



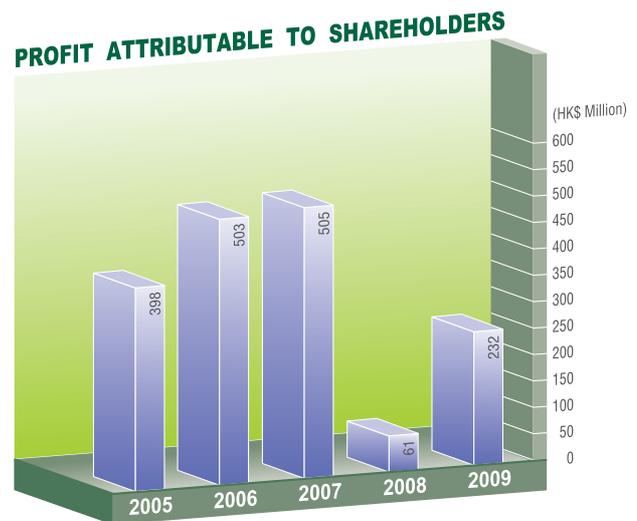
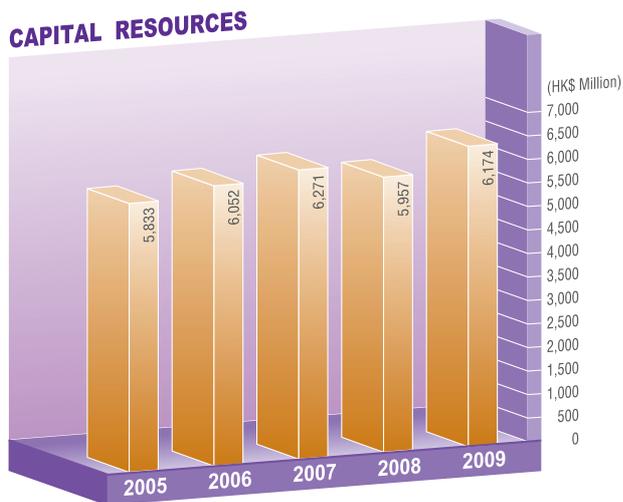
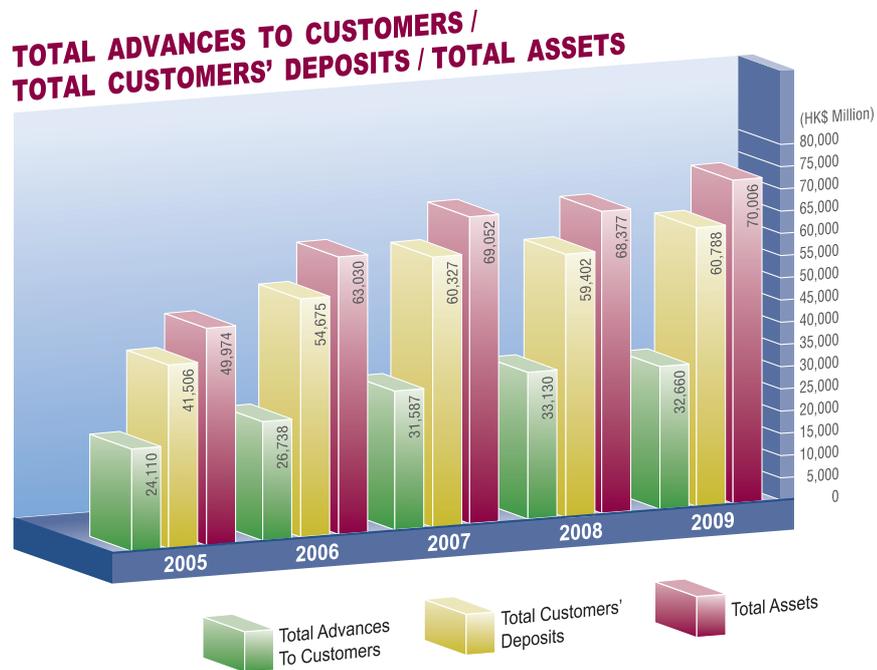
創興銀行有限公司
Chong Hing Bank Limited

2009

ANNUAL REPORT 2009
www.chbank.com

CONTENTS

2	Five-year Financial Summary
3	Corporate Information
10	Abridged Corporate Structure
11	Share Trading Summary
12	Shareholders' Calendar
13	Notice of Annual General Meeting
16	Chairman's Statement
24	Directors' Report
32	Corporate Governance Report
38	Independent Auditor's Report
39	Financial Statements
41	Consolidated Income Statement
42	Consolidated Statement of Comprehensive Income
43	Consolidated Statement of Financial Position
44	Statement of Financial Position
45	Consolidated Statement of Changes in Equity
46	Consolidated Statement of Cash Flows
48	Notes to the Financial Statements
135	Unaudited Supplementary Financial Information
153	Disclosure of Changes in Directors' Information
154	Head Office, Branches, Principal Subsidiaries and Affiliates



Honorary Chairman

Mr LIU Lit Man, GBS, JP, FIBA

Board of Directors**Executive Directors**

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

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

Mr Don Tit Shing LIU
(Deputy Chief Executive Officer)

Mr LAU Wai Man
(Deputy Chief Executive Officer)

Mr Wilfred Chun Ning LIU

Mr TSANG Chiu Wing

Mr WONG Har Kar

Non-executive Directors

Mr Timothy George FRESHWATER

Mr WANG Xiaoming

Mr Andrew LIU

Mr Eiichi YOSHIKAWA

Mr Christopher Kwun Shing LIU

Mr Alfred Cheuk Yu CHOW, BBS, JP

Mr MENG Qinghui

Independent Non-executive Directors

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

Mr Wanchai CHIRANAKHORN

Mr CHENG Yuk Wo

Mr Andrew Chiu Cheung MA

General Managers

Mr Patrick Siu Cheung WAT
Retail Banking Division

Mr Frederick Hoi Kit CHAN
Finance & Treasury Management Division

Mr Kevin Wai Hung CHU
Wealth Management Division

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

Ms Teresa Yuen Wah LEE
Corporate & Commercial Banking Division

Registered Office

Ground Floor, Chong Hing Bank Centre
24 Des Voeux Road Central, Hong Kong
Telephone : (852) 3768 1111
Facsimile : (852) 3768 1888
Telex : 75700 LCHB HX
SWIFT BIC : LCHB HK HH
Website : <http://www.chbank.com>
E-mail : info@chbank.com

Principal Legal Advisers

Anthony Chiang & Partners
Deacons
K C Ho & Fong
Kwan & Chow

Auditors

Deloitte Touche Tohmatsu

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Stock Codes and Short Names

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

BIOGRAPHICAL DATA ABOUT DIRECTORS AND SENIOR MANAGEMENT**Board of Directors*****Executive Directors*****# Dr LIU Lit Mo, LLD, MBE, JP**

aged 72, is the Chairman of the Bank. He was appointed a Director in 1958 and was a Deputy Managing Director of the Bank from 1961 to 1973. Dr Liu is also the Chairman and Managing Director of Liu Chong Hing Investment Limited and a Director of China Motor Bus Company Limited. As for community service, Dr Liu was the Chairman of Tung Wah Group of Hospitals in 1967 and is now serving as an Adviser of the Group. He had also been President of the Hong Kong Chiu Chow Chamber of Commerce, Chairman of Hong Kong Football Association and District Governor of District 3450, Rotary International. Presently, he is a member of the Board of Trustees of United College, The Chinese University of Hong Kong and a Manager of Liu Po Shan Memorial College. He was awarded Silver Jubilee medal by Her Majesty the Queen in 1977. Dr Liu was conferred an Honorary Doctor's Degree in Laws by the Lingnan University in 2005.

Mr LIU Lit Chi

aged 70, is the Managing Director and Chief Executive Officer of the Bank. Mr Liu, who was educated in Hong Kong and the United Kingdom, was appointed as a Director since 1958 and an Executive Director since 1961. Mr Liu is also an Executive Director of Liu Chong Hing Investment Limited since 1972 and holds directorship in a number of companies in Hong Kong and elsewhere.

Mr Don Tit Shing LIU

aged 47, is an Executive Director and Deputy Chief Executive Officer of the Bank. He graduated from Oxford University and is an associate member of the Institute of Chartered Accountants in England & Wales and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Liu joined the Bank in 1992.

Mr LAU Wai Man

aged 51, is an Executive Director and Deputy Chief Executive Officer in charge of the China and Overseas Banking Division of the Bank. He holds a Bachelor of Law degree and a Master of Business Administration degree. Mr Lau is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and a Certified Financial Planner^{CM}. He was a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988 and became a Director of the Bank in August 2001. He was appointed a Deputy Chief Executive Officer of the Bank in July 2007. Before joining the Bank, he had worked for an international bank and an international accounting firm.

Mr Wilfred Chun Ning LIU

aged 48, is an Executive Director in charge of the Securities Business Division of the Bank. He holds a Bachelor's degree in Economics from University of Newcastle-upon-Tyne (UK). He joined the Bank in 1993 and became a Director in 1998.

Mr TSANG Chiu Wing

aged 52, is an Executive Director in charge of the Information Technology Division of the Bank. He holds a Master of Science degree in Electronic Commerce and Internet Computing from the University of Hong Kong, and is a member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr Tsang joined the Bank in 2000 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

Mr WONG Har Kar

aged 57, is an Executive Director in charge of the Credit Risk Management Division of the Bank. He is a member of the Institute of Chartered Accountants in England & Wales and the Hong Kong Institute of Certified Public Accountants. Mr Wong joined the Bank in 2002 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

Non-executive Directors**Mr Timothy George FRESHWATER**

aged 65, was redesignated from independent non-executive director, an office that he had held since April 1997, to non-executive director of the Bank in September 2004. He is a solicitor in the UK and Hong Kong and is a past President of the Law Society of Hong Kong. After graduating from Cambridge University, he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years, leaving in July 1996 to join Jardine Fleming. He became Chairman of Jardine Fleming in 1999. In 2001, Mr Freshwater joined Goldman Sachs (Asia) L.L.C. and is now Vice Chairman.

Mr WANG Xiaoming

aged 54, has been a member of the Board since March 2008. He has been the Executive Director of the Board of COSCO International Holdings Limited since January 2006. Mr Wang is also a Director of COSCO (Hong Kong) Group Limited and the Chief Financial Officer of COSCO (H.K.) Shipping Co., Limited. Mr Wang graduated from Shanghai Maritime University, the PRC, majoring in accounting and has the senior accountant qualification awarded by Ministry of Communications of the PRC. Mr Wang had been the Deputy Manager of the Audit Department of China Ocean Shipping (Group) Company, Finance Manager of COSCO Bulk Carrier Co. Limited, Deputy General Manager of Finance Division of China Ocean Shipping (Group) Company and General Manager of COSCO Finance Co. Limited. He has extensive experience in corporate financial management.

Mr Andrew LIU

aged 54, a member of the Board since 1977, was redesignated from executive director to non-executive director of the Bank in May 1999. Mr Liu is also a director of Liu Chong Hing Investment Limited. He is the Chief Executive Officer of Uitas Capital Pte Ltd (formerly known as “CCMP Capital Asia Pte Ltd”). Mr Liu, holder of a Master of Arts degree from the Oxford University in England, was a solicitor with Slaughter and May in London before joining Morgan Stanley & Co Inc in New York in 1981. Mr Liu was promoted to Managing Director in 1990 before relocating to Morgan Stanley Asia Limited in Hong Kong, where he assumed the position of President and Managing Director until his resignation in September 1997. Mr Liu remains associated with Morgan Stanley as an Advisory Director.

Mr Eiichi YOSHIKAWA

aged 53, has been a Non-executive Director of the Bank since July 2007. Mr Yoshikawa is Executive Officer, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Ltd, Hong Kong Branch. He joined The Bank of Tokyo, Ltd (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd) in 1981 and has more than 28 years of experience in banking. Mr Yoshikawa's expertise lies in the area of Corporate Banking, Treasury and Corporate Planning activities. During this period, Mr Yoshikawa has been appointed to work in Ministry of Finance of Japan (currently Financial Service Agency of Japan), New York Office of Treasury Division, Tokyo-Mitsubishi Securities Co., Ltd (currently Mitsubishi UFJ Securities Co., Ltd). He has been a Director of Mitsubishi UFJ Securities (HK) Holdings Limited since 13 March 2007. He served as General Manager of Osaka Corporate Banking Division No. 3 before he was appointed to the current position at The Bank of Tokyo-Mitsubishi UFJ, Ltd on 25 January 2007. Mr Yoshikawa graduated from The University of Tokyo in 1981 with a Bachelor's degree in Law.

Mr Christopher Kwun Shing LIU

aged 34, became a director of the Bank in 2002 after having served as alternate director to Dr Liu Lit Chung (a former director of the Bank) between July 2000 and July 2002. Mr Liu is an executive director of Liu Chong Hing Investment Limited (the Bank's controlling shareholder), a post which he has held since August 2008 following a re-designation from his previous role since 2000 as non-executive director of the company and alternate director to Dr Liu Lit Chung (who is a non-executive director of the company). A holder of a Master of Arts degree in Jurisprudence from the University of Oxford, Mr Liu is a qualified solicitor in both England & Wales and Hong Kong. Prior to his joining Liu Chong Hing Investment Limited on a full-time basis, he was a partner of Deacons in Hong Kong focusing on corporate finance, mergers and acquisitions and private equity matters, and currently remains as an advisory legal counsel of the international law firm.

Mr Alfred Cheuk Yu CHOW, BBS, JP

aged 59, a member of the Board since February 2003, was redesignated from independent non-executive director to non-executive director of the Bank in September 2004. He graduated from the University of Hong Kong with a Bachelor of Laws Degree and a Master of Social Sciences (Public Administration) Degree. With 17 years working experience in the civil service and over 25 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors, a law firm in Hong Kong. He is also a China-Appointed Attesting Officer.

Mr MENG Qinghui

aged 54, has been a member of the Board since March 2008. Mr Meng was redesignated from executive director to non-executive director of COSCO International Holdings Limited on 7 July 2008. He is also the Managing Director of Finance Division of COSCO (Hong Kong) Group Limited and the Non-executive Director of Soundwill Holdings Limited. Mr Meng graduated from Central South University and has the PRC accountant qualification. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

Independent Non-executive Directors**Dr Robin Yau Hing CHAN, GBS, LLD, JP**

aged 77, a member of the Board since October 1981, was redesignated from non-executive director to independent non-executive director of the Bank in April 2005. Dr Chan is the Ex-officio Life Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong and the Vice Chairman of All-China Federation of Returned Overseas Chinese. Dr Chan had been a Deputy to the National People's Congress of the People's Republic of China from March 1988 to February 2008. Dr Chan, the Chairman of Asia Financial Holdings Limited, also serves as an independent non-executive director of K. Wah International Holdings Limited and Keck Seng Investments (Hong Kong) Limited respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Mr Wanchai CHIRANAKHORN

aged 70, an Independent Non-executive Director since September 1998, is the Chairman of Executive Board of Directors of C Wans Assets Co, Ltd. He has more than 25 years of experience as an international banker. Upon graduation from Baptist College, Hong Kong in 1964, he served in banks in Hong Kong, London, Bangkok and Malaysia. He joined the Bank in 1985 and became a Director in 1987. Before his departure in May 1995, Mr Chiranakhorn served as an Executive Director in charge of the Overseas Business Development Department. He was a Non-executive Director from May 1995 to September 1998.

Mr CHENG Yuk Wo

aged 49, has been an Independent Non-executive Director of the Bank since September 2004. Mr Cheng is also a member of the Bank's Audit Committee and Remuneration Committee. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr Cheng has more than 20 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies. Mr Cheng also serves as a director for certain other listed companies, including CPMC Holdings Limited (a public company listed on The Stock Exchange of Hong Kong Limited since 16 November 2009) in which he has been an independent non-executive director since 23 June 2008.

Mr Andrew Chiu Cheung MA

aged 68, has been an Independent Non-executive Director of the Bank since August 2007. Mr Ma is a founder and former director of Andrew Ma DFK (CPA) Limited. He is presently a director of Mayee Management Limited. Mr Ma has more than 30 years' experience in the field of accounting and finance. He received his bachelor's degree in economics from The London School of Economics and Political Science (University of London) in England. Mr Ma is a fellow member of the Institute of Chartered Accountants in England & Wales, the Hong Kong Institute of Certified Public Accounts, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. He is currently also an independent non-executive director of several other listed companies in Hong Kong.

General Managers

Mr Patrick Siu Cheung WAT

aged 56, General Manager, is the head of Retail Banking Division. He holds a Bachelor of Arts degree from the University of Hong Kong in 1975. He has held senior positions in Finance, Business Development, Operations, Internal Control and Quality functions with major US banks in Hong Kong and the UK. He has been trained in TQM (Total Quality Management) and as Black Belt in Six Sigma quality programs. Mr Wat is also responsible for change management and productivity improvements since joining the Bank in 2003.

Mr Frederick Hoi Kit CHAN

aged 49, General Manager, is the head of Finance and Treasury Management Division. He graduated from Imperial College, University of London in Computing Science and obtained a Master of Business Administration degree from Henley Management College, U.K. He is a fellow of the Institute of Chartered Accountants in England & Wales, a member of the British Computer Society and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Chan has more than 20 years of experience in the financial services industry and worked for an international accounting firm and major international banks in London and Hong Kong in financial reporting and strategic management before joining the Bank in 2004.

Mr Kevin Wai Hung CHU

aged 52, General Manager, is the Head of Wealth Management Division. He graduated from Columbia University with a Master degree in Engineering. He has more than 25 years of financial services experience and worked for a number of major international banks in their corporate banking and private banking departments. Mr Chu joined the Bank in April 2008.

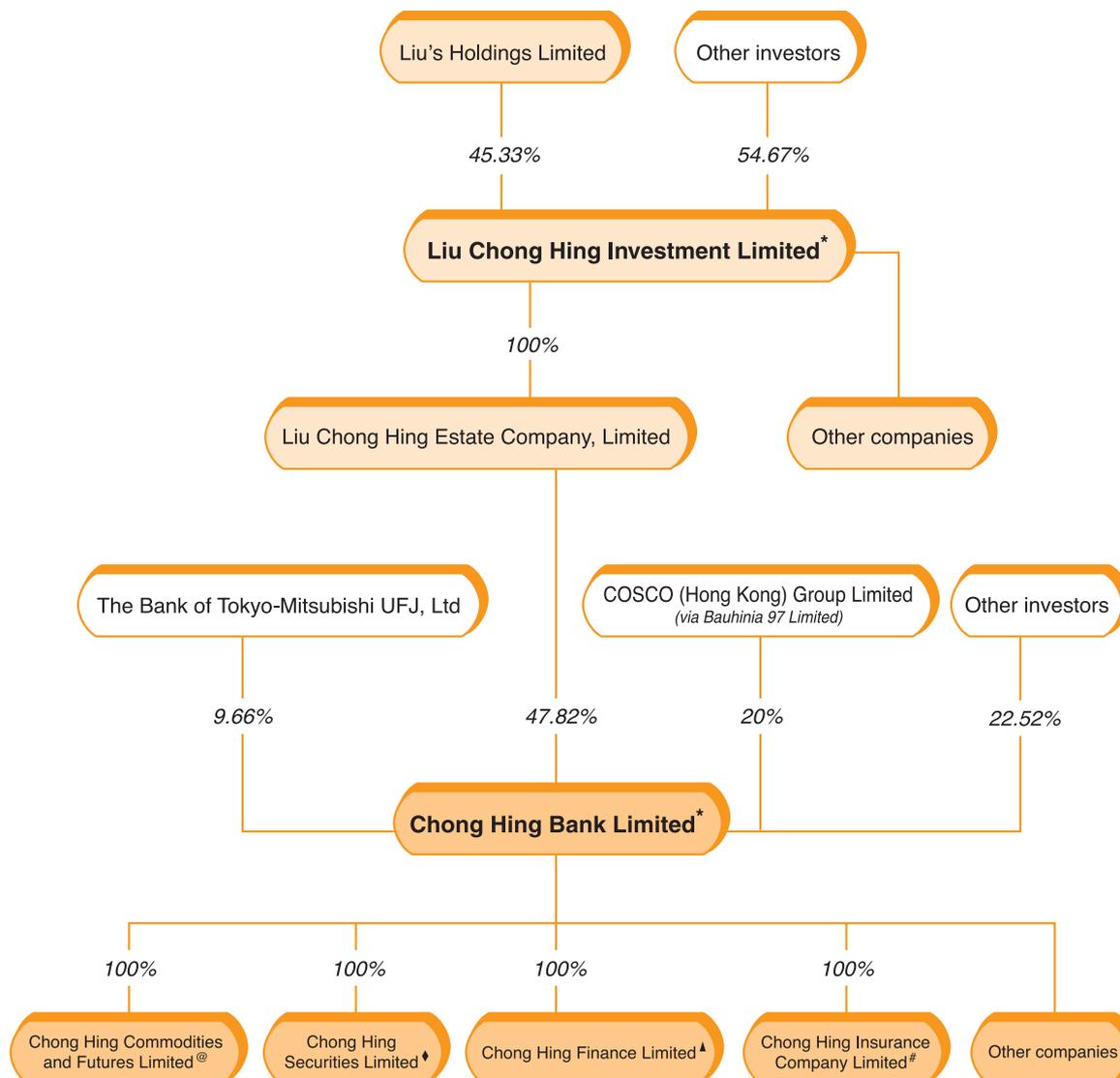
Mr Michael Kin Wah YEUNG

aged 53, General Manager of the Corporate Affairs Division, obtained a Bachelor of Arts degree in legal studies, political science and philosophy from Rice University (Texas, USA) in 1980 and a Doctor of Jurisprudence degree from the School of Law of The University of Texas at Austin (Texas, USA) in 1983. Mr Yeung, who is registered in the Master Roll of Attorneys maintained by the Supreme Court of Illinois in the United States, had served as the Company Secretary of FPB Bank Holding Company Limited (the then Hong Kong-listed banking arm of the First Pacific Group) and South China Morning Post (Holdings) Limited (now known as SCMP Group Limited) before resuming his position as the Company Secretary of the Bank in 1997.

