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# 創興銀行有限公司

## Chong Hing Bank Limited

(a Hong Kong-incorporated limited liability company)  
(Stock Code: 01111)

### 2009 INTERIM RESULTS

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2009, together with the comparative figures for the last corresponding period. This interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

		Six months ended 30 June		Variance %
	Notes	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	
Interest income		607,759	1,154,703	- 47.37
Interest expense		(211,229)	(708,094)	- 70.17
Net interest income	4	396,530	446,609	- 11.21
Fee and commission income		137,657	151,044	- 8.86
Fee and commission expense		(20,667)	(24,719)	- 16.39
Net fee and commission income	5	116,990	126,325	- 7.39
Net gains on financial assets at fair value through profit or loss	6	41,961	4,503	+ 831.85
Other operating income	7	73,813	70,400	+ 4.85
Operating expenses	8	(360,869)	(354,166)	+ 1.89
		268,425	293,671	- 8.60
Impairment allowances on loans and advances				
- New allowances		(57,520)	(81,354)	- 29.30
- Amounts reversed		3,389	44,655	- 92.41
		(54,131)	(36,699)	+ 47.50
Net (loss) gain on disposal of property and equipment		(4)	257	- 101.56
Net gain on disposal of available-for-sale securities		20,133	36,313	- 44.56
Fair value adjustment on investment properties	17	1,374	39,037	- 96.48
Impairment loss on goodwill	9	(10,000)	(10,000)	-
Impairment loss on available-for-sale securities		(44,292)	(153,180)	- 71.08
Profit from operations		181,505	169,399	+ 7.15
Share of results of jointly controlled entities		7,257	(38,330)	+ 118.93
Profit before taxation		188,762	131,069	+ 44.02
Taxation	10			
- Hong Kong		(27,692)	(14,436)	+ 91.83
- Overseas		(854)	(1,231)	- 30.63
- Deferred tax		413	(10,590)	- 103.90
		(28,133)	(26,257)	+ 7.14
Profit for the period		160,629	104,812	+ 53.25
Earnings per share, basic	11	HK\$0.37	HK\$0.24	+ 53.25

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Profit for the period	<u>160,629</u>	<u>104,812</u>
Other comprehensive income		
Exchange differences arising on translation	(8)	8,510
Revaluation losses on available-for-sale securities, net	(189)	(197,075)
Share of reserves of jointly controlled entities	4,454	–
Reclassification adjustment on available-for-sale securities upon impairment	44,292	153,180
Reclassification adjustment on available-for-sale securities upon disposal	(20,133)	(36,313)
Net fair value gain (loss) on available-for-sale securities	28,424	(80,208)
Income tax (charge) credit relating to components of other comprehensive income and expenses	<u>(6,168)</u>	<u>12,614</u>
Other comprehensive income (expense) for the period (net of tax)	<u>22,248</u>	<u>(59,084)</u>
Total comprehensive income for the period	<u>182,877</u>	<u>45,728</u>
Total comprehensive income attributable to:		
Owners of the Bank	<u>182,877</u>	<u>45,728</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2009**

	<i>Notes</i>	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)	Variance %
<b>Assets</b>				
Cash and short-term funds	13	17,793,812	17,659,927	+ 0.76
Placements with banks and other financial institutions maturing between one and twelve months		2,927,805	5,367,858	- 45.46
Derivative financial instruments	14	3,041	429	+ 608.86
Financial assets at fair value through profit or loss	15	569,086	680,680	- 16.39
Available-for-sale securities	15	176,836	196,527	- 10.02
Held-to-maturity securities	15	13,465,358	9,727,685	+ 38.42
Advances and other accounts	16	33,592,379	33,634,842	- 0.13
Tax recoverable		16,533	38,113	- 56.62
Interests in jointly controlled entities		94,710	82,999	+ 14.11
Investment properties	17	131,187	129,801	+ 1.07
Property and equipment	18	455,209	469,724	- 3.09
Prepaid lease payments for land	19	324,921	328,127	- 0.98
Goodwill	9	50,606	60,606	- 16.50
<b>Total assets</b>		<b>69,601,483</b>	<b>68,377,318</b>	<b>+ 1.79</b>
<b>LIABILITIES</b>				
Deposits and balances of banks and other financial institutions		2,123,625	1,525,509	+ 39.21
Deposits from customers	20	59,737,709	59,401,660	+ 0.57
Derivative financial instruments	14	64,213	39,303	+ 63.38
Other accounts and accruals		573,889	477,381	+ 20.22
Current tax liabilities		6,182	5,104	+ 21.12
Loan capital	21	966,076	965,454	+ 0.06
Deferred tax liabilities	22	12,038	6,283	+ 91.60
<b>Total liabilities</b>		<b>63,483,732</b>	<b>62,420,694</b>	<b>+ 1.70</b>
<b>Shareholders' equity</b>				
Share capital		217,500	217,500	-
Reserves		5,900,251	5,739,124	+ 2.81
<b>Shareholders' funds</b>		<b>6,117,751</b>	<b>5,956,624</b>	<b>+ 2.71</b>
<b>Total liabilities and shareholders' equity</b>		<b>69,601,483</b>	<b>68,377,318</b>	<b>+ 1.79</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE SIX MONTHS ENDED 30 JUNE 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 (audited)		217,500	1,542,817	(182)	13,352	1,388,500	7,524	307,000	2,480,113	5,956,624
Revaluation losses on available-for-sale securities, net		-	-	-	(189)	-	-	-	-	(189)
Deferred taxation arising from revaluation movement	22	-	-	-	(6,168)	-	-	-	-	(6,168)
Share of reserves of jointly controlled entities		-	-	-	4,454	-	-	-	-	4,454
Reclassification adjustment on available-for-sale securities upon impairment		-	-	-	44,292	-	-	-	-	44,292
Reclassification adjustment on available-for-sale securities upon disposal		-	-	-	(20,133)	-	-	-	-	(20,133)
Exchange difference arising from translation		-	-	-	-	-	(8)	-	-	(8)
Profit for the period		-	-	-	-	-	-	-	160,629	160,629
Total comprehensive income (expense) for the period		-	-	-	22,256	-	(8)	-	160,629	182,877
Final dividend for financial year 2008, paid	12	-	-	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(19,000)	19,000	-
At 30 June 2009 (unaudited)		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>35,608</u>	<u>1,388,500</u>	<u>7,516</u>	<u>288,000</u>	<u>2,637,992</u>	<u>6,117,751</u>
At 1 January 2008 (audited)		217,500	1,542,817	(182)	138,680	1,388,500	330	356,000	2,627,143	6,270,788
Revaluation losses on available-for-sale securities, net		-	-	-	(197,075)	-	-	-	-	(197,075)
Deferred taxation arising from revaluation movement	22	-	-	-	12,614	-	-	-	-	12,614
Reclassification adjustment on available-for-sale securities upon impairment		-	-	-	153,180	-	-	-	-	153,180
Reclassification adjustment on available-for-sale securities upon disposal		-	-	-	(36,313)	-	-	-	-	(36,313)
Exchange differences arising from translation		-	-	-	-	-	8,510	-	-	8,510
Profit for the period		-	-	-	-	-	-	-	104,812	104,812
Total comprehensive income (expense) for the period		-	-	-	(67,594)	-	8,510	-	104,812	45,728
Final dividend for financial year 2007, paid	12	-	-	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(37,000)	37,000	-
At 30 June 2008 (unaudited)		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>71,086</u>	<u>1,388,500</u>	<u>8,840</u>	<u>319,000</u>	<u>2,577,555</u>	<u>6,125,116</u>

