694</u>	+ 2.26
Shareholders' equity				
Share capital	21	217,500	217,500	–
Reserves		5,956,822	5,739,124	+ 3.79
Shareholders' funds		<u>6,174,322</u>	<u>5,956,624</u>	+ 3.65
Total liabilities and shareholders' equity		<u>70,005,526</u>	<u>68,377,318</u>	+ 2.38

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	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 2009		217,500	1,542,817	(182)	13,352	1,388,500	7,524	307,000	2,480,113	5,956,624
Profit for the year		-	-	-	-	-	-	-	231,748	231,748
Other comprehensive income for the year		-	-	-	41,976	-	524	-	-	42,500
Total comprehensive income for the year		-	-	-	41,976	-	524	-	231,748	274,248
Interim dividend paid for financial year 2009	10	-	-	-	-	-	-	-	(34,800)	(34,800)
Final dividend paid for financial year 2008	10	-	-	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(20,000)	20,000	-
At 31 December 2009		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>55,328</u>	<u>1,388,500</u>	<u>8,048</u>	<u>287,000</u>	<u>2,675,311</u>	<u>6,174,322</u>
At 1 January 2008		217,500	1,542,817	(182)	138,680	1,388,500	330	356,000	2,627,143	6,270,788
Profit for the year		-	-	-	-	-	-	-	60,620	60,620
Other comprehensive income (expense) for the year		-	-	-	(125,328)	-	7,194	-	-	(118,134)
Total comprehensive income (expense) for the year		-	-	-	(125,328)	-	7,194	-	60,620	(57,514)
Interim dividend paid for financial year 2008	10	-	-	-	-	-	-	-	(65,250)	(65,250)
Final dividend paid for financial year 2007	10	-	-	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(49,000)	49,000	-
At 31 December 2008		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>13,352</u>	<u>1,388,500</u>	<u>7,524</u>	<u>307,000</u>	<u>2,480,113</u>	<u>5,956,624</u>

The retained profits of the Group included retained profit of HK\$3,534,000 (2008: accumulated loss of HK\$28,876,000) retained by the jointly controlled entities of the Group.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	2009 HK\$'000	2008 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	264,383	89,295
Adjustments for:		
Net loss (gain) on disposal of property and equipment	14	(294)
Net gain on disposal of prepaid lease payments for land	(362)	–
Net gain on disposal of investment properties	(26,000)	–
Net gain on disposal of available-for-sale securities	(24,810)	(108,706)
Impairment allowances on loans and advances	102,289	91,334
Impairment loss on goodwill	10,000	20,000
Impairment loss on available-for-sale securities	43,571	264,654
Dividend income from equity securities	(8,067)	(12,853)
Share of (profit) loss of jointly controlled entities	(32,410)	90,240
Net gain on fair value adjustments on investment properties	(5,148)	(39,560)
Depreciation	47,213	43,925
Release of prepaid lease payments for land	6,075	6,104
Interest income from held-to-maturity securities and available-for-sale securities	(312,585)	(462,018)
Interest expense on loan capital	19,736	42,122
Exchange adjustments	900	615
Operating cash flows before movements in operating assets and liabilities	84,799	24,858
(Increase) decrease in operating assets:		
Interest receivable and other accounts	(45,860)	381,973
Placements with banks and other financial institutions with original maturity over three months	149,657	(303,466)
Exchange fund bills with original maturity over three months	(105,182)	47,155
Money at call and short notice with original maturity over three months	(1,416,898)	690,017
Bills receivable	31,229	175,514
Trade bills	47,035	(736)
Other advances to customers	289,704	(1,808,623)
Advances to banks and other financial institutions	1,729	(59,328)
Financial assets at fair value through profit or loss	103,950	453,742
Derivative assets	98	(369)
Increase (decrease) in operating liabilities:		
Derivative liabilities	5,110	(75,243)
Deposits from customers	1,386,755	(925,777)
Deposits and balances of banks and other financial institutions with original maturity over three months	176	(1,841)
Other accounts and accruals	79,353	(383,060)
Cash generated from (used in) operations	611,655	(1,785,184)
Hong Kong Profits Tax paid	(17,459)	(58,868)
Overseas tax paid	(3,388)	(6,939)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	590,808	(1,850,991)

	2009 HK\$'000	2008 HK\$'000
INVESTING ACTIVITIES		
Interest received on held-to-maturity securities and available-for-sale securities	305,761	542,974
Dividends received on investments	8,067	12,853
Dividend income from jointly controlled entities	–	3,150
Capital investment in jointly controlled entities	–	(35,000)
Purchase of held-to-maturity securities	(33,547,891)	(24,380,625)
Purchase of available-for-sale securities	(78,367)	(42,160)
Purchase of property and equipment	(21,326)	(67,667)
Proceeds from redemption of held-to-maturity securities	26,321,110	30,260,920
Proceeds from sale and redemption of available-for-sale securities	31,907	421,799
Proceeds from disposal of property and equipment	139	1,185
Proceeds from disposal of land	881	–
Purchases of investment properties	–	(30,000)
Proceeds from disposal of investment property	5,800	–
Repayment of loan from a jointly controlled entity	<u>–</u>	<u>5,267</u>
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	<u>(6,973,919)</u>	<u>6,692,696</u>
FINANCING ACTIVITIES		
Interest paid on loan capital	(19,334)	(42,180)
Dividends paid	<u>(56,550)</u>	<u>(256,650)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(75,884)</u>	<u>(298,830)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(6,458,995)</u>	<u>4,542,875</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>17,533,299</u>	<u>12,990,424</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER,		
represented by		
Cash and balances with banks and other financial institutions	4,427,240	4,087,415
Money at call and short notice	6,704,160	13,180,425
Exchange fund bills	3,917,280	392,087
Placements with banks and other financial institutions maturing between one to twelve months	2,814,566	5,367,858
Deposits and balances of banks and other financial institutions	(1,447,718)	(1,525,509)
Less: Amounts with original maturity over three months	<u>(5,341,224)</u>	<u>(3,968,977)</u>
	<u><u>11,074,304</u></u>	<u><u>17,533,299</u></u>

NOTES

1. BASIS OF PREPARATION

The financial information in this final results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2009 but is derived from those financial statements.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory financial statements for the year ended 31 December 2008 except that the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Except as described below, the adoption of new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group and the financial position of the Bank for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

Improving Disclosures about Financial Instruments

(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related party disclosure ⁶
HKAS 27 (Revised)	Consolidated and separate financial statements ¹
HKAS 32 (Amendment)	Classification of right issues ⁴
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters ³
HKFRS 2 (Amendments)	Group cash-settled share-based payments transactions ³
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁷
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement ⁶
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners ¹
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instrument ⁵

¹ Effective for annual periods beginning on or after 1 July 2009.