Ms Teresa Yuen Wah LEE

aged 56, General Manager, is the head of Corporate and Commercial Banking Division. She holds a Bachelor of Social Sciences degree in Economics, Business Administration and Finance from the University of Hong Kong in 1977 and a MBA degree from the Chinese University of Hong Kong in 1984. She has about 30 years of experience in the banking industry in Hong Kong and Australia. She has held various senior positions with two major international banks and a major local bank prior to joining the Bank in 2005.

Member of the Liu's family



* Listed on The Stock Exchange of Hong Kong Limited

@ Registered with The Hong Kong Futures Exchange Limited as a participant

◆ Registered with The Stock Exchange of Hong Kong Limited as a participant

▲ Licensed under the Banking Ordinance as a deposit-taking company

Licensed under the Insurance Companies Ordinance as an insurance company

Trading of shares in Chong Hing Bank Limited*, a constituent stock of the Hang Seng Composite Index Series, on The Stock Exchange of Hong Kong Limited (“HKSE”) during 2009 is summarised below:

Month	Unit Price (HK\$) (average for the month)				Monthly Turnover		Hang Seng Index# (average for the month)
	Open	High	Low	Close	Number of Shares	HK\$	Close
January	9.364	9.448	9.287	9.393	644,984	6,053,000	13,793.96
February	8.644	8.715	8.559	8.621	1,450,000	12,363,000	13,166.66
March	8.340	8.446	8.269	8.358	5,419,796	44,806,000	12,794.95
April	9.594	9.786	9.526	9.672	1,611,103	15,421,866	15,029.33
May	11.978	12.244	11.813	12.068	2,734,600	33,218,352	17,124.29
June	13.256	13.407	13.061	13.255	3,547,775	47,090,709	18,342.45
July	13.400	13.491	13.300	13.417	1,591,000	21,301,340	18,903.71
August	14.093	14.190	13.944	14.065	1,225,670	17,402,853	20,475.51
September	14.960	14.945	14.522	14.773	2,937,866	44,332,831	20,920.48
October	14.958	15.110	14.870	14.995	1,399,784	21,041,224	21,654.25
November	15.130	15.250	14.927	15.114	5,166,711	79,258,209	22,219.44
December	15.022	15.103	14.876	15.003	1,978,198	29,621,537	21,747.90
Average for the year	12.395	12.511	12.246	12.395	2,475,624	30,992,577	18,014.41

* Authorized : 600,000,000 shares Par value : HK\$0.500 per share Listing date : 11 July 1994
 Issued and fully-paid : 435,000,000 shares Board lot : 1,000 shares HKSE stock code : 01111
 HKSE stock short name : CHONG HING BANK

Year high : HK\$16.300 (11 September) Historic high : HK\$27.600 (15 July 1997)
 Year low : HK\$7.810 (26 February) Historic low : HK\$3.650 (24 August 1998)

Year high : 23,099.57 (18 November) Historic high : 31,958.41 (30 October 2007)
 Year low : 11,344.58 (9 March) Base value : 100.00 (31 July 1964)

SHAREHOLDERS' CALENDAR

as of 3 March 2010

13 August 2009	Interim results for the first half of 2009 announced.
28 August 2009	Interim Report 2009 despatched.
23 through 25 September 2009 (both days inclusive)	Register of Members closed for the purpose of ascertaining dividend entitlements.
30 September 2009	Interim cash dividend for 2009 of HK\$0.08 per share paid.
3 March 2010	Final results for the year of 2009 announced.
24 March 2010	Annual Report 2009 will be despatched.
21 through 23 April 2010 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining dividend entitlements.
28 April 2010	2010 Annual General Meeting will be held.
29 April 2010	If approved by shareholders at the 2010 Annual General Meeting, the final cash dividend for 2009 of HK\$0.20 per share will be paid.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Chong Hing Bank Limited (the “Bank”) for the year of 2010 will be held on the 27th Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong on Wednesday, 28 April 2010 at 11:15 am for the purposes of conducting the following items of ordinary and special business:

Ordinary business

- (1) To receive and adopt the Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2009.
- (2) To declare the final cash dividend for the year ended 31 December 2009.
- (3) To re-elect directors and fix their and the other directors’ remuneration.
- (4) To re-appoint auditors and authorise the directors to fix the auditors’ remuneration.

Special business

As special business, to consider and, if thought fit, pass, with or without modification, the following ordinary resolutions:

- (5) **THAT**
 - (a) the exercise by the directors during the Relevant Period of all the powers of the Bank to purchase Shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of Shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of Shares in issue at the date of the passing of this resolution, and the said approval be and is hereby limited accordingly; and
 - (c) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

 - (i) the conclusion of the next annual general meeting of the Bank;
 - (ii) the expiration of the period within which the next annual general meeting of the Bank is required by law to be held; or
 - (iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

“Shares” means shares of all classes in the capital of the Bank including, without limitation, shares of HK\$0.50 each of the Bank.

(6) THAT

(a) subject to paragraph (c), the exercise by the directors of the Bank during the Relevant Period of all the powers of the Bank to allot, issue and deal with additional shares in the capital of the Bank and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorise the directors of the Bank during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Bank pursuant to the approval in paragraph (a), otherwise than pursuant to (i) any Rights Issue, (ii) any scrip dividend or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Bank in accordance with the Articles of Association of the Bank, or (iii) any exercise of options granted under the share option scheme of the Bank adopted on 25 April 2002, shall not exceed the aggregate of:

(aa) 20 per cent of the aggregate nominal amount of the shares in the capital of the Bank in issue at the date of the passing of this resolution; and

(bb) (if the directors are so authorised by a separate ordinary resolution of the shareholders of the Bank) the nominal amount of any share capital of the Bank repurchased by the Bank subsequent to the passing of this resolution,

and the said approval be and is hereby limited accordingly; and

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Bank;

(ii) the expiration of the period within which the next annual general meeting of the Bank is required by law to be held; or

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Bank to holders of shares of the Bank or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the directors of the Bank may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).

- (7) **THAT** the directors of the Bank be and are hereby authorised to exercise the powers of the Bank referred to in paragraph (a) of the resolution set out as Resolution 6 in the notice convening this meeting in respect of the share capital of the Bank referred to in sub-paragraph (bb) of paragraph (c) of that resolution.

Any other ordinary business

- (8) To transact any other ordinary business.

By Order of the Board
Michael K W Yeung
Company Secretary

24 March 2010

Notes:

- i. A shareholder entitled to attend and vote at the 2010 annual general meeting of the shareholders is entitled to appoint a proxy to attend and vote in his stead. A proxy does not have to be a shareholder of the Bank. Forms of proxy are to be lodged with the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong not later than 48 hours before the time for the holding of the 2010 annual general meeting of the shareholders and any adjournment thereof.
- ii. 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 dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 20 April 2010.
- iii. The Bank's Annual Report 2009 includes an Explanatory Statement on Resolutions 5 through 7 in question, and information both on the retiring directors who have offered themselves for re-election at the 2010 annual general meeting of the shareholders and on poll voting.



Dr Liu Lit Mo, LLD, MBE, JP
Chairman

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.

The Bank launched in 2009 the new “MAN Titanium Credit Card” to further expand its customer base and encourage spending. In 2009, the Bank also launched the 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.



The Bank launched the new “MAN Titanium Credit Card” in 2009 to further expand its customer base and encourage spending.

In 2009, the Bank also launched the brand new, limited edition Chong Hing “China Unionpay Gift Card” featuring a card face design of the Shanghai townscape, offering cardholders a comprehensive array of Shanghai well-known year-round merchant offers.

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.



Tsuen Wan Branch of Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, commenced business in November 2009.

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. On 3 August 2009, Tai Wo Shopping Centre Branch was opened in Tai Po to increase the number of local branches to 51 besides the headquarters in Central.



Tai Wo Shopping Centre Branch in Tai Po commenced business on 3 August 2009.

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 has been made for 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.



The Bank, which has made donation for school fee subsidies and other teaching expenses of Gracefield East Kowloon Christian Kindergarten, is seen here represented by its officers taking part in the Kindergarten's Mid-Autumn celebration.



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.



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”.

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.

By Order of the Board

Liu Lit Mo

Chairman

3 March 2010

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Bank is engaged in the provision of banking and related financial services. The principal activities of its principal subsidiaries are set out in note 21 to the consolidated financial statements.

BUSINESS

The Group's total operating income (net of interest expense and fee and commission expense) is analysed and reported by significant business classes as follows:

	2009 HK\$'000	2008 HK\$'000
Corporate and retail banking	639,982	566,453
Treasury activities	422,284	396,720
Securities dealing	209,785	141,036
Other banking-related services	<u>37,891</u>	<u>75,185</u>
	<u><u>1,309,942</u></u>	<u><u>1,179,394</u></u>

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.

MAJOR CUSTOMERS

The directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and operating income of the Group for the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 41.

An interim dividend of HK\$0.08 per share amounting to HK\$34,800,000 was paid to the shareholders during the year. The directors now recommend the payment of a final cash dividend for the year ended 31 December 2009 of HK\$0.20 per share amounting to HK\$87,000,000 to the shareholders on the register of members on 23 April 2010 and the retention of the remaining profit for the year.

SHARE CAPITAL

Details of movements during the year in the share capital of the Bank are set out in note 28 to the consolidated financial statements. There was no movement in the Bank's share capital during the year.

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in the consolidated statement of changes in equity on page 45 and note 29 to the consolidated financial statements, respectively.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2009. The net increase in fair value arising on the revaluation, which has been credited directly to the consolidated income statement, amounted to HK\$5,148,000. Also, the Group sold an investment property for HK\$58,000,000 during the year. Details of the investment properties of the Group and the Bank are set out in note 23 to the consolidated financial statements.

PROPERTY AND EQUIPMENT

Details of the movements in the property and equipment of the Group and the Bank are set out in note 24 to the consolidated financial statements.

SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002. Particulars of the Scheme are set out in note 31 to the consolidated financial statements. No options have been granted under the above-mentioned Scheme since the Scheme was adopted.

DIRECTORS

The directors of the Bank during the year and up to the date of this report are:

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA	<i>(retired as Executive Chairman and Executive Director on 25 November 2009)</i>
Dr LIU Lit Mo, LLD, MBE, JP	<i>(appointed Chairman and stepped down as Vice Chairman on 25 November 2009)</i>
Mr LIU Lit Chi	<i>(Managing Director and Chief Executive Officer)</i>
Mr Don Tit Shing LIU	<i>(Deputy Chief Executive Officer)</i>
Mr LAU Wai Man	<i>(Deputy Chief Executive Officer)</i>
Mr Wilfred Chun Ning LIU	
Mr TSANG Chiu Wing	
Mr WONG Har Kar	

Non-executive Directors

Mr Timothy George FRESHWATER
Mr WANG Xiaoming
Mr Andrew LIU
Mr Eiichi YOSHIKAWA
Mr Christopher Kwun Shing LIU
Mr Alfred Cheuk Yu CHOW, BBS, JP
Mr MENG Qinghui

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP
Mr Wanchai CHIRANAKHORN
Mr CHENG Yuk Wo
Mr Andrew Chiu Cheung MA

Mr Liu Lit Man retired as the Executive Chairman and an Executive Director with effect from 25 November 2009 for reasons of age and health. In recognition of his invaluable contributions to the Bank, Mr Liu Lit Man was appointed as Honorary Chairman with effect from that same date. Mr Liu Lit Man, however, is not a director of the Bank by virtue of such an appointment. Moreover, Executive Director Dr Liu Lit Mo was appointed as Chairman with effect from that same date. Dr Liu Lit Mo was the Vice Chairman of the Bank immediately before the appointment in question.

Article 101 of the Bank's Articles of Association stipulates that, among other things, 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. Accordingly, Dr Liu Lit Mo, Mr Liu Lit Chi, Mr Don Tit Shing Liu, Dr Robin Yau Hing Chan, Mr Andrew Liu and Mr Wanchai Chiranhorn shall retire and offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Bank within one year without payment of compensation, other than statutory compensation.

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

As at 31 December 2009, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

Interests in securities

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Mo	1,009,650	—	248,018,628 <i>Note (1)</i>	249,028,278	57.24788
Liu Lit Chi	313,248	—	250,281,839 <i>Notes (1) & (2)</i>	250,595,087	57.60807
Don T S Liu	15,000	—	—	15,000	0.00345
Robin Y H Chan	48,400	—	1,018,000 <i>Note (3)</i>	1,066,400	0.24515
Timothy G Freshwater	396	—	—	396	0.00009
Andrew Liu	177,000	—	—	177,000	0.04069

Notes:

- (1) 248,018,628 shares in the Bank are attributed as follows:
 - (i) 208,018,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
 - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,018,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES - continued
Other interests and short positions in securities

Under the SFO, other than those interests disclosed above, as at 31 December 2009, 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 31 December 2009, 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 31 December 2009, 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	208,018,628 <i>Notes (1) and (3)</i>	47.82
Liu Chong Hing Investment Limited	Interest of a controlled corporation	208,018,628 <i>Notes (1) and (3)</i>	47.82
Liu's Holdings Limited	Interest of a controlled corporation	208,018,628 <i>Notes (1) and (3)</i>	47.82
Bauhinia 97 Limited	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO (Hong Kong) Group Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66

**SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES
- continued***Notes:*

- (1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited. Liu's Holdings Limited, a private company, had interest in about 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 208,018,628 shares in question all relate to the same block of 208,018,628 shares held by Liu Chong Hing Estate.

- (2) Bauhinia 97 Limited is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited, which in turn is a wholly-owned subsidiary of China Ocean Shipping (Group) Company. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Limited.

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

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

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as at 31 December 2009.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than those interests disclosed below under the heading "CONNECTED TRANSACTIONS", no contracts of significance to which the Bank or any of its subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The connected transactions between the Group, Liu Chong Hing Investment Limited and its subsidiaries (“Liu Chong Hing Investment Group”) and COSCO (Hong Kong) Group Limited, its subsidiaries, its holding companies and / or its fellow subsidiaries (“COSCO Group”) during the year are as follows:

- A. The Bank handled routine banking transactions for the members of the Liu Chong Hing Investment Group. Services provided by the Bank are cheque clearing, current, savings and deposit accounts, remittances, and other banking facilities.
- B. Members of the Group provided securities and futures brokerage, nominee and data processing services to members of the Liu Chong Hing Investment Group.
- C. Liu Chong Hing Investment Limited through its wholly-owned subsidiary, Liu Chong Hing Property Management and Agency Limited, provided property management, property consultancy and property maintenance services to the Bank.
- D. The Bank leased office premises of the Western Harbour Centre, a property owned by the Liu Chong Hing Investment Group. On the other hand, Liu Chong Hing Investment Limited subleased office premises of the Chong Hing Bank Centre from the Bank.
- E. The Bank and its subsidiaries provided banking and related financial services to the COSCO Group including cheque clearing, current and savings accounts and fixed deposits in a number of currencies, foreign exchange, remittances, stockbroking and nominee services. The Bank also provided loan facilities to the COSCO Group on a bilateral basis or through participation in syndicated loans.

Messrs Liu Lit Mo, Liu Lit Chi, Don Tit Shing Liu, Robin Yau Hing Chan, Timothy George Freshwater and Andrew Liu are interested, directly or indirectly, in the respective share capital of Liu Chong Hing Investment Limited and / or the Bank.

The independent non-executive directors confirm that the above transactions have been entered into by the Bank in the ordinary course of its business, on normal commercial terms, and in accordance with the terms which are fair and reasonable and in the interests of shareholders of the Bank as a whole.

Pursuant to Rule 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the board of directors engaged the auditor of the Bank to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Bank in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of shareholders of the Bank as a whole.

DECLARATION OF INTERESTS

No directors (other than the independent non-executive directors and Mr Eiichi Yoshikawa, a non-executive director) are interested in any business which may or may not compete, either directly or indirectly, with the business of the Bank.

Mr Eiichi Yoshikawa is Executive Officer, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Ltd, Hong Kong Branch.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme disclosed in note 31 to the consolidated financial statements, at no time during the year was the Bank or any of its subsidiaries a party to any arrangements to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

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

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$565,000 (2008: HK\$1,107,000).

EMOLUMENT POLICY

The Bank has set up a Remuneration Committee, responsibilities of which include reviewing and approving the performance-based remuneration packages payable to directors and senior management, if any, by reference to the Bank's corporate goals and objectives.

STATEMENT OF COMPLIANCE

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

SUFFICIENCY OF PUBLIC FLOAT

The Group has maintained a sufficient public float throughout the year ended 31 December 2009.

AUDITOR

Messrs Deloitte Touche Tohmatsu shall retire at the conclusion of the Bank's forthcoming annual general meeting. Being eligible, they shall offer themselves for re-appointment as the Bank's auditor at that meeting.

On behalf of the Board

Liu Lit Mo

Chairman

3 March 2010

Corporate Governance Practices

The board of directors of the Bank (the “Board”) is well aware that maintaining good corporate governance standards is important to the effective and efficient operation of the Bank. The Board has therefore adopted and implemented various measures to ensure that a high standard of corporate governance practices is maintained. 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.

Board and Senior Management Oversight and Risk Management

The Bank, an authorized institution under the Banking Ordinance, is under the supervision of the Hong Kong Monetary Authority. Board and senior management oversight and risk management are key to attaining good standards of corporate governance practices in a banking environment. The Board oversees the Group’s policies, procedures and controls of measuring, monitoring and controlling risks arising from the banking and related financial service businesses. The day-to-day supervision of major functional areas is delegated to various specialised committees comprising directors and senior management members of the Bank. The unaudited supplementary financial information regarding corporate governance, risk management and other financial information disclosed pursuant to the Banking (Disclosure) Rules provide a detailed report on the Board and senior management oversight and the risk management process.

Directors’ Securities Transactions

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.

Board of Directors

The Board is composed of the following directors. During the year of 2009, four board meetings were held and the attendance of each director is set out as follows:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Executive Directors		
Mr LIU Lit Man, GBS, JP, FIBA <i>(retired as Executive Chairman and Executive Director on 25 November 2009)</i>	1 / 3	33.33%
Dr LIU Lit Mo, LLD, MBE, JP <i>(appointed Chairman and stepped down as Vice Chairman on 25 November 2009)</i>	4 / 4	100%
Mr LIU Lit Chi <i>(Managing Director and Chief Executive Officer)</i>	4 / 4	100%
Mr Don Tit Shing LIU <i>(Deputy Chief Executive Officer)</i>	4 / 4	100%
Mr LAU Wai Man <i>(Deputy Chief Executive Officer)</i>	4 / 4	100%
Mr Wilfred Chun Ning LIU	2 / 4	50%
Mr TSANG Chiu Wing	4 / 4	100%
Mr WONG Har Kar	4 / 4	100%
Non-executive Directors		
Mr Timothy George FRESHWATER	4 / 4	100%
Mr WANG Xiaoming	2 / 4	50%
Mr Andrew LIU	2 / 4	50%
Mr Eiichi YOSHIKAWA	2 / 4	50%
Mr Christopher Kwun Shing LIU	4 / 4	100%
Mr Alfred Cheuk Yu CHOW, BBS, JP	4 / 4	100%
Mr MENG Qinghui	3 / 4	75%
Independent Non-executive Directors		
Dr Robin Yau Hing CHAN, GBS, LLD, JP	4 / 4	100%
Mr Wanchai CHIRANAKHORN	4 / 4	100%
Mr CHENG Yuk Wo	4 / 4	100%
Mr Andrew Chiu Cheung MA	4 / 4	100%

The Board, constituted in accordance with the Bank's Articles of Association for the time being in force, is the ultimate governing body of the Bank responsible for setting the Bank's strategic goals and policies; monitoring management performance against the achievement of such goals and the compliance with such policies; filling senior management positions and reviewing succession plans for such positions; ensuring that a proper system of internal controls exists; and accounting for the Bank's operations.

The day-to-day operations of the Bank are mainly managed by various specialised committees, as well as different divisions and departments reporting to the Managing Director and Chief Executive Officer, while the Board remains ultimately responsible for the Bank's operations and affairs.

Board meetings are usually scheduled a year in advance. At least 7 days' notice of board meetings is normally given to directors. The Chairman sets the agenda for board meetings. The views of the directors, as expressed in the board meetings, on matters brought to their attention are duly minuted. Minutes of every board meeting are circulated to all directors for comment before they are confirmed at the next board meeting.

Directors are entitled to have access to board papers and any other related materials, and may seek external professional advice, as they see fit, so as to keep themselves abreast of the latest relevant development of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other applicable rules and regulations with an eye to ensuring better compliance and meeting better corporate governance standards.