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

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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	188,762	131,069
Adjustments for:		
Net loss (gain) on disposal of property and equipment	4	(257)
Net gain on disposal of available-for-sale securities	(20,133)	(36,313)
Impairment allowances on loans and advances	54,131	36,699
Impairment loss on goodwill	10,000	10,000
Impairment loss on available-for-sale securities	44,292	153,180
Dividend income from investments	(5,357)	(6,172)
Share of results of jointly controlled entities	(7,257)	38,330
Fair value adjustment on investment properties	(1,374)	(39,037)
Depreciation	21,596	19,204
Amortisation of prepaid lease payments for land	2,903	2,920
Interest income from available-for-sale securities and held-to-maturity securities	(134,745)	(266,920)
Interest expense on loan capital	12,444	23,416
Exchange adjustments	44	8,498
Operating cash flows before movements in operating assets and liabilities	165,310	74,617
(Increase) decrease in money at call and short notice with original maturity over three months	(684,993)	936,298
(Increase) decrease in exchange fund bills with original maturity over three months	(536,264)	11,014
(Increase) decrease in placements with banks and other financial institutions with original maturity over three months	(33,714)	1,948,857
Decrease in financial assets at fair value through profit or loss	111,594	154,699
Decrease (increase) in bills receivable	36,925	(31,824)
Decrease (increase) in trade bills	39,735	(11,750)
Decrease (increase) in other advances to customers	123,068	(1,919,125)
(Increase) decrease in interest receivable and other accounts	(202,389)	382,653
Decrease (increase) in advances to banks and other financial institutions	1,160	(38,747)
Increase (decrease) in deposits and balances of banks and other financial institutions with original maturity over three months	100,018	(4)
Increase in deposits from customers	336,049	2,595,763
Increase (decrease) in other accounts and accruals	97,109	(415,023)
Increase (decrease) in derivative financial instruments	22,298	(80,341)
Cash (used in) generated from operations	(424,094)	3,607,087
Hong Kong Profits Tax paid	(5,034)	(16,532)
Overseas tax paid	(854)	(1,231)
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>	<b>(429,982)</b>	<b>3,589,324</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – continued

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<b>INVESTING ACTIVITIES</b>		
Interest received on available-for-sale securities and held-to-maturity securities	124,578	316,456
Dividends received on investments	5,357	6,172
Dividends received from jointly controlled entities	–	3,150
Purchase of available-for-sale securities	(6,427)	(6,994)
Purchase of held-to-maturity securities	(13,621,510)	(11,694,005)
Purchase of property and equipment	(7,226)	(37,429)
Purchase of investment properties	–	(30,000)
Proceeds from sale and redemption of available-for-sale securities	25,929	104,091
Proceeds from redemption of held-to-maturity securities	9,883,837	17,753,335
Proceeds from disposals of land	303	–
Proceeds from disposals of property and equipment	139	448
<b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>	<b>(3,595,020)</b>	<b>6,415,224</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	(12,485)	(23,756)
Dividends paid	(21,750)	(191,400)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(34,235)</b>	<b>(215,156)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,059,237)</b>	<b>9,789,392</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>17,533,299</b>	<b>12,990,424</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>13,474,062</b>	<b>22,779,816</b>
Represented by		
Cash and balances with banks and other financial institutions	3,396,468	3,961,582
Money at call and short notice	13,488,971	19,289,411
Exchange fund bills	908,373	2,777,835
Placements with banks and other financial institutions maturing between one and twelve months	2,927,805	1,512,748
Deposits and balances of banks and other financial institutions	(2,123,625)	(3,257,083)
Less: Amounts with original maturity over three months	(5,123,930)	(1,504,677)
	<b>13,474,062</b>	<b>22,779,816</b>

# **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2009**

## **1. BASIS OF PREPARATION**

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34, Interim Financial Reporting.

## **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial information has been prepared under the historical cost convention except for investment properties and financial instruments that are measured at fair values.

The accounting policies and methods of computation adopted in the 2008 annual financial statements have been applied consistently to this interim financial information except for the following:

There are some new or revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants ( “HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2009. The adoption of these new or revised HKFRSs had no material effect on the results and financial position of the Group for the current and/or prior accounting periods. Accordingly, no prior period adjustment has been made. The new or revised HKFRSs include the following:

HKFRS 8	Operating segments (effective for annual periods beginning on or after 1 January 2009)
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HKFRS 8 is a disclosure Standard. The application 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.

HKAS 1 (revised 2007)	Presentation of financial statements (effective for annual period beginning on or after 1 January 2009)
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HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial information) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**3. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 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) in order to allocate resources to the segments and to assess 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, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. HKFRS 8 is a disclosure Standard. The application 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 following is an analysis of the Group's revenue and results by operating segment for the periods under review:

**Six months ended 30 June 2009**

	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	352,141	255,216	402	-	-	607,759
Interest expense to external customers	(196,126)	(15,103)	-	-	-	(211,229)
Inter-segment interest income ( <i>Note</i> )	85,702	-	-	-	(85,702)	-
Inter-segment interest expense ( <i>Note</i> )	-	(85,702)	-	-	85,702	-
Net interest income	241,717	154,411	402	-	-	396,530
Fees and commission income	35,650	-	92,810	9,197	-	137,657
Fees and commission expense	(19,570)	-	(333)	(764)	-	(20,667)
Net gains on financial assets at fair value through profit or loss	-	41,567	-	394	-	41,961
Other operating income	33,416	16,697	(45)	23,745	-	73,813
Total operating income (segment revenue)	291,213	212,675	92,834	32,572	-	629,294
Operating expenses	(204,410)	(13,179)	(25,087)	(11,638)	-	(254,314)
Impairment allowances on loans and advances	(54,131)	-	-	-	-	(54,131)
Net loss on disposal of property and equipment	(4)	-	-	-	-	(4)
Net gain on disposal of available-for-sale securities	-	-	-	20,133	-	20,133
Fair value adjustment on investment properties	-	-	-	1,374	-	1,374
Impairment loss on goodwill	-	-	-	(10,000)	-	(10,000)
Impairment loss on available-for-sale securities	-	(44,292)	-	-	-	(44,292)
Segment profit	32,668	155,204	67,747	32,441	-	288,060
Unallocated corporate expenses						(106,555)
Share of results of jointly controlled entities				7,257		7,257
Profit before taxation						188,762
Taxation						(28,133)
Profit for the period						160,629

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



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**3. SEGMENT INFORMATION – continued**

**As at 30 June 2009**

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Consolidated HK\$'000
Segment assets	37,336,700	31,138,806	443,490	355,716	69,274,712
Interests in jointly controlled entities				94,710	94,710
Unallocated corporate assets					232,061
Consolidated total assets					69,601,483
Segment liabilities	59,920,273	3,155,440	273,155	39,069	63,387,937
Unallocated corporate liabilities					95,795
Consolidated total liabilities					63,483,732

**Other information**

**Six months ended 30 June 2009**

	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	4,490	49	1,272	108	1,307	7,226
Depreciation	13,414	659	453	428	6,642	21,596

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**3. SEGMENT INFORMATION – continued**

**Six months ended 30 June 2008**

	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	569,624	582,823	2,256	–	–	1,154,703
Interest expense to external customers	(677,082)	(31,012)	–	–	–	(708,094)
Inter-segment interest income ( <i>Note</i> )	335,062	–	–	–	(335,062)	–
Inter-segment interest expense ( <i>Note</i> )	–	(335,062)	–	–	335,062	–
Net interest income	227,604	216,749	2,256	–	–	446,609
Fees and commission income	39,155	–	76,651	35,238	–	151,044
Fees and commission expense	(20,892)	–	(466)	(3,361)	–	(24,719)
Net gains (losses) on financial assets at fair value through profit or loss	–	4,564	–	(61)	–	4,503
Other operating income	34,475	18,657	38	17,230	–	70,400
Total operating income (segment revenue)	280,342	239,970	78,479	49,046	–	647,837
Operating expenses	(213,850)	(15,087)	(23,031)	(10,595)	–	(262,563)
Impairment allowances on loans and advances	(36,699)	–	–	–	–	(36,699)
Net gain on disposal of property and equipment	257	–	–	–	–	257
Net gain on disposal of available-for-sale securities	–	–	–	36,313	–	36,313
Fair value adjustment on investment properties	–	–	–	39,037	–	39,037
Impairment loss on goodwill	–	–	–	(10,000)	–	(10,000)
Impairment loss on available-for-sale securities	–	(153,180)	–	–	–	(153,180)
Segment profit	<u>30,050</u>	<u>71,703</u>	<u>55,448</u>	<u>103,801</u>	<u>–</u>	<u>261,002</u>
Unallocated corporate expenses						(91,603)
Share of results of jointly controlled entities				<u>(38,330)</u>		<u>(38,330)</u>
Profit before taxation						131,069
Taxation						<u>(26,257)</u>
Profit for the period						<u>104,812</u>

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**3. SEGMENT INFORMATION – continued**

**As at 31 December 2008**

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

**Other information**

**Year ended 31 December 2008**

	<b>Corporate and retail banking HK\$'000</b>	<b>Treasury activities HK\$'000</b>	<b>Securities dealing HK\$'000</b>	<b>Other banking- related services HK\$'000</b>	<b>Unallocated HK\$'000</b>	<b>Consolidated HK\$'000</b>
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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**3. SEGMENT INFORMATION – continued**

**Geographical information**

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

	Six months ended 30 June 2009		As at 30 June 2009		Capital expenditure during the period HK\$'000
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	
Hong Kong	608,971	176,626	67,686,644	62,493,283	7,030
Macau and Shantou	13,085	7,622	1,187,294	824,976	164
America	<u>7,238</u>	<u>4,514</u>	<u>727,545</u>	<u>165,473</u>	<u>32</u>
Total	<u>629,294</u>	<u>188,762</u>	<u>69,601,483</u>	<u>63,483,732</u>	<u>7,226</u>

	Six months ended 30 June 2008		As at 31 December 2008		Capital expenditure during the year HK\$'000
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	
Hong Kong	618,510	105,704	66,291,572	61,423,248	59,502
Macau and Shantou	19,166	18,101	1,195,689	798,598	8,134
America	<u>10,161</u>	<u>7,264</u>	<u>890,057</u>	<u>198,848</u>	<u>31</u>
Total	<u>647,837</u>	<u>131,069</u>	<u>68,377,318</u>	<u>62,420,694</u>	<u>67,667</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**4. NET INTEREST INCOME**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income		
Short-term funds and placements	<b>119,087</b>	315,059
Investments in securities	<b>139,093</b>	274,485
Loans and advances	<b>349,579</b>	565,159
	<b><u>607,759</u></b>	<b><u>1,154,703</u></b>
Interest expense		
Deposits and balances from banks and customers	<b>(198,785)</b>	(684,678)
Loan capital in issue	<b>(12,444)</b>	(23,416)
	<b><u>(211,229)</u></b>	<b><u>(708,094)</u></b>
Net interest income	<b><u>396,530</u></b>	<b><u>446,609</u></b>
Included within interest income		
Interest income on impaired loans and advances	<b><u>1,707</u></b>	<b><u>3,545</u></b>

Included within interest income and interest expense are HK\$603,411,000 (2008: HK\$1,147,138,000) and HK\$211,229,000 (2008: HK\$708,094,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

**5. NET FEE AND COMMISSION INCOME**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fees and commission income		
Securities dealings	<b>92,810</b>	76,651
Credit lines	<b>4,374</b>	3,845
Trade finance	<b>5,723</b>	7,132
Credit card services	<b>21,917</b>	24,265
Agency services	<b>9,197</b>	35,238
Others	<b>3,636</b>	3,913
Total fees and commission income	<b>137,657</b>	151,044
Less: Fees and commission expense	<b>(20,667)</b>	(24,719)
Net fees and commission income	<b><u>116,990</u></b>	<b><u>126,325</u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**6. NET GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net gains on financial assets at fair value through profit or loss		
- designated at fair value through profit or loss	<b>64,215</b>	(75,834)
- held for trading	<b>(22,254)</b>	80,337
	<b><u>41,961</u></b>	<b><u>4,503</u></b>

**7. OTHER OPERATING INCOME**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividend income	<b>5,357</b>	6,172
- Listed investments	<b>3,075</b>	4,092
- Unlisted investments	<b>2,282</b>	2,080
Net gains on dealing in foreign currencies	<b>16,697</b>	18,656
Net rental income	<b>5,972</b>	5,310
- Gross rents from properties	<b>6,657</b>	5,857
- Less: Outgoings	<b>(685)</b>	(547)
Safe deposit box rentals	<b>12,208</b>	11,759
Insurance underwriting profit	<b>7,047</b>	5,488
Other banking services income	<b>19,422</b>	20,916
Others	<b>7,110</b>	2,099
	<b><u>73,813</u></b>	<b><u>70,400</u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**8. OPERATING EXPENSES**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Auditor's remuneration	<b>1,751</b>	1,753
Staff costs:		
Salaries and other costs	<b>190,181</b>	201,504
Retirement benefits scheme contributions	<b>11,601</b>	15,096
Total staff costs	<b>201,782</b>	216,600
Depreciation	<b>21,596</b>	19,204
Amortisation of prepaid lease payments for land	<b>2,903</b>	2,920
Premises and equipment expenses, excluding depreciation and amortisation of prepaid lease payments for land		
Rentals and rates for premises	<b>20,998</b>	18,705
Others	<b>8,660</b>	9,987
Other operating expenses	<b>103,179</b>	84,997
	<b><u>360,869</u></b>	<b><u>354,166</u></b>

**9. IMPAIRMENT LOSS ON GOODWILL**

For the six-month period ended 30 June 2009, the management has reviewed goodwill for impairment testing purposes. The review comprises of a comparison of the carrying amount and value in use of an acquired subsidiary (the cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on five-year financial budgets approved by management. 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 flat growth in revenues and selection of discount rates of 12% (2008: 12%).

A goodwill impairment loss of HK\$10,000,000 (2008: HK\$10,000,000), representing the excess of the carrying amount above the value in use, has been recognised for the six-month period ended 30 June 2009.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**10. TAXATION**

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

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

**11. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$160,629,000 (2008: HK\$104,812,000) and on 435,000,000 (2008: 435,000,000) ordinary shares in issue during the period.

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

**12. DIVIDEND PAID**

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

On 2 May 2008, a dividend of HK\$0.44 per share totalling HK\$191,400,000 was paid to shareholders as the final dividend for 2007.

The directors have determined that a total amount of interim dividend of HK\$34,800,000 (2008: HK\$65,250,000) at a rate of HK\$0.08 (2008: HK\$0.15) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 25 September 2009.

**13. CASH AND SHORT-TERM FUNDS**

	<b>30 June 2009 HK\$'000</b>	<b>31 December 2008 HK\$'000</b>
Cash and balances with banks and other financial institutions	<b>3,396,468</b>	4,087,415
Money at call and short notice	<b>13,488,971</b>	13,180,425
Exchange fund bills	<b>908,373</b>	392,087
	<b><u>17,793,812</u></b>	<b><u>17,659,927</u></b>



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**14. DERIVATIVE FINANCIAL INSTRUMENTS**

**30 June 2009**

	<b>Notional amount HK\$'000</b>	<b>Fair values Assets HK\$'000</b>	<b>Liabilities HK\$'000</b>
Derivatives held for trading:			
- Foreign currency related contracts	<b>79,121</b>	<b>3,041</b>	<b>2,031</b>
- Interest rate swaps	<b>990,787</b>	<b>–</b>	<b>62,182</b>
		<b><u>3,041</u></b>	<b><u>64,213</u></b>

**31 December 2008**

	<b>Notional amount HK\$'000</b>	<b>Fair values Assets HK\$'000</b>	<b>Liabilities HK\$'000</b>
Derivatives held for trading:			
- Foreign currency related contracts	194,475	429	460
- Interest rate swaps	990,750	–	38,843
		<b><u>429</u></b>	<b><u>39,303</u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**15. INVESTMENTS IN SECURITIES**