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 July 2010.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

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

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The management of the Bank anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Executive Committee) for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. The adoption of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The Group's operating and reportable segments under HKFRS 8, which are identified based on different business of the Group, are therefore as follows:

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides fully automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Treasury activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Other banking-related services of the Group include investment holding, insurance, other investment advisory services and property investments.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (i) Segment information about these businesses for the year ended 31 December 2009 is presented below:

Segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	686,011	496,758	2,153	-	-	1,184,922
Interest expense to external customers	(321,889)	(39,702)	-	-	-	(361,591)
Inter-segment interest income <i>(note)</i>	146,982	-	-	-	(146,982)	-
Inter-segment interest expense <i>(note)</i>	-	(146,982)	-	-	146,982	-
Net interest income	511,104	310,074	2,153	-	-	823,331
Fee and commission income	99,236	-	208,063	-	-	307,299
Fee and commission expense	(43,284)	-	(386)	-	-	(43,670)
Net gains on financial assets at fair value through profit or loss	742	75,910	-	108	-	76,760
Other operating income	72,184	36,300	(45)	37,783	-	146,222
Total operating income	639,982	422,284	209,785	37,891	-	1,309,942
Operating expenses	(709,280)	(25,431)	(56,040)	(10,399)	-	(801,150)
Impairment allowances on loans and advances	(102,289)	-	-	-	-	(102,289)
Net loss on disposal of property and equipment	(14)	-	-	-	-	(14)
Net gain on disposal of prepaid lease payments for land	362	-	-	-	-	362
Net gain on disposal of available-for-sale securities	-	-	-	24,810	-	24,810
Net gain on disposal of and fair value adjustments on investment properties	-	-	-	31,148	-	31,148
Impairment loss on available- for-sale securities	-	(43,571)	-	-	-	(43,571)
Impairment loss on goodwill	-	-	-	(10,000)	-	(10,000)
Segment profit	<u>(171,239)</u>	<u>353,282</u>	<u>153,745</u>	<u>73,450</u>	<u>-</u>	<u>409,238</u>
Unallocated corporate expenses						(177,265)
Profit from operations						231,973
Share of profits of jointly controlled entities				<u>32,410</u>		<u>32,410</u>
Profit before taxation						<u>264,383</u>

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (i) Segment information about these businesses for the year ended 31 December 2009 is presented below: - continued

Segment assets and liabilities

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

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	11,347	1,540	4,627	73	3,739	21,326
Depreciation	27,316	1,396	4,523	675	13,303	47,213
Release of prepaid lease payments for land	<u>3,416</u>	<u>73</u>	<u>457</u>	<u>-</u>	<u>2,129</u>	<u>6,075</u>

3. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (ii) Segment information about these businesses for the year ended 31 December 2008 is presented below:

Segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,102,344	1,066,191	2,801	–	–	2,171,336
Interest expense to external customers	(1,250,306)	(56,704)	–	–	–	(1,307,010)
Inter-segment interest income (<i>note</i>)	607,244	–	–	–	(607,244)	–
Inter-segment interest expense (<i>note</i>)	–	(607,244)	–	–	607,244	–
Net interest income	459,282	402,243	2,801	–	–	864,326
Fee and commission income	79,368	–	139,266	46,586	–	265,220
Fee and commission expense	(42,985)	–	(945)	(4,489)	–	(48,419)
Net gains (losses) on financial assets at fair value through profit or loss	–	(48,508)	–	209	–	(48,299)
Other operating income	70,788	42,985	(86)	32,879	–	146,566
Total operating income	566,453	396,720	141,036	75,185	–	1,179,394
Operating expenses	(423,857)	(28,542)	(51,788)	(22,177)	–	(526,364)
Impairment allowances on loans and advances	(91,334)	–	–	–	–	(91,334)
Net gain on disposal of property and equipment	294	–	–	–	–	294
Net gain on disposal of available-for-sale securities	–	–	–	108,706	–	108,706
Net gain on fair value adjustments on investment properties	–	–	–	39,560	–	39,560
Impairment loss on available- for-sale securities	–	(264,654)	–	–	–	(264,654)
Impairment loss on goodwill	–	–	–	(20,000)	–	(20,000)
Segment profit	<u>51,556</u>	<u>103,524</u>	<u>89,248</u>	<u>181,274</u>	<u>–</u>	<u>425,602</u>
Unallocated corporate expenses						<u>(246,067)</u>
Profit from operations						179,535
Share of losses of jointly controlled entities				<u>(90,240)</u>		<u>(90,240)</u>
Profit before taxation						<u>89,295</u>

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (ii) Segment information about these businesses for the year ended 31 December 2008 is presented below: - continued

Segment assets and liabilities

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	38,347,147	29,158,388	183,804	382,208	68,071,547
Interests in jointly controlled entities				82,999	82,999
Unallocated corporate assets					222,772
Consolidated total assets					<u>68,377,318</u>
Liabilities					
Segment liabilities	59,594,953	2,535,119	137,056	41,089	62,308,217
Unallocated corporate liabilities					112,477
Consolidated total liabilities					<u>62,420,694</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	45,467	651	2,024	4,830	14,695	67,667
Depreciation	25,331	1,103	4,055	792	12,644	43,925
Release of prepaid lease payments for land	<u>3,496</u>	<u>69</u>	<u>446</u>	<u>2,091</u>	<u>2</u>	<u>6,104</u>

(b) Geographical information

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(b) Geographical information - continued

Details of geographical information are set out below:

	2009					
	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	Capital expenditure during the year HK\$'000
Hong Kong	1,275,930	246,705	68,439,215	62,917,441	15,331,875	20,682
Macau and Shantou, Mainland China	20,509	10,461	1,108,307	753,065	174,768	530
America	13,503	7,217	458,004	160,698	79,603	114
Total	<u>1,309,942</u>	<u>264,383</u>	<u>70,005,526</u>	<u>63,831,204</u>	<u>15,586,246</u>	<u>21,326</u>

	2008					
	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	Capital expenditure during the year HK\$'000
Hong Kong	1,123,459	47,197	66,291,572	61,423,248	15,270,371	59,502
Macau and Shantou, Mainland China	37,725	29,980	1,195,689	798,598	224,438	8,134
America	18,210	12,118	890,057	198,848	62,460	31
Total	<u>1,179,394</u>	<u>89,295</u>	<u>68,377,318</u>	<u>62,420,694</u>	<u>15,557,269</u>	<u>67,667</u>

Note: Total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial assets at fair value through profit or loss and other operating income.