The Bank has received, from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Bank considers all of its independent non-executive directors to be independent.

As to the nomination of candidates for appointment to the Board, instead of having a nomination committee in place, any director is entitled to recommend for the consideration and, if thought fit, approval of the Board suitable candidates who can contribute to the Bank, discharge their responsibilities in the interests of the Bank and its shareholders as a whole, and meet the requirements of The Stock Exchange of Hong Kong Limited and the Hong Kong Monetary Authority for appointment as directors.

Chairman and Chief Executive Officer

Mr Liu Lit Man retired on 25 November 2009 as the Bank's Executive Chairman and Executive Director, and Executive Director Dr Liu Lit Mo has since become the Chairman of the Bank. The roles and responsibilities of the Bank's Chairman (namely, Dr Liu Lit Mo) and its Chief Executive Officer (namely, Mr Liu Lit Chi) are separate. They are assumed by two different individuals. The Chairman is responsible for the management of the Board, while the Chief Executive Officer is charged with the responsibilities to manage the day-to-day business of the Bank.

Auditors' Remuneration

The remuneration paid and payable to the Group's auditors, Messrs Deloitte Touche Tohmatsu, for 2009 amounted to:

	HKD
Audit services	3,700,000
Interim review	408,000
Tax, information technology and regulatory consulting	<u>371,600</u>
Total	<u><u>4,479,600</u></u>

Remuneration Committee

The Remuneration Committee comprises two independent non-executive directors and one non-executive director appointed by the Board.

The Remuneration Committee reviews and makes recommendations to the Board on the remuneration policy applicable to directors and senior management of the Bank, and ensures that the Bank is able to attract, retain, and motivate a high-calibre team of senior executives which is essential to the success of the Bank. The terms of reference of the Remuneration Committee sets out its roles.

The Remuneration Committee meets twice a year. During the year of 2009, two meetings were held and the attendance of each member is set out as follows:

Name of Member	Number of Committee Meetings Attended	Attendance Rate
Mr Wanchai CHIRANAKHORN (Chairman)	2 / 2	100%
Mr CHENG Yuk Wo	2 / 2	100%
Mr Alfred Cheuk Yu CHOW, BBS, JP	2 / 2	100%

The Remuneration Committee is provided with sufficient resources to discharge its duties and the following is a summary of the work of the Remuneration Committee during 2009:

- (i) discussion and review of the current remuneration policy and structure applicable to all employees as a whole;
- (ii) discussion and review of the directors' fees; and
- (iii) discussion and review of the benefits in kind, including group medical benefits, staff annual leave and mandatory provident fund scheme to all employees of the Bank.

The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 13 to the financial statements.

Audit Committee

The Audit Committee comprises two independent non-executive directors and one non-executive director who possess the appropriate professional expertise and experience in financial management and business. The Audit Committee is chaired by Mr Cheng Yuk Wo and the other members are Mr Wanchai Chiranakhorn and Mr Alfred Cheuk Yu Chow.

Under its terms of reference, the Audit Committee is required, among other things, to advise the Board on the appointment and retention of the external auditors, to review the external auditors' independence and objectivity, to oversee the relationship with the external auditors, to review the half-yearly and annual reports and accounts, to review the external auditors' management letter, to hold meetings with the Hong Kong Monetary Authority, to assess the adequacy and effectiveness of the Bank's systems of internal control, to review the internal audit function, and to review and recommend internal procedures to ensure compliance with regulatory requirements and generally accepted accounting standards.

The Audit Committee shall meet at least three times a year. During the year of 2009, the Audit Committee held four meetings and record of individual attendance of members is set out as follows:

Name of Member	Number of Committee	
	Meetings Attended	Attendance Rate
Mr CHENG Yuk Wo (Chairman)	4 / 4	100%
Mr Wanchai CHIRANAKHORN	4 / 4	100%
Mr Alfred Cheuk Yu CHOW, BBS, JP	4 / 4	100%

To discharge its responsibilities, the Audit Committee performed the following major reviews in 2009:

Financial Statements

The Audit Committee met with the external auditors and the senior executive in charge of Finance and Treasury Management Division to discuss the accounts for the year ended 31 December 2008 and for the six months ended 30 June 2009. The Audit Committee reviewed and discussed with the external auditors to ensure that the Bank's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

Relationship with the External Auditors

The Audit Committee reviewed the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors for the Board's approval. Moreover, the Audit Committee met and discussed with the external auditors on their audit strategy and assessment of the sufficiency of the internal control of the Bank.

Internal Control Review

The Audit Committee also reviewed the internal control issues and the internal audit function of the Bank, covering the annual audit plan, the staffing and resources of Internal Audit Department, the audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations.

**TO THE MEMBERS OF CHONG HING BANK LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Chong Hing Bank Limited (the “Bank”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 41 to 134, which comprise the consolidated and the Bank’s statements of financial position as at 31 December 2009, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2009 and of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

3 March 2010

FINANCIAL STATEMENTS

41	Consolidated Income Statement
42	Consolidated Statement of Comprehensive Income
43	Consolidated Statement of Financial Position
44	Statement of Financial Position
45	Consolidated Statement of Changes in Equity
46	Consolidated Statement of Cash Flows
48	Notes to the Financial Statements
48	1. General
48	2. Application of new and revised Hong Kong financial reporting standards (“HKFRSs”)
49	3. New and revised HKFRSs issued but not yet effective
51	4. Significant accounting policies
64	5. Critical accounting judgement and key source of estimation uncertainty
67	6. Segment information
73	7. Financial risk management
108	8. Net interest income
108	9. Net fee and commission income
109	10. Net gains (losses) on financial assets at fair value through profit or loss
109	11. Other operating income
109	12. Operating expenses
110	13. Directors’ and employees’ emoluments
111	14. Taxation
112	15. Dividends
112	16. Earnings per share
112	17. Cash and short-term funds
112	18. Derivative financial instruments
114	19. Investments in securities
116	20. Advances and other accounts

118	21. Investments in subsidiaries
119	22. Interests in jointly controlled entities
120	23. Investment properties
121	24. Property and equipment
122	25. Prepaid lease payments for land
123	26. Deposits from customers
123	27. Loan capital
123	28. Share capital
124	29. Reserves
125	30. Deferred taxation
126	31. Share option scheme
126	32. Loans to officers
127	33. Impairment loss on goodwill
127	34. Contingent liabilities and commitments
129	35. Retirement benefits scheme
131	36. Related party transactions
133	37. Capital management

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

135	1. Specialised committees
137	2. Management of risks
138	3. Segmental information
138	4. Advances to customers – by industry sectors
139	5. Advances to customers – by geographical areas
140	6. Cross-border claims
141	7. Currency risk
142	8. Overdue and rescheduled assets
143	9. Non-bank mainland exposures
143	10. Liquidity ratio
144	11. Capital charge for credit, market and operational risks
145	12. Risk management
152	13. Basis of consolidation
152	14. List of subsidiaries for financial reporting consolidation

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009

	NOTES	2009 HK\$'000	2008 HK\$'000
Interest income		1,184,922	2,171,336
Interest expense		(361,591)	(1,307,010)
Net interest income	8	823,331	864,326
Fee and commission income		307,299	265,220
Fee and commission expense		(43,670)	(48,419)
Net fee and commission income	9	263,629	216,801
Net gains (losses) on financial assets at fair value through profit or loss	10	76,760	(48,299)
Other operating income	11	146,222	146,566
Operating expenses	12	(978,415)	(772,431)
		331,527	406,963
Impairment allowances on loans and advances	20	(102,289)	(91,334)
Net gain on disposal of prepaid lease payments for land		362	–
Net (loss) gain on disposal of property and equipment		(14)	294
Net gain on disposal of available-for-sale securities		24,810	108,706
Net gain on disposal of and fair value adjustments on investment properties	23	31,148	39,560
Impairment loss on available-for-sale securities		(43,571)	(264,654)
Impairment loss on goodwill	33	(10,000)	(20,000)
Profit from operations		231,973	179,535
Share of profit (loss) of jointly controlled entities		32,410	(90,240)
Profit before taxation		264,383	89,295
Taxation	14	(32,635)	(28,675)
Profit for the year		231,748	60,620
Earnings per share	16	HK\$0.53	HK\$0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	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 available-for-sale securities	<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><u>274,248</u></u>	<u><u>(57,514)</u></u>
Total comprehensive income (expense) attributable to:		
Owners of the Bank	<u><u>274,248</u></u>	<u><u>(57,514)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2009

	NOTES	2009 HK\$'000	2008 HK\$'000
Assets			
Cash and short-term funds	17	15,048,680	17,659,927
Placements with banks and other financial institutions maturing between one to twelve months		2,814,566	5,367,858
Derivative financial instruments	18	331	429
Financial assets at fair value through profit or loss	19	576,730	680,680
Available-for-sale securities	19	272,649	196,527
Held-to-maturity securities	19	16,954,466	9,727,685
Advances and other accounts	20	33,267,735	33,634,842
Tax recoverable		31,925	38,113
Interests in jointly controlled entities	22	119,418	82,999
Investment properties	23	103,199	129,801
Property and equipment	24	443,688	469,724
Prepaid lease payments for land	25	321,533	328,127
Goodwill	33	50,606	60,606
Total assets		<u>70,005,526</u>	<u>68,377,318</u>
Liabilities			
Deposits and balances of banks and other financial institutions		1,447,718	1,525,509
Deposits from customers	26	60,788,415	59,401,660
Derivative financial instruments	18	44,413	39,303
Other accounts and accruals		556,016	477,381
Current tax liabilities		15,671	5,104
Loan capital	27	967,199	965,454
Deferred tax liabilities	30	11,772	6,283
Total liabilities		<u>63,831,204</u>	<u>62,420,694</u>
Shareholders' equity			
Share capital	28	217,500	217,500
Reserves		5,956,822	5,739,124
Shareholders' funds		<u>6,174,322</u>	<u>5,956,624</u>
Total liabilities and shareholders' equity		<u>70,005,526</u>	<u>68,377,318</u>

Approved and authorised for issue by the Board of Directors on 3 March 2010 and signed on its behalf by:

Liu Lit Mo, *Chairman*

Liu Lit Chi, *Managing Director & Chief Executive Officer*

Lau Wai Man, *Executive Director and Deputy Chief Executive Officer*

Michael K W Yeung, *Company Secretary*

STATEMENT OF FINANCIAL POSITION

at 31 December 2009

	NOTES	2009 HK\$'000	2008 HK\$'000
Assets			
Cash and short-term funds	17	15,006,177	17,617,546
Placements with banks and other financial institutions maturing between one to twelve months		2,814,566	5,367,858
Derivative financial instruments	18	331	429
Financial assets at fair value through profit or loss	19	576,590	680,567
Available-for-sale securities	19	196,464	150,725
Held-to-maturity securities	19	16,954,466	9,727,685
Advances and other accounts	20	32,990,451	33,477,333
Tax recoverable		31,620	37,976
Investments in subsidiaries	21(i)	338,323	348,323
Amounts due from subsidiaries	21(ii)	4,985	3,711
Interests in jointly controlled entities	22	21,500	21,500
Investment properties	23	76,160	104,050
Property and equipment	24	420,498	449,072
Prepaid lease payments for land	25	835,087	842,027
Total assets		70,267,218	68,828,802
Liabilities			
Deposits and balances of banks and other financial institutions		1,447,718	1,525,509
Deposits from customers	26	60,785,525	59,398,427
Amounts due to subsidiaries	36	763,072	704,828
Derivative financial instruments	18	44,413	39,303
Other accounts and accruals		272,449	297,748
Current tax liabilities		574	2,422
Loan capital	27	967,199	965,454
Deferred tax liabilities	30	3,769	3,744
Total liabilities		64,284,719	62,937,435
Shareholders' equity			
Share capital	28	217,500	217,500
Reserves	29	5,764,999	5,673,867
Shareholders' funds		5,982,499	5,891,367
Total liabilities and shareholders' equity		70,267,218	68,828,802

Approved and authorised for issue by the Board of Directors on 3 March 2010 and signed on its behalf by:

Liu Lit Mo, *Chairman*

Liu Lit Chi, *Managing Director & Chief Executive Officer*

Lau Wai Man, *Executive Director and Deputy Chief Executive Officer*

Michael K W Yeung, *Company Secretary*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	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	15	-	-	-	-	-	-	-	(34,800)	(34,800)
Final dividend paid for financial year 2008	15	-	-	-	-	-	-	-	(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	15	-	-	-	-	-	-	-	(65,250)	(65,250)
Final dividend paid for financial year 2007	15	-	-	-	-	-	-	-	(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

for the year ended 31 December 2009

	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)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	2009	2008
	HK\$'000	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	–	5,267
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(6,973,919)	6,692,696
FINANCING ACTIVITIES		
Interest paid on loan capital	(19,334)	(42,180)
Dividends paid	(56,550)	(256,650)
NET CASH USED IN FINANCING ACTIVITIES	(75,884)	(298,830)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,458,995)	4,542,875
CASH AND CASH EQUIVALENTS AT 1 JANUARY	17,533,299	12,990,424
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	(5,341,224)	(3,968,977)
	11,074,304	17,533,299

1. GENERAL

The Bank is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited. The Bank is engaged in the provision of banking and related financial services. The address of the registered office and principal place of business of the Bank is disclosed in the Annual Report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Bank.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group and the Bank have applied a number of new and revised standards, 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 the new 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.

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group and the Bank have 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 disclosures 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 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters ⁵
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions ³
HKFRS 3 (Revised)	Business combinations ¹
HKFRS 9	Financial instruments ⁷
HK(IFRIC) - INT 14 (Amendment)	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 instruments 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.

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE - continued

The application of HKFRS 3 (Revised) may affect the accounting for the Group's 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 the Group'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 and the Bank'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 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 and the Bank'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.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including special purpose entities) controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiary companies are accounted for by the Bank on the basis of dividends received or receivable.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

Goodwill arising on acquisitions of net assets and operations of another entity prior to 1 January 2005 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

4. SIGNIFICANT ACCOUNTING POLICIES - continued**Goodwill - continued***Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a business on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which the venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity) the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When an entity of the Group transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Interest income and expenses

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are provided.

Dividends

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Property and equipment

Property and equipment including leasehold buildings are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES - continued**Investment properties**

Investment properties are properties held to earn rentals or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

In preparing the financial statements of each individual entity of the Group, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Bank's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposal of.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out with sufficient regularity. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's pension obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

4. SIGNIFICANT ACCOUNTING POLICIES - continued**Retirement benefit costs - continued**

The amount recognised in the Group's and the Bank's statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when an entity of the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets

The Group's and the Bank's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been incurred principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including cash and short term funds, placements with and advances to banks and other financial institutions, interest receivable, bills receivable, trade bills and loans and advances to customers, banks and other financial institutions and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investment.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is translated at the spot rate at reporting date. The change in fair value attributable to such translation differences is recognised in the consolidated income statement for the period.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

On collective impairment, individually insignificant advances or advances where no impairment has been identified individually are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets - continued

The carrying amount of the financial asset is reduced through the use of an allowance account. When the financial assets are considered to be uncollectible, the amounts are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the profit or loss. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in the profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by an entity of the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's and the Bank's financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES - continued**Financial instruments - continued****Financial liabilities and equity - continued***Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity - continued

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities, including deposits and balances of banks and other financial institutions, deposits from customers, other accounts payables, amounts due to subsidiaries and loan capital are subsequently measured at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Equity instruments

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument in which event the timing of the recognition in profit or loss depends on the nature of hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group and the Bank designate certain derivatives as hedges of the fair value of available-for-sale securities (fair value hedges).

At the inception of the hedging relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group and the Bank document whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values of the hedged item.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Hedge accounting - continued

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group and the Bank revoke the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Bank and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group and the Bank measure the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group and the Bank have transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group and the Bank have a present obligation as a result of a past event, and it is probable that the Group and the Bank will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. SIGNIFICANT ACCOUNTING POLICIES - continued**Impairment on non-financial assets**

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. An impairment loss is recognised as an expense immediately.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. A reversal of an impairment loss is recognised as income immediately.

Fiduciary assets

The assets held in trust in a fiduciary capacity are not assets of the Group and accordingly are not included in the consolidated financial statements.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, balances with banks and other financial institutions, placements with and deposits of banks and other financial institutions as well as exchange fund bills.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment allowances on loans and advances

The Group establishes, through charges against profit, impairment allowances in respect of estimated incurred loss in loans and advances. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances represent the aggregate amount by which management considers necessary to write down its loan portfolio in order to state it in the statement of financial position at its estimated net recoverable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

Details of the impairment allowances movements are disclosed in Note 20.

(b) Fair value of derivatives and other financial instruments

The management of the Group use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and structured bonds with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

The fair values of investment in funds are determined based on the net asset values as reported by fund administrator.

Details of the assumptions used are disclosed in Note 7.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY - continued**Key sources of estimation uncertainty - continued****(c) Estimated impairment of goodwill**

According to HKAS 36 “Impairment of Assets”, impairment loss is made when the carrying amount of an asset exceeds its recoverable amount, which is calculated at the higher of the fair value less costs to sell and value in use.

Management has reviewed goodwill for impairment by comparing 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. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and selection of discount rates.

Details of the recoverable amount calculation are disclosed in Note 33.

Critical judgements in applying the entity’s accounting policies

The following are the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Held-to-maturity investments

The Group classified certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Details of these assets are set out in Note 19.

6. SEGMENT INFORMATION

(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 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION - 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 (note)	146,982	-	-	-	(146,982)	-
Inter-segment interest expense (note)	-	(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	(171,239)	353,282	153,745	73,450	-	409,238
Unallocated corporate expenses						(177,265)
Profit from operations						231,973
Share of profits of jointly controlled entities				32,410		32,410
Profit before taxation						264,383

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

6. SEGMENT INFORMATION - 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>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

6. SEGMENT INFORMATION - 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 (note)	607,244	-	-	-	(607,244)	-
Inter-segment interest expense (note)	-	(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 gain (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	51,556	103,524	89,248	181,274	-	425,602
Unallocated corporate expenses						(246,067)
Profit from operations						179,535
Share of losses of jointly controlled entities				(90,240)		(90,240)
Profit before taxation						89,295

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

6. SEGMENT INFORMATION - 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					<u>222,772</u>
Consolidated total assets					<u><u>68,377,318</u></u>
Liabilities					
Segment liabilities	59,594,953	2,535,119	137,056	41,089	62,308,217
Unallocated corporate liabilities					<u>112,477</u>
Consolidated total liabilities					<u><u>62,420,694</u></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>

6. SEGMENT INFORMATION - continued

(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.

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.

7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Asset and Liability Management Committee (the "ALCO") under policies approved by the Board of Directors. The ALCO identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks from the use of financial instruments are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

Categories of financial instruments

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Fair value through profit or loss				
- designated at fair value	576,590	680,567	576,590	680,567
- held for trading	471	542	331	429
Held-to-maturity securities	16,954,466	9,727,685	16,954,466	9,727,685
Loans and receivables (including cash and cash equivalents)	51,130,981	56,662,627	50,816,179	56,466,448
Available-for-sale securities	<u>272,649</u>	<u>196,527</u>	<u>196,464</u>	<u>150,725</u>
Financial liabilities				
Fair value through profit or loss				
- held for trading	44,413	39,303	44,413	39,303
Amortised cost	<u>63,759,348</u>	<u>62,370,004</u>	<u>64,235,963</u>	<u>62,891,966</u>

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of reporting period. Management therefore carefully manages its exposure to credit risk.

Management of credit risk

The Group's lending policies have been formulated on the basis of its own experience, the Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of overseas branches and subsidiaries, the relevant local laws and regulations).

The Group's primary credit approval bodies are the Loans Committee, which comprises senior staff members of the Bank, and the Executive Loans Committee, comprising all the Executive Directors of the Bank. The Executive Loans Committee has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's advance portfolio. Under the oversight of the Executive Loans Committee, officers of the Group are authorised to approve credit based on the size of the advance, the collateral provided, the credit standing of the applicant and other prescribed credit guidelines.

The Credit Assessment Department is responsible for reviewing all credit applications. When a customer fills out an advance application or requests a credit line, the branch or lending department account officer collects information through customer interviews, documentation requests and feasibility studies as well as other sources. The account officer then prepares and submits a credit proposal based on the information gathered for the review of the Credit Review Officers. Credit Review Officers are required to check the accuracy of the information submitted and that the credit proposal meets the underwriting standard required, and are required to provide an independent credit evaluation in support of a recommendation for granting or rejecting the advance and subsequent renewal applications.

Credit approval is performed by the Loans Committee in accordance with the delegated lending authority from the Lending Policy of the Bank with reference to a customer's objective of borrowing, financial strength, repayment ability, past account performance and collateral being offered as security, as appropriate. Approval from the Executive Loans Committee is required as and when the requested amount of the advance exceeds the delegated authority of the Loans Committee.

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Management of credit risk - continued

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Risk mitigation policies

Some specific control and mitigation measures are outlined below:

(a) Collateral

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; or
- Charges over financial instruments such as debt securities and equities.

In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Other risk mitigations

The Group uses guarantees and derivatives as credit risk mitigations. Whilst the Group may accept guarantees from any counterparty, it sets a threshold internally for considering guarantors to be eligible for credit risk mitigation.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the end of each reporting date based on objective evidence of impairment.