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>30 June 2009</b>					
Equity securities:					
Listed in Hong Kong	154	-	99,700	-	99,854
Listed overseas	-	-	5,356	-	5,356
	<u>154</u>	<u>-</u>	<u>105,056</u>	<u>-</u>	<u>105,210</u>
Unlisted	-	-	35,187	-	35,187
	<u>154</u>	<u>-</u>	<u>140,243</u>	<u>-</u>	<u>140,397</u>
Debt securities:					
Certificates of deposits	-	-	-	503,752	503,752
Structured products	-	568,932	-	-	568,932
Other debt securities - Unlisted	-	-	36,593	12,961,606	12,998,199
	<u>-</u>	<u>568,932</u>	<u>36,593</u>	<u>13,465,358</u>	<u>14,070,883</u>
Total:					
Listed in Hong Kong	154	-	99,700	-	99,854
Listed overseas	-	-	5,356	-	5,356
Unlisted	-	568,932	71,780	13,465,358	14,106,070
	<u>154</u>	<u>568,932</u>	<u>176,836</u>	<u>13,465,358</u>	<u>14,211,280</u>
Market value of listed securities:					
Listed in Hong Kong	154	-	99,700	-	99,854
Listed overseas	-	-	5,356	-	5,356
	<u>154</u>	<u>-</u>	<u>105,056</u>	<u>-</u>	<u>105,210</u>
As analysed by issuing entities:					
Central government and central banks	-	-	-	282,252	282,252
Public sector entities	-	-	-	64,929	64,929
Banks and other financial institutions	26	82,783	45,076	11,328,710	11,456,595
Corporate entities	128	486,149	125,067	1,789,467	2,400,811
Others	-	-	6,693	-	6,693
	<u>154</u>	<u>568,932</u>	<u>176,836</u>	<u>13,465,358</u>	<u>14,211,280</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**15. INVESTMENTS IN SECURITIES – continued**

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>31 December 2008</b>					
Equity securities:					
Listed in Hong Kong	113	–	76,976	–	77,089
Listed overseas	–	–	4,191	–	4,191
	<u>113</u>	<u>–</u>	<u>81,167</u>	<u>–</u>	<u>81,280</u>
Unlisted	–	–	62,965	–	62,965
	<u>113</u>	<u>–</u>	<u>144,132</u>	<u>–</u>	<u>144,245</u>
Debt securities:					
Certificates of deposits	–	–	–	558,720	558,720
Structured products	–	680,567	–	–	680,567
Other debt securities - Unlisted	–	–	52,395	9,168,965	9,221,360
	<u>–</u>	<u>680,567</u>	<u>52,395</u>	<u>9,727,685</u>	<u>10,460,647</u>
Total:					
Listed in Hong Kong	113	–	76,976	–	77,089
Listed overseas	–	–	4,191	–	4,191
Unlisted	–	680,567	115,360	9,727,685	10,523,612
	<u>113</u>	<u>680,567</u>	<u>196,527</u>	<u>9,727,685</u>	<u>10,604,892</u>
Market value of listed securities:					
Listed in Hong Kong	113	–	76,976	–	77,089
Listed overseas	–	–	4,191	–	4,191
	<u>113</u>	<u>–</u>	<u>81,167</u>	<u>–</u>	<u>81,280</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	289,181	289,181
Public sector entities	–	–	–	67,547	67,547
Banks and other financial institutions	–	275,085	42,615	8,033,861	8,351,561
Corporate entities	113	405,482	119,439	1,337,096	1,862,130
Others	–	–	34,473	–	34,473
	<u>113</u>	<u>680,567</u>	<u>196,527</u>	<u>9,727,685</u>	<u>10,604,892</u>

The fair value of held-to-maturity securities as at 30 June 2009 amounted to HK\$13,415,780,000 (31 December 2008: HK\$9,658,947,000).

Included in available-for-sale securities (other debt securities-unlisted) are financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,226,000 (31 December 2008: HK\$116,219,000). Impairment provision of HK\$115,672,000 (31 December 2008: HK\$99,579,000) has been recognised for these investments.

Certain held-to-maturity certificates of deposit of approximately HK\$15,501,000 (31 December 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.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**16. ADVANCES AND OTHER ACCOUNTS**

	<b>30 June 2009</b>	<b>31 December 2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Advances to customers		
Bills receivable	<b>297,290</b>	334,215
Trade bills	<b>125,558</b>	165,293
Other advances to customers	<b>32,575,089</b>	32,745,119
	<b>32,997,937</b>	33,244,627
Interest receivable	<b>106,031</b>	138,721
Impairment allowances		
- Individually assessed	<b>(13,214)</b>	(5,799)
- Collectively assessed	<b>(108,742)</b>	(108,988)
	<b>(121,956)</b>	(114,787)
	<b>32,982,012</b>	33,268,561
Advances to banks and other financial institutions	<b>115,252</b>	116,412
	<b>33,097,264</b>	33,384,973
Other accounts	<b>495,115</b>	249,869
	<b>33,592,379</b>	33,634,842

Included in the “Advances to banks and other financial institutions” of the Group relate to amounts placed as reserve funds with financial institutions in the People’s Republic of China by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the People’s Republic of China.

Included in the “other accounts” of the Group is retirement benefits scheme assets of HK\$52,000 (31 December 2008: HK\$52,000) due to the excess of scheme assets over defined benefit obligations.

Details of the impaired loans are as follows:

	<b>30 June 2009</b>	<b>31 December 2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Gross impaired loans	<b>59,693</b>	100,574
Less: Impairment allowances under individual assessment	<b>(13,214)</b>	(5,799)
Net impaired loans	<b>46,479</b>	94,775
Gross impaired loans as a percentage of gross advances to customers	<b>0.18%</b>	0.30%
Market value of collateral pledged	<b>481,493</b>	470,173

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**17. INVESTMENT PROPERTIES**

	2009 HK\$'000	2008 HK\$'000
At 1 January	129,801	60,241
Addition	–	30,000
Exchange difference	12	–
Net increase in fair value recognised in the income statement	1,374	39,560
At 30 June/31 December	<u>131,187</u>	<u>129,801</u>

Investment properties owned by the Group were revalued at 30 June 2009 on an open market value basis by Vigers Hong Kong Limited, independent professionally qualified valuers. The market value is the comparable transaction price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer.

**18. PROPERTY AND EQUIPMENT**

	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>			
At 1 January 2009	316,883	477,734	794,617
Additions	–	7,226	7,226
Disposals	(219)	(137)	(356)
Exchange adjustments	–	(2)	(2)
At 30 June 2009	<u>316,664</u>	<u>484,821</u>	<u>801,485</u>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2009	34,204	290,689	324,893
Provided for the period	3,268	18,328	21,596
Eliminated on disposals	(81)	(132)	(213)
At 30 June 2009	<u>37,391</u>	<u>308,885</u>	<u>346,276</u>
<b>CARRYING AMOUNTS</b>			
At 30 June 2009	<u>279,273</u>	<u>175,936</u>	<u>455,209</u>
<b>COST</b>			
At 1 January 2008	308,345	425,175	733,520
Additions	8,538	59,129	67,667
Disposals	–	(6,567)	(6,567)
Exchange adjustments	–	(3)	(3)
At 31 December 2008	<u>316,883</u>	<u>477,734</u>	<u>794,617</u>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2008	27,641	259,006	286,647
Provided for the year	6,563	37,362	43,925
Eliminated on disposals	–	(5,676)	(5,676)
Exchange adjustments	–	(3)	(3)
At 31 December 2008	<u>34,204</u>	<u>290,689</u>	<u>324,893</u>
<b>CARRYING AMOUNTS</b>			
At 31 December 2008	<u>282,679</u>	<u>187,045</u>	<u>469,724</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**19. PREPAID LEASE PAYMENTS FOR LAND**

	<b>2009</b>	<b>2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
At 1 January	<b>328,127</b>	334,231
Amortisation of prepaid operating lease payments	<b>(2,903)</b>	(6,104)
Disposal	<b>(303)</b>	–
At 30 June/31 December	<b><u>324,921</u></b>	<b><u>328,127</u></b>

**20. DEPOSITS FROM CUSTOMERS**

	<b>30 June 2009</b>	<b>31 December 2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Demand deposits and current accounts	<b>3,880,068</b>	3,004,761
Savings deposits	<b>18,555,640</b>	13,835,350
Time, call and notice deposits	<b>37,302,001</b>	42,561,549
	<b><u>59,737,709</u></b>	<b><u>59,401,660</u></b>

**21. LOAN CAPITAL**

	<b>30 June 2009</b>	<b>31 December 2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
US\$125 million callable floating rate subordinated notes due 2016	<b><u>966,076</u></b>	<b><u>965,454</u></b>

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 and accrued interest, if any.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**22. DEFERRED TAXATION**

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

	<b>Accelerated tax depreciation HK\$'000</b>	<b>Collectively assessed impairment allowance HK\$'000</b>	<b>Investment properties HK\$'000</b>	<b>Revaluation of available- for-sale securities HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2009	15,645	(18,428)	12,557	(3,491)	6,283
Charge (credit) to income statement for the period	288	(105)	(596)	-	(413)
Charge to equity for the period	-	-	-	6,168	6,168
At 30 June 2009	<u>15,933</u>	<u>(18,533)</u>	<u>11,961</u>	<u>2,677</u>	<u>12,038</u>
At 1 January 2008	12,282	(19,726)	6,149	16,569	15,274
Charge to income statement for the period	1,490	2,767	6,333	-	10,590
Credit to equity for the period	-	-	-	(12,614)	(12,614)
At 30 June 2008	<u>13,772</u>	<u>(16,959)</u>	<u>12,482</u>	<u>3,955</u>	<u>13,250</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## FOR THE SIX MONTHS ENDED 30 JUNE 2009

### 23. MATURITY PROFILES

The maturity profiles of assets and liabilities of the Group as at 30 June 2009 are analysed based on the contractual maturity date as follows:

	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated or overdue HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and short-term funds	3,538,260	14,135,676	119,876	-	-	-	17,793,812
Placements with banks and other financial institutions	-	2,258,054	669,751	-	-	-	2,927,805
Advances to customers	1,800,714	4,588,080	4,595,668	11,936,600	9,221,029	855,846	32,997,937
Advances to banks and other financial institutions	25,229	60,225	29,798	-	-	-	115,252
Derivative financial instruments	-	2,876	165	-	-	-	3,041
Financial assets at fair value through profit or loss	-	56,235	192,571	310,882	-	9,398	569,086
Available-for-sale securities	-	-	-	36,040	553	140,243	176,836
Held-to-maturity securities	-	4,661,786	3,603,186	5,200,386	-	-	13,465,358
Other assets	443,110	126,857	51,147	967	-	930,275	1,552,356
Total assets	<u>5,807,313</u>	<u>25,889,789</u>	<u>9,262,162</u>	<u>17,484,875</u>	<u>9,221,582</u>	<u>1,935,762</u>	<u>69,601,483</u>
<b>LIABILITIES</b>							
Deposits and balances of banks and other financial institutions	18,752	2,104,873	-	-	-	-	2,123,625
Deposits from customers	22,476,898	33,836,996	2,706,575	717,240	-	-	59,737,709
Derivative financial instruments	-	22,022	18,136	24,055	-	-	64,213
Loan capital	-	-	-	-	966,076	-	966,076
Other liabilities	436,347	78,011	49,173	28,578	-	-	592,109
Total liabilities	<u>22,931,997</u>	<u>36,041,902</u>	<u>2,773,884</u>	<u>769,873</u>	<u>966,076</u>	<u>-</u>	<u>63,483,732</u>
Net liquidity gap	<u>(17,124,684)</u>	<u>(10,152,113)</u>	<u>6,488,278</u>	<u>16,715,002</u>	<u>8,255,506</u>	<u>1,935,762</u>	<u>6,117,751</u>



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**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**23. MATURITY PROFILES – continued**

The maturity profiles of assets and liabilities of the Group as at 31 December 2008 are analysed based on the contractual maturity date as follows:

	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated or overdue HK\$'000	Total HK\$'000
<b>Assets</b>							
Cash and short-term funds	4,162,520	13,267,824	229,583	–	–	–	17,659,927
Placements with banks and other financial institutions	–	4,449,267	918,591	–	–	–	5,367,858
Advances to customers	2,506,692	4,471,595	4,868,474	11,571,972	9,549,718	276,176	33,244,627
Advances to banks and other financial institutions	26,380	40,032	50,000	–	–	–	116,412
Derivative financial instruments	–	330	99	–	–	–	429
Financial assets at fair value							
through profit or loss	–	49,350	295,228	335,990	–	112	680,680
Available-for-sale securities	–	–	–	35,755	16,640	144,132	196,527
Held-to-maturity securities	–	2,550,748	3,295,114	3,878,303	3,520	–	9,727,685
Other assets	183,817	164,435	77,616	6,691	–	950,614	1,383,173
Total assets	6,879,409	24,993,581	9,734,705	15,828,711	9,569,878	1,371,034	68,377,318
<b>LIABILITIES</b>							
Deposits and balances of banks and other financial institutions	71,494	1,454,015	–	–	–	–	1,525,509
Deposits from customers	16,901,477	39,078,582	3,370,024	51,577	–	–	59,401,660
Derivative financial instruments	–	325	28,715	10,263	–	–	39,303
Loan capital	–	–	–	–	965,454	–	965,454
Other liabilities	297,326	126,935	41,242	23,265	–	–	488,768
Total liabilities	17,270,297	40,659,857	3,439,981	85,105	965,454	–	62,420,694
Net liquidity gap	(10,390,888)	(15,666,276)	6,294,724	15,743,606	8,604,424	1,371,034	5,956,624

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**24. RELATED PARTY TRANSACTIONS**

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

	Interest, commission and rental income		Interest and rental expenses	
	Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Group	<u>3,515</u>	<u>3,515</u>	<u>11,617</u>	<u>14,014</u>
Jointly controlled entities	<u>6,197</u>	<u>10,944</u>	<u>1,593</u>	<u>2,909</u>
Directors and their associates	<u>8,149</u>	<u>8,020</u>	<u>3,752</u>	<u>8,498</u>

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

	Amounts due from related parties		Amounts due to related parties	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Group	<u>-</u>	<u>-</u>	<u>63,685</u>	<u>147,110</u>
Jointly controlled entities	<u>57,600</u>	<u>59,743</u>	<u>153,234</u>	<u>148,992</u>
Directors and their associates	<u>1,762,710</u>	<u>1,695,469</u>	<u>664,694</u>	<u>621,189</u>

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

The Group's lending to related parties are under terms and conditions similar to those made available to non-related parties.

**Compensation of key management personnel**

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Short term benefits	<u>24,128</u>	<u>26,266</u>
Post employment benefits	<u>1,399</u>	<u>1,926</u>
	<u>25,527</u>	<u>28,192</u>

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**25. CONTINGENT LIABILITY**

On 22 July 2009, the Bank announced that it has, without admission of any liability, agreed to offer to repurchase Lehman Brothers Minibonds (the “Outstanding Minibonds”) from Eligible Customers (as defined in the announcement) (the “Repurchase Scheme”). The Repurchase Scheme is part of an agreement with the Securities and Futures Commission, the Hong Kong Monetary Authority and other distributing banks. The announcement dated 22 July 2009 is available for viewing on the Bank’s website and the following is extracted from the announcement:

“Under the Repurchase Scheme, the Bank will offer to repurchase all Outstanding Minibonds from Eligible Customers of the Bank at a price equivalent to 60% of the nominal value of the original investment for Eligible Customers below the age of 65 as at 1 July 2009, or 70% of the nominal value of the original investment for Eligible Customers aged 65 or above as at 1 July 2009 in accordance with the terms of the Repurchase Scheme. Based on information currently available to the Bank, it is estimated that the total amount payable by the Bank will be approximately HK\$239 million if all Eligible Customers accept the Bank’s offer to be made under the Repurchase Scheme.”

Owing to continuing uncertainties relating to the Repurchase Scheme, including among other things, the eventual acceptance rate of the Repurchase Scheme by Eligible Customers and the recovery rate of the Outstanding Minibonds, the financial impact of the Repurchase Scheme at the period end cannot be estimated reliably. In addition, after the repurchase of the Outstanding Minibonds, should the final legal outcome conclude that the priority claims of the Outstanding Minibonds holders over the underlying collateral have been compromised, it may give rise to a significant adverse impact on the Bank’s financial results under the Repurchase Scheme.

**26. 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

**SUPPLEMENTARY INFORMATION**  
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**1. Advances to customers - by industry sectors**

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and/or business activities of the borrowers as follows:

	30 June 2009				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances covered by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,546,642	7,642	-	208,719	-
- Property investment	7,279,077	-	-	6,535,264	-
- Financial concerns	1,722,141	-	-	1,053,928	-
- Stockbrokers	595,932	318	523	188,539	523
- Wholesale and retail trade	978,751	-	-	694,023	-
- Manufacturing	2,077,037	559	1,105	1,132,393	1,105
- Transport and transport equipment	1,134,093	-	-	246,976	-
- Recreational activities	2,193	9	-	1,227	-
- Information technology	396	36	-	190	-
- Others	6,109,886	22,236	2	2,820,492	22,166
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	670,729	-	46	670,689	616
- Loans for the purchase of other residential properties	5,432,155	-	-	5,421,132	-
- Credit card advances	90,584	2,031	339	-	541
- Others	1,509,201	-	2,486	1,462,893	4,590
	29,148,817	32,831	4,501	20,436,465	29,541
Trade finance	687,033	20,058	7,197	207,084	7,197
Loans for use outside Hong Kong	3,162,087	55,853	1,516	1,670,686	22,955
	<u>32,997,937</u>	<u>108,742</u>	<u>13,214</u>	<u>22,314,235</u>	<u>59,693</u>

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

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

	31 December 2008				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances covered 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>

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

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

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the six months ended 30 June 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:

	Advances overdue for over three months as at 30 June HK\$'000	2009	Advances
		New impairment allowances during the six months ended 30 June HK\$'000	written off during the six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	1,773	9	-
- Others	27,224	2,611	1,982
Individuals			
- Loans for the purchase of other residential properties	5,404	658	380
Loans for use outside Hong Kong	<u>22,955</u>	<u>42,231</u>	<u>41,293</u>
	Advances overdue for over three months as at 31 December HK\$'000	2008	Advances
		New impairment allowances during the six months ended 30 June HK\$'000	written off during the six months ended 30 June HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	1,773	4,218	4,218
- Others	33,331	18,191	14,191
Individuals			
- Loans for the purchase of other residential properties	2,591	309	309
Loans for use outside Hong Kong	<u>64,421</u>	<u>29,013</u>	<u>20,000</u>

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**2. Advances to customers - by geographical areas**

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

<b>30 June 2009</b>					
	<b>Total advances HK\$'000</b>	<b>Advances overdue for over three months HK\$'000</b>	<b>Impaired advances HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>	<b>Collective impairment allowance HK\$'000</b>
Hong Kong	31,201,041	70,389	45,718	11,698	97,336
People's Republic of China	372,426	13,975	13,975	1,516	3,432
Macau	340,284	–	–	–	2,549
America	367,103	–	–	–	5,425
Others	717,083	–	–	–	–
	<u>32,997,937</u>	<u>84,364</u>	<u>59,693</u>	<u>13,214</u>	<u>108,742</u>

<b>31 December 2008</b>					
	<b>Total advances HK\$'000</b>	<b>Advances overdue for over three months HK\$'000</b>	<b>Impaired advances HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>	<b>Collective impairment allowance HK\$'000</b>
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>

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**3. Cross-border claims**

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

<b>30 June 2009</b>				
	<b>Banks and other financial institutions HK\$'000</b>	<b>Public sector entities HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
Asia Pacific excluding Hong Kong	12,261,608	76,686	927,209	13,265,503
- of which - China	4,348,450	19,666	538,022	4,906,138
North America	3,131,269	14,220	1,854,191	4,999,680
Western Europe	14,783,219	1,558	10,917	14,795,694
- of which - France	<u>3,753,860</u>	<u>—</u>	<u>725</u>	<u>3,754,585</u>
<b>31 December 2008</b>				
	<b>Banks and other financial institutions HK\$'000</b>	<b>Public sector entities HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
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
Western Europe	12,287,010	1,912	188,463	12,477,385
- of which - United Kingdom	3,055,283	408	6,451	3,062,142
- of which - Germany	<u>1,420,110</u>	<u>1,319</u>	<u>11,331</u>	<u>1,432,760</u>



**SUPPLEMENTARY INFORMATION**  
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**4. Overdue and rescheduled assets**

	30 June 2009		31 December 2008	
	Gross amount of advances HK\$'000	Percentage to total advances %	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for				
- 6 months or less but over 3 months	20,577	0.1	5,225	0.0
- 1 year or less but over 6 months	4,617	0.0	4,505	0.0
- Over 1 year	59,170	0.2	106,093	0.3
Total overdue advances	84,364	0.3	115,823	0.3
Rescheduled advances	320,112	1.0	169,090	0.5
Individual impairment allowances made in respect of overdue loans and advances	5,445		4,999	
Covered portion of overdue loans and advances	80,435		92,444	
Uncovered portion of overdue loans and advances	3,929		23,379	
	84,364		115,823	
Market value of collateral held against covered portion of overdue loans and advances	611,530		572,188	

As at 30 June 2009, HK\$9,244,000 (31 December 2008: HK\$Nil) of the Group's financial assets at fair value through profit or loss had been overdue for more than 6 months but not more than one year.

Other than the above, there were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 30 June 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 30 June 2009 amounted to HK\$22,374,000 (31 December 2008: HK\$26,674,000).

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**5. Non-bank Mainland exposures**

<b>30 June 2009</b>				
	<b>On-balance sheet exposure HK\$'000</b>	<b>Off-balance sheet exposure HK\$'000</b>	<b>Total HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>
Types of counterparties				
Mainland entities	<b>687,801</b>	<b>62,080</b>	<b>749,881</b>	<b>–</b>
Companies and individuals outside Mainland where the credit is granted for use in Mainland	<b>3,265,219</b>	<b>946,996</b>	<b>4,212,215</b>	<b>2,621</b>
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<b>9,111</b>	<b>–</b>	<b>9,111</b>	<b>–</b>
	<b><u>3,962,131</u></b>	<b><u>1,009,076</u></b>	<b><u>4,971,207</u></b>	<b><u>2,621</u></b>

<b>31 December 2008</b>				
	<b>On-balance sheet exposure HK\$'000</b>	<b>Off-balance sheet exposure HK\$'000</b>	<b>Total HK\$'000</b>	<b>Individual impairment allowance HK\$'000</b>
Types of counterparties				
Mainland entities	<b>733,314</b>	<b>104,662</b>	<b>837,976</b>	<b>–</b>
Companies and individuals outside Mainland where the credit is granted for use in Mainland	<b>3,011,084</b>	<b>1,087,724</b>	<b>4,098,808</b>	<b>1,532</b>
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<b>980</b>	<b>–</b>	<b>980</b>	<b>–</b>
	<b><u>3,745,378</u></b>	<b><u>1,192,386</u></b>	<b><u>4,937,764</u></b>	<b><u>1,532</u></b>

**SUPPLEMENTARY INFORMATION**  
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**6. Currency risk**

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

	30 June 2009		
	MOP	RMB	Total
Equivalent in thousands of HK\$			
Spot assets	118,709	981,716	1,100,425
Spot liabilities	(115,482)	(975,567)	(1,091,049)
Forward purchases	–	2,495	2,495
Forward sales	–	–	–
Net long position	<u>3,227</u>	<u>8,644</u>	<u>11,871</u>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<u>48,545</u>	<u>105,169</u>	<u>153,174</u>

	31 December 2008		
	USD	RMB	Total
Equivalent in thousands 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>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<u>48,545</u>	<u>105,169</u>	<u>153,714</u>

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

	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Contingent liabilities and commitments - contractual amounts		
Direct credit substitutes	642,582	647,442
Trade-related contingencies	325,057	366,620
Forward asset purchases	12,720	13,548
Other commitments		
- Which are unconditionally cancellable without prior notice	4,661,312	4,703,352
- With an original maturity of one year and under	7,457,159	8,105,056
- With an original maturity of over one year	2,088,955	1,721,251
	<u>15,187,785</u>	<u>15,557,269</u>

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

	30 June 2009		31 December 2008	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	N/A	2,995,811	N/A	2,924,284
Exchange rate contracts	3,041	2,817	429	876
Interest rate contracts	-	575	-	730
	<u>3,041</u>	<u>2,999,203</u>	<u>429</u>	<u>2,925,890</u>

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

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

The credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules (the "Capital Rules"), which came into operation on 1 January 2007, and the guidelines issued by the HKMA.

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**8. Capital adequacy and liquidity ratio**

	<b>30 June 2009</b>	<b>31 December 2008</b>
	<b>%</b>	<b>%</b>
Capital adequacy ratio	<b>16.05</b>	15.64
Core capital ratio	<b><u>12.85</u></b>	<b><u>12.55</u></b>
	<b>Six months ended 30 June</b>	<b>2008</b>
	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>%</b>
Average liquidity ratio for the period	<b><u>47.96</u></b>	<b><u>51.08</u></b>

The capital adequacy ratio is compiled in accordance with the 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 Capital Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk and “basic indicator approach” for the calculation of operation risk. The capital adequacy ratio is consolidated, under the Capital Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited and Card Alliance Company Limited.

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

**SUPPLEMENTARY INFORMATION**  
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**9. Other financial information**

The capital base after deductions used in the calculation of the capital adequacy ratios as at 30 June 2009 and 31 December 2008 is analysed as follows:

	<b>30 June 2009</b>	<b>31 December 2008</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Core capital		
Paid up ordinary share capital	<b>217,500</b>	217,500
Share premium	<b>1,542,817</b>	1,542,817
Published reserves	<b>3,473,228</b>	3,346,050
Profit and loss account	<b>(18,888)</b>	78,501
Less: Net deferred tax assets	<b>(1)</b>	(1)
Total core capital	<b>5,214,656</b>	5,184,867
Other deductions from core capital	<b>(120,649)</b>	(143,357)
Core capital after deductions	<b>5,094,007</b>	5,041,510
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	<b>5,755</b>	5,755
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	<b>3,902</b>	–
Unrealised fair value gains arising from holdings of equities and debts securities designated at fair value through profit or loss	<b>16,619</b>	–
Regulatory reserve for general banking risks	<b>288,000</b>	307,000
Collective impairment allowance	<b>108,742</b>	108,988
Term subordinated debt	<b>966,076</b>	965,454
Total supplementary capital	<b>1,389,094</b>	1,387,197
Other deductions from supplementary capital	<b>(120,649)</b>	(143,357)
Supplementary capital after deductions	<b>1,268,445</b>	1,243,840
Total capital base after deductions	<b>6,362,452</b>	6,285,350

The calculation of the capital base is based on the Capital Rules effective from 1 January 2007.

Deductions from total capital base mainly include investments in subsidiaries of which their risk-weighted assets have not been consolidated into the total risk-weighted assets of the Group, which mainly conduct non-banking related business. Those subsidiaries are Chong Hing Commodities and Futures Limited, Chong Hing Insurance Company Limited, Chong Hing (Management) Limited, Chong Hing (Nominees) Limited and Chong Hing Securities Limited.

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**10. Statement of compliance**

This interim financial information contains the disclosure information required under the Banking (Disclosure) Rules.

**11. Basis of consolidation**

This interim financial information 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 businesses incidental to banking business.

**12. Other operating income**

Included within fees and commission income and fees and commission expense, other than amounts included in determining the effective interest rate, are HK\$33,159,000 (2008: HK\$36,393,000) and HK\$19,518,000 (2008: HK\$20,612,000) arising from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

**13. Risk management**

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

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

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**13. Risk management – continued**

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

**(i) Capital management**

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

**(ii) Credit risk**

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

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

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors.

**(iii) Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.



**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**13. Risk management – continued**

**(iv) Market risk**

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices.

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (v) foreign exchange risk.

**(v) Foreign exchange risk**

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Structural foreign exchange exposure arising from investments in foreign branches and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury Management Department within approved limits.

The Group takes on exposure to effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Off-balance sheet notional position represents the contractual amounts of foreign currencies bought and sold under foreign exchange contracts. Bought currency is represented by positive amount and sold currency is represented by negative amount.

**(vi) Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

The Group does not carry interest rate positions on its trading book. Certain interest rate contracts entered into to manage the Group's own risk are classified as trading securities. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

**SUPPLEMENTARY INFORMATION**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**13. Risk management – continued**

**(vii) Operational and legal risk**

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

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

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

**(viii) Reputation risk**

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

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

## **INTERIM DIVIDEND**

The directors have declared an interim cash dividend for 2009 of HK\$0.08 per share, payable on Wednesday, 30 September 2009 to shareholders whose names are listed on the register of members of the Bank on Friday, 25 September 2009.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Bank will be closed from Wednesday, 23 September 2009 to Friday, 25 September 2009 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2009 interim cash dividend, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 22 September 2009.

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

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2009.

## **CORPORATE GOVERNANCE**

The directors confirm that, for the accounting period for the six months ended 30 June 2009, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the accounting period for the six months ended 30 June 2009, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank’s own code in question.

## **PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK**

The Bank’s Interim Financial Information 2009, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

## **MANAGEMENT DISCUSSION AND ANALYSIS STATEMENT**

### **Economic Review**

The financial tsunami has plunged the US economy into the worst recession since World War II. The US government has taken certain measures to save the national economy and the Federal Reserve Board, after a series of interest rate cuts, reduced its target range for the federal funds rate to between 0% and 0.25% last December, the lowest on record, leaving the benchmark interest rates near zero to this day. Although a range of recent data shows that the US economic recession may have eased, certain large conglomerates have declared bankruptcy and announced layoffs this year. As a result, the unemployment rate continues to worsen, and there is still a lack of impetus for the US economy to recover.

All in all, the major economies have taken measures to stabilise the global financial market. Japan, the EU, and the UK, among other industrialised economies, have announced new rounds of stimulus packages. In the G20 London Summit, participating economies have agreed on a US\$1.1 trillion package of initiatives to restore growth. They have also agreed to take steps to reshape existing regulatory framework of the financial market to rebuild confidence and trust in the international financial system. The Asian economies have also jointly established a liquidity fund to strengthen their position against future financial crisis.

Meantime, the Mainland Government has introduced certain measures to sustain growth, including the increase in loans advanced and the selection of Guangzhou, Shenzhen, Zhuhai and Dongguan in the Guangdong Province, as well as Shanghai, as pilot cities to conduct Renminbi settlement in cross-border trade. The Mainland Government has also relaxed control over domestic firms in making overseas investment to help diversify the country's rising foreign exchange reserves. As such, China's economy has started to show signs of recovery. The measures introduced by the Mainland Government are likely to continue to fuel the growth of the China economy, thereby enabling China to recuperate faster from the global financial tsunami than any other major industrialised economies.

Ravaged by the deepest global recession in over 60 years, Hong Kong's economy has seen its gross domestic product fall 7.8% in the first quarter of 2009 compared to that of the previous year. The unemployment rate has climbed to 5.4%. Fortunately, some improvements have been made during the period in the stock and property markets. The Hang Seng Index has rebounded from its low since mid-March, while the rather low interest rates have also accelerated the recovery of the property market.

## Results Announcement

For the first half of 2009, on an unaudited, consolidated basis, profit attributable to shareholders amounted to HK\$161 million, an increase of 53.3% over that for the corresponding period in previous year, translating into earnings of HK\$0.37 per share. Net asset value per share (before interim dividend), compared with the net asset value per share for the corresponding period in previous year, increased 2.7% to HK\$14.06.

As at 30 June 2009, compared with the figures as at 31 December 2008, total customers' deposits increased 0.6% to HK\$59,738 million and total loans to customers (after accounting for impairment allowances) decreased 0.9% to HK\$32,982 million. Capital adequacy ratio increased 2.6% to 16.05% against the corresponding ratio as of 31 December 2008, while average liquidity ratio for the six months ended 30 June 2009 decreased 6.1% to 47.96% against the corresponding ratio in 2008. Loan-to-deposit ratio decreased 1.5% to 50.73% against the corresponding ratio as at 31 December 2008. Gross impaired loans as a percentage of gross advances to customers decreased 40% to 0.18% against the corresponding ratio as at 31 December 2008. Total assets increased 1.8% to HK\$69,601 million. Shareholders' funds (before interim dividend) increased 2.7% to HK\$6,118 million. Your board has recommended paying the interim cash dividend of HK\$0.08 per share for the six months ended 30 June 2009 to shareholders whose names appear in the Register of Members at the close of business on Friday, 25 September 2009.

## Profit Analysis

On an unaudited, consolidated basis, net interest income decreased 11.2% from that of the corresponding period in 2008 to HK\$396 million for the first half of 2009. Interest margin decreased 7.7% to 1.2% 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\$117 million, net gains on financial assets at fair value through profit or loss, which amounted to HK\$42 million and other operating income, which amounted to HK\$74 million, total operating income was HK\$629 million and total operating expense was HK\$361 million. Fees and commission income from securities dealings were 21.1% higher than those of the corresponding period in previous year and offset the reduction in income from the wealth management business. Cost-to-income ratio increased 4.9% to 57.35%. Operating profit before impairment allowances and net gain on disposal decreased 8.6% to HK\$268 million. The Bank made impairment allowances on loans and advances in the amount of HK\$54 million, an increase of 47.5% against those made for the corresponding period in 2008. Although impairment allowances newly made in the first half of 2009 dropped 29.3% to HK\$58 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. On the Bank's investments in structured investment vehicles ("SIVs"), which were categorised as available-for-sale securities, further impairment losses of HK\$16 million were recognized in the first half of 2009 and, as of 30 June 2009, the residual book value of the SIVs was less than HK\$1 million. As a whole, the Bank's core business lines and overall financial health are sound, and its asset quality is good.

## **Business Review**

### **Loan Business**

Benefiting from the bounce in the property market after the Lunar New Year, the number of residential mortgage loans grew considerably in the first half of the year. Personal loans and tax loans have continued to increase in the first half of this year. Besides, the Bank highly supports the Hong Kong Government's Loan Guarantee Scheme and Special Loan Guarantee Scheme for the small and medium-sized enterprises in furtherance of the Bank's loan business.

### **Card Business**

The number of credit cards issued by the Bank has grown in the first half year of 2009 compared with that of the same period last year, but, affected by the deterioration of the economic environment, the amount of credit card spending, accounts receivable and merchant-billed turnover have diminished somewhat compared with those of the same period last year. In the first quarter, the Bank launched Chong Hing Card (Renminbi) to facilitate customers' withdrawals for consumption in the Mainland. In April, the brand-new "MAN Titanium Credit Card" was launched. The Bank will continue to develop its credit card business.

### **Securities Business**

We have been blessed that the quality service provided by Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, is well-received by its customers. Its overall turnover saw substantial growth compared with that of the same period last year and good profit was maintained. Under the present fiscal policies of the major economies, the stock markets around the globe have stabilised somewhat. If the influx of hot money to the local market continues, the trading volume of Hong Kong stocks may be expected to pick up, and better performance can be envisaged for the Bank's securities business in the second half of this year.

### **Insurance Business**

Despite the harsh economic environment in 2009, Chong Hing Insurance Company Limited, a wholly-owned subsidiary of the Bank, still managed to register an increase in profit in the first half of this year. Small and medium-sized enterprises' demand for commercial insurance has gone up. The Company will continue to promote personal medical insurance as the demand of the market for medical insurance has grown increasingly in this area. The Company's marketing strategy is to coordinate with the network of the Bank's branches to develop personal and retail insurance policies, and continue to expand the range of insurance products to meet the diverse needs of all walks of life.

### **Renminbi Business**

The People's Bank of China promulgated on 1 July 2009 the administrative rules on Renminbi settlement of cross-border trades. The scope of Renminbi business in Hong Kong is further expanded. The Bank will participate in providing such services to our customers.

## **Lehman Brothers Minibonds Repurchase Scheme**

The collapse of the Lehman Brothers Group, which is one of the most unfortunate consequences of the global financial tsunami, has caused distress among tens of thousands of local and international investors (including those who had invested in the Lehman Brothers Minibonds) as well as widespread concerns in the society. In an effort to show the Bank's commitment to solidifying the public's confidence in the local banking industry, the Bank announced on 22 July 2009 that it has, without admission of any liability, entered into an agreement 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. Owing to the continuing developments relating to, among other things, the acceptance of the repurchase offer and the recovery of the underlying collaterals, it is difficult to assess at this stage whether the repurchase of the Lehman Brothers Minibonds will have any significant adverse impact on the Bank.

## **Corporate Responsibility**

In order to practise the preaching of serving as a "community bank" and providing a comprehensive range of high quality banking services to the local community, the Bank continues to expand its service network. In early August 2009, a new branch was opened in Tai Po to increase the number of local branches to 51 besides the headquarters in Central.

In addition, the Bank actively participates in public affairs, and has, therefore, been acknowledged with the award of the "Caring Company" logo by the Hong Kong Council of Social Service for the second consecutive year.

## **Corporate Governance**

We are aware of the importance that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are important to the effective and efficient operation of the Bank. We have, therefore, adopted and implemented relevant measures to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

## **Economic Outlook**

In support of our fight against the impact of the financial tsunami, the Mainland Government signed Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement with the Hong Kong Government ahead of schedule in May 2009 to provide a total of 29 liberalisation measures, covering 20 service sectors. An obvious feature of the Supplement is to benefit the industry by speeding up the liberalisation of the Mainland market for Hong Kong's securities and banking sectors, including intensifying research on the introduction of the Hong Kong equity portfolio of Exchange Traded Funds to the Mainland, and allowing Hong Kong banks to set up cross-location sub-branches within the Guangdong Province without opening a branch first, which may help the industry reduce the burden of working capital. Recently, certain banks have been allowed to issue bonds in Hong Kong through certain subsidiaries of their banks in the Mainland. The new measures have not only added Renminbi-denominated bonds categories in Hong Kong, but also solidified the role of Hong Kong as a testing ground for issuing Renminbi bonds outside the Mainland.



The Mainland Government has continued to launch relief measures to help alleviate the negative impact of the global financial crisis on the local economy, and the Hong Kong Government has made preparations to pave the way for economic recovery once market conditions improve. With the tremendous growth potential of the economy of the motherland and the continued support of the Mainland Government, Hong Kong is well-positioned to take the lead to quickly get out of the economic doldrums.

In the light of the above, we at the Bank are confident and optimistic about what the future has in hold for us. The Bank will firmly discharge its responsibility as a community bank, be dedicated to providing better services for the public, and make efforts to create greater returns for shareholders. Finally, I, on behalf of your board, would like to express my heartfelt thanks to our many customers and shareholders for their trust and support, to all my fellow directors for their wise stewardship and to the management and the staff for their commitment and dedication.

## **REVIEW OF INTERIM FINANCIAL INFORMATION**

This interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

## **BOARD OF DIRECTORS**

As of the date of this announcement, the executive directors of the Bank are Mr Liu Lit Man (Executive Chairman), Dr Liu Lit Mo (Vice Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Executive Director & Deputy Chief Executive Officer), Mr Lau Wai Man (Executive Director & Deputy Chief Executive Officer), Mr Wilfred Chun Ning Liu, Mr Tsang Chiu Wing and Mr Wong Har Kar; the non-executive directors are Mr Timothy George Freshwater, Mr Wang Xiaoming, Mr Andrew Liu, Mr Eiichi Yoshikawa, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.

By Order of the Board

**Liu Lit Chi**

*Managing Director and Chief Executive Officer*

13 August 2009