4. NET INTEREST INCOME

	2009 HK\$'000	2008 HK\$'000
Interest income		
Short term funds and placements	168,991	606,587
Investments in securities	333,591	476,408
Loans and advances	<u>682,340</u>	<u>1,088,341</u>
	<u>1,184,922</u>	<u>2,171,336</u>
Interest expense		
Deposits and balances from banks and customers	(341,855)	(1,264,888)
Loan capital in issue	<u>(19,736)</u>	<u>(42,122)</u>
	<u>(361,591)</u>	<u>(1,307,010)</u>
Net interest income	<u>823,331</u>	<u>864,326</u>
Included within interest income		
Interest income on impaired loans and advances	<u>3,676</u>	<u>4,415</u>

Included within interest income and interest expense are HK\$1,180,125,000 (2008: HK\$2,156,946,000) and HK\$361,591,000 (2008: HK\$1,307,010,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

5. NET FEE AND COMMISSION INCOME

	2009 HK\$'000	2008 HK\$'000
Fees and commission income		
Securities dealings	208,063	139,266
Credit lines	12,683	8,034
Trade finance	11,290	14,409
Credit card services	47,560	49,214
Agency services	18,933	46,586
Others	8,770	7,711
Total fees and commission income	307,299	265,220
Less: Fees and commission expense	(43,670)	(48,419)
Net fees and commission income	<u>263,629</u>	<u>216,801</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fee income	75,099	73,911
- fee expense	(41,953)	(42,648)
	<u>33,146</u>	<u>31,263</u>

6. NET GAINS (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009 HK\$'000	2008 HK\$'000
Net gains (losses) on financial assets at fair value through profit or loss		
- designated at fair value through profit or loss	76,827	(123,908)
- held for trading	51	75,609
Net losses on fair value hedge	(118)	—
	<u>76,760</u>	<u>(48,299)</u>

7. OTHER OPERATING INCOME

	2009 HK\$'000	2008 HK\$'000
Dividend income		
Listed investments	4,585	9,773
Unlisted investments	3,482	3,080
Net gains on dealing in foreign currencies	36,300	42,985
Gross rents from investment properties		
Less: Outgoings	14,105 (1,210)	13,035 (948)
Net rental income	12,895	12,087
Safe deposit box rentals	26,415	25,702
Insurance underwriting profit	11,857	8,336
Other banking services income	41,983	41,508
Others	8,705	3,095
	<u>146,222</u>	<u>146,566</u>

8. OPERATING EXPENSES

	2009 HK\$'000	2008 HK\$'000
Actuarial loss on retirement scheme	–	21,862
Release of prepaid lease payments for land	6,075	6,104
Auditor's remuneration	3,935	3,678
Staff costs (including directors' emoluments)		
Salaries and other costs	376,887	393,953
Retirement benefits scheme contributions	19,586	29,779
Total staff costs	396,473	423,732
Depreciation	47,213	43,925
Premises and equipment expenses, excluding depreciation/amortisation		
Rentals and rates for premises	42,724	38,896
Others	20,698	22,247
Expenses relating to Minibonds Repurchase Scheme	287,717	–
Other operating expenses	173,580	211,987
	<u>978,415</u>	<u>772,431</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$37,335,000 (2008: HK\$34,655,000).

The Bank announced on 22 July 2009 that it had, without admission of any liability, entered into an agreement ("Repurchase Scheme") with the Securities and Futures Commission, the Hong Kong Monetary Authority and fifteen other distributing banks in relation to the repurchase of the Lehman Brothers Minibonds ("Minibonds"). The amount paid to repurchase the Minibonds together with other expenses under the Repurchase Scheme, amounting to HK\$287,717,000 in 2009, represents expenses incurred by the Bank to compensate its customers who had suffered from the collapse of the Lehman Brothers Group.

9. TAXATION

	2009 HK\$'000	2008 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	37,056	11,254
- (over) under provision in prior years	(1,352)	325
	<u>35,704</u>	<u>11,579</u>
Overseas taxation	1,898	6,027
Deferred tax (<i>note 22</i>)	(4,967)	11,069
	<u>32,635</u>	<u>28,675</u>

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the year.

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

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2009 HK\$'000	2008 HK\$'000
Profit before taxation	<u>264,383</u>	<u>89,295</u>
Tax at the domestic income tax rate of 16.5% (2008: 16.5%)	43,624	14,734
Tax effect of share of (profit) loss of jointly controlled entities	(5,126)	14,890
Tax effect of expenses not deductible for tax purpose	7,271	20,044
Tax effect of income not taxable for tax purpose	(11,700)	(21,746)
(Over) under provision in prior years	(1,595)	1,258
Effect of different tax rates of subsidiaries operating in other jurisdictions	161	(550)
Effect of changes in tax rates of deferred tax	–	45
Tax charge for the year	<u>32,635</u>	<u>28,675</u>

10. DIVIDENDS

	2009	2008
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
2009 Interim - HK\$0.08 (2008: 2008 Interim - HK\$0.15) per share	34,800	65,250
2008 Final - HK\$0.05 (2008: 2007 Final - HK\$0.44) per share	<u>21,750</u>	<u>191,400</u>
	<u>56,550</u>	<u>256,650</u>

The final dividend of HK\$0.20 per share in respect of the current financial year (2008: HK\$0.05) has been proposed by the directors and is subject to approval by the shareholders in the next annual general meeting.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Bank of HK\$231,748,000 (2008: HK\$60,620,000) and on 435,000,000 (2008: 435,000,000) ordinary shares in issue during the year.

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2009 (2008: nil).

12. CASH AND SHORT-TERM FUNDS

	2009	2008
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	4,427,240	4,087,415
Money at call and short notice	6,704,160	13,180,425
Exchange fund bills	<u>3,917,280</u>	<u>392,087</u>
	<u>15,048,680</u>	<u>17,659,927</u>

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2009			2008		
	Notional amount HK\$'000	Fair values		Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency related contracts	57,830	331	131	194,475	429	460
- Interest rate swaps	535,100	–	44,154	990,750	–	38,843
Derivatives held for hedging						
- Interest rate swaps	54,285	–	128	–	–	–
		<u>331</u>	<u>44,413</u>		<u>429</u>	<u>39,303</u>

The replacement costs and credit risk weighted amounts of derivative exposures are as follows:

	2009			2008		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Exchange rate contracts	57,830	331	535	194,475	429	876
Interest rate contracts	589,385	–	1,004	990,750	–	730
		<u>331</u>	<u>1,539</u>		<u>429</u>	<u>1,606</u>

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised on statements of financial position at fair value.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreement.

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 contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the reporting dates.

14. INVESTMENTS IN SECURITIES

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

Included in available-for-sale securities are financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,294,000 (2008: HK\$116,219,000). Impairment losses of HK\$115,018,000 (2008: HK\$99,579,000) has been recognised for these investments. All other available-for-sale securities and investments in securities are neither past due nor impaired.

Certain held-to-maturity certificates of deposit of approximately HK\$15,510,000 (2008: HK\$15,500,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

14. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008					
Equity securities:					
Listed in Hong Kong	113	–	76,976	–	77,089
Listed overseas	–	–	4,191	–	4,191
	113	–	81,167	–	81,280
Unlisted	–	–	62,965	–	62,965
	<u>113</u>	<u>–</u>	<u>144,132</u>	<u>–</u>	<u>144,245</u>
Debt securities:					
Certificates of deposit	–	–	–	558,720	558,720
Structured products	–	680,567	–	–	680,567
Other debt securities - Unlisted	–	–	52,395	9,168,965	9,221,360
	<u>–</u>	<u>680,567</u>	<u>52,395</u>	<u>9,727,685</u>	<u>10,460,647</u>
Total:					
Listed in Hong Kong	113	–	76,976	–	77,089
Listed overseas	–	–	4,191	–	4,191
Unlisted	–	680,567	115,360	9,727,685	10,523,612
	<u>113</u>	<u>680,567</u>	<u>196,527</u>	<u>9,727,685</u>	<u>10,604,892</u>
Market value of listed securities:					
Listed in Hong Kong	113	–	76,976	–	77,089
Listed overseas	–	–	4,191	–	4,191
	<u>113</u>	<u>–</u>	<u>81,167</u>	<u>–</u>	<u>81,280</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	289,181	289,181
Public sector entities	–	–	–	67,547	67,547
Bank and other financial institutions	–	275,085	42,615	8,033,861	8,351,561
Corporate entities	113	405,482	119,439	1,337,096	1,862,130
Others	–	–	34,473	–	34,473
	<u>113</u>	<u>680,567</u>	<u>196,527</u>	<u>9,727,685</u>	<u>10,604,892</u>