The impairment allowances shown in the statements of financial position is based on the five rating grades adopted by the Hong Kong Monetary Authority, with the majority of the impairment allowances arising from the bottom three gradings.

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
	<u>29,056,143</u>	<u>33,453</u>	<u>18,953</u>	<u>20,999,960</u>	<u>27,195</u>
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>

7. FINANCIAL RISK MANAGEMENT - continued
Credit risk - continued
Impairment and provisioning policies - 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	1,557,603	2,340	2,882	1,515,209	6,785
	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	3,156,339	55,942	1,516	1,727,937	64,423
	<u>33,244,627</u>	<u>108,988</u>	<u>5,799</u>	<u>22,374,959</u>	<u>100,574</u>

The Group's and the Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographic or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets is disclosed below:

Geographical locations

	THE GROUP				THE BANK			
	Asia Pacific excluding			Total	Asia Pacific excluding			Total
	Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000		Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000	
At 31 December 2009								
Short-term funds	8,711,251	2,402,242	3,600,282	14,713,775	8,668,785	2,402,242	3,600,283	14,671,310
Placements with banks and other financial institutions	36,764	1,980,987	796,815	2,814,566	36,764	1,980,987	796,815	2,814,566
Derivative financial instruments	331	-	-	331	331	-	-	331
Financial assets at fair value through profit or loss	75,855	165,197	335,538	576,590	75,855	165,197	335,538	576,590
Available-for-sale securities	54,948	-	38,600	93,548	54,948	-	38,600	93,548
Held-to-maturity securities	630,805	7,493,271	8,830,390	16,954,466	630,805	7,493,271	8,830,390	16,954,466
Advances and other accounts	31,396,684	692,460	1,178,591	33,267,735	31,123,939	688,637	1,177,875	32,990,451
Amounts due from subsidiaries	-	-	-	-	4,985	-	-	4,985
	<u>40,906,638</u>	<u>12,734,157</u>	<u>14,780,216</u>	<u>68,421,011</u>	<u>40,596,412</u>	<u>12,730,334</u>	<u>14,779,501</u>	<u>68,106,247</u>

	THE GROUP				THE BANK			
	Asia Pacific excluding			Total	Asia Pacific excluding			Total
	Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000		Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000	
At 31 December 2008								
Short-term funds	1,616,155	5,964,649	9,643,835	17,224,639	1,573,812	5,964,649	9,643,835	17,182,296
Placements with banks and other financial institutions	-	1,625,000	3,742,858	5,367,858	-	1,625,000	3,742,858	5,367,858
Derivative financial instruments	429	-	-	429	429	-	-	429
Financial assets at fair value through profit or loss	-	339,360	341,207	680,567	-	339,360	341,207	680,567
Available-for-sale securities	-	-	52,395	52,395	-	-	52,395	52,395
Held-to-maturity securities	801,190	3,523,286	5,403,209	9,727,685	801,190	3,523,286	5,403,209	9,727,685
Advances and other accounts	31,402,108	1,025,730	1,207,004	33,634,842	31,247,674	1,022,666	1,206,993	33,477,333
Amounts due from subsidiaries	-	-	-	-	3,711	-	-	3,711
	<u>33,819,882</u>	<u>12,478,025</u>	<u>20,390,508</u>	<u>66,688,415</u>	<u>33,626,816</u>	<u>12,474,961</u>	<u>20,390,497</u>	<u>66,492,274</u>

7. FINANCIAL RISK MANAGEMENT - continued
Credit risk - continued
Concentration of risks of financial assets with credit risk exposure - continued
Industry sectors

	THE GROUP					
	Banks and other financial institutions HK\$'000	Central government and central banks HK\$'000	Public sector entities HK\$'000	Corporate entities HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2009						
Short term funds	10,661,232	4,052,543	-	-	-	14,713,775
Placements with banks and other financial institutions	2,814,566	-	-	-	-	2,814,566
Derivative financial instruments	177	-	-	154	-	331
Financial assets at fair value through profit or loss	82,389	-	-	494,201	-	576,590
Available-for-sale securities	37,325	-	54,947	1,276	-	93,548
Held-to-maturity securities	14,766,614	182,203	56,328	1,949,321	-	16,954,466
Advances and other accounts	83,464	117,652	160,665	23,284,220	9,621,734	33,267,735
	<u>28,445,767</u>	<u>4,352,398</u>	<u>271,940</u>	<u>25,729,172</u>	<u>9,621,734</u>	<u>68,421,011</u>
At 31 December 2008						
Short term funds	16,249,216	975,423	-	-	-	17,224,639
Placements with banks and other financial institutions	5,367,858	-	-	-	-	5,367,858
Derivative financial instruments	-	-	-	429	-	429
Financial assets at fair value through profit or loss	275,085	-	-	405,482	-	680,567
Available-for-sale securities	35,755	-	-	16,640	-	52,395
Held-to-maturity securities	8,033,861	289,181	67,547	1,337,096	-	9,727,685
Advances and other accounts	89,187	120,605	295,132	23,901,186	9,228,732	33,634,842
	<u>30,050,962</u>	<u>1,385,209</u>	<u>362,679</u>	<u>25,660,833</u>	<u>9,228,732</u>	<u>66,688,415</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Concentration of risks of financial assets with credit risk exposure - continued

Industry sectors - continued

	THE BANK					
	Banks and other financial institutions	Central government and central banks	Public sector entities	Corporate entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009						
Short term funds	10,618,767	4,052,543	-	-	-	14,671,310
Placements with banks and other financial institutions	2,814,566	-	-	-	-	2,814,566
Derivative financial instruments	177	-	-	154	-	331
Financial assets at fair value through profit or loss	82,389	-	-	494,201	-	576,590
Available-for-sale securities	37,325	-	54,947	1,276	-	93,548
Held-to-maturity securities	14,766,614	182,203	56,328	1,949,321	-	16,954,466
Advances and other accounts	82,894	116,920	160,665	23,008,238	9,621,734	32,990,451
Amounts due from subsidiaries	-	-	-	4,985	-	4,985
	<u>28,402,732</u>	<u>4,351,666</u>	<u>271,940</u>	<u>25,458,175</u>	<u>9,621,734</u>	<u>68,106,247</u>
At 31 December 2008						
Short term funds	16,206,873	975,423	-	-	-	17,182,296
Placements with banks and other financial institutions	5,367,858	-	-	-	-	5,367,858
Derivative financial instruments	-	-	-	429	-	429
Financial assets at fair value through profit or loss	275,085	-	-	405,482	-	680,567
Available-for-sale securities	35,755	-	-	16,640	-	52,395
Held-to-maturity securities	8,033,861	289,181	67,547	1,337,096	-	9,727,685
Advances and other accounts	88,184	120,056	295,132	23,745,229	9,228,732	33,477,333
Amounts due from subsidiaries	-	-	-	3,711	-	3,711
	<u>30,007,616</u>	<u>1,384,660</u>	<u>362,679</u>	<u>25,508,587</u>	<u>9,228,732</u>	<u>66,492,274</u>

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to assets on statement of financial position are as follows:

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term funds	14,713,775	17,224,639	14,671,310	17,182,296
Placements with banks and other financial institutions	2,814,566	5,367,858	2,814,566	5,367,858
Derivative financial instruments	331	429	331	429
Financial assets at fair value through profit or loss	576,590	680,567	576,590	680,567
Available-for-sale securities	93,548	52,395	93,548	52,395
Held-to-maturity securities	16,954,466	9,727,685	16,954,466	9,727,685
Advances and other accounts	33,267,735	33,634,842	32,990,451	33,477,333
Amounts due from subsidiaries	—	—	4,985	3,711
	<u>68,421,011</u>	<u>66,688,415</u>	<u>68,106,247</u>	<u>66,492,274</u>

Credit risk exposures relating to off-statement of financial position items are as follows:

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial guarantee and other credit related contingent liabilities	1,074,429	1,014,062	1,074,429	1,014,062
Loan commitments and other credit related commitments	14,508,583	14,529,659	14,508,583	14,529,659
Other commitments	3,234	13,548	3,234	13,548
	<u>15,586,246</u>	<u>15,557,269</u>	<u>15,586,246</u>	<u>15,557,269</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality

Credit quality of loans and advances to customers are summarised as follows:

	THE GROUP	
	2009	2008
	HK\$'000	HK\$'000
Neither past due nor impaired	32,571,552	32,979,798
Past due but not impaired	168,320	164,255
Impaired	<u>53,707</u>	<u>100,574</u>
	32,793,579	33,244,627
Less: Allowances for impairment	<u>(134,001)</u>	<u>(114,787)</u>
	<u><u>32,659,578</u></u>	<u><u>33,129,840</u></u>

	THE BANK	
	2009	2008
	HK\$'000	HK\$'000
Neither past due nor impaired	32,571,552	32,979,384
Past due but not impaired	168,320	164,255
Impaired	<u>53,707</u>	<u>100,574</u>
	32,793,579	33,244,213
Less: Allowances for impairment	<u>(134,001)</u>	<u>(114,783)</u>
	<u><u>32,659,578</u></u>	<u><u>33,129,430</u></u>

7. FINANCIAL RISK MANAGEMENT - continued
Credit risk - continued
Credit quality - continued

(i) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	THE GROUP								
	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans and tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009									
GRADES:									
Pass	1,266,071	15,192,196	9,149,186	5,488,452	216,415	629,905	85,157	225,307	32,252,689
Special mention	9,841	4,890	2,000	-	-	9,320	-	-	26,051
Substandard or below	2,473	21,153	120,422	144,287	-	4,477	-	-	292,812
Total	<u>1,278,385</u>	<u>15,218,239</u>	<u>9,271,608</u>	<u>5,632,739</u>	<u>216,415</u>	<u>643,702</u>	<u>85,157</u>	<u>225,307</u>	<u>32,571,552</u>
At 31 December 2008									
GRADES:									
Pass	2,112,449	14,631,407	8,970,612	5,362,572	435,557	760,580	80,786	415,828	32,769,791
Special mention	20,121	19,272	-	-	-	7,281	-	-	46,674
Substandard or below	-	15,636	-	147,697	-	-	-	-	163,333
Total	<u>2,132,570</u>	<u>14,666,315</u>	<u>8,970,612</u>	<u>5,510,269</u>	<u>435,557</u>	<u>767,861</u>	<u>80,786</u>	<u>415,828</u>	<u>32,979,798</u>
THE BANK									
	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans and tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009									
GRADES:									
Pass	1,266,071	15,192,196	9,149,186	5,488,452	216,415	629,905	85,157	225,307	32,252,689
Special mention	9,841	4,890	2,000	-	-	9,320	-	-	26,051
Substandard or below	2,473	21,153	120,422	144,287	-	4,477	-	-	292,812
Total	<u>1,278,385</u>	<u>15,218,239</u>	<u>9,271,608</u>	<u>5,632,739</u>	<u>216,415</u>	<u>643,702</u>	<u>85,157</u>	<u>225,307</u>	<u>32,571,552</u>
At 31 December 2008									
GRADES:									
Pass	2,112,449	14,630,993	8,970,612	5,362,572	435,557	760,580	80,786	415,828	32,769,377
Special mention	20,121	19,272	-	-	-	7,281	-	-	46,674
Substandard or below	-	15,636	-	147,697	-	-	-	-	163,333
Total	<u>2,132,570</u>	<u>14,665,901</u>	<u>8,970,612</u>	<u>5,510,269</u>	<u>435,557</u>	<u>767,861</u>	<u>80,786</u>	<u>415,828</u>	<u>32,979,384</u>

Collateral is mainly properties and fixed deposits.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality - continued

(ii) Loans and advances past due but not impaired

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	THE GROUP AND THE BANK						Total HK\$'000
	Overdrafts HK\$'000	Instalment loans HK\$'000	Term loans HK\$'000	Trade finance HK\$'000	Personal loans and tax loans HK\$'000	Others HK\$'000	
At 31 December 2009							
Past due up to 30 days	6,771	10,252	-	-	-	-	17,023
Past due from 31 to 90 days	23,114	102,003	-	12,905	143	2,235	140,400
Past due more than 90 days	730	8,393	620	985	169	-	10,897
Total	<u>30,615</u>	<u>120,648</u>	<u>620</u>	<u>13,890</u>	<u>312</u>	<u>2,235</u>	<u>168,320</u>
Fair value of collateral	<u>47,860</u>	<u>291,736</u>	<u>671</u>	<u>13,323</u>	<u>2,416</u>	<u>-</u>	<u>356,006</u>
At 31 December 2008							
Past due up to 30 days	3,302	10,145	-	1,962	-	-	15,409
Past due from 31 to 90 days	7,878	94,967	5,704	19,484	280	2,925	131,238
Past due more than 90 days	5,296	11,644	-	668	-	-	17,608
Total	<u>16,476</u>	<u>116,756</u>	<u>5,704</u>	<u>22,114</u>	<u>280</u>	<u>2,925</u>	<u>164,255</u>
Fair value of collateral	<u>40,896</u>	<u>240,585</u>	<u>-</u>	<u>28,474</u>	<u>-</u>	<u>-</u>	<u>309,955</u>

Collateral is mainly properties and fixed deposits.

Upon initial recognition of loans and advances, the fair value of collateral is determined based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market value such as recent transaction price of properties.

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality - continued

(iii) Loans and advances individually impaired

(a) Loans and advances to customers

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group and the Bank as security, are as follows:

	THE GROUP AND THE BANK						
	Overdrafts	Instalment loans	Term loans	Trade finance	Personal loans and tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009							
Individually impaired loans	<u>5,788</u>	<u>39,506</u>	<u>-</u>	<u>7,477</u>	<u>451</u>	<u>485</u>	<u>53,707</u>
Fair value of collateral	<u>33,055</u>	<u>45,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,450</u>
At 31 December 2008							
Individually impaired loans	<u>27,743</u>	<u>9,034</u>	<u>62,857</u>	<u>113</u>	<u>575</u>	<u>252</u>	<u>100,574</u>
Fair value of collateral	<u>174,295</u>	<u>11,920</u>	<u>283,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>470,173</u>

Collateral is mainly properties and fixed deposits.

(b) Loans and advances to banks

There are no individually impaired loans and advances to banks as at 31 December 2009 and 31 December 2008.

(iv) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payments will most likely continue. These policies are kept under continuous review.

	THE GROUP AND THE BANK	
	2009	2008
	HK\$'000	HK\$'000
Renegotiated loans that would otherwise be past due or impaired	<u>50,124</u>	<u>17,017</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Debt securities

Financial investments by rating agency designation

The following table presents an analysis of financial securities, other than loans and advances, held by the Group and the Bank by rating agency designation at the end of the reporting period, based on Moody's ratings. Financial securities not rated by Moody's are treated as unrated ones.

	THE GROUP AND THE BANK			
	Financial assets at fair value through profit or loss HK\$'000	Available- for-sale securities (excluding equity securities) HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
At 31 December 2009				
Aaa	–	–	1,854,620	1,854,620
Aa1 to Aa3	38,271	92,272	12,495,432	12,625,975
A1 to A3	94,123	–	2,544,102	2,638,225
Lower than A3	–	–	4,544	4,544
Unrated	444,196	1,276	55,768	501,240
Total	<u>576,590</u>	<u>93,548</u>	<u>16,954,466</u>	<u>17,624,604</u>
At 31 December 2008				
Aaa	–	–	653,637	653,637
Aa1 to Aa3	232,475	35,755	7,210,258	7,478,488
A1 to A3	83,985	–	1,671,001	1,754,986
Lower than A3	–	–	74,529	74,529
Unrated	364,107	16,640	118,260	499,007
Total	<u>680,567</u>	<u>52,395</u>	<u>9,727,685</u>	<u>10,460,647</u>

Reposessed collateral

During the years indicated, the Group and the Bank obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	THE GROUP AND THE BANK	
	2009 HK\$'000	2008 HK\$'000
Residential properties	6,330	12,750
Others	14,908	15,644
Total	<u>21,238</u>	<u>28,394</u>

Reposessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

7. FINANCIAL RISK MANAGEMENT - continued

Market risk

The Group and the Bank take on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group and the Bank separate exposures to market risk into either trading or non-trading portfolios.

Trading portfolios include those positions arising from market-making transactions where the Group and the Bank act as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's and the Bank's held-to-maturity and available-for-sale investments.

The management of market risk is principally undertaken in treasury function using risk limits approved by the Board of Directors. Limits are set for each portfolio, product and risk type, with market liquidity being a principal factor in determining the level of limits set. The Group has dedicated standards, policies and procedures in place to control and monitor the market risk. The market risks which arise on each business are assessed and managed under the supervision of ALCO.

In addition, the Group uses derivatives to mitigate interest rate and foreign exchange risk.

Management of market risk

Stress tests are carried out to provide an indication of the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business segments and typically uses scenario analysis.

Currency risk

The Group and the Bank undertake certain transactions denominated in foreign currencies and, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group and the Bank do not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Management Department within approved limits.

The Group and the Bank take on exposure to the effects 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk - continued

The following table indicates the concentration of currency risk at the end of each reporting dates:

	THE GROUP					Total HK\$'000
	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000	
At 31 December 2009						
Assets						
Cash and short-term funds	10,057,501	2,948,685	153,935	663,826	1,224,733	15,048,680
Placements with banks and other financial institutions	1,300,101	814,275	-	-	700,190	2,814,566
Derivative financial instruments	331	-	-	-	-	331
Financial assets at fair value through profit or loss	494,341	82,389	-	-	-	576,730
Available-for-sale securities	139,767	102,082	-	28,493	2,307	272,649
Held-to-maturity securities	6,467,308	4,489,302	-	209,049	5,788,807	16,954,466
Advances to customers	31,107,491	1,464,586	8,991	109,842	102,669	32,793,579
Advances to banks and other financial institutions	56,450	427	-	57,806	-	114,683
Other financial assets	343,693	5,254	623	7,160	2,743	359,473
Total financial assets	<u>49,966,983</u>	<u>9,907,000</u>	<u>163,549</u>	<u>1,076,176</u>	<u>7,821,449</u>	<u>68,935,157</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,138,836	272,881	-	-	36,001	1,447,718
Deposits from customers	43,153,899	8,848,480	116,050	932,138	7,737,848	60,788,415
Derivative financial instruments	42,728	1,685	-	-	-	44,413
Loan capital	(2,176)	969,375	-	-	-	967,199
Other financial liabilities	528,602	10,858	300	782	15,474	556,016
Total financial liabilities	<u>44,861,889</u>	<u>10,103,279</u>	<u>116,350</u>	<u>932,920</u>	<u>7,789,323</u>	<u>63,803,761</u>
Net position - financial assets and liabilities	<u>5,105,094</u>	<u>(196,279)</u>	<u>47,199</u>	<u>143,256</u>	<u>32,126</u>	<u>5,131,396</u>

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk - continued

	THE GROUP					
	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2008						
Assets						
Cash and short-term funds	5,521,439	7,363,797	127,061	663,657	3,983,973	17,659,927
Placements with banks and other financial institutions	4,285,000	782,750	–	–	300,108	5,367,858
Derivative financial instruments	429	–	–	–	–	429
Financial assets at fair value through profit or loss	599,320	81,360	–	–	–	680,680
Available-for-sale securities	81,457	84,692	–	28,493	1,885	196,527
Held-to-maturity securities	4,485,688	3,366,209	–	163,432	1,712,356	9,727,685
Advances to customers	31,588,692	1,463,522	17,982	67,497	106,934	33,244,627
Advances to banks and other financial institutions	56,460	481	–	59,471	–	116,412
Other financial assets	98,343	161,524	590	3,415	9,931	273,803
Total financial assets	<u>46,716,828</u>	<u>13,304,335</u>	<u>145,633</u>	<u>985,965</u>	<u>6,115,187</u>	<u>67,267,948</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,114,675	332,181	–	–	78,653	1,525,509
Deposits from customers	40,452,603	11,944,793	96,525	870,132	6,037,607	59,401,660
Derivative financial instruments	39,303	–	–	–	–	39,303
Loan capital	(3,296)	968,750	–	–	–	965,454
Other financial liabilities	413,159	37,181	360	2,695	23,986	477,381
Total financial liabilities	<u>42,016,444</u>	<u>13,282,905</u>	<u>96,885</u>	<u>872,827</u>	<u>6,140,246</u>	<u>62,409,307</u>
Net position - financial assets and liabilities	<u>4,700,384</u>	<u>21,430</u>	<u>48,748</u>	<u>113,138</u>	<u>(25,059)</u>	<u>4,858,641</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk - continued

	THE BANK					Total HK\$'000
	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000	
At 31 December 2009						
Assets						
Cash and short-term funds	10,014,998	2,948,685	153,935	663,826	1,224,733	15,006,177
Placements with banks and other financial institutions	1,300,101	814,275	-	-	700,190	2,814,566
Derivative financial instruments	331	-	-	-	-	331
Financial assets at fair value through profit or loss	494,201	82,389	-	-	-	576,590
Available-for-sale securities	63,582	102,082	-	28,493	2,307	196,464
Held-to-maturity securities	6,467,308	4,489,302	-	209,049	5,788,807	16,954,466
Advances to customers	31,107,491	1,464,586	8,991	109,842	102,669	32,793,579
Advances to banks and other financial institutions	56,450	427	-	57,806	-	114,683
Other financial assets	75,933	4,538	623	3,337	2,743	87,174
Total financial assets	<u>49,580,395</u>	<u>9,906,284</u>	<u>163,549</u>	<u>1,072,353</u>	<u>7,821,449</u>	<u>68,544,030</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,138,836	272,881	-	-	36,001	1,447,718
Deposits from customers	43,151,009	8,848,480	116,050	932,138	7,737,848	60,785,525
Derivative financial instruments	42,728	1,685	-	-	-	44,413
Loan capital	(2,176)	969,375	-	-	-	967,199
Other financial liabilities	1,008,107	10,858	300	782	15,474	1,035,521
Total financial liabilities	<u>45,338,504</u>	<u>10,103,279</u>	<u>116,350</u>	<u>932,920</u>	<u>7,789,323</u>	<u>64,280,376</u>
Net position - financial assets and liabilities	<u>4,241,891</u>	<u>(196,995)</u>	<u>47,199</u>	<u>139,433</u>	<u>32,126</u>	<u>4,263,654</u>

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk - continued

	THE BANK					Total HK\$'000
	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000	
At 31 December 2008						
Assets						
Cash and short-term funds	5,479,058	7,363,797	127,061	663,657	3,983,973	17,617,546
Placements with banks and other financial institutions	4,285,000	782,750	–	–	300,108	5,367,858
Derivative financial instruments	429	–	–	–	–	429
Financial assets at fair value through profit or loss	599,207	81,360	–	–	–	680,567
Available-for-sale securities	35,655	84,692	–	28,493	1,885	150,725
Held-to-maturity securities	4,485,688	3,366,209	–	163,432	1,712,356	9,727,685
Advances to customers	31,588,278	1,463,522	17,982	67,497	106,934	33,244,213
Advances to banks and other financial institutions	56,460	481	–	59,471	–	116,412
Other financial assets	25,573	83,495	590	830	9,931	120,419
Total financial assets	<u>46,555,348</u>	<u>13,226,306</u>	<u>145,633</u>	<u>983,380</u>	<u>6,115,187</u>	<u>67,025,854</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,114,675	332,181	–	–	78,653	1,525,509
Deposits from customers	40,449,370	11,944,793	96,525	870,132	6,037,607	59,398,427
Derivative financial instruments	39,303	–	–	–	–	39,303
Loan capital	(3,296)	968,750	–	–	–	965,454
Other financial liabilities	938,354	37,181	360	2,695	23,986	1,002,576
Total financial liabilities	<u>42,538,406</u>	<u>13,282,905</u>	<u>96,885</u>	<u>872,827</u>	<u>6,140,246</u>	<u>62,931,269</u>
Net position - financial assets and liabilities	<u>4,016,942</u>	<u>(56,599)</u>	<u>48,748</u>	<u>110,553</u>	<u>(25,059)</u>	<u>4,094,585</u>

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk - continued

Foreign currency sensitivity

The Group and the Bank are mainly exposed to US dollars, Renminbi and Macau Pataca. The following table details the Group's and the Bank's sensitivity to a 1 per cent change in Hong Kong dollars against the US dollars, and 10 percent change in Hong Kong dollars against Renminbi and Macau Pataca. The respective percentages are the rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Group's and the Bank's exposure to foreign currency risk at the end of the reporting period has been determined by adjusting their translation at the year end.