15. ADVANCES AND OTHER ACCOUNTS

	2009 HK\$'000	2008 HK\$'000
Advances to customers		
Bills receivable	302,986	334,215
Trade bills	118,258	165,293
Other advances to customers	<u>32,372,335</u>	<u>32,745,119</u>
	32,793,579	33,244,627
Interest receivable	90,429	138,721
Impairment allowances		
- Individually assessed	(25,905)	(5,799)
- Collectively assessed	<u>(108,096)</u>	<u>(108,988)</u>
	32,750,007	33,268,561
Advances to banks and other financial institutions	<u>114,683</u>	<u>116,412</u>
	32,864,690	33,384,973
Other accounts	<u>403,045</u>	<u>249,869</u>
	<u>33,267,735</u>	<u>33,634,842</u>

Included in the “Advances to banks and other financial institutions” of the Group is an amount of approximately HK\$114,683,000 (2008: HK\$116,412,000) 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.

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2009	5,799	108,988	114,787
Increase in impairment allowances	116,880	–	116,880
Amounts reversed	(13,694)	(897)	(14,591)
Amounts written off	(91,538)	–	(91,538)
Recoveries of advances written off in previous years	12,134	–	12,134
Unwinding effect of discount rate	(3,676)	–	(3,676)
Exchange difference	–	5	5
Balance at 31 December 2009	<u>25,905</u>	<u>108,096</u>	<u>134,001</u>

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2008	17,876	116,720	134,596
Increase in impairment allowances	144,819	–	144,819
Amounts reversed	(45,795)	(7,690)	(53,485)
Amounts written off	(141,853)	–	(141,853)
Recoveries of advances written off in previous years	35,167	–	35,167
Unwinding effect of discount rate	(4,415)	–	(4,415)
Exchange difference	–	(42)	(42)
Balance at 31 December 2008	<u>5,799</u>	<u>108,988</u>	<u>114,787</u>

15. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

	2009 HK\$'000	2008 HK\$'000
Gross impaired loans	53,707	100,574
Less: Impairment allowances under individual assessment	(25,905)	(5,799)
Net impaired loans	<u>27,802</u>	<u>94,775</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.16%</u>	<u>0.30%</u>
Market value of collateral pledged	<u>103,950</u>	<u>470,173</u>

16. INVESTMENT PROPERTIES

All of the Group's property interests held under operating leases to earn rentals and / or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

	2009 HK\$'000	2008 HK\$'000
At 1 January	129,801	60,241
Addition	–	30,000
Net increase in fair value recognised in the income statement	5,148	39,560
Disposals	(32,000)	–
Exchange adjustments	<u>250</u>	<u>–</u>
At 31 December	<u>103,199</u>	<u>129,801</u>

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

	2009 HK\$'000	2008 HK\$'000
Net gain on disposal of investment properties	26,000	–
Net gain on fair value adjustments on investment properties	<u>5,148</u>	<u>39,560</u>
	<u>31,148</u>	<u>39,560</u>

Investment properties owned by the Group were revalued at 31 December 2009 on an open market value basis by Vigers Hong Kong Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group comprises:

	2009 HK\$'000	2008 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	1,060	32,550
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	75,100	71,500
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	<u>27,039</u>	<u>25,751</u>
	<u>103,199</u>	<u>129,801</u>

17. PROPERTY AND EQUIPMENT

	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST			
At 1 January 2009	316,883	477,734	794,617
Additions	–	21,326	21,326
Disposals	(220)	(344)	(564)
Exchange adjustments	–	4	4
At 31 December 2009	<u>316,663</u>	<u>498,720</u>	<u>815,383</u>
ACCUMULATED DEPRECIATION			
At 1 January 2009	34,204	290,689	324,893
Provided for the year	6,624	40,589	47,213
Eliminated on disposals	(82)	(329)	(411)
At 31 December 2009	<u>40,746</u>	<u>330,949</u>	<u>371,695</u>
CARRYING AMOUNTS			
At 31 December 2009	<u>275,917</u>	<u>167,771</u>	<u>443,688</u>
At 1 January 2009	<u>282,679</u>	<u>187,045</u>	<u>469,724</u>
	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST			
At 1 January 2008	308,345	425,175	733,520
Additions	8,538	59,129	67,667
Disposals	–	(6,567)	(6,567)
Exchange adjustments	–	(3)	(3)
At 31 December 2008	<u>316,883</u>	<u>477,734</u>	<u>794,617</u>
ACCUMULATED DEPRECIATION			
At 1 January 2008	27,641	259,006	286,647
Provided for the year	6,563	37,362	43,925
Eliminated on disposals	–	(5,676)	(5,676)
Exchange adjustments	–	(3)	(3)
At 31 December 2008	<u>34,204</u>	<u>290,689</u>	<u>324,893</u>
CARRYING AMOUNTS			
At 31 December 2008	<u>282,679</u>	<u>187,045</u>	<u>469,724</u>
At 1 January 2008	<u>280,704</u>	<u>166,169</u>	<u>446,873</u>

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold buildings	Over the shorter of the term of the lease or 2%
Equipment	10% - 20%

17. PROPERTY AND EQUIPMENT - continued

The carrying amount of buildings shown above comprise:

	2009 HK\$'000	2008 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	207,380	211,918
Held in Hong Kong on medium-term lease (10-50 years unexpired)	61,556	63,498
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,981	7,263
	<u>275,917</u>	<u>282,679</u>

18. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments comprise:

	2009 HK\$'000	2008 HK\$'000
COST		
In Hong Kong held on:		
Leases of over 50 years	124,800	125,212
Leases of between 10 to 50 years	193,145	198,932
Outside Hong Kong held on:		
Leases of between 10 to 50 years	3,588	3,983
	<u>321,533</u>	<u>328,127</u>
Net book value at 1 January	328,127	334,231
Disposals	(519)	–
Release of prepaid operating lease payments	(6,075)	(6,104)
Net book value at 31 December	<u>321,533</u>	<u>328,127</u>
Analysed as:		
Current portion	6,075	6,104
Non-current portion	315,458	322,023
Total	<u>321,533</u>	<u>328,127</u>

The allocation of lease payments between leasehold land and building elements was performed by Vigers Hong Kong Limited, independent professionally qualified valuers.

19. DEPOSITS FROM CUSTOMERS

	2009	2008
	HK\$'000	HK\$'000
Demand deposits and current accounts	4,790,745	3,004,761
Savings deposits	19,644,533	13,835,350
Time, call and notice deposits	36,353,137	42,561,549
	<u>60,788,415</u>	<u>59,401,660</u>

Included in the balances is an aggregate amount of approximately HK\$59,749,000 (2008: HK\$147,110,000) representing deposits of companies and their subsidiaries having significant influence on the Group.

20. LOAN CAPITAL

	2009	2008
	HK\$'000	HK\$'000
US\$125 million callable floating rate subordinated notes due 2016	<u>967,199</u>	<u>965,454</u>

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

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

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

21. SHARE CAPITAL

	2009 & 2008
	HK\$'000
Authorised:	
600,000,000 shares of HK\$0.50 each	<u>300,000</u>
Issued and fully paid:	
435,000,000 shares of HK\$0.50 each	<u>217,500</u>

22. DEFERRED TAXATION

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

	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 2009	15,645	(18,428)	12,557	(3,491)	6,283
Charge to consolidated income statement for the year (<i>Note 9</i>)	(112)	(1,217)	(3,638)	–	(4,967)
Credit to other comprehensive income for the year	–	–	–	10,456	10,456
At 31 December 2009	<u>15,533</u>	<u>(19,645)</u>	<u>8,919</u>	<u>6,965</u>	<u>11,772</u>
At 1 January 2008	12,282	(19,726)	6,149	16,569	15,274
Charge to consolidated income statement for the year (<i>Note 9</i>)	3,363	1,298	6,408	–	11,069
Credit to other comprehensive income for the year	–	–	–	(20,060)	(20,060)
At 31 December 2008	<u>15,645</u>	<u>(18,428)</u>	<u>12,557</u>	<u>(3,491)</u>	<u>6,283</u>

23. IMPAIRMENT LOSS ON GOODWILL

In prior year, the Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited. The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2009, management has reviewed goodwill for impairment. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

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

Value in use is derived at by discounting the expected future cash flows at 12% discount rate. Management's financial model assumes a flat growth in underwriting profit. A goodwill impairment loss of HK\$10,000,000 (2008: HK\$20,000,000), representing the excess of the carrying amount above the value in use, has been recognised for the year ended 31 December 2009.

24. CONTINGENT LIABILITIES AND COMMITMENTS

	2009 HK\$'000	2008 HK\$'000
Contingent liabilities and commitments		
- contractual amounts		
Direct credit substitutes	790,690	647,442
Trade related contingencies	283,739	366,620
Forward asset purchases	3,234	13,548
Other commitments:		
Which are unconditionally cancellable without prior notice	4,969,184	4,703,352
With an original maturity of one year and under	7,717,628	8,105,056
With an original maturity of over one year	1,821,771	1,721,251
Lease commitments	72,846	73,506
	<u>15,659,092</u>	<u>15,630,775</u>

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

At the end of the reporting period, the Group had commitments for future minimum lease payments under these non-cancellable operating leases which fall due as follows:

	2009 HK\$'000	2008 HK\$'000
Within one year	30,034	28,532
In the second to fifth years inclusive	42,480	36,874
Over five years	332	1,043
	<u>72,846</u>	<u>66,449</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Capital commitments outstanding at the end of the reporting period are as follows:

	2009 HK\$'000	2008 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	3,234	13,548

The credit risk weighted amount of contingent liabilities and commitments is HK\$2,906,189,000 (2008: HK\$2,990,733,000).

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2009 HK\$'000	2008 HK\$'000
Within one year	3,890	1,148
In the second to fifth years inclusive	4,135	38
	<u>8,025</u>	<u>1,186</u>

25. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest and rental expenses	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and its subsidiaries	<u>7,733</u>	<u>7,030</u>	<u>23,271</u>	<u>26,567</u>
Jointly controlled entities	<u>12,154</u>	<u>18,788</u>	<u>2,725</u>	<u>6,624</u>
Directors and their associates	<u>11,926</u>	<u>24,046</u>	<u>6,040</u>	<u>14,202</u>

The above transactions were carried out at market rates.

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

	Amounts due from related parties		Amounts due to related parties	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and its subsidiaries	<u>—</u>	<u>—</u>	<u>59,749</u>	<u>147,110</u>
Jointly controlled entities	<u>53,790</u>	<u>59,743</u>	<u>96,034</u>	<u>148,992</u>
Directors and their associates	<u>1,434,806</u>	<u>1,695,469</u>	<u>530,733</u>	<u>621,189</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties.

Compensation of key management personnel

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

	2009	2008
	HK\$'000	HK\$'000
Short-term benefits	<u>52,749</u>	<u>54,769</u>
Post employment benefits	<u>2,460</u>	<u>3,996</u>
	<u>55,209</u>	<u>58,765</u>

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

UNAUDITED SUPPLEMENTARY FINANCIAL 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:

	31 December 2009				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,516,107	7,545	–	694,641	–
- Property investment	7,712,459	–	1,179	6,709,546	1,773
- Financial concerns	1,989,693	–	–	1,236,433	–
- Stockbrokers	311,064	167	–	256,687	–
- Wholesale and retail trade	1,018,952	–	33	685,397	696
- Manufacturing	1,414,234	381	12,820	592,610	13,356
- Transport and transport equipment	641,908	–	–	131,451	–
- Recreational activities	1,832	8	–	1,159	–
- Information technology	328	38	–	118	–
- Others	6,318,840	23,116	2,223	2,726,628	3,341
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	617,860	–	28	617,782	599
- Loans for the purchase of other residential properties	5,917,720	–	171	5,911,151	3,651
- Credit card advances	97,227	2,198	331	–	494
- Others	1,497,919	–	2,168	1,436,357	3,285
	29,056,143	33,453	18,953	20,999,960	27,195
Trade finance	692,339	20,255	5,393	231,044	10,156
Loans for use outside Hong Kong	3,045,097	54,388	1,559	1,595,524	16,356
	<u>32,793,579</u>	<u>108,096</u>	<u>25,905</u>	<u>22,826,528</u>	<u>53,707</u>

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

31 December 2008

	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	1,449,043	13,268	—	208,406	—
- Property investment	7,561,256	—	—	6,820,072	—
- Financial concerns	3,031,254	—	—	1,342,433	—
- Stockbrokers	157,647	186	523	140,359	523
- Wholesale and retail trade	976,687	1,265	115	685,344	115
- Manufacturing	2,051,389	6,960	16	1,045,633	223
- Transport and transport equipment	932,535	—	—	275,741	—
- Recreational activities	2,535	8	—	1,284	—
- Information technology	198	24	—	10	—
- Others	5,296,954	14,241	145	2,322,465	26,646
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	693,850	—	382	693,468	1,607
- Loans for the purchase of other residential properties	5,456,764	3,503	—	5,452,820	—
- Credit card advances	116,180	4,225	220	—	252
- Others	<u>1,557,603</u>	<u>2,340</u>	<u>2,882</u>	<u>1,515,209</u>	<u>6,785</u>
	29,283,895	46,020	4,283	20,503,244	36,151
Trade finance	804,393	7,026	—	143,778	—
Loans for use outside Hong Kong	<u>3,156,339</u>	<u>55,942</u>	<u>1,516</u>	<u>1,727,937</u>	<u>64,423</u>
	<u><u>33,244,627</u></u>	<u><u>108,988</u></u>	<u><u>5,799</u></u>	<u><u>22,374,959</u></u>	<u><u>100,574</u></u>

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2009 and 2008 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2009		
	Advance overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	2,838	12	–
- Others	4,874	28,435	24,146
Individuals			
- Loans for the purchase of other residential properties	<u>6,698</u>	<u>743</u>	<u>380</u>
	2008		
	Advance overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	1,773	4,218	4,218
- Others	33,331	33,398	33,010
Individuals			
- Loans for the purchase of other residential properties	<u>2,591</u>	<u>309</u>	<u>309</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:

31 December 2009					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	31,088,554	32,085	37,351	24,346	98,748
People's Republic of China	396,303	3,642	3,642	1,305	3,557
Macau	143,159	–	–	–	616
America	388,867	12,714	12,714	254	5,175
Others	776,696	–	–	–	–
	<u>32,793,579</u>	<u>48,441</u>	<u>53,707</u>	<u>25,905</u>	<u>108,096</u>

31 December 2008					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	31,321,381	60,449	45,200	4,283	96,699
People's Republic of China	382,921	55,374	55,374	1,516	3,123
Macau	465,661	–	–	–	3,741
America	332,277	–	–	–	5,425
Others	742,387	–	–	–	–
	<u>33,244,627</u>	<u>115,823</u>	<u>100,574</u>	<u>5,799</u>	<u>108,988</u>

3. CROSS-BORDER CLAIMS

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

	2009			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	12,509,722	119,294	754,727	13,383,743
- of which - China	5,159,827	24,266	578,685	5,762,778
- of which - Australia	3,226,306	936	518	3,227,760
- of which - Japan	3,004,146	937	8,807	3,013,890
North America	934,459	16,036	1,986,426	2,936,921
Europe	10,703,175	1,334	10,866	10,715,375
- of which - United Kingdom	3,320,357	339	246	3,320,942
- of which - France	<u>3,065,360</u>	<u>–</u>	<u>88</u>	<u>3,065,448</u>

	2008			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	11,242,497	123,761	1,012,291	12,378,549
- of which - Australia	3,758,143	748	–	3,758,891
North America	4,568,927	221,934	1,797,634	6,588,495
Europe	12,287,010	1,912	188,463	12,477,385
- of which - United Kingdom	3,055,283	408	6,451	3,062,142
- of which - Germany	<u>1,420,110</u>	<u>1,319</u>	<u>11,331</u>	<u>1,432,760</u>

4. 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:

			2009		
	US\$	MOP	RMB	AUD	Total
Equivalent in thousand of HK\$					
Spot assets	10,635,242	115,003	1,079,649	3,684,953	15,514,847
Spot liabilities	(10,754,629)	(116,923)	(1,046,456)	(3,688,974)	(15,606,982)
Forward purchases	188,874	–	3,749	14,306	206,929
Forward sales	<u>(67,026)</u>	<u>–</u>	<u>(28,403)</u>	<u>(8,473)</u>	<u>(103,902)</u>
Net long position	<u>2,461</u>	<u>(1,920)</u>	<u>8,539</u>	<u>1,812</u>	<u>10,892</u>
			MOP	RMB	Total
Net structural position			<u>48,545</u>	<u>105,169</u>	<u>153,714</u>
				2008	
			US\$	RMB	Total
Equivalent in thousand of HK\$					
Spot assets			14,503,430	1,018,686	15,522,116
Spot liabilities			(14,382,115)	(1,014,101)	(15,396,216)
Forward purchases			103,447	1,588	105,035
Forward sales			<u>(213,210)</u>	<u>–</u>	<u>(213,210)</u>
Net long position			<u>11,552</u>	<u>6,173</u>	<u>17,725</u>
			MOP	RMB	Total
Net structural position			<u>48,545</u>	<u>105,169</u>	<u>153,714</u>

5. OVERDUE AND RESCHEDULED ASSETS

	2009	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	11,936	0.0
- 1 year or less but over 6 months	5,136	0.0
- over 1 year	31,369	0.1
Total overdue advances	48,441	0.1
Rescheduled advances	321,447	1.0
Individual impairment allowances made in respect of overdue loans and advances	10,475	
	2008	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	5,225	0.0
- 1 year or less but over 6 months	4,505	0.0
- over 1 year	106,093	0.3
Total overdue advances	<u>115,823</u>	<u>0.3</u>
Rescheduled advances	<u>169,090</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>4,999</u>	

The value of the security of the above overdue advances is analysed as follows:

	2009 HK\$'000	2008 HK\$'000
Covered portion of overdue loans and advances	25,724	92,444
Uncovered portion of overdue loans and advances	22,717	23,379
	48,441	<u>115,823</u>
Market value of collateral held against covered portion of overdue loans and advances	159,183	<u>572,188</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 31 December 2009 and 31 December 2008, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2009 amounted to HK\$21,238,000 (2008: HK\$28,394,000).

6. NON-BANK MAINLAND EXPOSURES

	31 December 2009			
	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	978,122	180,000	1,158,122	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,299,484	723,477	4,022,961	3,622
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	10,047	–	10,047	–
	<u>4,287,653</u>	<u>903,477</u>	<u>5,191,130</u>	<u>3,622</u>
	31 December 2008			
	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	733,314	104,662	837,976	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,011,084	1,087,724	4,098,808	1,532
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	980	–	980	–
	<u>3,745,378</u>	<u>1,192,386</u>	<u>4,937,764</u>	<u>1,532</u>

7. LIQUIDITY RATIO

	2009	2008
	%	%
Average liquidity ratio for the year	<u>48.78</u>	<u>50.48</u>

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. CAPITAL ADEQUACY RATIO

	2009	2008
	%	%
Capital adequacy ratio	15.95	15.64
Core capital ratio	12.72	12.55

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

8. CAPITAL ADEQUACY RATIO - continued

Capital base

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

	2009 HK\$'000	2008 HK\$'000
Core capital		
Paid-up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,491,579	3,346,050
Profit and loss account	(87,537)	78,501
Less: Net deferred tax assets	—	(1)
Total core capital	<u>5,164,359</u>	<u>5,184,867</u>
Other deductions from core capital	<u>(122,809)</u>	<u>(143,357)</u>
Core capital after deductions	<u>5,041,550</u>	<u>5,041,510</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	5,502	5,755
Collective impairment allowances	108,096	108,988
Regulatory reserve for general banking risks	287,000	307,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	13,611	—
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	24,206	—
Term subordinated debt	<u>967,199</u>	<u>965,454</u>
Total supplementary capital	<u>1,405,614</u>	<u>1,387,197</u>
Other deductions from supplementary capital	<u>(122,809)</u>	<u>(143,357)</u>
Supplementary capital after deductions	<u>1,282,805</u>	<u>1,243,840</u>
Total capital base after deductions	<u><u>6,324,355</u></u>	<u><u>6,285,350</u></u>

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.

9. BASIS OF CONSOLIDATION

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

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

10. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Liu Chong Hing Banking Corporation, Cayman

Right Way Investments Limited

STATEMENT OF COMPLIANCE

In preparing the accounts for 2009, the Bank has fully complied with the Banking (Disclosure) Rules.

FINAL DIVIDEND

The directors will recommend at the forthcoming annual general meeting of the shareholders to be held on Wednesday, 28 April 2010 the payment of the final cash dividend for 2009 of HK\$0.20 per share. This final cash dividend, if approved, will be paid on Thursday, 29 April 2010 to shareholders whose names are listed on the register of members of the Bank on Friday, 23 April 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Wednesday, 21 April 2010 to Friday, 23 April 2010 (both days inclusive), during which period no transfer of shares can be registered. In order to be entitled to attend and vote at the 2010 annual general meeting of the shareholders, and to qualify for the final 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 Tuesday, 20 April 2010.

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 during the year.

CORPORATE GOVERNANCE

The directors confirm that, for the financial year ended 31 December 2009, 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 financial year ended 31 December 2009, 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 Annual Report 2009, 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 websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

CHAIRMAN'S STATEMENT

Economic Review

In 2009, the US Federal Reserve Board ("FRB") and other central banks one by one rolled out relief measures in a bid to stimulate the economies, thereby successfully curbing deterioration of the economic crisis and turning around the recessing global economy. The US economy stopped falling and began to pick up in the third quarter of 2009. This was generally deemed by the market as a sign of the end of economic recession. After its last rate fixing in 2009, the FRB announced that it would keep the target range for the federal funds rate at 0% to 0.25% and that it would maintain such a low rate for a relatively extended period to facilitate a steady economic recovery. Paving the way for an exit, the FRB then also announced the gradual withdrawal of emergency credit facilities as a form of relief measures, and the completion of asset-backed securities transactions in the first quarter of 2010.

Hong Kong's gross domestic product has continued to improve on an annualised basis since the second quarter of 2009, so has her unemployment rate since the third quarter of 2009. Adoption of lax monetary policies by the various nations one after the other has resulted in a tremendous influx of hot money to Hong Kong, boosting performance of the local stock market. The Hang Seng Index surged by 52% in 2009, the biggest annual rise in ten years. The property market was also buoyant, with the number of registered transactions up by over 18% when compared with that of last year. Gross value of property returned to the HK\$500 billion mark, representing a year-on-year growth of about 25% and the third highest in record.

Results Announcement

For the financial year of 2009, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$232 million, an increase of 282% over that for the year before, translating into earnings of HK\$0.53 per share. Net asset value per share (before final dividend), compared with the net asset value per share for the previous year, increased 4% to HK\$14.19. Improvement in market conditions had led to a 49% increase in securities dealings fees and commission income, which offset the reduction in income from the wealth management business, and revaluation gains on financial assets reversing the losses made in 2008. There had been significant reduction in the impairment loss on available-for-sales securities as the majority of investments in structured investment vehicles had been written off in the previous years. Results of jointly controlled entities had also improved contributing to a profit of HK\$32 million for the year as compared to a loss of HK\$90 million in 2008.

As of 31 December 2009, compared with the figures as of 31 December 2008, total customers' deposits increased 2% to HK\$60,788 million and total loans to customers (after accounting for impairment allowances) decreased 2% to HK\$32,750 million. Capital adequacy ratio increased 2% to 15.95%, while average liquidity ratio for the year decreased 3% to 48.78%. Loan-to-deposit ratio decreased 4% to 49.57%. Gross impaired loans as a percentage of gross advances to customers decreased 47% to 0.16%. Total assets increased 2% to HK\$70,006 million. Shareholders' funds (before final dividend) increased 4% to HK\$6,174 million. Your board has recommended paying the final cash dividend of HK\$0.20 per share for the financial year of 2009 to shareholders whose names appear in the Register of Members at the close of business on Friday, 23 April 2010. Total dividends for the financial year of 2009 (including the interim cash dividend of HK\$0.08 per share paid earlier) amounted to HK\$0.28 per share.

Profit Analysis

For the financial year of 2009, on an audited, consolidated basis, net interest income decreased 5% from that of 2008 to HK\$823 million. Interest margin decreased 4% to 1.23% as expected in such low interest rate environment with ample liquidity in the Hong Kong dollar market. After accounting for the net fee and commission income, which amounted to HK\$264 million, net gains on financial assets at fair value through profit or loss, which amounted to HK\$77 million and other operating income, which amounted to HK\$146 million, total operating income was HK\$1,310 million and total operating expense was HK\$978 million. Even though total staff costs were reduced by 6%, total operating expense increased by 27% because of expenses related to Lehman Brothers Minibonds (“Minibonds”) as explained below. Cost-to-income ratio increased 14% to 74.69%. Operating profit before impairment allowances and net gain on disposal decreased 19% to HK\$332 million. The Bank made impairment allowances on loans and advances in the amount of HK\$102 million, an increase of 12% against those made for 2008. Although impairment allowances newly made for 2009 decreased 19% to HK\$117 million, there was an overall increase in impairment allowances because the amounts reversed from recovery were lower than those of the corresponding period in 2008. The Bank announced on 22 July 2009 that it had, without admission of any liability, entered into an agreement (“Repurchase Scheme”) with the Securities and Futures Commission, the Hong Kong Monetary Authority and fifteen other distributing banks in relation to the repurchase of the Minibonds. The amount paid to repurchase the Minibonds together with other expenses under the Repurchase Scheme, amounting to HK\$288 million in 2009, represents expenses incurred by the Bank to compensate its customers who had suffered from the collapse of the Lehman Brothers Group. All in all, the Bank has made full provisions for its exposures to structured investment vehicles and the Minibonds. Besides, the Bank’s exposures to financial institutions are confined to those with high credit ratings and its exposures to countries are likewise limited to those with strong financial positions. The exit strategies contemplated by the various governments (including the withdrawal of hot money) are, therefore, not expected to have any likely untoward effect on the Bank whose capital adequacy and liquidity ratios are well above the relevant statutory requirements. Moreover, the Bank’s core business lines and overall financial health are sound, and its non-performing loan ratio low and asset quality good.

Business Review

Corporate and Retail Banking

Loan Business

The economy continued to improve in recent months and the local property market remained stable. Compared with the corresponding period last year, the Bank recorded over 20% and 40% of growth respectively in the number and amount of residential mortgage loans for 2009. In the first half of 2009, the Bank was conservative in granting new personal loans in light of grim economic conditions. As the loans market subsequently turned active with risks comparatively reduced in the second half of the year, the Bank actively promoted its business.

In respect of corporate loans, the Bank highly supported the Hong Kong Government’s Loan Guarantee Scheme and Special Loan Guarantee Scheme for the small and medium-sized enterprises (“SME”), helping SME clients ride through difficult times. As a consequence, the Bank recorded notable growth in wholesale and retail trade-related loans. Moreover, the Bank also strove for syndication loans in anticipation of new business opportunities that might emerge from the imminent commencement of various infrastructure projects funded by the Hong Kong and the Central Government. All in all, we will remain prudent in granting loans, continue to optimise our corporate loans portfolio, and strengthen cooperation with corporate clients of high quality and potential so as to expand our client base on a prudent basis.

Card Business

As the economy began to pick up somewhat since the second half of 2009, the Bank recorded growth in the number of credit cards issued compared with that of the corresponding period last year.

In 2009, the Bank launched a brand new, limited edition Chong Hing “China Unionpay Gift Card” featuring a card face design of the Shanghai townscape. With a comprehensive array of Shanghai well-known year-round merchant offers, the card facilitates holders’ consumption and withdrawals in the Mainland. In addition, the Bank has successfully obtained approval from China Unionpay Company Limited (“CUP”) to launch and operate “CUPSecure Internet Merchant Acquiring Services”, which enables the vast group of mainland CUP cardholders to conduct transactions via CUPSecure. Becoming one of the few banks that provide such service in Hong Kong complemented and reinforced the Bank’s internet merchant acquiring services with enhanced profit potential. The service is well received by merchants.

The Bank will continue to strive to develop such internet merchant acquiring services to strengthen its merchant acquiring services, while maintaining healthy business growth by expanding its card business.

Internet Banking Services

The Bank revamped its website in 2009 to provide comprehensive banking service information with convenient navigation features for customers and the general public. After the launch of the revamped website, the number of online visitors increased considerably and the number of registered online banking users continued to grow throughout 2009. The Bank will continue to roll out more convenient services and enhance its service quality and efficiency to attract more online banking users. At present, we are updating our online banking website with an eye to bringing about an enhanced user experience.

China Business

The Bank proactively expanded its mainland business in 2009, with Shantou Branch recording steady growth in both Renminbi deposits and loans over the previous year. In October 2009, our Shantou Branch received approval to take fixed deposits from PRC citizens with a minimum amount of RMB1 million for each transaction. The Bank plans to set up more branches or sub-branches in other Guangdong cities in due course.

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 been careful with its liquidity management and strives to maintain a relatively high level of liquidity position. Taking the lesson of the 2008 financial tsunami, the Bank has strengthened its liquidity management by introducing strategies to access liquidity from different markets when necessary. In managing the net interest margin, the Bank has increased its investments in debt securities to mitigate the stress on interest income due to the low and flattening money market yield curves.

Securities Business

Chong Hing Securities Limited (“Chong Hing Securities”), a wholly-owned subsidiary of the Bank, performed well and recorded encouraging profit growth in 2009. The number of users of and transactions conducted through “Chong Hing i-Web Stock Trading Service” increased substantially, reflecting the wide acceptance of our securities service by customers. As part of business development, Chong Hing Securities continued to expand its electronic securities trading services. In January 2010, “Chong Hing Mobile Securities Service” was launched, enabling customers to conveniently conduct stock transactions online anywhere using their smartphones or personal digital assistant devices. In November 2009, Chong Hing Securities opened a branch in Tsuen Wan. Chong Hing Securities will continue to expand its service network so as to fuel the growth of its securities business.

Other Banking-related Services

Insurance Business

The insurance industry has benefited from the recovery of the local economy. Chong Hing Insurance Company Limited, a wholly-owned subsidiary of the Bank, recorded double-digit growth in profit before tax along with double insurance underwriting profit for 2009. Looking ahead into 2010, Chong Hing Insurance Company Limited will continue to capitalise upon the support of the Bank’s business and branch networks and aggressively expand SME insurance services in line with the Bank’s development strategy, thereby maintaining satisfactory growth in turnover for the coming year.

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 continues to expand its service network. In early August 2009, a new branch was opened in Tai Po to increase the number of local branches to 51 besides the headquarters in Central.

The Bank has also taken proactive initiatives to help the community. In 2009, our primary donation beneficiary was Gracefield East Kowloon Christian Kindergarten, which mainly focuses on serving children from low-income, single-parent or other needy families. The donation will be used as school fee subsidies and other teaching expenses. In addition, the Bank also actively participated in and supported activities of other charitable organisations, such as Hong Kong Community Chest, Tung Wah Group of Hospitals and Po Leung Kuk, fulfilling its social responsibility as a “Caring Company” awarded by the Hong Kong Council of Social Service.

In January 2007, the Bank received overwhelming support when it encouraged its guests to make cash donations instead of sending flower bouquets to celebrate the renaming and the grand opening of its new headquarters building. The donations were matched by the Bank’s own contributions on a dollar-for-dollar basis to fund education projects in certain impoverished regions in the Mainland. To date, nine primary schools in the Mainland have received reconstruction sponsorships from the Bank. In December 2009, construction was completed for the new lecture building of a primary school in Shaanxi Province, which was officially christened “Min Feng Chong Hing Primary School”. Representatives of the Bank attended the grand opening ceremony, witnessing the fruition of charitable deeds of the Bank and its many guests.

Corporate Governance

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

Economic Outlook

In early 2009, the National Development and Reform Commission published the “Outline of the Plan for the Reform and Development of the Pearl River Delta” (“Outline”), which elevates Guangdong-Hong Kong cooperation to the level of national development, reinforces the leading position of Hong Kong as an international finance centre and further opens up the Pearl River Delta to boost industry development. By combining the complementary strengths and advantages of Guangdong, Hong Kong and Macau through interregional cooperation, the Outline aims to develop them into one of the most competitive and exceptionally large metropolitan areas in the world. This is expected to present immense opportunities to Hong Kong. In August 2009, an expert group on financial cooperation was established between Guangdong and Hong Kong. Tasked to explore means to capitalise on the policy stature of Guangdong Province as an “early and pilot implementation” region, the expert group will discuss strengthened cooperation between the two places in various financial sectors, including securities, banking, Renminbi and insurance businesses. In particular, the two governments intended to obtain approval from the Central Government for Guangdong enterprises to issue Renminbi bonds in Hong Kong. In September 2009, the Central Government issued Renminbi sovereign bonds in Hong Kong, the first such issuance outside the Mainland. Recently, Hong Kong also commenced Renminbi clearing services. The expert group’s proposal, if approved by the Central Government, is expected to facilitate Hong Kong’s development into a Renminbi offshore centre.

With the combined blessings of the motherland’s headstart economic rebound, continued support from the Central Government and a series of relief measures introduced by the Hong Kong Government, the local economy was back on a rising track. Taping into the opportunities and the favourable economic stimulation policy of the Central Government, the Hong Kong Government aggressively promoted the sustainable development of Hong Kong. We at the Bank are pleased to see the steady recovery of the economy and share the public aspiration for a sustained economic growth.

Sincere Acknowledgements

Mr Liu Lit Man, for reasons of age and health, has retired as the Executive Chairman and an Executive Director of the Bank with effect from 25 November 2009. In recognition of his invaluable contributions to the Bank, your board has appointed Mr Liu, although no longer a member of your board, as Honorary Chairman with effect from that same date. I, as the Chairman succeeding Mr Liu, would like to express my heartfelt thanks to our many customers and shareholders for their trust and support, to all my fellow directors for their wise stewardship, and to the management and the staff for their commitment and dedication.

REVIEW OF FINANCIAL REPORT

This financial report has been reviewed by the Bank's Audit Committee.

BOARD OF DIRECTORS

As of the date of this announcement, the 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 non-executive directors are Mr Timothy George Freshwater, Mr Wang Xiaoming, Mr Andrew Liu, Mr Eiichi Yoshikawa, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.

By Order of the Board

Liu Lit Mo

Chairman

3 March 2010