	Change in currency rate					
	US Dollars		Renminbi		Macau Pataca	
	Appreciate +1%	Depreciate -1%	Appreciate +10%	Depreciate -10%	Appreciate +10%	Depreciate -10%
THE GROUP						
Hong Kong dollars equivalents (HK\$'000)						
2009						
Profit after tax	(2,345)	2,345	520	(520)	(135)	135
Other comprehensive income	<u>2,621</u>	<u>(2,621)</u>	<u>16,914</u>	<u>(16,914)</u>	<u>4,855</u>	<u>(4,855)</u>
2008						
Profit after tax	(2,482)	2,482	129	(129)	20	(20)
Other comprehensive income	<u>2,445</u>	<u>(2,445)</u>	<u>16,768</u>	<u>(16,768)</u>	<u>4,855</u>	<u>(4,855)</u>
THE BANK						
2009						
Profit after tax	(1,572)	1,572	138	(138)	(135)	135
Other comprehensive income	<u>1,841</u>	<u>(1,841)</u>	<u>14,210</u>	<u>(14,210)</u>	<u>4,855</u>	<u>(4,855)</u>
2008						
Profit after tax	(2,475)	2,475	(130)	130	20	(20)
Other comprehensive income	<u>1,658</u>	<u>(1,658)</u>	<u>14,193</u>	<u>(14,193)</u>	<u>4,855</u>	<u>(4,855)</u>

Numbers in bracket mean decrease.

7. FINANCIAL RISK MANAGEMENT - continued
Market risk - continued
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 and the Bank take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both 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 are monitored regularly.

The Group and the Bank measure the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of gap analysis which provides the Group and the Bank with a static view of the maturity and re-pricing characteristics of statement of financial position.

The tables below summarise the Group's and the Bank's exposure to interest rate risks. Included in the tables are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	THE GROUP					Total
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	
At 31 December 2009						
Assets						
Cash and short-term funds	14,528,955	169,926	-	-	349,799	15,048,680
Placements with banks and other financial institutions	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	-	-	-	331	331
Financial assets at fair value through profit or loss	468,916	-	25,285	-	82,529	576,730
Available-for-sale securities	92,272	-	-	-	180,377	272,649
Held-to-maturity securities	10,206,384	2,653,126	4,092,956	-	2,000	16,954,466
Advances to customers	32,292,508	393,591	55,196	2,776	49,508	32,793,579
Advances to banks and other financial institutions	75,710	38,000	-	-	973	114,683
Other financial assets	-	-	-	-	359,473	359,473
Total financial assets	58,316,762	5,417,192	4,173,437	2,776	1,024,990	68,935,157
Liabilities						
Deposits and balances of banks and other financial institutions	1,437,745	-	-	-	9,973	1,447,718
Deposits from customers	51,352,821	4,488,710	156,051	-	4,790,833	60,788,415
Derivative financial instruments	-	-	-	-	44,413	44,413
Loan capital	967,199	-	-	-	-	967,199
Other financial liabilities	-	-	-	-	556,016	556,016
Total financial liabilities	53,757,765	4,488,710	156,051	-	5,401,235	63,803,761
Net position - financial assets and liabilities	4,558,997	928,482	4,017,386	2,776	(4,376,245)	5,131,396

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

	THE GROUP					Total HK\$'000
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	
At 31 December 2008						
Assets						
Cash and short-term funds	16,941,384	271,937	–	–	446,606	17,659,927
Placements with banks and other financial institutions	4,449,267	918,591	–	–	–	5,367,858
Derivative financial instruments	–	–	–	–	429	429
Financial assets at fair value through profit or loss	599,208	–	–	–	81,472	680,680
Available-for-sale securities	35,754	–	–	–	160,773	196,527
Held-to-maturity securities	7,408,355	2,293,174	24,156	–	2,000	9,727,685
Advances to customers	32,309,117	737,016	58,967	3,106	136,421	33,244,627
Advances to banks and other financial institutions	85,063	30,408	–	–	941	116,412
Other financial assets	–	–	–	–	273,803	273,803
Total financial assets	<u>61,828,148</u>	<u>4,251,126</u>	<u>83,123</u>	<u>3,106</u>	<u>1,102,445</u>	<u>67,267,948</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,514,356	–	–	–	11,153	1,525,509
Deposits from customers	52,972,817	3,416,549	4,621	–	3,007,673	59,401,660
Derivative financial instruments	–	–	–	–	39,303	39,303
Loan capital	965,454	–	–	–	–	965,454
Other financial liabilities	–	–	–	–	477,381	477,381
Total financial liabilities	<u>55,452,627</u>	<u>3,416,549</u>	<u>4,621</u>	<u>–</u>	<u>3,535,510</u>	<u>62,409,307</u>
Net position - financial assets and liabilities	<u>6,375,521</u>	<u>834,577</u>	<u>78,502</u>	<u>3,106</u>	<u>(2,433,065)</u>	<u>4,858,641</u>

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

	THE BANK					Total HK\$'000
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	
At 31 December 2009						
Assets						
Cash and short-term funds	14,468,006	169,926	-	-	368,245	15,006,177
Placements with banks and other financial institutions	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	-	-	-	331	331
Financial assets at fair value through profit or loss	468,916	-	25,285	-	82,389	576,590
Available-for-sale securities	92,272	-	-	-	104,192	196,464
Held-to-maturity securities	10,206,384	2,653,126	4,092,956	-	2,000	16,954,466
Advances to customers	32,292,508	393,591	55,196	2,776	49,508	32,793,579
Advances to bank and other financial institutions	75,710	38,000	-	-	973	114,683
Other financial assets	-	-	-	-	87,174	87,174
Total financial assets	<u>58,255,813</u>	<u>5,417,192</u>	<u>4,173,437</u>	<u>2,776</u>	<u>694,812</u>	<u>68,544,030</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,437,745	-	-	-	9,973	1,447,718
Deposits from customers	51,349,931	4,488,710	156,051	-	4,790,833	60,785,525
Derivative financial instruments	-	-	-	-	44,413	44,413
Loan capital	967,199	-	-	-	-	967,199
Other financial liabilities	735,825	20,446	-	-	279,250	1,035,521
Total financial liabilities	<u>54,490,700</u>	<u>4,509,156</u>	<u>156,051</u>	<u>-</u>	<u>5,124,469</u>	<u>64,280,376</u>
Net position - financial assets and liabilities	<u>3,765,113</u>	<u>908,036</u>	<u>4,017,386</u>	<u>2,776</u>	<u>(4,429,657)</u>	<u>4,263,654</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

	THE BANK					Total HK\$'000
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	
At 31 December 2008						
Assets						
Cash and short-term funds	16,882,390	271,937	–	–	463,219	17,617,546
Placements with banks and other financial institutions	4,449,267	918,591	–	–	–	5,367,858
Derivative financial instruments	–	–	–	–	429	429
Financial assets at fair value through profit or loss	599,207	–	–	–	81,360	680,567
Available-for-sale securities	35,754	–	–	–	114,971	150,725
Held-to-maturity securities	7,408,355	2,293,174	24,156	–	2,000	9,727,685
Advances to customers	32,308,703	737,016	58,967	3,106	136,421	33,244,213
Advances to bank and other financial institutions	85,063	30,408	–	–	941	116,412
Other financial assets	–	–	–	–	120,419	120,419
Total financial assets	<u>61,768,739</u>	<u>4,251,126</u>	<u>83,123</u>	<u>3,106</u>	<u>919,760</u>	<u>67,025,854</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,514,356	–	–	–	11,153	1,525,509
Deposits from customers	52,969,584	3,416,549	4,621	–	3,007,673	59,398,427
Derivative financial instruments	–	–	–	–	39,303	39,303
Loan capital	965,454	–	–	–	–	965,454
Other financial liabilities	697,853	–	–	–	304,723	1,002,576
Total financial liabilities	<u>56,147,247</u>	<u>3,416,549</u>	<u>4,621</u>	<u>–</u>	<u>3,362,852</u>	<u>62,931,269</u>
Net position - financial assets and liabilities	<u>5,621,492</u>	<u>834,577</u>	<u>78,502</u>	<u>3,106</u>	<u>(2,443,092)</u>	<u>4,094,585</u>

7. FINANCIAL RISK MANAGEMENT - continued
Market risk - continued
Interest rate risk - continued
Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change in upwards and 10 basis point change in downwards are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2009		2008	
	Change in basis points		Change in basis points	
	+100	-10	+100	-100
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Profit after tax	48,804	(4,880)	59,773	(59,773)
Other comprehensive income	<u>(2,293)</u>	<u>229</u>	<u>(14)</u>	<u>14</u>
THE BANK				
Profit after tax	48,222	(4,822)	59,209	(59,209)
Other comprehensive income	<u>(2,293)</u>	<u>229</u>	<u>(14)</u>	<u>14</u>

Numbers in bracket mean decrease.

Price risk

The Group and the Bank are exposed to price risk arising from its investments in debt and equity securities. The Group and the Bank do not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

Price sensitivity

	2009		2008	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Profit after tax	54,740	(54,740)	31,355	(31,355)
Other comprehensive income	<u>23,575</u>	<u>(23,575)</u>	<u>13,356</u>	<u>(13,356)</u>
THE BANK				
Profit after tax	52,036	(52,036)	31,355	(31,355)
Other comprehensive income	<u>16,353</u>	<u>(16,353)</u>	<u>9,173</u>	<u>(9,173)</u>

Numbers in bracket mean decrease.

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Management of liquidity risk

The ALCO is responsible for monitoring the Group's liquidity position, and does so through the periodic review of the statutory liquidity ratio, the maturity profile of assets and liabilities, loan-to-deposit ratio and inter-bank transactions. Liquidity policy is monitored by the ALCO and reviewed regularly by the Board of Directors of the Group. The Group's policy is to maintain a conservative level of liquid funds on a daily basis so that the Group is prepared to meet its obligations when they fall due in the normal course of business and to satisfy statutory liquidity ratio requirements.

The Bank's Risk Management and Compliance Committee (the "RMCC") recommends internal target levels in respect of the liquidity ratios. The Finance and Treasury Management Division is responsible for monitoring these ratios and, where a tight liquidity position remains for a prolonged period, the Finance and Treasury Management Division reports the findings to the ALCO and RMCC who, after consultation with members of the Executive Committee decide the appropriate corrective actions to be taken. The liquidity positions of the overseas branches in Shantou, San Francisco and Macau are monitored through the submission of monthly management accounts and daily cash flow positions to the Bank's head office.

The following tables detail the Group's and the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue to those liabilities except where the Group and the Bank are entitled and intends to repay the liability before its maturity.

7. FINANCIAL RISK MANAGEMENT - continued
Liquidity risk - continued
Management of liquidity risk - continued

	THE GROUP							
	Repayable on demand	Repayable within 1 month	Repayable	Repayable	Repayable	Repayable after 5 years	Undated	Total
			after 1 month	after 3 months	after 1 year			
HK\$'000	HK\$'000	but within 3 months HK\$'000	but within 1 year HK\$'000	but within 5 years HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2009								
Deposits and balances of banks and other financial institutions	10,218	1,437,850	19	2	-	-	-	1,448,089
Deposits from customers	24,493,419	23,301,777	8,390,709	4,511,942	158,631	-	-	60,856,478
Loan capital	-	510	2,869	8,606	980,850	-	-	992,835
Other financial liabilities	461,497	7,263	13,015	25,938	16,059	-	-	523,772
Total undiscounted financial liabilities	<u>24,965,134</u>	<u>24,747,400</u>	<u>8,406,612</u>	<u>4,546,488</u>	<u>1,155,540</u>	<u>-</u>	<u>-</u>	<u>63,821,174</u>
At 31 December 2008								
Deposits and balances of banks and other financial institutions	71,495	1,458,584	42	203	-	-	-	1,530,324
Deposits from customers	16,860,684	30,128,383	9,073,136	3,427,260	54,953	-	42,445	59,586,861
Loan capital	-	1,228	6,905	20,716	1,023,993	-	-	1,052,842
Other financial liabilities	295,882	2,438	40,368	19,859	16,812	-	-	375,359
Total undiscounted financial liabilities	<u>17,228,061</u>	<u>31,590,633</u>	<u>9,120,451</u>	<u>3,468,038</u>	<u>1,095,758</u>	<u>-</u>	<u>42,445</u>	<u>62,545,386</u>
	THE BANK							
	Repayable on demand	Repayable within 1 month	Repayable	Repayable	Repayable	Repayable after 5 years	Undated	Total
			after 1 month	after 3 months	after 1 year			
HK\$'000	HK\$'000	but within 3 months HK\$'000	but within 1 year HK\$'000	but within 5 years HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2009								
Deposits and balances of banks and other financial institutions	10,218	1,437,850	19	2	-	-	-	1,448,089
Deposits from customers	24,493,329	23,299,216	8,390,379	4,511,942	158,631	-	-	60,853,497
Loan capital	-	510	2,869	8,606	980,850	-	-	992,835
Other financial liabilities	506,881	391,937	75,910	28,640	-	-	-	1,003,368
Total undiscounted financial liabilities	<u>25,010,428</u>	<u>25,129,513</u>	<u>8,469,177</u>	<u>4,549,190</u>	<u>1,139,481</u>	<u>-</u>	<u>-</u>	<u>64,297,789</u>
At 31 December 2008								
Deposits and balances of banks and other financial institutions	71,495	1,458,584	42	203	-	-	-	1,530,324
Deposits from customers	16,860,585	30,126,228	9,072,058	3,427,260	54,953	-	42,445	59,583,529
Loan capital	-	1,228	6,905	20,716	1,023,993	-	-	1,052,842
Other financial liabilities	443,049	390,800	62,101	4,703	-	-	-	900,653
Total undiscounted financial liabilities	<u>17,375,129</u>	<u>31,976,840</u>	<u>9,141,106</u>	<u>3,452,882</u>	<u>1,078,946</u>	<u>-</u>	<u>42,445</u>	<u>63,067,348</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Management of liquidity risk - continued

The following tables detail the Group's and the Bank's expected maturity for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows and (outflows) on the derivative instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement based on the earliest possible contractual maturity date. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

THE GROUP AND THE BANK

	Less than 1 month HK\$'000	1 - 3 months HK\$'000	3 months to 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000
At 31 December 2009					
Derivatives settled net					
Interest rate contracts	<u>(666)</u>	<u>401</u>	<u>(495)</u>	<u>(55,002)</u>	<u>-</u>
Derivatives settled gross					
Exchange rate contracts					
- inflow	7,053	49,762	1,015	-	-
- outflow	<u>(6,945)</u>	<u>(49,674)</u>	<u>(978)</u>	<u>-</u>	<u>-</u>
	<u>108</u>	<u>88</u>	<u>37</u>	<u>-</u>	<u>-</u>
At 31 December 2008					
Derivatives settled net					
Interest rate contracts	<u>(46)</u>	<u>1,361</u>	<u>(26,122)</u>	<u>(28,943)</u>	<u>-</u>
Derivatives settled gross					
Exchange rate contracts					
- inflow	28,090	8,146	158,239	-	-
- outflow	<u>(28,360)</u>	<u>(7,936)</u>	<u>(158,354)</u>	<u>-</u>	<u>-</u>
	<u>(270)</u>	<u>210</u>	<u>(115)</u>	<u>-</u>	<u>-</u>

7. FINANCIAL RISK MANAGEMENT - continued
Liquidity risk - continued
Off-statement of financial position

The dates of the contractual amounts of the Group's and the Bank's off-statement of financial position financial instruments that commit it to extending credit to customers and other facilities and financial guarantees are summarised in the table below:

	THE GROUP			
	No later than 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2009				
Loan commitments	14,508,583	–	–	14,508,583
Guarantee, acceptances and other financial facilities	<u>1,074,429</u>	–	–	<u>1,074,429</u>
Total	<u><u>15,583,012</u></u>	<u>–</u>	<u>–</u>	<u><u>15,583,012</u></u>
At 31 December 2008				
Loan commitments	14,529,659	–	–	14,529,659
Guarantee, acceptances and other financial facilities	<u>1,014,062</u>	–	–	<u>1,014,062</u>
Total	<u><u>15,543,721</u></u>	<u>–</u>	<u>–</u>	<u><u>15,543,721</u></u>
	THE BANK			
	No later than 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2009				
Loan commitments	14,508,583	–	–	14,508,583
Guarantee, acceptances and other financial facilities	<u>1,074,429</u>	–	–	<u>1,074,429</u>
Total	<u><u>15,583,012</u></u>	<u>–</u>	<u>–</u>	<u><u>15,583,012</u></u>
At 31 December 2008				
Loan commitments	14,529,659	–	–	14,529,659
Guarantee, acceptances and other financial facilities	<u>1,014,062</u>	–	–	<u>1,014,062</u>
Total	<u><u>15,543,721</u></u>	<u>–</u>	<u>–</u>	<u><u>15,543,721</u></u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Analysis of assets and liabilities by remaining maturity

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

	THE GROUP							
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2009								
Assets								
Cash and short-term funds	4,204,022	10,409,504	235,383	199,771	-	-	-	15,048,680
Placements with banks and other financial institutions	-	-	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	175	119	37	-	-	-	331
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	140	140
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	179,101	272,649
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
Advances to customers	1,456,020	2,234,769	1,501,287	4,773,751	13,014,912	9,628,458	184,382	32,793,579
Advances to banks and other financial institutions	9,958	60,466	30,961	13,298	-	-	-	114,683
Other financial assets	341,785	86,790	22,146	35,886	703	-	(127,837)	359,473
Total financial assets	<u>6,011,785</u>	<u>16,934,508</u>	<u>3,872,976</u>	<u>11,415,346</u>	<u>20,835,022</u>	<u>9,629,734</u>	<u>235,786</u>	<u>68,935,157</u>
Liabilities								
Deposits and balances of banks and other financial institutions	10,218	1,437,500	-	-	-	-	-	1,447,718
Deposits from customers	24,492,361	23,282,401	8,369,759	4,487,837	156,057	-	-	60,788,415
Derivative financial instruments	-	296	20	1,373	42,724	-	-	44,413
Loan capital	-	-	-	-	-	967,199	-	967,199
Other financial liabilities	462,336	20,846	23,489	32,962	16,383	-	-	556,016
Total financial liabilities	<u>24,964,915</u>	<u>24,741,043</u>	<u>8,393,268</u>	<u>4,522,172</u>	<u>215,164</u>	<u>967,199</u>	<u>-</u>	<u>63,803,761</u>
Net position - financial assets and liabilities	<u>(18,953,130)</u>	<u>(7,806,535)</u>	<u>(4,520,292)</u>	<u>6,893,174</u>	<u>20,619,858</u>	<u>8,662,535</u>	<u>235,786</u>	<u>5,131,396</u>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	-	67,510	280,000	-	-	347,510
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	-	93,548
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
	<u>-</u>	<u>4,142,804</u>	<u>1,431,063</u>	<u>4,230,054</u>	<u>7,819,407</u>	<u>1,276</u>	<u>-</u>	<u>17,624,604</u>

7. FINANCIAL RISK MANAGEMENT - continued
Liquidity risk - continued
Analysis of assets and liabilities by remaining maturity - continued

	THE GROUP							Total HK\$'000
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	
At 31 December 2008								
Assets								
Cash and short-term funds	4,162,520	13,214,714	53,110	229,583	-	-	-	17,659,927
Placements with banks and other financial institutions	-	-	4,449,267	918,591	-	-	-	5,367,858
Derivative financial instruments	-	-	-	-	-	-	429	429
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	113	113
- Designated at fair value	-	-	49,349	295,228	335,990	-	-	680,567
Available-for-sale securities	-	-	-	-	35,755	16,640	144,132	196,527
Held-to-maturity securities	-	1,201,359	1,349,389	3,295,114	3,876,303	3,520	2,000	9,727,685
Advances to customers	2,506,692	2,858,274	1,613,321	4,868,474	11,571,972	9,549,718	276,176	33,244,627
Advances to banks and other financial institutions	26,380	30,424	9,608	50,000	-	-	-	116,412
Other financial assets	178,911	115,575	42,484	39,503	6,691	-	(109,361)	273,803
Total financial assets	6,874,503	17,420,346	7,566,528	9,696,493	15,826,711	9,569,878	313,489	67,267,948
Liabilities								
Deposits and balances of banks and other financial institutions								
Deposits from customers	16,859,032	30,054,751	9,023,831	3,370,024	51,577	-	42,445	59,401,660
Derivative financial instruments	-	-	-	-	-	-	39,303	39,303
Loan capital	-	-	-	-	-	965,454	-	965,454
Other financial liabilities	297,326	62,987	63,948	36,138	16,982	-	-	477,381
Total financial liabilities	17,227,852	31,571,753	9,087,779	3,406,162	68,559	965,454	81,748	62,409,307
Net position - financial assets and liabilities	(10,353,349)	(14,151,407)	(1,521,251)	6,290,331	15,758,152	8,604,424	231,741	4,858,641
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	-	467,970	90,750	-	-	558,720
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	49,349	295,228	335,990	-	-	680,567
Available-for-sale securities	-	-	-	-	35,755	16,640	-	52,395
Held-to-maturity securities	-	1,201,359	1,349,389	3,295,114	3,876,303	3,520	2,000	9,727,685
	-	1,201,359	1,398,738	3,590,342	4,248,048	20,160	2,000	10,460,647

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Analysis of assets and liabilities by remaining maturity - continued

	THE BANK							Total HK\$'000
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	
At 31 December 2009								
Assets								
Cash and short-term funds	4,198,892	10,372,131	235,383	199,771	-	-	-	15,006,177
Placements with banks and other financial institutions	-	-	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	175	119	37	-	-	-	331
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	102,916	196,464
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
Advances to customers	1,456,020	2,234,769	1,501,287	4,773,751	13,014,912	9,628,458	184,382	32,793,579
Advances to banks and other financial institutions	9,958	60,466	30,961	13,298	-	-	-	114,683
Other financial assets	72,936	89,068	21,392	33,239	703	-	(130,164)	87,174
Total financial assets	<u>5,737,806</u>	<u>16,899,413</u>	<u>3,872,222</u>	<u>11,412,699</u>	<u>20,835,022</u>	<u>9,629,734</u>	<u>157,134</u>	<u>68,544,030</u>
Liabilities								
Deposits and balances of banks and other financial institutions								
Deposits from customers	10,218	1,437,500	-	-	-	-	-	1,447,718
Derivative financial instruments	-	296	20	1,373	42,724	-	-	44,413
Loan capital	-	-	-	-	-	967,199	-	967,199
Other financial liabilities	507,629	405,520	86,384	35,664	324	-	-	1,035,521
Total financial liabilities	<u>25,010,209</u>	<u>25,123,156</u>	<u>8,455,833</u>	<u>4,524,874</u>	<u>199,105</u>	<u>967,199</u>	<u>-</u>	<u>64,280,376</u>
Net position - financial assets and liabilities	<u>(19,272,403)</u>	<u>(8,223,743)</u>	<u>(4,583,611)</u>	<u>6,887,825</u>	<u>20,635,917</u>	<u>8,662,535</u>	<u>157,134</u>	<u>4,263,654</u>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	-	67,510	280,000	-	-	347,510
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	-	93,548
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
	<u>-</u>	<u>4,142,804</u>	<u>1,431,063</u>	<u>4,230,054</u>	<u>7,819,407</u>	<u>1,276</u>	<u>-</u>	<u>17,624,604</u>

7. FINANCIAL RISK MANAGEMENT - continued
Liquidity risk - continued
Analysis of assets and liabilities by remaining maturity - continued

	THE BANK							Total HK\$'000
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	
At 31 December 2008								
Assets								
Cash and short-term funds	4,157,401	13,177,451	53,111	229,583	-	-	-	17,617,546
Placements with banks and other financial institutions	-	-	4,449,267	918,591	-	-	-	5,367,858
Derivative financial instruments	-	-	-	-	-	-	429	429
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	49,349	295,228	335,990	-	-	680,567
Available-for-sale securities	-	-	-	-	35,755	16,640	98,330	150,725
Held-to-maturity securities	-	1,201,359	1,349,389	3,295,114	3,876,303	3,520	2,000	9,727,685
Advances to customers	2,506,692	2,858,264	1,613,301	4,868,383	11,571,679	9,549,718	276,176	33,244,213
Advances to banks and other financial institutions	26,380	30,424	9,608	50,000	-	-	-	116,412
Other financial assets	31,124	114,216	42,213	37,813	6,691	-	(111,638)	120,419
Total financial assets	<u>6,721,597</u>	<u>17,381,714</u>	<u>7,566,238</u>	<u>9,694,712</u>	<u>15,826,418</u>	<u>9,569,878</u>	<u>265,297</u>	<u>67,025,854</u>
Liabilities								
Deposits and balances of banks and other financial institutions								
Deposits from customers	16,859,032	30,052,596	9,022,753	3,370,024	51,577	-	42,445	59,398,427
Derivative financial instruments	-	-	-	-	-	-	39,303	39,303
Loan capital	-	-	-	-	-	965,454	-	965,454
Other financial liabilities	444,394	451,349	85,681	20,982	170	-	-	1,002,576
Total financial liabilities	<u>17,374,920</u>	<u>31,957,960</u>	<u>9,108,434</u>	<u>3,391,006</u>	<u>51,747</u>	<u>965,454</u>	<u>81,748</u>	<u>62,931,269</u>
Net position - financial assets and liabilities	<u>(10,653,323)</u>	<u>(14,576,246)</u>	<u>(1,542,196)</u>	<u>6,303,706</u>	<u>15,774,671</u>	<u>8,604,424</u>	<u>183,549</u>	<u>4,094,585</u>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	-	467,970	90,750	-	-	558,720
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	49,349	295,228	335,990	-	-	680,567
Available-for-sale securities	-	-	-	-	35,755	16,640	-	52,395
Held-to-maturity securities	-	1,201,359	1,349,389	3,295,114	3,876,303	3,520	2,000	9,727,685
	<u>-</u>	<u>1,201,359</u>	<u>1,398,738</u>	<u>3,590,342</u>	<u>4,248,048</u>	<u>20,160</u>	<u>2,000</u>	<u>10,460,647</u>

7. FINANCIAL RISK MANAGEMENT - continued

Fair value of financial assets and liabilities

Except as detailed in the following table, the directors of the Group and the Bank consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	THE GROUP AND THE BANK			
	Carrying value		Fair value	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
- Held-to-maturity securities	<u>16,954,466</u>	<u>9,727,685</u>	<u>16,975,145</u>	<u>9,658,947</u>
Financial liabilities				
- Loan capital	<u>967,199</u>	<u>965,454</u>	<u>872,438</u>	<u>775,000</u>

The fair value is based on quoted market prices provided by pricing service providers and market dealers.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	THE GROUP			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets held for trading	140	–	–	140
Financial assets designated at fair value through profit or loss	444,196	–	132,394	576,590
Available-for-sale securities	197,147	–	75,502	272,649
Derivative financial instruments not used for hedging	–	(43,954)	–	(43,954)
Derivative financial instruments used for hedging	–	(128)	–	(128)
Total	<u>641,483</u>	<u>(44,082)</u>	<u>207,896</u>	<u>805,297</u>

7. FINANCIAL RISK MANAGEMENT - continued
Fair value measurements recognised in the statement of financial position - continued

	THE BANK			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets held for trading	–	–	–	–
Financial assets designated at fair value through profit or loss	444,196	–	132,394	576,590
Available-for-sale securities	124,930	–	71,534	196,464
Derivative financial instruments not used for hedging	–	(43,954)	–	(43,954)
Derivative financial instruments used for hedging	–	(128)	–	(128)
Total	<u>569,126</u>	<u>(44,082)</u>	<u>203,928</u>	<u>728,972</u>

Reconciliation of Level 3 fair value measurements of financial assets:

	THE GROUP			THE BANK		
	Financial assets designated at fair value through profit or loss	Available-for-sale securities	Total	Financial assets designated at fair value through profit or loss	Available-for-sale securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2009	316,460	115,360	431,820	316,460	111,392	427,852
Total net gains / (losses) recognised in profit or loss	15,885	(43,571)	(27,686)	15,885	(43,571)	(27,686)
Total net gains / (losses) recognised in the revaluation reserve	–	1,570	1,570	–	1,570	1,570
Purchases	–	2,195	2,195	–	2,195	2,195
Disposals	(200,000)	–	(200,000)	(200,000)	–	(200,000)
Net transfers out of Level 3	–	–	–	–	–	–
Foreign exchange rate movements	49	(52)	(3)	49	(52)	(3)
Balance at 31 December 2009	<u>132,394</u>	<u>75,502</u>	<u>207,896</u>	<u>132,394</u>	<u>71,534</u>	<u>203,928</u>

The majority of the Group's and the Bank's investments are valued based on quoted market information or observable market data. A small percentage (0.3%) of total assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a material impact on the Group's and Bank's financial position.

Of the total net losses for the year included in profit or loss, HK\$53,790,000 related to investments held at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

8. 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	682,340	1,088,341
	<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	(19,736)	(42,122)
	<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.

9. 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	<u>307,299</u>	<u>265,220</u>
Less: Fees and commission expense	<u>(43,670)</u>	<u>(48,419)</u>
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	<u>(41,953)</u>	<u>(42,648)</u>
	<u>33,146</u>	<u>31,263</u>

10. 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>

11. 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	14,105	13,035
Less: Outgoings	(1,210)	(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>

12. 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 and 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the directors of the Bank were as follows:

	2009				2008			
	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000	Fees HK\$'000	Salaries and other benefits HK\$'000	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000
Executive directors								
Liu Lit Man	108	5,085	188	5,381	120	5,437	350	5,907
Liu Lit Mo	75	487	26	588	70	487	45	602
Liu Lit Chi	70	5,293	143	5,506	70	5,536	259	5,865
Don Tit Shing Liu	70	2,728	142	2,940	70	2,484	244	2,798
Lau Wai Man	70	2,224	128	2,422	70	2,328	232	2,630
Wilfred Chun Ning Liu	70	2,140	92	2,302	70	2,345	167	2,582
Tsang Chiu Wing	70	2,041	114	2,225	70	2,118	188	2,376
Wong Har Kar	70	1,950	104	2,124	70	2,020	155	2,245
Frank Shui Sang Jin	-	-	-	-	44	1,354	135	1,533
Total executive directors' emoluments	<u>603</u>	<u>21,948</u>	<u>937</u>	<u>23,488</u>	<u>654</u>	<u>24,109</u>	<u>1,775</u>	<u>26,538</u>
Non-executive directors								
Timothy George Freshwater	130	80	-	210	100	80	-	180
Wang Xiaoming	70	-	-	70	58	-	-	58
Andrew Liu	70	30	-	100	70	29	-	99
Eiichi Yoshikawa	70	-	-	70	70	-	-	70
Christopher Kwun Shing Liu	70	-	-	70	70	-	-	70
Alfred Cheuk Yu Chow	130	-	-	130	100	-	-	100
Meng Qinghui	70	-	-	70	58	-	-	58
Xu Minjie	-	-	-	-	12	-	-	12
Wang Zhi	-	-	-	-	12	-	-	12
Total non-executive directors' emoluments	<u>610</u>	<u>110</u>	<u>-</u>	<u>720</u>	<u>550</u>	<u>109</u>	<u>-</u>	<u>659</u>
Independent non-executive directors								
Robin Yau Hing Chan	130	-	-	130	100	-	-	100
Wanchai Chiranakhorn	130	-	-	130	100	-	-	100
Cheng Yuk Wo	130	-	-	130	100	-	-	100
Andrew Chiu Cheung Ma	130	-	-	130	100	-	-	100
Total independent non-executive directors' emoluments	<u>520</u>	<u>-</u>	<u>-</u>	<u>520</u>	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>
Total	<u>1,733</u>	<u>22,058</u>	<u>937</u>	<u>24,728</u>	<u>1,604</u>	<u>24,218</u>	<u>1,775</u>	<u>27,597</u>

The five highest paid individuals in the Group in 2009 and 2008 were all directors of the Bank and details of their emoluments are included in above. No directors waived any emoluments in the years ended 31 December 2009 and 31 December 2008.

14. TAXATION

	2009 HK\$'000	2008 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	37,056	11,254
- (over)underprovision in prior years	<u>(1,352)</u>	<u>325</u>
	35,704	11,579
Overseas taxation	1,898	6,027
Deferred tax (<i>note 30</i>)	<u>(4,967)</u>	<u>11,069</u>
	<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	<u>-</u>	<u>45</u>
Tax charge for the year	<u>32,635</u>	<u>28,675</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

15. 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><u>56,550</u></u>	<u><u>256,650</u></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.

16. 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).

17. CASH AND SHORT-TERM FUNDS

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	4,427,240	4,087,415	4,422,110	4,082,297
Money at call and short notice	6,704,160	13,180,425	6,666,787	13,143,162
Exchange fund bills	<u>3,917,280</u>	<u>392,087</u>	<u>3,917,280</u>	<u>392,087</u>
	<u><u>15,048,680</u></u>	<u><u>17,659,927</u></u>	<u><u>15,006,177</u></u>	<u><u>17,617,546</u></u>

18. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP AND THE BANK					
	2009			2008		
	Notional amount	Fair values		Notional amount	Fair values	
HK\$'000	Assets	Liabilities	HK\$'000	Assets	Liabilities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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>

18. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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

	THE GROUP AND THE BANK					
	2009			2008		
	Notional amount	Replacement cost	Credit risk weighted amount	Notional amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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.

During the year, the Group designates two interest rate swaps as fair value hedges of the fair value of available-for-sale securities. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms and management of the Group considers that the interest rate swaps are highly effective hedging instruments.

During the year, the hedge was effective in hedging the fair value exposure to interest rate movements and as a result both the change in fair value of the bonds and the fair value of the interest rate swaps were included in profit and loss.

The fair value of the interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Apart from the above two interest rate swaps designated as fair value hedges, all other derivative financial instruments do not qualify for hedge accounting for financial reporting but are managed in conjunction with the financial instruments designated at fair value through profit or loss.

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 end of the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

19. INVESTMENTS IN SECURITIES

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2009										
Equity securities:										
Listed in Hong Kong	140	-	135,287	-	135,427	-	-	63,070	-	63,070
Listed overseas	-	-	6,912	-	6,912	-	-	6,912	-	6,912
	140	-	142,199	-	142,339	-	-	69,982	-	69,982
Unlisted	-	-	36,902	-	36,902	-	-	32,934	-	32,934
	140	-	179,101	-	179,241	-	-	102,916	-	102,916
Debt securities:										
Certificates of deposit	-	-	-	347,510	347,510	-	-	-	347,510	347,510
Structured products	-	576,590	-	-	576,590	-	576,590	-	-	576,590
Other debt securities - Unlisted	-	-	93,548	16,606,956	16,700,504	-	-	93,548	16,606,956	16,700,504
	-	576,590	93,548	16,954,466	17,624,604	-	576,590	93,548	16,954,466	17,624,604
Total:										
Listed in Hong Kong	140	-	135,287	-	135,427	-	-	63,070	-	63,070
Listed overseas	-	-	6,912	-	6,912	-	-	6,912	-	6,912
Unlisted	-	576,590	130,450	16,954,466	17,661,506	-	576,590	126,482	16,954,466	17,657,538
	140	576,590	272,649	16,954,466	17,803,845	-	576,590	196,464	16,954,466	17,727,520
Market value of listed securities:										
Listed in Hong Kong	140	-	135,287	-	135,427	-	-	63,070	-	63,070
Listed overseas	-	-	6,912	-	6,912	-	-	6,912	-	6,912
	140	-	142,199	-	142,339	-	-	69,982	-	69,982
As analysed by issuing entities:										
Central government and central banks	-	-	-	182,203	182,203	-	-	-	182,203	182,203
Public sector entities	-	-	54,947	56,328	111,275	-	-	54,947	56,328	111,275
Banks and other financial institutions	45	82,389	54,067	14,766,614	14,903,115	-	82,389	39,425	14,766,614	14,888,428
Corporate entities	95	494,201	155,225	1,949,321	2,598,842	-	494,201	97,650	1,949,321	2,541,172
Others	-	-	8,410	-	8,410	-	-	4,442	-	4,442
	140	576,590	272,649	16,954,466	17,803,845	-	576,590	196,464	16,954,466	17,727,520

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.

19. INVESTMENTS IN SECURITIES - continued

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.

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2008										
Equity securities:										
Listed in Hong Kong	113	-	76,976	-	77,089	-	-	35,142	-	35,142
Listed overseas	-	-	4,191	-	4,191	-	-	4,191	-	4,191
	113	-	81,167	-	81,280	-	-	39,333	-	39,333
Unlisted	-	-	62,965	-	62,965	-	-	58,997	-	58,997
	113	-	144,132	-	144,245	-	-	98,330	-	98,330
Debt securities:										
Certificates of deposit	-	-	-	558,720	558,720	-	-	-	558,720	558,720
Structured products	-	680,567	-	-	680,567	-	680,567	-	-	680,567
Other debt securities - Unlisted	-	-	52,395	9,168,965	9,221,360	-	-	52,395	9,168,965	9,221,360
	-	680,567	52,395	9,727,685	10,460,647	-	680,567	52,395	9,727,685	10,460,647
Total:										
Listed in Hong Kong	113	-	76,976	-	77,089	-	-	35,142	-	35,142
Listed overseas	-	-	4,191	-	4,191	-	-	4,191	-	4,191
Unlisted	-	680,567	115,360	9,727,685	10,523,612	-	680,567	111,392	9,727,685	10,519,644
	113	680,567	196,527	9,727,685	10,604,892	-	680,567	150,725	9,727,685	10,558,977
Market value of listed securities:										
Listed in Hong Kong	113	-	76,976	-	77,089	-	-	35,142	-	35,142
Listed overseas	-	-	4,191	-	4,191	-	-	4,191	-	4,191
	113	-	81,167	-	81,280	-	-	39,333	-	39,333
As analysed by issuing entities:										
Central government and central banks	-	-	-	289,181	289,181	-	-	-	289,181	289,181
Public sector entities	-	-	-	67,547	67,547	-	-	-	67,547	67,547
Banks and other financial institutions	-	275,085	42,615	8,033,861	8,351,561	-	275,085	35,755	8,033,861	8,344,701
Corporate entities	113	405,482	119,439	1,337,096	1,862,130	-	405,482	84,465	1,337,096	1,827,043
Others	-	-	34,473	-	34,473	-	-	30,505	-	30,505
	113	680,567	196,527	9,727,685	10,604,892	-	680,567	150,725	9,727,685	10,558,977

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

20. ADVANCES AND OTHER ACCOUNTS

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Bills receivable	302,986	334,215	302,986	334,215
Trade bills	118,258	165,293	118,258	165,293
Other advances to customers	<u>32,372,335</u>	<u>32,745,119</u>	<u>32,372,335</u>	<u>32,744,705</u>
	32,793,579	33,244,627	32,793,579	33,244,213
Interest receivable	90,429	138,721	90,410	138,452
Impairment allowances				
- Individually assessed	(25,905)	(5,799)	(25,905)	(5,799)
- Collectively assessed	<u>(108,096)</u>	<u>(108,988)</u>	<u>(108,096)</u>	<u>(108,984)</u>
	32,750,007	33,268,561	32,749,988	33,267,882
Advances to banks and other financial institutions	<u>114,683</u>	<u>116,412</u>	<u>114,683</u>	<u>116,412</u>
	32,864,690	33,384,973	32,864,671	33,384,294
Other accounts	<u>403,045</u>	<u>249,869</u>	<u>125,780</u>	<u>93,039</u>
	<u><u>33,267,735</u></u>	<u><u>33,634,842</u></u>	<u><u>32,990,451</u></u>	<u><u>33,477,333</u></u>

Included in the “Advances to banks and other financial institutions” of the Group and the Bank 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.

20. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	THE GROUP			THE BANK		
	Individual	Collective	Total	Individual	Collective	Total
	assessment	assessment		assessment	assessment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2009	5,799	108,988	114,787	5,799	108,984	114,783
Increase in impairment allowances	116,880	-	116,880	116,880	-	116,880
Amounts reversed	(13,694)	(897)	(14,591)	(13,694)	(893)	(14,587)
Amounts written off	(91,538)	-	(91,538)	(91,538)	-	(91,538)
Recoveries of advances written off						
in previous years	12,134	-	12,134	12,134	-	12,134
Unwinding effect of discount rate	(3,676)	-	(3,676)	(3,676)	-	(3,676)
Exchange difference	-	5	5	-	5	5
Balance at 31 December 2009	<u>25,905</u>	<u>108,096</u>	<u>134,001</u>	<u>25,905</u>	<u>108,096</u>	<u>134,001</u>

	THE GROUP			THE BANK		
	Individual	Collective	Total	Individual	Collective	Total
	assessment	assessment		assessment	assessment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2008	17,876	116,720	134,596	17,876	116,714	134,590
Increase in impairment allowances	144,819	-	144,819	144,819	-	144,819
Amounts reversed	(45,795)	(7,690)	(53,485)	(45,795)	(7,688)	(53,483)
Amounts written off	(141,853)	-	(141,853)	(141,853)	-	(141,853)
Recoveries of advances written off						
in previous years	35,167	-	35,167	35,167	-	35,167
Unwinding effect of discount rate	(4,415)	-	(4,415)	(4,415)	-	(4,415)
Exchange difference	-	(42)	(42)	-	(42)	(42)
Balance at 31 December 2008	<u>5,799</u>	<u>108,988</u>	<u>114,787</u>	<u>5,799</u>	<u>108,984</u>	<u>114,783</u>

Details of the impaired loans are as follows:

	THE GROUP AND THE BANK	
	2009	2008
	HK\$'000	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>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

21. INVESTMENTS IN SUBSIDIARIES

(i)	2009	2008
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>338,323</u>	<u>348,323</u>

Details of the principal subsidiaries as at 31 December 2009 are as follows:

Name of company	Place of incorporation / operation	Issued and fully paid ordinary share capital	Percentage of issued share capital held	Principal activities
Chong Hing (Nominees) Limited	Hong Kong	HK\$100,000	100%	Provision of nominee services
Chong Hing Finance Limited	Hong Kong	HK\$25,000,000	100%	Deposit-taking and lending
Chong Hing Information Technology Limited	Hong Kong	HK\$100,000	100%	Provision of electronic data processing services
Liu Chong Hing Banking Corporation, Cayman	Cayman Islands / Hong Kong	US\$10,000,000	100%	General merchant banking
Chong Hing Securities Limited	Hong Kong	HK\$10,000,000	100%	Stockbroking
Chong Hing Commodities and Futures Limited	Hong Kong	HK\$5,000,000	100%	Investment holding and commodities and futures broking
Gallbraith Limited	Hong Kong	HK\$16,550,000	100%	Property investment
Card Alliance Company Limited	Hong Kong	HK\$18,000,000	100%	Credit card management
Chong Hing Insurance Company Limited	Hong Kong	HK\$85,000,000	100%	Insurance underwriting

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

(ii) Amounts due from subsidiaries

	2009	2008
	HK\$'000	HK\$'000
Amounts due from subsidiaries	<u>4,985</u>	<u>3,711</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and, in the opinion of the directors, are repayable within three months.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	21,500	21,500
Share of increases in net assets, net of dividends received	119,418	82,999	–	–
	<u>119,418</u>	<u>82,999</u>	<u>21,500</u>	<u>21,500</u>

The directors consider the Bank has joint control over these jointly controlled entities.

As at 31 December 2009, the Group had interests in the following jointly controlled entities:

Name of company	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting
Net Alliance Co., Limited	Hong Kong	Ordinary	17.6%	15.0%	Provision of internet services

The summarised financial information in respect of Group's interests in jointly controlled entities attributable to the Group's interests therein which are accounted for using equity method is set out below:

	2009	2008
	HK\$'000	HK\$'000
Assets	741,582	624,244
Liabilities	(622,164)	(541,245)
Income	66,028	61,602
Expense	<u>(33,618)</u>	<u>(151,842)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

23. INVESTMENT PROPERTIES

All of the 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.

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	129,801	60,241	104,050	35,900
Addition	–	30,000	–	30,000
Net increase in fair value recognised in the income statement	5,148	39,560	4,110	38,150
Disposals	(32,000)	–	(32,000)	–
Exchange adjustments	250	–	–	–
At 31 December	<u>103,199</u>	<u>129,801</u>	<u>76,160</u>	<u>104,050</u>

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

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

Investment properties owned by the Group and by the Bank 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 and the Bank comprises:

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties				
Held in Hong Kong on long-term lease (over 50 years unexpired)	1,060	32,550	1,060	32,550
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	75,100	71,500	75,100	71,500
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	27,039	25,751	–	–
	<u>103,199</u>	<u>129,801</u>	<u>76,160</u>	<u>104,050</u>

24. PROPERTY AND EQUIPMENT

	THE GROUP			THE BANK		
	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST						
At 1 January 2009	316,883	477,734	794,617	313,083	428,659	741,742
Additions	-	21,326	21,326	-	13,125	13,125
Disposals	(220)	(344)	(564)	(220)	(274)	(494)
Exchange adjustments	-	4	4	-	4	4
At 31 December 2009	<u>316,663</u>	<u>498,720</u>	<u>815,383</u>	<u>312,863</u>	<u>441,514</u>	<u>754,377</u>
ACCUMULATED DEPRECIATION						
At 1 January 2009	34,204	290,689	324,893	34,100	258,570	292,670
Provided for the year	6,624	40,589	47,213	6,528	35,025	41,553
Eliminated on disposals	(82)	(329)	(411)	(82)	(262)	(344)
At 31 December 2009	<u>40,746</u>	<u>330,949</u>	<u>371,695</u>	<u>40,546</u>	<u>293,333</u>	<u>333,879</u>
CARRYING AMOUNTS						
At 31 December 2009	<u>275,917</u>	<u>167,771</u>	<u>443,688</u>	<u>272,317</u>	<u>148,181</u>	<u>420,498</u>
At 1 January 2009	<u>282,679</u>	<u>187,045</u>	<u>469,724</u>	<u>278,983</u>	<u>170,089</u>	<u>449,072</u>

	THE GROUP			THE BANK		
	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST						
At 1 January 2008	308,345	425,175	733,520	304,545	378,551	683,096
Additions	8,538	59,129	67,667	8,538	54,649	63,187
Disposals	-	(6,567)	(6,567)	-	(4,538)	(4,538)
Exchange adjustments	-	(3)	(3)	-	(3)	(3)
At 31 December 2008	<u>316,883</u>	<u>477,734</u>	<u>794,617</u>	<u>313,083</u>	<u>428,659</u>	<u>741,742</u>
ACCUMULATED DEPRECIATION						
At 1 January 2008	27,641	259,006	286,647	27,634	229,863	257,497
Provided for the year	6,563	37,362	43,925	6,466	32,366	38,832
Eliminated on disposals	-	(5,676)	(5,676)	-	(3,656)	(3,656)
Exchange adjustments	-	(3)	(3)	-	(3)	(3)
At 31 December 2008	<u>34,204</u>	<u>290,689</u>	<u>324,893</u>	<u>34,100</u>	<u>258,570</u>	<u>292,670</u>
CARRYING AMOUNTS						
At 31 December 2008	<u>282,679</u>	<u>187,045</u>	<u>469,724</u>	<u>278,983</u>	<u>170,089</u>	<u>449,072</u>
At 1 January 2008	<u>280,704</u>	<u>166,169</u>	<u>446,873</u>	<u>276,911</u>	<u>148,688</u>	<u>425,599</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%

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

24. PROPERTY AND EQUIPMENT - continued

The carrying amount of buildings shown above comprise:

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties				
Held in Hong Kong on long-term lease (over 50 years unexpired)	207,380	211,918	207,380	211,918
Held in Hong Kong on medium-term lease (10-50 years unexpired)	61,556	63,498	57,956	59,802
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,981	7,263	6,981	7,263
	<u>275,917</u>	<u>282,679</u>	<u>272,317</u>	<u>278,983</u>

25. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments comprise:

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
In Hong Kong held on:				
Leases of over 50 years	124,800	125,212	648,869	649,908
Leases of between 10 to 50 years	193,145	198,932	182,630	188,136
Outside Hong Kong held on:				
Leases of between 10 to 50 years	3,588	3,983	3,588	3,983
	<u>321,533</u>	<u>328,127</u>	<u>835,087</u>	<u>842,027</u>
Net book value at 1 January	328,127	334,231	842,027	848,465
Disposals	(519)	–	(519)	–
Release of prepaid operating lease payments	(6,075)	(6,104)	(6,421)	(6,438)
Net book value at 31 December	<u>321,533</u>	<u>328,127</u>	<u>835,087</u>	<u>842,027</u>
Analysed as:				
Current portion	6,075	6,104	6,421	6,438
Non-current portion	315,458	322,023	828,666	835,589
Total	<u>321,533</u>	<u>328,127</u>	<u>835,087</u>	<u>842,027</u>

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

26. DEPOSITS FROM CUSTOMERS

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	4,790,745	3,004,761	4,790,745	3,004,761
Savings deposits	19,644,533	13,835,350	19,644,533	13,835,350
Time, call and notice deposits	36,353,137	42,561,549	36,350,247	42,558,316
	<u>60,788,415</u>	<u>59,401,660</u>	<u>60,785,525</u>	<u>59,398,427</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.

27. LOAN CAPITAL

	THE GROUP AND THE BANK	
	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.

28. 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>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

29. RESERVES

	Share premium 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
THE BANK							
At 1 January 2009	1,542,817	(3,199)	1,378,500	8,060	307,000	2,440,689	5,673,867
Profit for the year	-	-	-	-	-	119,647	119,647
Other comprehensive income for the year	-	27,812	-	223	-	-	28,035
Total comprehensive income for the year	-	27,812	-	223	-	119,647	147,682
Interim dividend paid	-	-	-	-	-	(34,800)	(34,800)
Final dividend paid	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve	-	-	-	-	(20,000)	20,000	-
At 31 December 2009	<u>1,542,817</u>	<u>24,613</u>	<u>1,378,500</u>	<u>8,283</u>	<u>287,000</u>	<u>2,523,786</u>	<u>5,764,999</u>
At 1 January 2008	1,542,817	50,512	1,378,500	335	356,000	2,557,334	5,885,498
Profit for the year	-	-	-	-	-	91,005	91,005
Other comprehensive income (expense) for the year	-	(53,711)	-	7,725	-	-	(45,986)
Total comprehensive income (expense) for the year	-	(53,711)	-	7,725	-	91,005	45,019
Interim dividend paid	-	-	-	-	-	(65,250)	(65,250)
Final dividend paid	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve	-	-	-	-	(49,000)	49,000	-
At 31 December 2008	<u>1,542,817</u>	<u>(3,199)</u>	<u>1,378,500</u>	<u>8,060</u>	<u>307,000</u>	<u>2,440,689</u>	<u>5,673,867</u>

The Bank's reserves available for distribution to shareholders as at 31 December 2009 comprised retained profits of HK\$2,523,786,000 (2008: HK\$2,440,689,000) and general reserve of HK\$1,378,500,000 (2008: HK\$1,378,500,000).

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 is comprised of transfers from previous years' retained profits.

30. 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
THE GROUP					
At 1 January 2009	15,645	(18,428)	12,557	(3,491)	6,283
Charge to consolidated income statement for the year (Note 14)	(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 (Note 14)	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>
THE BANK					
At 1 January 2009	12,794	(18,427)	10,243	(866)	3,744
Charge to income statement for the year	(601)	(1,218)	(3,117)	–	(4,936)
Credit to other comprehensive income for the year	–	–	–	4,961	4,961
At 31 December 2009	<u>12,193</u>	<u>(19,645)</u>	<u>7,126</u>	<u>4,095</u>	<u>3,769</u>
At 1 January 2008	9,283	(19,725)	4,188	4,177	(2,077)
Charge to income statement for the year	3,511	1,298	6,055	–	10,864
Credit to other comprehensive income for the year	–	–	–	(5,043)	(5,043)
At 31 December 2008	<u>12,794</u>	<u>(18,427)</u>	<u>10,243</u>	<u>(866)</u>	<u>3,744</u>

31. SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 24 April 2012. Under the Scheme, the Board of Directors of the Bank may grant options to eligible employees, including directors of the Bank and its subsidiaries, to subscribe for shares in the Bank. Additionally, the Bank may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Bank in issue at any point in time, without prior approval from the Bank's shareholders.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option. Options may be exercised at any time from the date of grant of the share option to the fifth anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five trading days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the above-mentioned scheme since the Scheme was adopted.

32. LOANS TO OFFICERS

The aggregate relevant loans to officers, included in "advances to customers" in Note 20, and disclosure pursuant to Section 161B of the Companies Ordinance are as follows:

	THE GROUP AND THE BANK	
	2009	2008
	HK\$'000	HK\$'000
Aggregate balance of all relevant loans outstanding at the reporting date	<u>54,004</u>	<u>91,177</u>
Maximum aggregate balance of relevant loans during the year	<u>124,770</u>	<u>114,996</u>

The loans have no fixed repayment terms and the applicable interest rate ranges from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$53,138,000 (2008: HK\$90,053,000) with collateral.

33. 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.

34. CONTINGENT LIABILITIES AND COMMITMENTS

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments				
- contractual amounts				
Direct credit substitutes	790,690	647,442	790,690	647,442
Trade-related contingencies	283,739	366,620	283,739	366,620
Forward asset purchases	3,234	13,548	3,234	13,548
Other commitments:				
- Which are unconditionally cancellable without prior notice	4,969,184	4,703,352	4,969,184	4,703,352
- With an original maturity of one year and under	7,717,628	8,105,056	7,717,628	8,105,056
- With an original maturity of over one year	1,821,771	1,721,251	1,821,771	1,721,251
Lease commitments	72,846	73,506	67,706	70,398
	<u>15,659,092</u>	<u>15,630,775</u>	<u>15,653,952</u>	<u>15,627,667</u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

34. CONTINGENT LIABILITIES AND COMMITMENTS - continued

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:

	THE GROUP		THE BANK	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	30,034	28,532	27,832	26,941
In the second to fifth years inclusive	42,480	36,874	39,542	35,413
Over five years	332	1,043	332	1,043
	<u>72,846</u>	<u>66,449</u>	<u>67,706</u>	<u>63,397</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:

	THE GROUP AND THE BANK	
	2009	2008
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>3,234</u>	<u>13,548</u>

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 and the Bank as lessor had contracted with tenants for the following future minimum lease payments:

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

35. RETIREMENT BENEFITS SCHEME

At the end of the reporting period, the Group had three retirement schemes in operation, a contributory scheme and a defined benefit scheme which were registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) in 1995 and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme stayed within the ORSO Scheme or switched to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the “participating members”). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The Group operates the ORSO (Defined benefit) Scheme for qualifying employees. Under the ORSO (Defined benefit) Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 55. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The most recent actuarial valuation of the ORSO (Defined benefit) Scheme was carried out as at 31 December 2008 by the qualified actuaries of Watson Wyatt Hong Kong Limited. The accrued liabilities and future costs were measured using the Projected Unit Credit method.

At the date of the latest formal independent actuarial valuation made on 31 December 2008, the net retirement asset of the ORSO (Defined benefit) Scheme was HK\$52,000.

Net benefit cost:

	2008
	HK\$'000
Current service cost	(94)
Interest cost on benefit obligation	(838)
Expected return on plan assets	2,292
Actuarial loss recognised in the year	<u>(23,222)</u>
Net benefit cost	<u>(21,862)</u>

The amount included in the consolidated statement of financial position arising from Group’s defined benefit retirement benefit plan is as follows:

	2008
	HK\$'000
Present value of defined benefit obligation	(25,450)
Fair value of plan assets	<u>25,502</u>
Retirement benefit asset	<u>52</u>

35. RETIREMENT BENEFITS SCHEME - continued

Changes in the present value of the defined benefit obligation are as follows:

	2008
	HK\$'000
Opening defined benefit obligation	25,121
Interest cost	94
Current service cost	838
Actuarial gains on obligations	(2,456)
Benefits forfeited	1,853
Closing defined benefit obligation	<u>25,450</u>

Changes in fair value of plan assets are as follows:

	2008
	HK\$'000
Opening fair value of plan assets	47,035
Expected return	2,292
Actuarial losses on plan assets	(21,369)
Benefits paid	(2,456)
Closing fair value of plan assets	<u>25,502</u>

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2008
	%
Cash	47
Equities	53

The overall expected rates of return on assets is determined based on the market prices including published brokers' forecasts prevailing on the date of valuation, applicable to the period over which the obligation is to be settled.

The actual return on plan assets for 2008 was HK\$19,077,000.

The amounts of assets of the Scheme invested in the Bank's own deposit account as at 31 December 2008 were:

	2008
	HK\$'000
Deposits with the Bank	11,756

35. RETIREMENT BENEFITS SCHEME - continued

The principal assumptions used in determining pension obligations for the Bank's plan are shown below:

	2008
	%
Discount rate	2.8
Expected rate of return on plan assets	5.0
Expected rate of salary increase	3.0

36. RELATED PARTY TRANSACTIONS

During the year, the Group and the Bank 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 and the Bank 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.

Amounts due from related parties are included in advances and other accounts on statement of financial position.

Amounts due to related parties are included in deposit from customers on statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009

36. RELATED PARTY TRANSACTIONS - continued

During the year, the Bank entered into the following material transactions with subsidiaries:

	Interest, commission and rental income		Interest and rental expenses		Computer service expense		Dividend income	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>6,856</u>	<u>7,802</u>	<u>11,287</u>	<u>18,222</u>	<u>24,105</u>	<u>26,676</u>	<u>60,000</u>	<u>48,000</u>

The above transactions were carried out at market rates.

At the end of reporting period, the Bank had the following material outstanding balances with subsidiaries:

	Amounts due from		Amounts due to	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>4,985</u>	<u>3,711</u>	<u>763,072</u>	<u>704,828</u>

The above outstanding balances are unsecured, bear interest at market rates and are repayable within one year.

Compensation of key management personnel

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

	THE GROUP AND THE BANK	
	2009	2008
	HK\$'000	HK\$'000
Short-term benefits	52,749	54,769
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 regard to the performance of individuals and market trends.

37. CAPITAL MANAGEMENT

The Group has adopted a policy of maintaining a strong capital base to:

- comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance; and
- support the Group’s stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, has remained well above the statutory minimum ratio of 8% for the past five years.

Capital adequacy position and the use of regulatory capital are monitored closely by the Group’s management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority on a quarterly basis in the form of a statistical return.

The Group has an established capital planning process to assess the adequacy of its capital to support current and future activities. The process states the Group’s capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process include additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

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.

37. CAPITAL MANAGEMENT - 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 holdings of equities and debt securities designated at fair value through profit or loss	24,206	—
Term subordinated debt	967,199	965,454
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.

The unaudited supplementary financial information regarding corporate governance, risk management and other financial information disclosed pursuant to the Banking (Disclosure) Rules is as follows:

1. SPECIALISED COMMITTEES

The Board of Directors of the Bank (the “Board”) is constituted in accordance with the Bank’s Articles of Association and is the ultimate governing body. In order to ensure that matters arising between meetings of the Board are handled properly and timely, the Board delegates the day-to-day supervision of major functional areas to the following specialised committees. These committees are established with clearly defined objectives, authorities, responsibilities and tenure. Written terms of reference are approved by the Board and are up-dated appropriately.

(i) Executive Committee

The Executive Committee comprises all executive directors of the Bank.

It is authorised by the Board to exercise all such powers and do all such acts as may be exercised, done or approved by Board, thus relieving the full Board of detailed review of information and operational activities. The Executive Committee steers the Group’s policy and operational decisions on a day-to-day basis, and attends to matters that require the review and supervision of the Board between regular board meetings. Moreover, it also coordinates the work of other committees as it sees fit.

(ii) Executive Management Committee

Members of the Executive Management Committee, comprising the Managing Director and Chief Executive Officer and certain other executive directors and division heads, are responsible for managing the day-to-day business and the affairs of the Bank group. The Executive Management Committee holds regular meetings twice a week to discuss and formulate operation and management policies, discuss significant daily operational issues, review key business performance, and discuss business opportunities arising from changing market and competitive conditions. In performing its functions, the Executive Management Committee shall act in accordance with the directions and requirements as may from time to time be stipulated by the Board.

(iii) Executive Loans Committee

The Executive Loans Committee comprises all executive directors of the Bank.

The Executive Loans Committee is established to guide and review the operations of, and to delegate proper authorities as it deems appropriate from time to time to the Loans Committee. It also approves large and certain specific new loan applications and applications for renewal and amendment of existing loans, having due regard to the Group’s Lending Policy and the relevant laws and regulations.

1. SPECIALISED COMMITTEES - continued**(iv) Loans Committee**

Members of the Loans Committee are appointed by the Board. It comprises senior staff members of the Bank including the executive director in charge of the Credit Risk Management Division.

The Loans Committee ensures that the Group's Lending Policy is adequate, and issues guidelines from time to time to guide lending activities of the Group. It also directs the Credit Control Department to monitor loans portfolio quality through identifying problems early and taking timely corrective actions such as implementing debt-restructuring schemes and maintaining adequate provisions for loan losses. The Loans Committee members meet regularly to evaluate loan applications and make credit decisions. The monitoring of compliance with statutory lending limits, the assessment and approval of new loan products, the implementation of policies and instructions set by the Executive Loans Committee are other key functions of the Loans Committee.

(v) The Asset and Liability Management Committee (the "ALCO")

Members of the ALCO are appointed by the Board. It comprises senior staff members representing major businesses of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets and liabilities of the Group from the perspective of containing the pertinent liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's balance sheet, the formulation of the corresponding strategies and plans, and the evaluation of non-credit related products also come under other key functions of the ALCO.

(vi) The Risk Management and Compliance Committee (the "RMCC")

Members of the RMCC are appointed by the Board. It comprises senior staff members who are responsible for risk management, compliance issues and operations of the Bank.

The RMCC is established to facilitate the oversight of the Board concerning risk management and compliance issues of the Bank. The RMCC discharges its responsibilities by identifying and analysing major risk management and compliance issues, and by approving and overseeing the implementation of the risk management and compliance policies and procedures. The RMCC also takes charge of coordinating and monitoring the implementation of the recommendations made by the regulators. Regular reports as prepared by the RMCC are submitted to the Board.

Details concerning composition and functions of Audit Committee and Remuneration Committee are set out in Corporate Governance Report.

2. MANAGEMENT OF RISKS

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. 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 ALCO. The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and RMCC policies are monitored by the Treasury Management Department and the Finance Department 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) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, 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 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.

(ii) 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.

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in Note 7 to the consolidated financial statements.

3. SEGMENTAL INFORMATION

The Group's information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in Note 6 to the consolidated financial statements.

4. 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. Details are set out in Note 7 (credit risk) to the consolidated financial statements.

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
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>

5. 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>

6. 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	3,065,360	-	88	3,065,448

	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	1,420,110	1,319	11,331	1,432,760

7. 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	(67,026)	–	(28,403)	(8,473)	(103,902)
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			(213,210)	–	(213,210)
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>

8. 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	<u>31,369</u>	<u>0.1</u>
Total overdue advances	<u>48,441</u>	<u>0.1</u>
Rescheduled advances	<u>321,447</u>	<u>1.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>10,475</u>	

	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	<u>106,093</u>	<u>0.3</u>
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	<u>22,717</u>	<u>23,379</u>
	<u>48,441</u>	<u>115,823</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>159,183</u>	<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).

9. 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>

10. 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.

11. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS

The capital requirements for each class of exposures are summarized below. This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant computation method by 8%, not the Group's actual regulatory capital.

(i) Capital charge for credit risk

	Capital requirement	
	2009	2008
	HK\$'000	HK\$'000
Sovereign exposures	503	422
Public sector entity exposures	14,659	17,103
Bank exposures	484,715	506,260
Securities firm exposures	12,751	10,316
Corporate exposures	1,526,309	1,588,782
Cash items	3,232	7,830
Regulatory retail exposures	13,425	14,399
Residential mortgage loans	351,308	336,492
Other exposures which are not past due exposures	327,852	294,604
Past due exposures	<u>29,877</u>	<u>24,989</u>
Total capital charge for on-balance sheet exposures	<u>2,764,631</u>	<u>2,801,197</u>
Direct credit substitutes	40,782	40,553
Trade-related contingencies	4,304	5,593
Forward asset purchases	259	1,084
Other commitments	181,323	186,713
Exchange rate contracts	43	70
Interest rate contracts	<u>80</u>	<u>58</u>
Total capital charge for off-balance sheet exposures	<u>226,791</u>	<u>234,071</u>
Total capital charge for credit risk	<u><u>2,991,422</u></u>	<u><u>3,035,268</u></u>

11. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS - continued**(ii) Capital charge for market risk**

The Group has an exemption from the calculation of market risk under section 22(1) of the Banking (Capital) Rules. However, the Group is required to provide details concerning market risk to the Hong Kong Monetary Authority annually based on the year-end position. The market risk capital charge set out below relates to net open positions of the Group's foreign exchange exposures of HK\$14,407,000 as at 31 December 2009 (2008: HK\$14,165,000). There are no other market risk exposures as at that date.

	Capital charge	
	2009	2008
	HK\$'000	HK\$'000
Foreign exchange exposures (including gold and options)	<u>1,153</u>	<u>1,133</u>
Capital charge for market risk	<u><u>1,153</u></u>	<u><u>1,133</u></u>

(iii) Capital charge for operational risk

	2009	2008
	HK\$'000	HK\$'000
Capital charge for operational risk	<u><u>182,718</u></u>	<u><u>182,782</u></u>

The Group uses the Basic Indicator Approach for calculating operational risk.

12. RISK MANAGEMENT**(i) Credit risk****(a) Credit risk exposures**

Moody's Investors Service is the external credit assessment institution (the "ECAI") that the Group has used in relation to each class of exposures set out below. The process used to map ECAI issuer ratings to exposures booked in the banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

12. RISK MANAGEMENT - continued
(i) Credit risk - continued
(a) Credit risk exposures - continued

	2009							
	Class of exposures						Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts		
HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	HK\$'000	HK\$'000	HK\$'000	
A. On-balance Sheet								
1. Sovereign	7,079,044	7,692,598	-	6,289	-	6,289	-	-
2. Public sector entity	271,383	171,380	660,403	51,151	132,081	183,232	-	-
3. Bank	25,479,320	24,629,077	236,689	6,011,595	47,338	6,058,933	-	613,544
4. Securities firm	318,772	169,427	149,340	84,714	74,670	159,384	5	-
5. Corporate	21,959,632	3,952,543	17,110,436	1,968,422	17,110,436	19,078,858	896,653	711,180
6. Cash items	336,743	-	1,342,300	-	40,399	40,399	-	-
7. Regulatory retail	237,348	-	223,749	-	167,812	167,812	13,599	-
8. Residential mortgage loan	9,314,874	-	8,728,820	-	4,391,354	4,391,354	25,654	560,400
9. Other exposures which are not past due exposures	4,167,793	-	4,098,149	-	4,098,149	4,098,149	69,644	-
10. Past due exposures	365,316	-	365,316	-	373,462	373,462	346,234	468
B. Off-balance Sheet								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,305,084	206,798	3,098,286	83,962	2,749,381	2,833,343	295,116	116,881
2. OTC derivative transactions	<u>3,081</u>	<u>2,704</u>	<u>377</u>	<u>1,162</u>	<u>377</u>	<u>1,539</u>	<u>-</u>	<u>-</u>
Exposures deducted from Capital Base	<u><u>235,618</u></u>							

12. RISK MANAGEMENT - continued
(i) Credit risk - continued
(a) Credit risk exposures - continued

	2008							
	Class of exposures						Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts		
HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	HK\$'000	HK\$'000	HK\$'000	
A. On-balance Sheet								
1. Sovereign	952,324	1,349,312	-	5,274	-	5,274	-	-
2. Public sector entity	363,373	433,346	539,070	105,969	107,814	213,783	-	-
3. Bank	30,104,739	29,605,213	102,537	6,277,744	50,507	6,328,251	-	396,989
4. Securities firm	279,674	186,241	71,648	93,121	35,824	128,945	21,785	-
5. Corporate	22,588,937	3,220,096	18,461,699	1,398,079	18,461,699	19,859,778	907,142	720,000
6. Cash items	440,496	-	1,846,131	-	97,872	97,872	-	-
7. Regulatory retail	266,940	-	239,988	-	179,991	179,991	26,952	-
8. Residential mortgage loan	8,925,638	-	8,302,613	-	4,206,150	4,206,150	13,983	609,042
9. Other exposures which are not past due exposures	4,118,316	-	3,682,545	-	3,682,545	3,682,545	435,771	-
10. Past due exposures	302,614	-	302,614	-	312,367	312,367	280,467	891
B. Off-balance Sheet								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,215,951	145,081	3,070,870	53,940	2,870,344	2,924,284	166,362	145,081
2. OTC derivative transactions	4,299	3,047	1,252	729	877	1,606	-	-
Exposures deducted from Capital Base	<u>286,714</u>							

12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(a) Credit risk exposures - continued

Properties and cash deposits are recognised collateral for past due exposures and other exposures respectively. Recognised guarantees are guarantees issued by banks and the Government of the HKSAR. The Group has also taken properties and listed shares as collateral pledged as security against loans totalling HK\$19,636,065,000 (2008: HK\$19,540,071,000) and HK\$2,263,461,000 (2008: HK\$1,310,798,000) respectively.

(b) Counter-party credit risk exposures

The Group enters into Over-The-Counter (“OTC”) derivative transactions, mainly foreign exchange and interest rate contracts, for hedging customers’ and own positions. The methodology used to assign internal capital and credit limits for counter-party credit exposures is based on Banking (Capital) Rules. Counter-parties of these OTC derivative transactions are reputable banks and security firms and collateral is not normally required.

The following table summarises the Group’s credit exposures arising from OTC derivative transactions. There are no repo-style transactions or credit derivative contracts outstanding as at 31 December 2009.

	OTC derivative transactions	
	2009	2008
	HK\$’000	HK\$’000
OTC derivative		
Gross total positive fair value	<u>331</u>	<u>429</u>
Credit equivalent amounts	<u>3,081</u>	<u>4,299</u>
Risk-weighted amounts	<u>1,539</u>	<u>1,606</u>

12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(b) Counter-party credit risk exposures - continued

The breakdown of the credit equivalent amounts and the risk-weighted amount is summarised as follows:

	OTC derivative transactions	
	2009 HK\$'000	2008 HK\$'000
Notional amounts:		
- Banks	244,928	793,778
- Security firms	-	380,000
- Corporates	393,259	8,936
- Others	9,028	2,511
	<u>647,215</u>	<u>1,185,225</u>
Credit equivalent amounts:		
- Banks	803	2,647
- Security firms	-	1,150
- Corporates	2,188	420
- Others	90	82
	<u>3,081</u>	<u>4,299</u>
Risk-weighted amounts:		
- Banks	212	529
- Security firms	-	575
- Corporates	1,237	420
- Others	90	82
	<u>1,539</u>	<u>1,606</u>

12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(c) Credit risk mitigation

The Group generally accepts collateral pledged as security and financial guarantees to support loans and advances made to customers. However, on-balance sheet and off-balance sheet netting and credit derivative contracts are not used for credit risk mitigation purposes.

Main types of recognised collateral include cash deposits and properties, whereas main types of recognised guarantees include financial guarantees issued by banks and the Government of the HKSAR.

The Group only accepts collateral pledged as security:

- when it is readily realizable;
- when it has stable value that can be quantified or supported by valuation; and
- the title of which can be verified and legally assigned to the Group.

Loan to value (collateral value) ratios are prescribed by the Lending Policy of the Group for various types of loan. At loan inception and renewal, collateral to be pledged as security is valued by reference to its market value. Collateral is subject to revaluation on a regular basis and at times of significant price fluctuations of the underlying assets. Physical custody of title documents such as title deeds of properties and deposit certificates of cash deposits are required to be placed with the Group. Completion of registration of charges on the collateral pledged as security with the relevant authorities is a condition precedent for granting secured loans.

(ii) Asset Securitisation

The Group uses the standardized (securitization) approach to calculate the credit risk for securitization exposures, and is an investing institution for all classes of exposures set out below.

Moody's Investors Services is the ECAI that the Group has used in relation to the rated securitization exposures set out below:

	2009	Exposures deducted from its	
Securitization exposures	Outstanding amounts	Core Capital	Supplementary Capital
	HK\$'000	HK\$'000	HK\$'000
Traditional securitisations			
Structured investment vehicles	<u>1,276</u>	<u>638</u>	<u>638</u>
		2008	
		Exposures deducted from its	
Securitization exposures	Outstanding amounts	Core Capital	Supplementary Capital
	HK\$'000	HK\$'000	HK\$'000
Traditional securitisations			
Structured investment vehicles	<u>16,640</u>	<u>8,320</u>	<u>8,320</u>

12. RISK MANAGEMENT - continued

(iii) Equity exposures in banking book

The Group adopts a policy of holding equity securities for long-term investment purposes. Equity holdings taken for strategic reasons are primarily joint venture operations that complement directly the Group's banking and other financial services business.

Equity securities are accounted for as available for sale financial assets, the accounting policy of which is set out in Note 4 to the consolidated financial statements on page 51. At the balance sheet date, listed equity securities are stated at fair value which is determined by reference to prices quoted in the respective stock markets. Unlisted equity securities are valued at cost, as adjusted to reflect earning multiples for comparable listed companies if the investee companies are performing at or above expectation. When deemed necessary, equity securities are carried at written down value to reflect the impairment in value of those investee companies.

	2009	2008
	HK\$'000	HK\$'000
Net realised gains / losses from sales / liquidations	<u>24,810</u>	<u>108,706</u>
Net unrealised revaluation gains / losses:		
- Amount included in reserves but not through consolidated income statement	<u>59,125</u>	<u>10,702</u>
- Amount included in supplementary capital	<u>14,551</u>	<u>-</u>

(iv) Interest rate exposures in banking book

Note 7 to the consolidated financial statements on pages 73 to 107 sets out the nature and the frequency of measurement of the interest rate risk. In measuring the interest rate exposures, the Group assumes that past contractual re-pricing behaviour will continue in the same manner over the next 12 months.

Variations in earnings for significant upward and downward interest rate movements in accordance with the method the Group uses for stress-testing, broken down by major currencies are set out below:

	2009			Total
	HK\$	Currency		
		US\$	Others	
Interest rate risk shock				
Equivalent in thousands of HK\$				
- Variations in earnings (+100 basis points)	<u>59,393</u>	<u>(11,469)</u>	<u>880</u>	<u>48,804</u>
- Variations in earnings (-10 basis points)	<u>(5,939)</u>	<u>1,147</u>	<u>(88)</u>	<u>(4,880)</u>

12. RISK MANAGEMENT - continued

(iv) Interest rate exposures in banking book - continued

	2008			
	Currency			
	HK\$	US\$	Others	Total
Interest rate risk shock				
Equivalent in thousands of HK\$				
- Variations in earnings (+100 basis points)	<u>65,537</u>	<u>(7,806)</u>	<u>2,042</u>	<u>59,773</u>
- Variations in earnings (-100 basis points)	<u>(65,537)</u>	<u>7,806</u>	<u>(2,042)</u>	<u>(59,773)</u>

13. 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.

14. 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

Pursuant to Rules 13.51B(1) and 13.51B(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “HKSE”), other than those changes in directors’ biographical data as set out on pages 4 to 9, as well as their emoluments as set out on page 110, of this annual report, there are no other changes in directors’ information.

HEAD OFFICE, BRANCHES, PRINCIPAL SUBSIDIARIES AND AFFILIATES

as of 3 March 2010

		Telephone
HEAD OFFICE	24 Des Voeux Road Central, Hong Kong	3768 1111
HONG KONG ISLAND BRANCHES		
Aberdeen	166-168 Aberdeen Main Road	2553 9472
Causeway Bay	488 Jaffe Road	2893 6225
Happy Valley	1-9 Yuk Sau Street	2575 3201
North Point	376 King's Road	2570 0585
Sai Ying Pun	81-85 Des Voeux Road West	2547 6513
Shau Kei Wan	203-205 Shau Kei Wan Road	2560 6277
Sheung Wan	163 Wing Lok Street	2543 0653
Wan Chai	265-267 Hennessy Road	2511 3931
Wan Tsui Estate	Shop No. G11A, G/F, Wan Tsui Shopping Centre Wan Tsui Estate, Chai Wan	2976 0880
Western	347-349 Des Voeux Road West	2547 3809
KOWLOON BRANCHES		
Castle Peak Road	285-287 Castle Peak Road	2387 2421
Cho Yiu Chuen	G/F, Block C, King Cho Road	2742 2211
Ho Man Tin Plaza	Shop Nos. 7 & 8, G/F, Ho Man Tin Plaza 80 Fat Kwong Street, Ho Man Tin	2242 0681
Hoi Lai Estate	Shop No. 112, Hoi Lai Shopping Centre Hoi Lai Estate, Sham Shui Po	3514 6477
How Ming Street	114 How Ming Street	2342 6386
Jordan	G/F, 120 Woosung Street, Jordan	2735 8559
Kowloon Bay	Shop Unit 8, G/F, Chevalier Commercial Centre 8 Wang Hoi Road, Kowloon Bay	2750 8838
Kowloon City	31-33 Nga Tsin Wai Road	2382 7392
Kwong Tin Estate	No. 205, Kwong Tin Shopping Centre, Kwong Tin Estate	2717 2414
Kwun Tong	31-33 Mut Wah Street	2342 7328
Lai Chi Kok Road	139 Lai Chi Kok Road	2391 1573
Lei Yue Mun	Shop No. LG1, Lower Ground Floor Lei Yue Mun Plaza, Yau Tong	2772 6320
Mongkok	591 Nathan Road	3768 0001
Po Tat Estate	Shop No. 203B-204, 2/F, Po Tat Shopping Centre Po Tat Estate, Kwun Tong	2190 4110
San Po Kong	55-57 Yin Hing Street	2325 5303
Sham Shui Po	144-148 Tai Po Road	2777 4441
Shun Lee Estate	Lee Yat House, Shun Lee Estate	2342 7141
Tak Tin Estate	No. 207, Tak Tin Shopping Centre, Tak Tin Estate	2775 1175
To Kwa Wan	34-34A Tam Kung Road	2711 4404
Tsim Sha Tsui	16 Granville Road	2369 4091
Tsz Wan Shan	60-64 Sheung Fung Street	2327 0913

		Telephone
NEW TERRITORIES BRANCHES		
Butterfly Estate	Shop Nos. 131-134, Level 1, Tip Ling House Butterfly Shopping Centre, Butterfly Estate, Tuen Mun	2463 9263
Cheung Fat Estate	Shop Nos. 304 & 311, Level 3 Cheung Fat Shopping Centre Cheung Fat Estate, Tsing Yi	2495 7697
Choi Ming Court	Shop Nos. 265 & 267-268, 2/F, Choi Ming Shopping Centre Choi Ming Court, Tseung Kwan O	3409 5375
Fanling	2 Wo Lung Street, Luen Wo Market, Fanling	2675 6203
Fu Tai Estate	Shop 101, Level 1, Fu Tai Shopping Centre Fu Tai Estate, Tuen Mun	2453 7630
Hau Tak Estate	Shop Nos. L111-112, 1/F, West Wing Hau Tak Shopping Centre, Hau Tak Estate, Tseung Kwan O	2706 1863
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Sha Tin	2641 1911
Kwai Chung Estate	Shop 111, Podium Level 1, Kwai Chung Shopping Centre Kwai Chung Estate, Kwai Chung	2279 4161
Leung King Estate	Shop No. 209, Level Two, Leung King Shopping Centre Leung King Estate, Tuen Mun	2465 1882
On Ting Estate	Shop No. 103, Level 1, Restaurant Block On Ting Shopping Centre, On Ting Estate Tuen Mun	2441 7117
Sheung Shui	71 San Fung Avenue, Sheung Shui	2670 6295
Sheung Tak Estate	Shop No. 237, Sheung Tak Shopping Centre Sheung Tak Estate, Tseung Kwan O	2178 1203
Tai Wo Shopping Centre	Shop No. 225, Level 2, Tai Wo Shopping Centre, Tai Po	2650 0863
Tin Chak Estate	Shop 112, 1/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	2486 3423
Tin Tsz Estate	Shop No. 110, 1/F, Tin Tsz Shopping Centre Tin Tsz Estate, Tin Shui Wai	2616 4618
Tsuen Wan	Jade Plaza, 298 Sha Tsui Road, Tsuen Wan	2408 7481
Tuen Mun Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	2453 0181
Wan Tau Tong Estate	Shop Nos. 11-12A, Wan Loi House Wan Tau Tong Estate, Tai Po	2656 4313
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3141 7115
Yuen Long	99-109 Castle Peak Road, Yuen Long	2475 5307

Telephone**GUANGZHOU REPRESENTATIVE OFFICE**

Guangzhou	Room 302, No. 7, Yongshengshangsha Donghu Road, Yuexiu District Guangzhou, Guangdong China	(86-20) 8375 8300
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MACAU BRANCH

Macau	No. 693, Avenida da Praia Grande Edificio Tai Wah, R/C Macau	(853) 2833 9982
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SAN FRANCISCO BRANCH

San Francisco	International Building, 601 California Street San Francisco, California 94108-2804 USA	(1-415) 433 6404
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SHANGHAI REPRESENTATIVE OFFICE

Shanghai	Room 1013, Donghai Plaza Tower 3 1486 Nanjing Road West Shanghai China	(86-21) 6279 4172
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SHANTOU BRANCH

Shantou	Lanbao International Mansion No. 103-105, Block One Fengzezhuang No. 162 Jinsha Road Shantou, Guangdong China	(86-754) 8890 3222
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PRINCIPAL SUBSIDIARIES

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 (Nominees) Limited
Chong Hing Securities Limited
Gallbraith Limited
Liu Chong Hing Banking Corporation, Cayman

AFFILIATES

Liu Chong Hing Investment Limited
COSCO (Hong Kong) Group Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd