



創興銀行有限公司  
Chong Hing Bank Limited

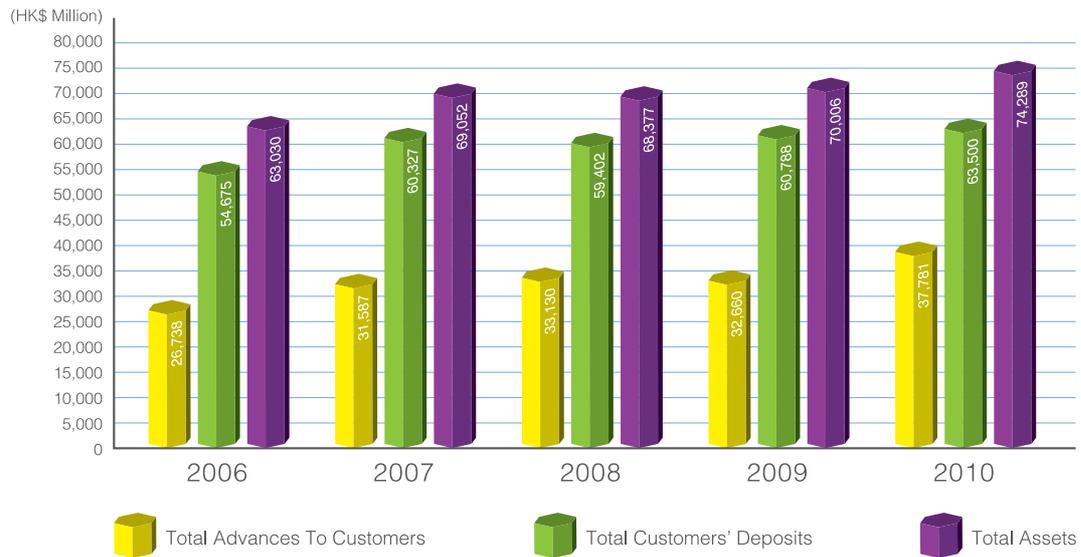
ANNUAL REPORT 2010

[www.chbank.com](http://www.chbank.com)

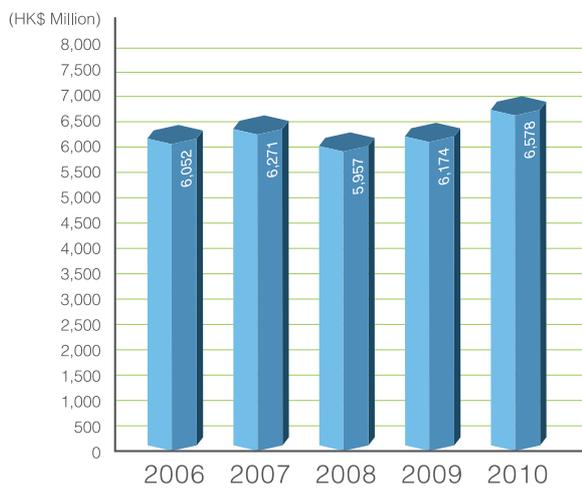
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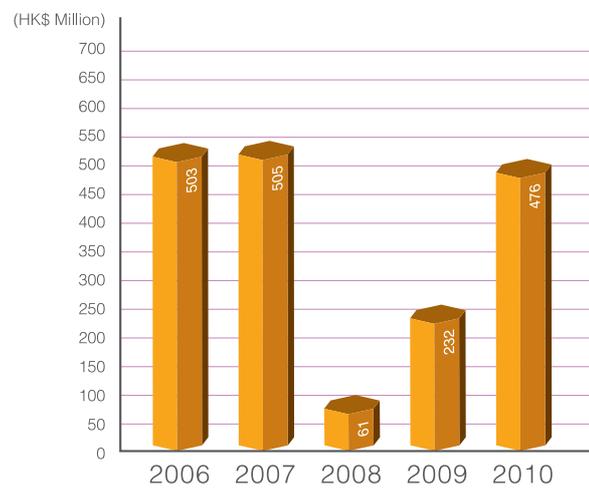
### TOTAL ADVANCES TO CUSTOMERS / TOTAL CUSTOMERS' DEPOSITS / TOTAL ASSETS



### CAPITAL RESOURCES



### PROFIT ATTRIBUTABLE TO SHAREHOLDERS



**Honorary Chairman**

Mr LIU Lit Man, GBS, JP, FIBA

**Board of Directors****Executive Directors**

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

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

Mr Don Tit Shing LIU  
(Deputy Chief Executive Officer)

Mr LAU Wai Man  
(Deputy Chief Executive Officer)

Mr Wilfred Chun Ning LIU

Mr TSANG Chiu Wing

Mr WONG Har Kar

**Non-executive Directors**

Mr Timothy George FRESHWATER

Mr WANG Xiaoming

Mr Andrew LIU

Mr Hidemitsu OTSUKA

Mr Christopher Kwun Shing LIU

Mr Alfred Cheuk Yu CHOW, BBS, JP

Mr MENG Qinghui

**Independent Non-executive Directors**

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

Mr Wanchai CHIRANAKHORN

Mr CHENG Yuk Wo

Mr Andrew Chiu Cheung MA

**General Managers**

Mr Patrick Siu Cheung WAT  
Retail Banking Division

Mr Frederick Hoi Kit CHAN  
Finance & Treasury Management Division

Mr Kevin Wai Hung CHU  
Wealth Management Division

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

Ms Teresa Yuen Wah LEE  
Corporate & Commercial Banking Division

**Registered Office**

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

**Principal Legal Advisers**

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

**Auditors**

Deloitte Touche Tohmatsu

**Share Registrar and Transfer Office**

Computershare Hong Kong Investor Services Limited

**Stock Codes and Short Names**

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (i) shares, (ii) subordinated notes due 2016 and (iii) subordinated notes due 2020 are (i) 01111 (CHONG HING BANK), (ii) 01510 (CH BANK N1612) and (iii) 04327 (CH BANK N2011), respectively.

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

aged 73, is the Chairman of the Bank. He was appointed a Director in 1958 and was a Deputy Managing Director of the Bank from 1961 to 1973. Dr Liu is also the Chairman and Managing Director of Liu Chong Hing Investment Limited and a Director of China Motor Bus Company Limited. As for community service, Dr Liu was the Chairman of Tung Wah Group of Hospitals in 1967 and is now serving as an Adviser of the Group. He had also been President of the Hong Kong Chiu Chow Chamber of Commerce, Chairman of Hong Kong Football Association and District Governor of District 3450, Rotary International. Presently, he is a member of the Board of Trustees of United College, The Chinese University of Hong Kong and a Manager of Liu Po Shan Memorial College. He was awarded Silver Jubilee medal by Her Majesty the Queen in 1977. Dr Liu was conferred an Honorary Doctor's degree in Laws by the Lingnan University in 2005.

# **Mr LIU Lit Chi**

aged 71, is the Managing Director and Chief Executive Officer of the Bank. Mr Liu, who was educated in Hong Kong and the United Kingdom, was appointed a Director since 1958 and an Executive Director since 1961. Mr Liu is also an Executive Director of Liu Chong Hing Investment Limited since 1972 and holds directorship in a number of companies in Hong Kong and elsewhere.

# **Mr Don Tit Shing LIU**

aged 48, is an Executive Director and Deputy Chief Executive Officer of the Bank. He graduated from Oxford University and is an associate member of the Institute of Chartered Accountants in England & Wales and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Liu joined the Bank in 1992.

**Mr LAU Wai Man**

aged 52, is an Executive Director and Deputy Chief Executive Officer in charge of the China and Overseas Banking Division of the Bank. He holds a Bachelor of Law degree and a Master of Business Administration degree. Mr Lau is a member of the Hong Kong Institute of Certified Public Accountants and a Certified Financial Planner<sup>CM</sup>. He was a fellow of the Association of Chartered Certified Accountants and a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988 and became a Director of the Bank in August 2001. He was appointed a Deputy Chief Executive Officer of the Bank in July 2007. Before joining the Bank, he had worked for an international bank and an international accounting firm.

**# Mr Wilfred Chun Ning LIU**

aged 49, is an Executive Director in charge of the Securities Business Division of the Bank. He holds a Bachelor's degree in Economics from University of Newcastle-upon-Tyne (UK). He joined the Bank in 1993 and became a Director in 1998.

**Mr TSANG Chiu Wing**

aged 53, is an Executive Director in charge of the Information Technology Division of the Bank. He holds a Master of Science degree in Electronic Commerce and Internet Computing from the University of Hong Kong, and is a member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr Tsang joined the Bank in 2000 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

**Mr WONG Har Kar**

aged 58, is an Executive Director in charge of the Credit Risk Management Division of the Bank. He is a fellow of the Institute of Chartered Accountants in England & Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr Wong joined the Bank in 2002 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

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

aged 66, was redesignated from Independent Non-executive Director, an office that he had held since April 1997, to Non-executive Director of the Bank in September 2004. He is a solicitor in the United Kingdom and Hong Kong and is a past President of the Law Society of Hong Kong. After graduating from Cambridge University, he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years, leaving in July 1996 to join Jardine Fleming. He became Chairman of Jardine Fleming in 1999. In 2001, Mr Freshwater joined Goldman Sachs (Asia) L.L.C. and is now Vice Chairman.

**Mr WANG Xiaoming**

aged 55, has been a member of the Board since March 2008. Mr Wang is the Chief Financial Officer of COSCO (H.K.) Shipping Co., Limited. Mr Wang graduated from Shanghai Maritime University, the People's Republic of China ("PRC"), majoring in accounting and has the senior accountant qualification awarded by Ministry of Communications of the PRC. Mr Wang had been the Deputy Manager of the Audit Department of China Ocean Shipping (Group) Company, Finance Manager of COSCO Bulk Carrier Co. Limited, Deputy General Manager of Finance Division of China Ocean Shipping (Group) Company and General Manager of COSCO Finance Co. Limited. He has extensive experience in corporate financial management.

**# Mr Andrew LIU**

aged 55, has been a member of the Board since 1977, was redesignated from Executive Director to Non-executive Director of the Bank in May 1999. Mr Liu is also a Director of Liu Chong Hing Investment Limited. He is the Chief Executive Officer of Unitas Capital Pte Ltd (formerly known as "CCMP Capital Asia Pte Ltd"). Mr Liu, holder of a Master of Arts degree from the Oxford University in England, was a solicitor with Slaughter and May in London before joining Morgan Stanley & Co Inc in New York in 1981. Mr Liu was promoted to Managing Director in 1990 before relocating to Morgan Stanley Asia Limited in Hong Kong, where he assumed the position of President and Managing Director until his resignation in September 1997. Mr Liu remains associated with Morgan Stanley as an Advisory Director.

**Mr Hidemitsu OTSUKA**

aged 52, has been a Non-executive Director of the Bank since August 2010. Mr Otsuka is Executive Officer, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Ltd, Hong Kong Branch. He joined The Bank of Tokyo, Ltd (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd) in 1982 and has more than 28 years of experience in banking. Mr Otsuka's experience lies in corporate banking, treasury and global banking activities. During this period, Mr Otsuka was appointed to work in Corporate Banking Division 2 in Tokyo, Japan and Singapore Branch as Deputy General Manager. Mr Otsuka has been an Executive Officer since June 2009, and served as the General Manager of International Credit Division before he was appointed as the current position at The Bank of Tokyo-Mitsubishi UFJ, Ltd on 1 July 2010. Mr Otsuka graduated from Keio University in 1982 with a Bachelor's degree in Economics.

**# Mr Christopher Kwun Shing LIU**

aged 35, became a Director of the Bank in 2002 after having served as Alternate Director to Dr Liu Lit Chung (a former Director of the Bank) between July 2000 and July 2002. Mr Liu is an Executive Director of Liu Chong Hing Investment Limited (the Bank's controlling shareholder), a post which he has held since August 2008 following a re-designation from his previous role since 2000 as Non-executive Director of the company and Alternate Director to Dr Liu Lit Chung (who is a Non-executive Director of the company). A holder of a Master of Arts degree in Jurisprudence from the University of Oxford, Mr Liu is a qualified solicitor in both England & Wales and Hong Kong. Prior to his joining Liu Chong Hing Investment Limited on a full-time basis, he was a partner of Deacons in Hong Kong focusing on corporate finance, mergers and acquisitions and private equity matters, and currently remains as an advisory legal counsel of the international law firm.

**Mr Alfred Cheuk Yu CHOW, BBS, JP**

aged 60, a member of the Board since February 2003, was redesignated from Independent Non-executive Director to Non-executive Director of the Bank in September 2004. He graduated from the University of Hong Kong with a Bachelor of Laws degree and a Master of Social Sciences (Public Administration) degree. With 17 years working experience in the civil service and over 28 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors, a law firm in Hong Kong. He is also a China-Appointed Attesting Officer.

**Mr MENG Qinghui**

aged 55, has been a member of the Board since March 2008. Mr Meng was redesignated from Executive Director to Non-executive Director of COSCO International Holdings Limited on 7 July 2008. He is also the Managing Director of Finance Division of COSCO (Hong Kong) Group Limited and the Non-executive Director of Soundwill Holdings Limited. Mr Meng graduated from Central South University and has the PRC accountant qualification. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

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

aged 78, a member of the Board since October 1981, was redesignated from Non-executive Director to Independent Non-executive Director of the Bank in April 2005. Dr Chan is the Ex-officio Life Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong and the Vice Chairman of All-China Federation of Returned Overseas Chinese. He is also the Founding Chairman and President of the Hong Kong Federation of Overseas Chinese Associations Limited, the Chairman of the China Federation of Overseas Chinese Entrepreneurs and the Executive Vice Chairman of the China Overseas Chinese Entrepreneurs Association. Dr Chan had been a Deputy to The National People's Congress of the People's Republic of China from March 1988 to February 2008. Dr Chan, the Chairman of Asia Financial Holdings Limited, also serves as an Independent Non-executive Director of K. Wah International Holdings Limited and Keck Seng Investments (Hong Kong) Limited respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited. Dr Chan was awarded the Knight Commander (Second Class) of the Most Noble Order of the Crown of Thailand by His Majesty, the King of Thailand and the Gold Bauhinia Star of the Hong Kong Special Administrative Region Government of the People's Republic of China. In 2010, Dr Chan has been honoured with the Honorary University Fellowship by Hong Kong Baptist University.

**Mr Wanchai CHIRANAKHORN**

aged 71, an Independent Non-executive Director of the Bank since September 1998, is the Chairman of Executive Board of Directors of C Wans Assets Co, Ltd. He has more than 25 years of experience as an international banker. Upon graduation from Baptist College, Hong Kong in 1964, he served in banks in Hong Kong, London, Bangkok and Malaysia. He joined the Bank in 1985 and became a Director in 1987. Before his departure in May 1995, Mr Chiranakhorn served as an Executive Director in charge of the Overseas Business Development Department. He was a Non-executive Director from May 1995 to September 1998.

**Mr CHENG Yuk Wo**

aged 50, has been an Independent Non-executive Director of the Bank since September 2004. Mr Cheng is also a member of the Bank's Audit Committee and Remuneration Committee. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr Cheng has more than 20 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies. Mr Cheng also serves as a Director for certain other listed companies.

**Mr Andrew Chiu Cheung MA**

aged 69, has been an Independent Non-executive Director of the Bank since August 2007. Mr Ma is a founder and former Director of Andrew Ma DFK (CPA) Limited. He is presently a Director of Mayee Management Limited. Mr Ma has more than 30 years' experience in the field of accounting, auditing and finance. He received his Bachelor's degree in economics from The London School of Economics and Political Science (University of London) in England. Mr Ma is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. He is currently also an Independent Non-executive Director of several other listed companies in Hong Kong.

### **General Managers**

#### **Mr Patrick Siu Cheung WAT**

aged 57, General Manager, is the head of Retail Banking Division. He holds a Bachelor of Arts degree from the University of Hong Kong in 1975. He has held senior positions in Finance, Business Development, Operations, Internal Control and Quality functions with major US banks in Hong Kong and the UK. He has been trained in TQM (Total Quality Management) and as Black Belt in Six Sigma quality programs. Mr Wat is also responsible for change management and productivity improvements since joining the Bank in 2003.

#### **Mr Frederick Hoi Kit CHAN**

aged 50, General Manager, is the head of Finance and Treasury Management Division. He graduated from Imperial College, University of London in Computing Science and obtained a Master of Business Administration degree from Henley Management College, U.K. He is a fellow of the Institute of Chartered Accountants in England & Wales, a member of the British Computer Society and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Chan has more than 20 years of experience in the financial services industry and worked for an international accounting firm and major international banks in London and Hong Kong in financial reporting and strategic management before joining the Bank in 2004.

#### **Mr Kevin Wai Hung CHU**

aged 53, General Manager, is the head of Wealth Management Division. He graduated from Columbia University with a Master degree in Engineering. He has more than 25 years of financial services experience and worked for a number of major international banks in their corporate banking and private banking departments. Mr Chu joined the Bank in April 2008.

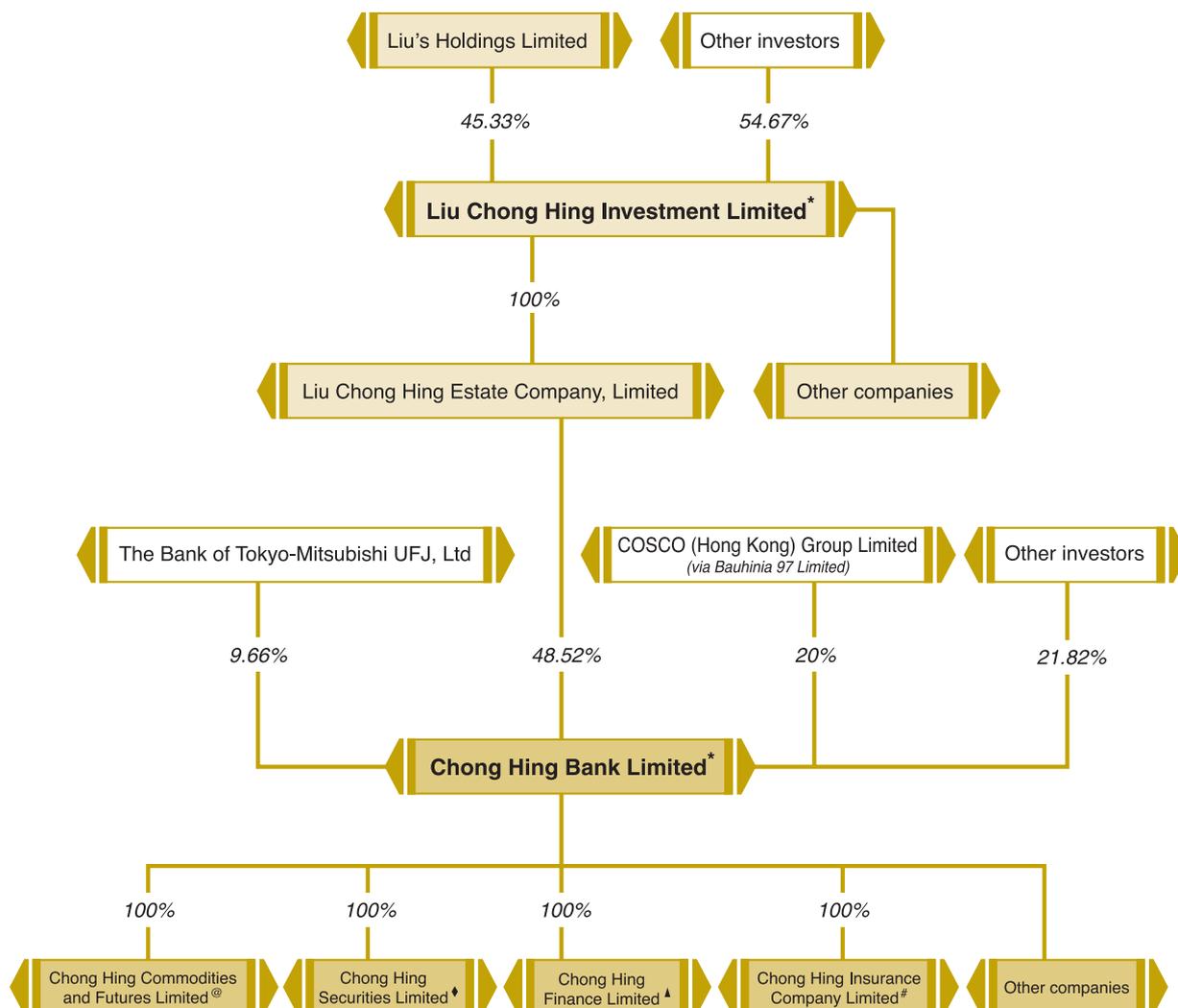
#### **Mr Michael Kin Wah YEUNG**

aged 54, General Manager of the Corporate Affairs Division, obtained a Bachelor of Arts degree in legal studies, political science and philosophy from Rice University (Texas, USA) in 1980 and a Doctor of Jurisprudence degree from the School of Law of The University of Texas at Austin (Texas, USA) in 1983. Mr Yeung, who is registered in the Master Roll of Attorneys maintained by the Supreme Court of Illinois in the United States, had served as the Company Secretary of FPB Bank Holding Company Limited (the then Hong Kong-listed banking arm of the First Pacific Group) and South China Morning Post (Holdings) Limited (now known as SCMP Group Limited) before resuming his position as the Company Secretary of the Bank in 1997.

#### **Ms Teresa Yuen Wah LEE**

aged 57, General Manager, is the head of Corporate and Commercial Banking Division. She holds a Bachelor of Social Sciences degree in Economics, Business Administration and Finance from the University of Hong Kong in 1977 and a MBA degree from the Chinese University of Hong Kong in 1984. She has about 30 years of experience in the banking industry in Hong Kong and Australia. She has held various senior positions with two major international banks and a major local bank prior to joining the Bank in 2005.

# Member of the Liu's family



\* Listed on The Stock Exchange of Hong Kong Limited

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

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

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

# Licensed under the Insurance Companies Ordinance as an insurance company

Trading of shares in Chong Hing Bank Limited\*, a constituent stock of the Hang Seng Composite Index Series, on The Stock Exchange of Hong Kong Limited (“HKSE”) during 2010 is summarised below:

Month	Unit Price (HK\$) (average for the month)				Monthly Turnover		Hang Seng Index# (average for the month)
	Open	High	Low	Close	Number of Shares	HK\$	Close
January	14.835	14.890	14.692	14.758	1,305,660	19,391,189	21,408.80
February	14.328	14.529	14.164	14.320	760,692	10,883,142	20,244.11
March	14.289	14.365	14.151	14.246	7,573,717	107,534,356	21,089.35
April	14.999	15.154	14.916	15.060	3,682,945	55,594,022	21,623.80
May	14.728	14.873	14.613	14.753	2,816,111	41,383,625	19,945.36
June	14.776	14.868	14.710	14.832	3,715,231	55,221,026	20,103.97
July	14.707	14.892	14.637	14.786	7,246,706	113,579,158	20,445.66
August	17.407	17.530	17.210	17.365	5,381,108	95,484,177	21,108.65
September	17.479	17.636	17.397	17.567	2,994,551	53,123,316	21,657.73
October	19.566	19.742	19.367	19.570	1,932,403	37,736,923	23,301.04
November	20.302	20.573	20.060	20.383	3,388,230	69,709,363	23,804.90
December	21.116	21.307	20.752	21.093	2,508,220	52,903,953	23,057.30
Average for the year	16.544	16.697	16.389	16.561	3,608,797	59,378,688	21,482.56

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

Year high	: HK\$21.850 (22 November)	Historic high	: HK\$27.600 (15 July 1997)
Year low	: HK\$13.780 (4 March)	Historic low	: HK\$3.650 (24 August 1998)

# Year high	: 24,988.57 (8 November)	Historic high	: 31,958.41 (30 October 2007)
Year low	: 18,971.52 (27 May)	Base value	: 100.00 (31 July 1964)

11 August 2010	Interim results for the first half of 2010 announced.
27 August 2010	Interim Report 2010 despatched.
20 through 22 September 2010 (both days inclusive)	Register of Members closed for the purpose of ascertaining dividend entitlements.
30 September 2010	Interim cash dividend for 2010 of HK\$0.10 per share paid.
2 March 2011	Final results for the year of 2010 announced.
23 March 2011	Annual Report 2010 will be despatched.
27 through 29 April 2011 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining dividend entitlements.
4 May 2011	2011 Annual General Meeting will be held.
5 May 2011	If approved by shareholders at the 2011 Annual General Meeting, the final cash dividend for 2010 of HK\$0.35 per share will be paid.

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting of the shareholders of Chong Hing Bank Limited (the “Bank”) for the year of 2011 will be held on the 27th Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong on Wednesday, 4 May 2011 at 11:15 am for the purposes of conducting the following items of ordinary and special business:

#### **Ordinary business**

As ordinary business, to consider and, if thought fit, pass ordinary resolutions in respect of the following matters:

- (1) To receive and adopt the Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2010.
- (2) To declare the final cash dividend for the year ended 31 December 2010.
- (3) To re-elect directors and fix their and the other directors’ fee.
- (4) To re-appoint auditors and authorise the directors to fix the auditors’ remuneration.

#### **Special business**

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

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

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

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

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

**(6) THAT**

- (a) subject to paragraph (c), the exercise by the directors of the Bank during the Relevant Period of all the powers of the Bank to allot, issue and deal with additional shares in the capital of the Bank and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the directors of the Bank during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Bank pursuant to the approval in paragraph (a), otherwise than pursuant to (i) any Rights Issue, (ii) any scrip dividend or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Bank in accordance with the Articles of Association of the Bank, or (iii) any exercise of options granted under the share option scheme of the Bank adopted on 25 April 2002, shall not exceed the aggregate of:
  - (aa) 20 per cent of the aggregate nominal amount of the shares in the capital of the Bank in issue at the date of the passing of this resolution; and
  - (bb) (if the directors are so authorised by a separate ordinary resolution of the shareholders of the Bank) the nominal amount of any share capital of the Bank repurchased by the Bank subsequent to the passing of this resolution,and the said approval be and is hereby limited accordingly; and
- (d) for the purpose of this resolution:

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

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

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

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

**Any other ordinary business**

- (8) To transact any other ordinary business.

By Order of the Board

**Michael K W Yeung**

*Company Secretary*

23 March 2011

**Notes:**

- i. A shareholder entitled to attend and vote at the 2011 annual general meeting of the shareholders is entitled to appoint a proxy to attend and vote in his stead. A proxy does not have to be a shareholder of the Bank. Forms of proxy are to be lodged with the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong not later than 48 hours before the time for the holding of the 2011 annual general meeting of the shareholders and any adjournment thereof.
- ii. The Register of Members of the Bank will be closed from Wednesday, 27 April 2011 to Friday, 29 April 2011 (both days inclusive), during which period no transfer of shares can be registered. In order to be entitled to attend and vote at the 2011 annual general meeting of the shareholders, and to qualify for the final dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 26 April 2011.
- iii. The Bank's Annual Report 2010 includes an Explanatory Statement on Resolutions 5 through 7 in question, and information both on the retiring directors who have offered themselves for re-election at the 2011 annual general meeting of the shareholders and on poll voting.



Dr Liu Lit Mo, LLD, MBE, JP *Chairman*

## Economic Review

Hong Kong's economy remained strong in 2010. Gross domestic product for the third quarter rose by 6.8% in real terms. Total employment surged to the highest level since the first quarter of 2009, while unemployment rate dropped to 4%, reflecting a general recovery in the labour market. Since the launch of Quantitative Easing 2 ("QE2") in the US, there was an influx of liquid money into Hong Kong. As a result of external factors, property price was on a constant hike. Heated speculation deepened the risk of property bubble. Despite the Hong Kong Government's various regulation measures in April, August and November 2010, the property market remained buoyant, recording the largest number of cases and amount in annual real estate registration since 1997. On the stock market, the Hang Seng Index zigzagged throughout the year, plunging below 19,000 in May before peaking at around 25,000 in November, and eventually returning to around 23,000 by the end of the year. Over the year, the index fluctuated within a range of around 6,000 points.

In 2010, national income of China grew by 21.3% to RMB8.3 trillion. With gross domestic product amounting to RMB39.8 trillion, it overtook Japan as the world's second largest economy. The rapid economic development in China led to an increasing pressure of inflation on the Mainland. The Central Government seeks to maintain a relatively high growth rate while introducing economic restructuring and reforms. Besides, the Renminbi continues to face revaluation pressure.

The US economy showed increasing momentum of recovery. However, in light of the high unemployment rate, the US Federal Reserve Board announced after its last rate fixing in 2010 that it would keep the target range for the federal funds rate at 0% to 0.25%. It also revealed the intention to continue with QE2 and the plan to buy US\$600 billion of long-term Treasury bonds. The announcements and extension of relief measures such as tax cuts and unemployment benefits induced optimistic market sentiment towards the US economy. Nevertheless, the European debt crisis and deficits still loom over the world economy in 2011.

## Results Announcement and Profit Analysis

The results for the financial year of 2010 of the Bank, on an audited, consolidated basis, are summarised below:

<b>Key Financial Data</b>	<b>2010 HK\$'000 (unless otherwise specified)</b>	<b>2009 HK\$'000 (unless otherwise specified)</b>	<b>Variance %</b>
1. Net operating profit before impairment	<b>539,546</b>	331,527	+ 62.75
2. Profit attributable to shareholders	<b>476,162</b>	231,748	+ 105.47
3. Return on equity	<b>7.55%</b>	3.75%	+101.33
4. Earnings per share	<b>HK\$1.09</b>	HK\$0.53	+ 105.66
5. Net interest income	<b>816,127</b>	823,331	– 0.87
6. Net interest margin	<b>1.21%</b>	1.23%	– 1.63
7. Net fee and commission income	<b>240,174</b>	263,629	– 8.90
8. Operating expenses	<b>711,935</b>	978,415	– 27.24
9. Cost-to-income ratio	<b>56.89%</b>	74.69%	– 23.83
10. Impairment allowances on loans and advances	<b>17,785</b>	102,289	– 82.61
11. Total loans and advances to customers	<b>37,927,679</b>	32,793,579	+ 15.66
12. Impaired loan ratio	<b>0.09%</b>	0.16%	– 43.75
13. Provision coverage of impaired loans and advances	<b>411.83%</b>	249.50%	+ 65.06
14. Rescheduled loan ratio	<b>0.70%</b>	0.98%	– 28.57
15. Total customer deposits	<b>63,500,219</b>	60,788,415	+ 4.46
16. Loan-to-deposit ratio	<b>54.78%</b>	49.57%	+ 10.51
17. Total assets	<b>74,289,013</b>	70,005,526	+ 6.12
18. Net asset value per share (before final dividend)	<b>HK\$15.12</b>	HK\$14.19	+ 6.55
19. Capital adequacy ratio	<b>17.91%</b>	15.95%	+ 12.29
20. Core capital ratio	<b>11.22%</b>	12.72%	– 11.79
21. Average liquidity ratio	<b>45.20%</b>	48.78%	– 7.34

### Analysis of Key Financial Data

For the financial year of 2010, on an audited, consolidated basis, net operating profit before impairment amounted to HK\$540 million, an increase of 62.8% or HK\$208 million over that for the year before. Net interest income decreased slightly by HK\$7 million to HK\$816 million as net interest margin narrowed 2 basis points to 1.21%. Securities dealing fees and commission income dropped 12% to HK\$183 million as customers' dealing turnover fell despite an increase in the number of customers. Net gains on dealing in foreign currencies rose 27% to HK\$46 million as volume of foreign exchange business increased by 17% particular in the Renminbi exchange business. Operating expenses continued to be kept under control and rose by less than 1% if the expenses relating to minibonds repurchase scheme were excluded.

Profit attributable to shareholders amounted to HK\$476 million, an improvement of 105.5% or HK\$244 million over that for the year before, translating into earnings of HK\$1.09 per share and return on equity of 7.6%. Reduction in impairment allowances on loans and advances by HK\$85 million to HK\$18 million and reduction in impairment loss on available-for-sale securities by HK\$41 million to HK\$3 million contributed to the significant improvement in profit attributable to shareholders.

Total loans and advances to customers increased by 15.7% to HK\$37,928 million. Asset quality of loans and advances continued to improve with impaired loan ratio at 0.09%, provision coverage of impaired loans and advances at 411.8%, and rescheduled loan ratio at 0.7%. Total customer deposits increased by 4.5% to HK\$63,500 million. As loan growth exceeded deposit growth, loan-to-deposit ratio increased from 49.57% in December 2009 to 54.78% in December 2010 and average liquidity ratio dropped by 7.3% to 45.2%. Total assets increased by HK\$4,284 million to HK\$74,289 million with net asset value per share (before final dividend) at HK\$15.12. Capital adequacy ratio rose 12.3% to 17.91% after the Bank placed a US\$225 million subordinated notes offering which qualifies as supplementary capital of the Bank, and core capital ratio was at 11.22%.

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

## **Dividend**

Your board has recommended paying the final cash dividend of HK\$0.35 per share for the financial year of 2010 (2009 final cash dividend: HK\$0.2 per share) to shareholders whose names appear in the Register of Members at the close of business on Friday, 29 April 2011. Total dividends for the financial year of 2010, including the interim cash dividend of HK\$0.1 per share paid in September 2010 (2009 interim cash dividend: HK\$0.08 per share), amounted to HK\$0.45 per share (2009 total dividends: HK\$0.28 per share).

## **Notes Issuance**

In order to facilitate its expansion and growth, the Bank issued subordinated notes amounting to US\$225 million in November 2010. This issue of 10-year notes, being fixed at a coupon rate of 6% per annum payable semi-annually in arrears, was well-received and the order book was more than 5 times oversubscribed. The notes were broadly distributed across investor regions and investor types, further enhancing global recognition of the Bank's name. In February 2011, the notes were granted the "Investor Poll 2010 - Best Financial Institution Bond" award organised by EuroWeek Asia.

## **Business Review**

### **Corporate and Retail Banking**

#### *Loan and Deposit Business*

Benefited from the upward trend in general economy and the property market of Hong Kong, the number of mortgage loan applications received grew substantially in 2010. Compared with those of the previous year, residential mortgage loans recorded double-digit growth in both the number of cases and loan amounts. During the year, the Bank actively promoted its deposit and retail loan services. Remarkable results were achieved through a combination of strategic marketing plans and various promotional campaigns. In particular, retail loan business attained double-digit growth in total turnover, partly attributable to the increase in young and professional customers acquired through the newly launched online application service. In addition, car loan service also grew in the number of cases and loan amounts from last year as a result of the improving economy.

In respect of corporate loans, the Bank highly supported the Hong Kong Government's Loan Guarantee Scheme and Special Loan Guarantee Scheme for the small and medium-sized enterprises ("SMEs" collectively and "SME" singly). To further foster its loan business growth, the Bank also supported the newly launched SME Financing Guarantee Scheme guaranteed by the Hong Kong Mortgage Corporation Limited in January 2011. In March 2010, the Bank participated in the "Intellectual Capital Management Consultancy Programme" organised by the Intellectual Property Department. By becoming one of the five "Partnering Lending Institutions" under the programme, the Bank assists participating SMEs to maximise their business potential and aims to attain mutual growth. In addition, the Bank's efforts in SME services were highly recognised by the industry as it received the "Best SME's Partner Award" again from the Hong Kong Chamber of Small and Medium Business.



*In 2010, the Bank received the "Best SME's Partner Award" again from the Hong Kong Chamber of Small and Medium Business.*

Against the backdrop of the gradually recovering global economy, the Bank recorded steady growth in total corporate loans and trade financing amounts in 2010 while strengthening partnership with its fellow PRC banks in cross-border Renminbi services to expand its share in the Renminbi service market.

### **Card Business**

In December 2010, the Bank launched the brand new “Chong Hing China UnionPay Dual Currency Credit Card” (consisting of Chong Hing China UnionPay Dual Currency Diamond Card and Chong Hing China UnionPay Dual Currency Gold Card). Especially noteworthy is the Chong Hing China UnionPay Dual Currency Diamond Card, which is the first prestigious China UnionPay credit card launched in Hong Kong. With its wide spectrum of card services, the dual currency credit card enables customers to enjoy the flexibility and convenience of cross-border shopping without the hassle of foreign exchange and carrying cash around.



*In December 2010, the Bank launched the brand new “Chong Hing China UnionPay Dual Currency Credit Card”, of which the Chong Hing China UnionPay Dual Currency Diamond Card is the first prestigious China UnionPay credit card launched in Hong Kong.*

### **China Business**

As the Bank continued to develop its mainland business, its Shantou Branch recorded steady growth in both deposits and loans in 2010. In respect of cross-border Renminbi business, Shantou Branch was admitted into the Renminbi Cross-border Payment and Receipt Management Information System during the year and has since been working with the Bank's headquarter in developing cross-border Renminbi business.

### **Treasury Activities**

Treasury activities mainly comprise money market operations and foreign exchange services. Such activities are carried out under prudent risk management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts. The Bank has always been careful with its liquidity management and strives to maintain a relatively high level of liquidity position.

In developing the Renminbi businesses, the Bank is adopting a prudent and steady approach and has benefited from higher volume of foreign exchange business in 2010.

### Securities Dealing

In response to the fierce competition from its fellow securities dealers, Chong Hing Securities Limited (“Chong Hing Securities”), a wholly-owned subsidiary of the Bank, launched “Chong Hing Mobile Securities Services” in early 2010, a mobile securities trading platform compatible with all mobile networks and various smartphone systems in Hong Kong. With a number of marketing promotion campaigns, the service received positive response with a growing number of online users. During the year, the total number of customers of Chong Hing Securities had substantially increased. Looking into 2011, the global stock market is overshadowed by uncertainties involving the economic recovery and financial deficits of the US and European countries.

Nevertheless, as the trend of major PRC enterprises listing in Hong Kong is expected to continue, we are cautiously optimistic about the future performance of the Hong Kong securities market.



*In early 2010, Chong Hing Securities launched “Chong Hing Mobile Securities Services” with advertisements on major radio stations, newspapers and outdoor platforms such as buses and MTR stations. The service was positively received by the customers.*



## Other Related Businesses

### Insurance Business

As Hong Kong's economy continued to recover, Chong Hing Insurance Company Limited ("Chong Hing Insurance"), a wholly-owned subsidiary of the Bank, recorded steady improvement in results for the year, with premium income increased at double-digit rates. With the aim of pursuing satisfactory overall growth, Chong Hing Insurance will continue to offer comprehensive and quality insurance service and further expand its SME and individual insurance businesses through the business and branch networks of the Bank.



*In June 2010, the Bank's Tin Tsz Estate Branch in Tin Shui Wai was relocated to Kingswood Ginza of the same district.*

### Corporate Responsibility

In order to practise the preaching of serving as a "community bank" and provide a comprehensive range of high quality banking services to the local community, the Bank relocated its branch at Tin Tsz Estate in Tin Shui Wai to Kingswood Ginza of the same district with enhanced service environment in June 2010, providing a more convenient access to its banking services for the neighbourhood. Apart from the Bank's headquarter in Central, the total number of our local branches now stands at 51. And at least one new local branch will be opened this year.

As caring institution serving the community, the Bank was involved in a variety of social improvement activities. At the end of 2010, the Bank made a further donation to Gracefield East Kowloon Christian Kindergarten, which provides quality education for children from low-income, single-parent or other needy families. In addition, the

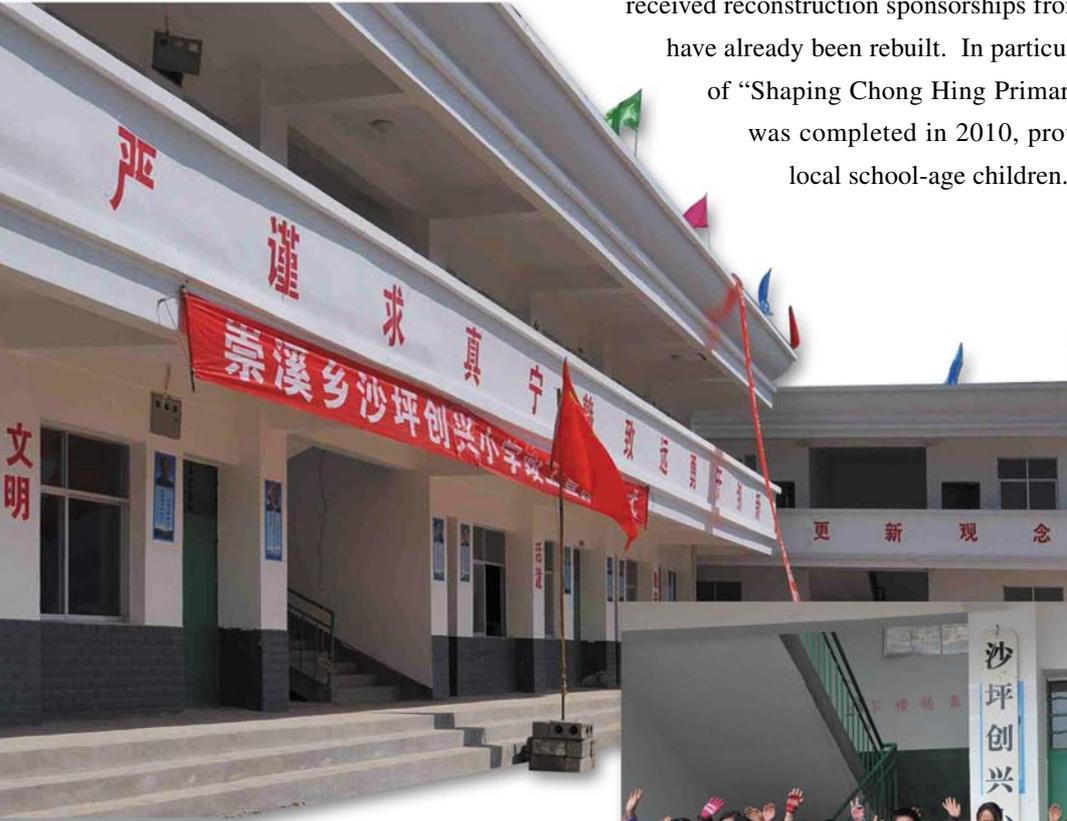


*The Bank made a further donation to Gracefield East Kowloon Christian Kindergarten, which provides quality education for children from needy families.*



*Delicate coin banks were given to kindergarteners to instil the concept of "many a little makes a mickle".*

In January 2007, the Bank received overwhelming support when it encouraged guests to make cash donations instead of sending flower bouquets to celebrate the renaming and grand opening of its new headquarter building in Central. The donations were matched by the Bank's own contributions on a dollar-for-dollar basis to fund education projects in certain impoverished regions in the Mainland. To date, nine primary schools in the Mainland have received reconstruction sponsorships from the Bank and seven of which have already been rebuilt. In particular, fundamental reconstruction of "Shaping Chong Hing Primary School" in Yunnan Province was completed in 2010, providing basic education for the local school-age children.



*Under the Bank's sponsorship, the fundamental reconstruction of "Shaping Chong Hing Primary School" in Yunnan Province was completed in 2010, providing basic education for local school-age children.*

## Corporate Governance

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

## **Economic Outlook**

In August 2010, the Working Meeting of the Hong Kong / Guangdong Cooperation Joint Conference reviewed the latest work progress of Hong Kong / Guangdong cooperation, particularly the implementation of the Framework Agreement on Hong Kong / Guangdong Cooperation (the "Framework Agreement"). The major tasks for 2011 were also discussed at the meeting.

As regards financial services, "Mainland and Hong Kong Closer Economic Partnership Arrangement" Supplement VI and Supplement VII further relaxed relevant requirements for Hong Kong banks to set up a wholly foreign-funded bank or a foreign bank branch, as well as to apply to conduct Renminbi business.

On Renminbi business, the People's Bank of China ("PBoC") announced the expansion of the cross-border Renminbi trade settlement scheme in June 2010. In particular, the coverage of the pilot scheme in Guangdong has been expanded from four cities to the whole of Guangdong Province. This has provided better conditions to further promote Renminbi trade settlement between Hong Kong and Guangdong. Subsequently in July, the PBoC signed a Supplementary Memorandum of Cooperation on the expansion of the Renminbi trade settlement scheme with the Hong Kong Monetary Authority.

The Hong Kong Government strives to incorporate the relevant policies on Hong Kong / Guangdong cooperation in the Framework Agreement, especially those on the functional positioning of Hong Kong / Guangdong cooperation, into the National 12th Five-Year Plan, so as to further promote the mutual economic and social development of Guangdong and Hong Kong and build on existing strengths by establishing a financial cooperation region with Hong Kong taking the lead with its financial systems, to be supported by financial resources and services of Pearl River Delta cities.

As Hong Kong's economy steadily recovers, Mainland's economy thrives and the internationalisation of Renminbi accelerates, we at the Bank will tap into the deepening economic and financial interaction between the Mainland and Hong Kong, thereby further consolidating our foundation for future growth.

## **Sincere Acknowledgements**

I would like to express my heartfelt thanks to our many customers and shareholders, as well as my fellow board members, for their trust and support. The Bank will continue to play its role as a community bank and provide better services to the general public while maximising the return for its shareholders. Last but not least, on behalf of your board, I would like to tender my sincerest gratitude to the management and the staff for their commitment and dedication.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

### PRINCIPAL ACTIVITIES

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

### BUSINESS

The Group's total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial assets at fair value through profit or loss, net gains (losses) on fair value hedge and other operating income is analysed and reported by significant business classes as follows:

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Corporate and retail banking	<b>617,975</b>	639,982
Treasury activities	<b>416,540</b>	422,284
Securities dealing	<b>184,296</b>	209,785
Others	<b>32,670</b>	37,891
	<b><u>1,251,481</u></b>	<b><u>1,309,942</u></b>

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

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

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

Others comprise investment holding, insurance, other investment advisory services and property investments.

## MAJOR CUSTOMERS

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 43.

An interim cash dividend of HK\$0.10 per share amounting to HK\$43,500,000 was paid to the shareholders during the year. The directors now recommend the payment of a final cash dividend for the year ended 31 December 2010 of HK\$0.35 per share amounting to HK\$152,250,000 to the shareholders on the register of members on 29 April 2011 and the retention of the remaining profit for the year.

## SHARE CAPITAL

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

## RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in the consolidated statement of changes in equity on page 47 and note 29 to the consolidated financial statements, respectively.

## INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2010. The net increase in fair value arising on the revaluation, which has been credited directly to the consolidated income statement, amounted to HK\$12,765,000. Details of the investment properties of the Group and the Bank are set out in note 23 to the consolidated financial statements.

## PROPERTY AND EQUIPMENT

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

## SHARE OPTION SCHEME

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

**DIRECTORS**

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

**Executive Directors**

Dr LIU Lit Mo, LLD, MBE, JP	<i>(Chairman)</i>
Mr LIU Lit Chi	<i>(Managing Director and Chief Executive Officer)</i>
Mr Don Tit Shing LIU	<i>(Deputy Chief Executive Officer)</i>
Mr LAU Wai Man	<i>(Deputy Chief Executive Officer)</i>
Mr Wilfred Chun Ning LIU	
Mr TSANG Chiu Wing	
Mr WONG Har Kar	

**Non-executive Directors**

Mr Timothy George FRESHWATER	
Mr WANG Xiaoming	
Mr Andrew LIU	
Mr Hidemitsu OTSUKA	<i>(appointed on 11 August 2010)</i>
Mr Eiichi YOSHIKAWA	<i>(resigned on 11 August 2010)</i>
Mr Christopher Kwun Shing LIU	
Mr Alfred Cheuk Yu CHOW, BBS, JP	
Mr MENG Qinghui	

**Independent Non-executive Directors**

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

Mr Hidemitsu Otsuka (who was appointed Non-executive Director on 11 August 2010) shall retire and offer himself for re-election at the forthcoming annual general meeting in accordance with Article 85 of the Bank's Articles of Association. Moreover, Mr Eiichi Yoshikawa resigned as Non-executive Director on 11 August 2010 because of the reallocation of duties within the Bank of Tokyo-Mitsubishi UFJ Group.

Article 101 of the Bank's Articles of Association stipulates that, among other things, one-third of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. Accordingly, Mr Lau Wai Man, Mr Wang Xiaoming, Mr Wilfred Chun Ning Liu, Mr Cheng Yuk Wo, Mr Andrew Chiu Cheung Ma and Mr Meng Qinghui shall retire and offer themselves for re-election at the forthcoming annual general meeting.

**DIRECTORS' SERVICE CONTRACTS**

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

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

As of 31 December 2010, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

### Interests in securities

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Mo	1,009,650	—	251,040,628 <i>Note (1)</i>	252,050,278	57.94259
Liu Lit Chi	313,248	—	253,303,839 <i>Notes (1) &amp; (2)</i>	253,617,087	58.30278
Don T S Liu	15,000	—	—	15,000	0.00345
Robin Y H Chan	48,400	—	1,018,000 <i>Note (3)</i>	1,066,400	0.24515
Timothy G Freshwater	396	—	—	396	0.00009
Andrew Liu	177,000	—	—	177,000	0.04069

#### Notes:

- (1) 251,040,628 shares in the Bank are attributed as follows:
  - (i) 211,040,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
  - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,018,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

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

### *Other interests and short positions in securities*

Under the SFO, other than those interests disclosed above, as of 31 December 2010, none of the directors (including the chief executive officer), nor their respective associates, had any other interests (nor any short positions) in any securities (nor in any underlying securities) in the Bank and its associated corporations. Moreover, as of 31 December 2010, none of the directors (including the chief executive officer), nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities in the Bank and its associated corporations, much less had any such rights exercised.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As of 31 December 2010, the register maintained under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors (including the chief executive officer), the following parties had interests and short positions in the securities and underlying securities in the Bank:

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Liu Chong Hing Estate Company, Limited	Beneficial owner	211,040,628 <i>Notes (1) and (3)</i>	48.52
Liu Chong Hing Investment Limited	Interest of a controlled corporation	211,040,628 <i>Notes (1) and (3)</i>	48.52
Liu's Holdings Limited	Interest of a controlled corporation	211,040,628 <i>Notes (1) and (3)</i>	48.52
Bauhinia 97 Limited	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO (Hong Kong) Group Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66

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

### *Notes:*

- (1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited. Liu's Holdings Limited, a private company, had interest in about 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 211,040,628 shares in question all relate to the same block of 211,040,628 shares held by Liu Chong Hing Estate.
- (2) Bauhinia 97 Limited is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited, which in turn is a wholly-owned subsidiary of China Ocean Shipping (Group) Company. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Limited.
- (3) The Bank of Tokyo-Mitsubishi UFJ, Ltd is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. The references to the 42,000,000 shares in question both relate to the same block of 42,000,000 shares registered in the name of The Bank of Tokyo-Mitsubishi UFJ, Ltd.

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

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as of 31 December 2010.

## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

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

## **APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Bank has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The Bank considers all of the independent non-executive directors are independent.

**CONNECTED TRANSACTIONS**

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

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

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

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

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

**DECLARATION OF INTERESTS**

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

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

**ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

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

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

Chong Hing Securities Limited ("CHS"), a wholly-owned subsidiary of the Bank, sold 3,000 ordinary shares in the Bank (which were previously purchased by CHS inadvertently during its normal course of stockbroking business) on 8 March 2010 on The Stock Exchange of Hong Kong Limited for HK\$42,420. Moreover, the Bank purchased a total nominal amount of US\$24,500,000 of its US\$125,000,000 Floating Rate Subordinated Notes due 2016 in the open market in November 2010 for about US\$24,381,000. Save for the above, neither the Bank nor any of its other subsidiaries had purchased, sold or redeemed any of the Bank's listed securities during the year.

**DONATIONS**

During the year, the Group made charitable and other donations amounting to approximately HK\$626,000 (2009: HK\$565,000).

**EMOLUMENT POLICY**

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

**STATEMENT OF COMPLIANCE**

In preparing the financial statements for 2010, the Bank has fully complied with the Banking (Disclosure) Rules.

**SUFFICIENCY OF PUBLIC FLOAT**

The Group has maintained a sufficient public float throughout the year ended 31 December 2010.

**AUDITOR**

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

On behalf of the Board

**Liu Lit Mo**

*Chairman*

2 March 2011

### **Corporate Governance Practices**

The board of directors of the Bank (the “Board”) is well aware that maintaining good corporate governance standards is important to the effective and efficient operation of the Bank. The Board has therefore adopted and implemented various measures to ensure that a high standard of corporate governance practices is maintained. The directors confirm that, for the financial year ended 31 December 2010, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

### **Board and Senior Management Oversight and Risk Management**

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

### **Directors’ Securities Transactions**

The Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2010, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank’s own code in question.

**Board of Directors**

The Board is composed of the following directors. During the year of 2010, four board meetings were held and the attendance of each director is set out as follows:

<b>Name of Director</b>	<b>Number of Board Meetings Attended</b>	<b>Attendance Rate</b>
<b>Executive Directors</b>		
Dr LIU Lit Mo, LLD, MBE, JP <i>(Chairman)</i>	4 / 4	100%
Mr LIU Lit Chi <i>(Managing Director and Chief Executive Officer)</i>	4 / 4	100%
Mr Don Tit Shing LIU <i>(Deputy Chief Executive Officer)</i>	4 / 4	100%
Mr LAU Wai Man <i>(Deputy Chief Executive Officer)</i>	4 / 4	100%
Mr Wilfred Chun Ning LIU	3 / 4	75%
Mr TSANG Chiu Wing	4 / 4	100%
Mr WONG Har Kar	4 / 4	100%
<b>Non-executive Directors</b>		
Mr Timothy George FRESHWATER	3 / 4	75%
Mr WANG Xiaoming	4 / 4	100%
Mr Andrew LIU	2 / 4	50%
Mr Hidemitsu OTSUKA <i>(appointed on 11 August 2010)</i>	1 / 2	50%
Mr Eiichi YOSHIKAWA <i>(resigned on 11 August 2010)</i>	1 / 2	50%
Mr Christopher Kwun Shing LIU	4 / 4	100%
Mr Alfred Cheuk Yu CHOW, BBS, JP	4 / 4	100%
Mr MENG Qinghui	3 / 4	75%
<b>Independent Non-executive Directors</b>		
Dr Robin Yau Hing CHAN, GBS, LLD, JP	3 / 4	75%
Mr Wanchai CHIRANAKHORN	4 / 4	100%
Mr CHENG Yuk Wo	4 / 4	100%
Mr Andrew Chiu Cheung MA	4 / 4	100%

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

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

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

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

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

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

### Chairman and Chief Executive Officer

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

### Auditors' Remuneration

The remuneration paid and payable to the Group's auditors, Messrs Deloitte Touche Tohmatsu, for 2010 amounted to:

	HKD
Audit services	3,800,000
Interim review	409,000
Tax, information technology and regulatory consulting	440,960
Corporate finance	624,100
Total	<u>5,274,060</u>

### Remuneration Committee

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

In response to the Hong Kong Monetary Authority's (the "HKMA") issuance of the Guideline on a Sound Remuneration System (the "Guideline"), the terms of reference of the Remuneration Committee was updated in 2010. Among others, it is responsible for making recommendation and reviewing the remuneration policy of the Bank and its subsidiaries (the "Bank Group") by taking into account the pay and conditions across the Bank Group's individual remuneration packages including Directors, Senior Management and Key Personnel as well as those in positions of significant influence and those having an impact on the Bank Group's risk profile. It is to ensure that the reward frameworks and decisions shall be developed in a manner to encourage employee behavior that supports the Bank Group's risk tolerance, risk management framework and long-term financial soundness, as well as to support and reinforce the achievement of the Bank Group's vision and strategy. It is also authorised by the Board to obtain professional advice as it shall deem appropriate and shall be responsible for selection and appointment of consultants to advise it on all aspects of remuneration.

The Remuneration Committee shall meet no less than twice a year. During the year of 2010, three meetings were held and the attendance of each member is set out as follows:

Name of Member	Number of Committee Meetings Attended	Attendance Rate
Mr Wanchai CHIRANAKHORN (Chairman)	3 / 3	100%
Mr CHENG Yuk Wo	3 / 3	100%
Mr Alfred Cheuk Yu CHOW, BBS, JP	3 / 3	100%

The Remuneration Committee is satisfied that the remuneration system of the Bank Group is mainly fixed cash-based with controlled scale of performance-related incentive bonus which is, on the one hand, in conformity with the risk appetite of the Bank Group to grow steadily and prudently by encouraging long-term performance, rather than short-term risk taking, and on the other hand, to motivate, recognise and reward both high individual contribution and sound team performance. The Bank Group will reward employees' achievements by directly linking pay to performance outcomes, taking account of several factors including the overall performance of the Bank Group, performance of the relevant business units and contributions of individual employees. The Remuneration Committee will continue to align the Bank Group's remuneration policies with the Guideline with particular attention paid to risk adjustments to performance assessment, while ensuring that the rewards are competitive.

The Remuneration Committee is provided with sufficient resources to discharge its duties and the following is a summary of the work of the Remuneration Committee during 2010:

- (i) commissioned an external consultant to conduct the self-assessment to identify any weaknesses and deficiencies in the Bank's Group existing remuneration systems which require improvement;
- (ii) reviewed the self-assessment report and signed off the same to the HKMA;
- (iii) reviewed and revised the existing terms of reference of the Remuneration Committee so as to be consistent with the principle and spirit of the Guideline;
- (iv) reviewed and updated the existing Remuneration Policy in accordance with the applicable practices and provisions of the Guideline;
- (v) reviewed and analysed the labour market conditions and annual salary payment for the year;
- (vi) discussed and reviewed the payment of directors' fees; and
- (vii) discussed and reviewed of the benefits in kind, including group medical benefits, staff housing mortgage loan scheme and mandatory provident fund scheme to all employees of the Bank Group.

The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 13 to the consolidated financial statements. As defined in the Remuneration Policy of the Bank Group, there are 20 employees categorised as Senior Management and Key Personnel. A fixed remuneration of HK\$29,136,000 and HK\$32,277,000 were paid to them in the year of 2009 and 2010 respectively. In the year of 2010 a variable bonus in form of cash for the amount of HK\$365,000 was paid to them and no such variable bonus in question was paid in the year 2009.

### **Audit Committee**

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

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

The Audit Committee shall meet at least three times a year. During the year of 2010, the Audit Committee held four meetings and record of individual attendance of members is set out as follows:

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

To discharge its responsibilities, the Audit Committee performed the following major reviews in 2010:

#### **Financial Statements**

The Audit Committee met with the external auditors and the senior executive in charge of Finance and Treasury Management Division to discuss the accounts for the year ended 31 December 2009 and for the six months ended 30 June 2010. The Audit Committee reviewed and discussed with the external auditors to ensure that the Bank's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

#### **Relationship with the External Auditors**

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

#### **Internal Control Review**

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

**Deloitte.****德勤****TO THE MEMBERS OF CHONG HING BANK LIMITED***(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Chong Hing Bank Limited (the “Bank”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 43 to 140, which comprise the consolidated and the Bank’s statements of financial position as at 31 December 2010, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors’ Responsibility for the Consolidated Financial Statements**

The directors of the Bank are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2010 and of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu***Certified Public Accountants*

Hong Kong

2 March 2011

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# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

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	NOTES	2010 HK\$'000	2009 HK\$'000
Interest income		1,178,582	1,184,922
Interest expense		(362,455)	(361,591)
Net interest income	8	816,127	823,331
Fee and commission income		291,763	307,299
Fee and commission expense		(51,589)	(43,670)
Net fee and commission income	9	240,174	263,629
Net gains on financial instruments at fair value through profit or loss	10	23,752	76,878
Net gains (losses) on fair value hedge	10	13,294	(118)
Other operating income	11	158,134	146,222
Operating expenses	12	(711,935)	(978,415)
		539,546	331,527
Impairment allowances on loans and advances	20	(17,785)	(102,289)
Net gain on disposal of prepaid lease payments for land		–	362
Net loss on disposal of property and equipment		(79)	(14)
Net gain on disposal of available-for-sale securities		14,445	24,810
Net gain on disposal of and fair value adjustments on investment properties	23	15,895	31,148
Impairment loss on available-for-sale securities		(2,739)	(43,571)
Impairment loss on goodwill	33	–	(10,000)
Share of profits of jointly controlled entities		19,036	32,410
Profit before taxation		568,319	264,383
Taxation	14	(92,157)	(32,635)
Profit for the year		476,162	231,748
Earnings per share - basic	16	HK\$1.09	HK\$0.53

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
Profit for the year	<u>476,162</u>	<u>231,748</u>
Other comprehensive income		
Exchange differences arising on translation	7,053	524
Revaluation of available-for-sale securities:		
- Revaluation gain on available-for-sale securities, net	71,383	29,662
- Reclassification adjustment upon disposal and impairment	(11,706)	18,761
- Share of reserves of jointly controlled entities	145	4,009
Income tax relating to available-for-sale securities	<u>(8,930)</u>	<u>(10,456)</u>
Other comprehensive income for the year (net of tax)	<u>57,945</u>	<u>42,500</u>
Total comprehensive income for the year	<u><u>534,107</u></u>	<u><u>274,248</u></u>
Total comprehensive income attributable to:		
Owners of the Bank	<u><u>534,107</u></u>	<u><u>274,248</u></u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2010

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	NOTES	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
<b>Assets</b>				
Cash and short-term funds	17	18,249,365	15,048,680	17,659,927
Placements with banks and other financial institutions maturing between one to twelve months		2,282,122	2,814,566	5,367,858
Derivative financial instruments	18	20,542	331	429
Financial assets at fair value through profit or loss	19	1,774,453	576,730	680,680
Available-for-sale securities	19	1,212,428	272,649	196,527
Held-to-maturity securities	19	10,878,046	16,954,466	9,727,685
Advances and other accounts	20	38,835,820	33,267,735	33,634,842
Tax recoverable		6	31,925	38,113
Interests in jointly controlled entities	22	136,919	119,418	82,999
Investment properties	23	116,400	103,199	129,801
Property and equipment	24	729,771	762,657	794,704
Prepaid lease payments for land	25	2,535	2,564	3,147
Goodwill	33	50,606	50,606	60,606
<b>Total assets</b>		<b><u>74,289,013</u></b>	<b><u>70,005,526</u></b>	<b><u>68,377,318</u></b>
<b>Liabilities</b>				
Deposits and balances of banks and other financial institutions		1,039,991	1,447,718	1,525,509
Deposits from customers	26	63,500,219	60,788,415	59,401,660
Derivative financial instruments	18	256,426	44,413	39,303
Other accounts and accruals		442,834	556,016	477,381
Current tax liabilities		50,106	15,671	5,104
Loan capital	27	2,401,151	967,199	965,454
Deferred tax liabilities	30	20,357	11,772	6,283
<b>Total liabilities</b>		<b><u>67,711,084</u></b>	<b><u>63,831,204</u></b>	<b><u>62,420,694</u></b>
<b>Equity attributable to owners of the Bank</b>				
Share capital	28	217,500	217,500	217,500
Reserves	29	6,360,429	5,956,822	5,739,124
<b>Total equity</b>		<b><u>6,577,929</u></b>	<b><u>6,174,322</u></b>	<b><u>5,956,624</u></b>
<b>Total liabilities and equity</b>		<b><u>74,289,013</u></b>	<b><u>70,005,526</u></b>	<b><u>68,377,318</u></b>

Approved and authorised for issue by the Board of Directors on 2 March 2011 and signed on its behalf by:

**Liu Lit Mo**, *Chairman*

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

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

**Michael K W Yeung**, *Company Secretary*

## STATEMENT OF FINANCIAL POSITION

at 31 December 2010

	NOTES	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	1 January 2009 HK\$'000 (Restated)
<b>Assets</b>				
Cash and short-term funds	17	18,204,225	15,006,177	17,617,546
Placements with banks and other financial institutions maturing between one to twelve months		2,282,122	2,814,566	5,367,858
Derivative financial instruments	18	20,542	331	429
Financial assets at fair value through profit or loss	19	1,773,880	576,590	680,567
Available-for-sale securities	19	1,126,117	196,464	150,725
Held-to-maturity securities	19	10,878,046	16,954,466	9,727,685
Advances and other accounts	20	38,627,701	32,990,451	33,477,333
Tax recoverable		–	31,620	37,976
Investments in subsidiaries	21(i)	261,784	338,323	348,323
Amounts due from subsidiaries	21(ii)	1,241	4,985	3,711
Interests in jointly controlled entities	22	21,500	21,500	21,500
Investment properties	23	86,450	76,160	104,050
Property and equipment	24	1,222,974	1,253,021	1,287,952
Prepaid lease payments for land	25	2,535	2,564	3,147
<b>Total assets</b>		<b>74,509,117</b>	<b>70,267,218</b>	<b>68,828,802</b>
<b>Liabilities</b>				
Deposits and balances of banks and other financial institutions		1,039,991	1,447,718	1,525,509
Deposits from customers	26	63,499,301	60,785,525	59,398,427
Amounts due to subsidiaries	36	700,918	763,072	704,828
Derivative financial instruments	18	256,426	44,413	39,303
Other accounts and accruals		265,625	272,449	297,748
Current tax liabilities		46,674	574	2,422
Loan capital	27	2,401,151	967,199	965,454
Deferred tax liabilities	30	12,197	3,769	3,744
<b>Total liabilities</b>		<b>68,222,283</b>	<b>64,284,719</b>	<b>62,937,435</b>
<b>Equity attributable to owners of the Bank</b>				
Share capital	28	217,500	217,500	217,500
Reserves	29	6,069,334	5,764,999	5,673,867
<b>Total equity</b>		<b>6,286,834</b>	<b>5,982,499</b>	<b>5,891,367</b>
<b>Total liabilities and equity</b>		<b>74,509,117</b>	<b>70,267,218</b>	<b>68,828,802</b>

Approved and authorised for issue by the Board of Directors on 2 March 2011 and signed on its behalf by:

**Liu Lit Mo**, *Chairman*

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

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

**Michael K W Yeung**, *Company Secretary*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

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	Note	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2010		217,500	1,542,817	(182)	55,328	1,388,500	8,048	287,000	2,675,311	6,174,322
Profit for the year		-	-	-	-	-	-	-	476,162	476,162
Exchange differences arising on translation		-	-	-	-	-	7,053	-	-	7,053
Net revaluation gain on available-for-sale securities		-	-	-	71,383	-	-	-	-	71,383
Reclassification adjustment upon disposal and impairment		-	-	-	(11,706)	-	-	-	-	(11,706)
Share of reserves of jointly controlled entities		-	-	-	145	-	-	-	-	145
Income tax relating to available-for-sale securities		-	-	-	(8,930)	-	-	-	-	(8,930)
Other comprehensive income		-	-	-	50,892	-	7,053	-	-	57,945
Total comprehensive income for the year		-	-	-	50,892	-	7,053	-	476,162	534,107
Interim dividend paid for financial year 2010	15	-	-	-	-	-	-	-	(43,500)	(43,500)
Final dividend paid for financial year 2009	15	-	-	-	-	-	-	-	(87,000)	(87,000)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	44,000	(44,000)	-
At 31 December 2010		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>106,220</u>	<u>1,388,500</u>	<u>15,101</u>	<u>331,000</u>	<u>2,976,973</u>	<u>6,577,929</u>
At 1 January 2009		217,500	1,542,817	(182)	13,352	1,388,500	7,524	307,000	2,480,113	5,956,624
Profit for the year		-	-	-	-	-	-	-	231,748	231,748
Exchange differences arising on translation		-	-	-	-	-	524	-	-	524
Net revaluation gain on available-for-sale securities		-	-	-	29,662	-	-	-	-	29,662
Reclassification adjustment upon disposal and impairment		-	-	-	18,761	-	-	-	-	18,761
Share of reserves of jointly controlled entities		-	-	-	4,009	-	-	-	-	4,009
Income tax relating to available-for-sale securities		-	-	-	(10,456)	-	-	-	-	(10,456)
Other comprehensive income		-	-	-	41,976	-	524	-	-	42,500
Total comprehensive income for the year		-	-	-	41,976	-	524	-	231,748	274,248
Interim dividend paid for financial year 2009	15	-	-	-	-	-	-	-	(34,800)	(34,800)
Final dividend paid for financial year 2008	15	-	-	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(20,000)	20,000	-
At 31 December 2009		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>55,328</u>	<u>1,388,500</u>	<u>8,048</u>	<u>287,000</u>	<u>2,675,311</u>	<u>6,174,322</u>

The retained profits of the Group included retained profit of HK\$20,890,000 (2009: retained profit of HK\$3,534,000) retained by the jointly controlled entities of the Group.

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

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	568,319	264,383
Adjustments for:		
Net loss on disposal of property and equipment	79	14
Net gain on disposal of prepaid lease payments for land	–	(362)
Net gain on disposal of and fair value adjustments on investment properties	(15,895)	(31,148)
Net gain on disposal of available-for-sale securities	(14,445)	(24,810)
Fair value adjustment of hedged interest rate risk of subordinated notes	(114,542)	–
Impairment allowances on loans and advances	17,785	102,289
Impairment loss on goodwill	–	10,000
Impairment loss on available-for-sale securities	2,739	43,571
Dividend income from equity securities	(7,733)	(8,067)
Share of profits of jointly controlled entities	(19,036)	(32,410)
Depreciation	55,117	53,224
Release of prepaid lease payments for land	66	64
Interest income from held-to-maturity securities and available-for-sale securities	(319,849)	(312,585)
Interest expense on loan capital	23,492	19,736
Exchange adjustments	4,361	900
	<u>180,458</u>	<u>84,799</u>
(Increase) decrease in operating assets:		
Interest receivable and other accounts	74,781	(45,860)
Placements with banks and other financial institutions with original maturity over three months	733,321	149,657
Exchange fund bills with original maturity over three months	(130,665)	(105,182)
Money at call and short notice with original maturity over three months	2,271,530	(1,416,898)
Bills receivable	(61,639)	31,229
Trade bills	(24,221)	47,035
Other advances to customers	(5,053,440)	289,704
Advances to banks and other financial institutions	(515,079)	1,729
Financial assets at fair value through profit or loss	(1,197,723)	103,950
Derivative assets	(20,211)	98
Increase (decrease) in operating liabilities:		
Derivative liabilities	212,013	5,110
Deposits from customers	2,711,804	1,386,755
Deposits and balances of banks and other financial institutions with original maturity over three months	996	176
Other accounts and accruals	(122,647)	79,353
Cash (used in) generated from operations	<u>(940,722)</u>	<u>611,655</u>
Hong Kong Profits Tax paid	(23,846)	(17,459)
Overseas tax paid	(2,302)	(3,388)
<b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b>	<u>(966,870)</u>	<u>590,808</u>

# CONSOLIDATED STATEMENT OF CASH FLOWS

*for the year ended 31 December 2010*

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>INVESTING ACTIVITIES</b>		
Interest received on held-to-maturity securities and available-for-sale securities	317,065	305,761
Dividends received on investments	7,733	8,067
Dividend income from jointly controlled entities	1,680	–
Purchase of held-to-maturity securities	(28,536,272)	(33,547,891)
Purchase of available-for-sale securities	(928,809)	(78,367)
Purchase of property and equipment	(22,162)	(21,326)
Proceeds from redemption of held-to-maturity securities	34,612,692	26,321,110
Proceeds from sale and redemption of available-for-sale securities	60,413	31,907
Proceeds from disposal of property and equipment	125	139
Proceeds from disposal of land	–	881
Proceeds from disposal of investment property	635	5,800
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>5,513,100</b>	<b>(6,973,919)</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	(12,654)	(19,334)
Net proceeds from issue of loan capital	1,738,324	–
Repurchase of loan capital	(190,250)	–
Dividends paid	(130,500)	(56,550)
<b>NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES</b>	<b>1,404,920</b>	<b>(75,884)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,951,150</b>	<b>(6,458,995)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>11,074,304</b>	<b>17,533,299</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		
represented by		
Cash and balances with banks and other financial institutions	11,677,098	4,427,240
Money at call and short notice	6,024,310	6,704,160
Exchange fund bills	547,957	3,917,280
Placements with banks and other financial institutions maturing between one to twelve months	2,282,122	2,814,566
Deposits and balances of banks and other financial institutions	(1,039,991)	(1,447,718)
Less: Amounts with original maturity over three months	(2,466,042)	(5,341,224)
	<b>17,025,454</b>	<b>11,074,304</b>

## 1. GENERAL

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

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

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

In the current year, the Group and the Bank have applied a number of new and revised Standards, amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are effective for 2010 financial year end.

Except as described below, the application of the new and revised Standards, amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and / or disclosures set out in these consolidated financial statements.

### Amendments to HKAS 17 Leases

As part of “Improvements to HKFRSs” issued in 2009, HKAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group and the Bank were required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated and the Bank’s statements of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group and the Bank reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments for land to property and equipment retrospectively. This resulted in prepaid lease payments for land presented in the consolidated statement of financial position with the carrying amounts of HK\$324,980,000 (the Bank’s statement of financial position: HK\$838,880,000) and HK\$318,969,000 (the Bank’s statement of financial position: HK\$832,523,000) as at 1 January 2009 and 31 December 2009 respectively being reclassified to property and equipment.

As at 31 December 2010, leasehold land that qualifies for finance lease classification presented in the consolidated statement of financial position with the carrying amount of HK\$312,961,000 (the Bank’s statement of financial position: HK\$826,170,000) has been included in property and equipment. The application of the amounts to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

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

### Amendments to HKAS 17 Leases - continued

The effect of changes in accounting policies described above on the financial position as at 31 December 2009 is as follows:

	As at 31 December 2009 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 31 December 2009 HK\$'000 (restated)
<b>The Group</b>			
Property and equipment	443,688	318,969	762,657
Prepaid lease payments for land	<u>321,533</u>	<u>(318,969)</u>	<u>2,564</u>
<b>The Bank</b>			
Property and equipment	420,498	832,523	1,253,021
Prepaid lease payments for land	<u>835,087</u>	<u>(832,523)</u>	<u>2,564</u>

The effect of changes in accounting policies described above on the financial position as at 1 January 2009 is as follows:

	As at 1 January 2009 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 1 January 2009 HK\$'000 (restated)
<b>The Group</b>			
Property and equipment	469,724	324,980	794,704
Prepaid lease payments for land	<u>328,127</u>	<u>(324,980)</u>	<u>3,147</u>
<b>The Bank</b>			
Property and equipment	449,072	838,880	1,287,952
Prepaid lease payments for land	<u>842,027</u>	<u>(838,880)</u>	<u>3,147</u>

As the changes in accounting policies described above have been applied retrospectively, comparative figures as at 1 January 2009 are presented in the statements of financial position and in the relevant notes 24 and 25 to the consolidated financial statements.

**3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE**

The Group and the Bank have not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets <sup>3</sup>
HKFRS 9	Financial instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>5</sup>
HKAS 24 (as revised in 2009)	Related party disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of rights issues <sup>7</sup>
HK (IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement <sup>6</sup>
HK (IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>7</sup> Effective for annual periods beginning on or after 1 February 2010.

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

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss was presented in profit or loss.

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

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

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

The amendments to HKAS 12 titled “Deferred tax: Recovery of underlying assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The board of directors anticipate that the application of the amendments to HKAS 12 may have an impact on deferred tax recognised for investment properties that are measured using the fair value model. As at 31 December 2010, the Group’s carrying amounts of deferred tax liabilities arising from the investment properties which have been considered as recovered through use is HK\$11,191,000 (the Bank’s carrying amounts: HK\$8,879,000). The board of directors considers that, if the Group and the Bank have early applied the amendments to HKAS 12, the deferred tax liabilities arising from the investment properties may be reduced.

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

### 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

The principal accounting policies are set out below:

#### **Basis of consolidation**

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

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

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Basis of consolidation - continued**

###### *Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

##### **Investments in subsidiaries**

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

##### **Goodwill**

###### *Goodwill arising on acquisitions prior to 1 January 2005 but before 1 January 2010*

Goodwill arising on an acquisition of net assets and operations of another entity before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill arising on acquisitions of net assets and operations of another entity prior to 1 January 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Goodwill - continued**

*Goodwill arising on acquisitions on or after 1 January 2005 but before 1 January 2010*

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

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

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

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

##### **Jointly controlled entities**

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Jointly controlled entities - continued**

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

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

##### **Interest income and expenses**

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Non-interest income revenue recognition**

###### *Fees and commission income*

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

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

###### *Dividends*

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

##### **Property and equipment**

Property and equipment including land and buildings, which mainly comprise branches and offices are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

##### **Investment properties**

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

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

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

**4. SIGNIFICANT ACCOUNTING POLICIES - continued****Leasing**

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

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

*The Group as lessee*

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

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments for land” in the statements of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Foreign currencies

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

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

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

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Retirement benefit costs**

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

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

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

##### **Taxation**

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

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

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Financial instruments**

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

##### **Financial assets**

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

##### *Effective interest method*

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

##### *Financial assets at fair value through profit or loss*

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

A financial asset is classified as held for trading if:

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

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

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

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

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

*Loans and receivables*

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

*Held-to-maturity investments*

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Financial instruments - continued

##### Financial assets - continued

###### *Available-for-sale financial assets*

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

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

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

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

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

##### Impairment of financial assets

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

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

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Financial instruments - continued

##### Impairment of financial assets - continued

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

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

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

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

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

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

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

##### Financial liabilities and equity

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Financial instruments - continued

##### Financial liabilities and equity - continued

##### *Effective interest method*

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

Interest expense is recognised on an effective interest basis.

##### *Financial liabilities at fair value through profit or loss*

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

A financial liability is classified as held for trading if:

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

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

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### **Financial instruments - continued**

##### **Financial liabilities and equity - continued**

##### *Other financial liabilities*

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

##### *Offsetting financial instruments*

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

##### *Equity instruments*

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

##### **Derivative financial instruments and hedging**

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

##### **Embedded derivatives**

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

##### **Hedge accounting**

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

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

##### Financial instruments - continued

##### Hedge accounting - continued

###### *Fair value hedges*

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

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

##### Financial guarantee contracts

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

##### Derecognition

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

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

##### Provisions

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

#### **4. SIGNIFICANT ACCOUNTING POLICIES - continued**

##### **Impairment on non-financial assets**

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

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

##### **Fiduciary assets**

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

##### **Cash and cash equivalents**

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

#### **5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY**

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

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

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

### Key sources of estimation uncertainty

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

#### (a) Impairment allowances on loans and advances

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

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

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

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

#### (b) Fair value of derivatives and other financial instruments

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

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

Details of the assumptions used are disclosed in note 7.

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

**Key sources of estimation uncertainty - continued**

(c) Estimated impairment of goodwill

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

Management has reviewed goodwill for impairment by comparing the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

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

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

**Critical judgements in applying the entity’s accounting policies**

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

*Held-to-maturity investments*

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

Details of these assets are set out in note 19.

## 6. SEGMENT INFORMATION

### (a) Operating segments

The Group's operating segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee) for the purpose of allocating resources to segments and assessing their performance are as follows:

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

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

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

Others comprise investment holding, insurance, other investment advisory services and property investments.

## 6. SEGMENT INFORMATION - continued

## (a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2010 is presented below:

## Operating revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	675,228	500,986	2,368	-	-	1,178,582
Interest expense to external customers	(331,914)	(30,541)	-	-	-	(362,455)
Inter-segment interest income (note)	138,757	-	-	-	(138,757)	-
Inter-segment interest expense (note)	-	(138,757)	-	-	138,757	-
Net interest income	482,071	331,688	2,368	-	-	816,127
Fee and commission income	108,890	-	182,873	-	-	291,763
Fee and commission expense	(50,674)	-	(915)	-	-	(51,589)
Net gains on financial assets at fair value through profit or loss	550	25,282	-	(2,080)	-	23,752
Net gains on fair value hedge	-	13,294	-	-	-	13,294
Other operating income	77,138	46,276	(30)	34,750	-	158,134
Segment revenue						
- total operating income	617,975	416,540	184,296	32,670	-	1,251,481
Comprising:						
- segment revenue from external customers	479,218	555,297	184,296	32,670		
- inter-segment transactions	138,757	(138,757)	-	-		
Operating expenses	(422,988)	(26,720)	(57,839)	(10,105)	-	(517,652)
Impairment allowances on loans and advances	(17,785)	-	-	-	-	(17,785)
Net loss on disposal of property and equipment	(79)	-	-	-	-	(79)
Net gain on disposal of available-for-sale securities	-	-	-	14,445	-	14,445
Net gain on disposal of and fair value adjustments on investment properties	-	-	-	15,895	-	15,895
Impairment loss on available- for-sale securities	-	(2,739)	-	-	-	(2,739)
Segment profit	177,123	387,081	126,457	52,905	-	743,566
Unallocated corporate expenses						(194,283)
						549,283
Share of profits of jointly controlled entities						19,036
Profit before taxation						568,319

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

**6. SEGMENT INFORMATION - continued****(a) Operating segments - continued**

(i) Operating segment information for the year ended 31 December 2010 is presented below: - continued

**Operating segment assets and liabilities**

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

**Other information - amounts included in the measure of segment results and segment assets**

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	10,995	276	832	149	9,910	22,162
Depreciation	31,589	1,653	5,650	538	15,687	55,117
Release of prepaid lease payments for land	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4.

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' operating income is allocated depending on the nature of costs incurred. Costs related to corporate activities that cannot be reasonably allocated to segments or products and support functions are grouped as unallocated corporate expenses.

Other than the assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities, all direct segment assets and liabilities are grouped under respective segments.

## 6. SEGMENT INFORMATION - continued

## (a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2009 is presented below:

## Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	686,011	496,758	2,153	-	-	1,184,922
Interest expense to external customers	(321,889)	(39,702)	-	-	-	(361,591)
Inter-segment interest income (note)	146,982	-	-	-	(146,982)	-
Inter-segment interest expense (note)	-	(146,982)	-	-	146,982	-
Net interest income	511,104	310,074	2,153	-	-	823,331
Fee and commission income	99,236	-	208,063	-	-	307,299
Fee and commission expense	(43,284)	-	(386)	-	-	(43,670)
Net gains on financial assets at fair value through profit or loss	742	76,028	-	108	-	76,878
Net losses on fair value hedge	-	(118)	-	-	-	(118)
Other operating income	72,184	36,300	(45)	37,783	-	146,222
Segment revenue						
- total operating income	639,982	422,284	209,785	37,891	-	1,309,942
Comprising:						
- segment revenue from external customers	493,000	569,266	209,785	37,891		
- inter-segment transactions	146,982	(146,982)	-	-		
Operating expenses	(709,280)	(25,431)	(56,040)	(10,399)	-	(801,150)
Impairment allowances on loans and advances	(102,289)	-	-	-	-	(102,289)
Net loss on disposal of property and equipment	(14)	-	-	-	-	(14)
Net gain on disposal of prepaid lease payments for land	362	-	-	-	-	362
Net gain on disposal of available-for-sale securities	-	-	-	24,810	-	24,810
Net gain on disposal of and fair value adjustments on investment properties	-	-	-	31,148	-	31,148
Impairment loss on available- for-sale securities	-	(43,571)	-	-	-	(43,571)
Impairment loss on goodwill	-	-	-	(10,000)	-	(10,000)
Segment profit	(171,239)	353,282	153,745	73,450	-	409,238
Unallocated corporate expenses						(177,265)
						231,973
Share of profits of jointly controlled entities						32,410
Profit before taxation						264,383

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

**6. SEGMENT INFORMATION - continued****(a) Operating segments - continued**

(ii) Operating segment information for the year ended 31 December 2009 is presented below: - continued

**Operating segment assets and liabilities**

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

**Other information - amounts included in the measure of segment results and segment assets**

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	11,347	1,540	4,627	73	3,739	21,326
Depreciation	30,668	1,469	4,980	675	15,432	53,224
Release of prepaid lease payments for land	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64</u>

## 6. SEGMENT INFORMATION - continued

### (b) Geographical information

Geographical information (including segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2010						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,219,792	556,055	72,771,971	66,984,755	17,746,582	1,020,521	20,959
Macau and Shantou, Mainland China	18,176	5,140	974,891	607,733	206,307	15,584	1,166
America	13,513	7,124	542,151	118,596	42,960	132	37
Total	<u>1,251,481</u>	<u>568,319</u>	<u>74,289,013</u>	<u>67,711,084</u>	<u>17,995,849</u>	<u>1,036,237</u>	<u>22,162</u>

	2009						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,275,930	246,705	68,439,215	62,917,441	15,403,367	1,021,808	20,682
Macau and Shantou, Mainland China	20,509	10,461	1,108,307	753,065	174,870	16,383	530
America	13,503	7,217	458,004	160,698	80,855	253	114
Total	<u>1,309,942</u>	<u>264,383</u>	<u>70,005,526</u>	<u>63,831,204</u>	<u>15,659,092</u>	<u>1,038,444</u>	<u>21,326</u>

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

Non-current assets consist of interests in jointly controlled entities, investment properties, property and equipment, prepaid lease payment for land and goodwill.

## 7. FINANCIAL RISK MANAGEMENT

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

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

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

### Categories of financial instruments

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Financial assets</b>				
Fair value through profit or loss,				
- designated at fair value	1,773,880	576,590	1,773,880	576,590
- held for trading	21,115	471	20,542	331
Held-to-maturity securities	10,878,046	16,954,466	10,878,046	16,954,466
Loans and receivables (including cash and cash equivalents)	59,367,307	51,130,981	59,115,289	50,816,179
Available-for-sale securities	1,212,428	272,649	1,126,117	196,464
<b>Financial liabilities</b>				
Fair value through profit or loss,				
- held for trading	256,426	44,413	256,426	44,413
Amortised cost	67,384,195	63,759,348	67,906,986	64,235,963

## 7. FINANCIAL RISK MANAGEMENT - continued

### **Credit risk**

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

### **Management of credit risk**

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

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

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

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

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Management of credit risk - continued

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

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

#### Risk mitigation policies

Some specific control and mitigation measures are outlined below:

##### (a) Collateral

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

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

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

##### (b) Other risk mitigations

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Credit risk - continued

## Impairment and provisioning policies

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

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

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

	31 December 2010				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Gross loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,554,102	3,870	-	403,798	-
- Property investment	8,125,124	-	1,179	7,481,839	1,773
- Financial concerns	2,256,049	3	-	1,406,878	-
- Stockbrokers	775,702	252	-	650,776	-
- Wholesale and retail trade	1,168,289	-	1,096	787,384	1,277
- Manufacturing	1,374,929	3,036	7,983	645,491	12,611
- Transport and transport equipment	1,118,264	-	-	318,203	-
- Recreational activities	1,078	4	-	846	-
- Information technology	359	38	-	123	-
- Others	8,020,036	25,876	2,221	3,503,235	3,339
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	589,467	-	6	589,467	6
- Loans for the purchase of other residential properties	6,199,566	386	-	6,199,458	-
- Credit card advances	102,259	2,075	136	-	175
- Others	1,279,645	-	54	1,203,997	55
	<u>32,564,869</u>	<u>35,540</u>	<u>12,675</u>	<u>23,191,495</u>	<u>19,236</u>
Trade finance	850,888	19,567	7,776	302,162	13,182
Loans for use outside Hong Kong	4,511,922	69,982	1,113	2,037,889	3,192
	<u>37,927,679</u>	<u>125,089</u>	<u>21,564</u>	<u>25,531,546</u>	<u>35,610</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Credit risk - continued

## Impairment and provisioning policies - continued

	31 December 2009				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Gross loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,516,107	7,526	–	694,641	–
- Property investment	7,728,975	–	1,179	6,726,061	1,773
- Financial concerns	1,989,693	–	–	1,236,433	–
- Stockbrokers	311,064	166	–	256,687	–
- Wholesale and retail trade	1,023,187	–	33	689,633	696
- Manufacturing	1,414,234	380	12,820	592,610	13,356
- Transport and transport equipment	642,629	–	–	132,172	–
- Recreational activities	1,832	8	–	1,159	–
- Information technology	328	38	–	118	–
- Others	6,266,651	22,866	2,223	2,674,439	3,341
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	617,860	–	28	617,782	599
- Loans for the purchase of other residential properties	5,924,019	–	171	5,917,449	3,651
- Credit card advances	97,227	2,192	331	–	494
- Others	1,497,960	–	2,168	1,436,398	3,285
	<u>29,031,766</u>	<u>33,176</u>	<u>18,953</u>	<u>20,975,582</u>	<u>27,195</u>
Trade finance	692,339	20,205	5,393	231,044	10,156
Loans for use outside Hong Kong	<u>3,069,474</u>	<u>54,715</u>	<u>1,559</u>	<u>1,619,902</u>	<u>16,356</u>
	<u>32,793,579</u>	<u>108,096</u>	<u>25,905</u>	<u>22,826,528</u>	<u>53,707</u>

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

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



## 7. FINANCIAL RISK MANAGEMENT - continued

## Credit risk - continued

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

## Industry sectors

	THE GROUP					Total HK\$'000
	Banks and other financial institutions HK\$'000	Central government and central banks HK\$'000	Public sector entities HK\$'000	Corporate entities HK\$'000	Others HK\$'000	
At 31 December 2010						
Short-term funds	17,180,054	704,388	-	-	-	17,884,442
Placements with banks and other financial institutions	2,282,122	-	-	-	-	2,282,122
Derivative financial instruments	20,325	-	-	53	164	20,542
Financial assets at fair value through profit or loss	305,385	-	-	1,468,495	-	1,773,880
Available-for-sale securities	265,309	-	56,267	660,018	-	981,594
Held-to-maturity securities	9,011,811	142,902	93,779	1,629,554	-	10,878,046
Advances and other accounts	630,057	107,349	540,944	27,475,495	10,081,975	38,835,820
	<u>29,695,063</u>	<u>954,639</u>	<u>690,990</u>	<u>31,233,615</u>	<u>10,082,139</u>	<u>72,656,446</u>
At 31 December 2009						
Short-term funds	10,661,232	4,052,543	-	-	-	14,713,775
Placements with banks and other financial institutions	2,814,566	-	-	-	-	2,814,566
Derivative financial instruments	177	-	-	154	-	331
Financial assets at fair value through profit or loss	82,389	-	-	494,201	-	576,590
Available-for-sale securities	37,325	-	54,947	1,276	-	93,548
Held-to-maturity securities	14,766,614	182,203	56,328	1,949,321	-	16,954,466
Advances and other accounts	83,464	117,652	160,665	23,284,220	9,621,734	33,267,735
	<u>28,445,767</u>	<u>4,352,398</u>	<u>271,940</u>	<u>25,729,172</u>	<u>9,621,734</u>	<u>68,421,011</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Credit risk - continued

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

## Industry sectors - continued

	THE BANK					Total HK\$'000
	Banks and other financial institutions HK\$'000	Central government and central banks HK\$'000	Public sector entities HK\$'000	Corporate entities HK\$'000	Others HK\$'000	
At 31 December 2010						
Short-term funds	17,134,952	704,388	-	-	-	17,839,340
Placements with banks and other financial institutions	2,282,122	-	-	-	-	2,282,122
Derivative financial instruments	20,325	-	-	53	164	20,542
Financial assets at fair value						
through profit or loss	305,385	-	-	1,468,495	-	1,773,880
Available-for-sale securities	265,309	-	56,267	660,018	-	981,594
Held-to-maturity securities	9,011,811	142,902	93,779	1,629,554	-	10,878,046
Advances and other accounts	629,342	107,349	540,944	27,268,091	10,081,975	38,627,701
Amounts due from subsidiaries	573	-	-	668	-	1,241
	<u>29,649,819</u>	<u>954,639</u>	<u>690,990</u>	<u>31,026,879</u>	<u>10,082,139</u>	<u>72,404,466</u>
At 31 December 2009						
Short-term funds	10,618,767	4,052,543	-	-	-	14,671,310
Placements with banks and other financial institutions	2,814,566	-	-	-	-	2,814,566
Derivative financial instruments	177	-	-	154	-	331
Financial assets at fair value						
through profit or loss	82,389	-	-	494,201	-	576,590
Available-for-sale securities	37,325	-	54,947	1,276	-	93,548
Held-to-maturity securities	14,766,614	182,203	56,328	1,949,321	-	16,954,466
Advances and other accounts	82,894	116,920	160,665	23,008,238	9,621,734	32,990,451
Amounts due from subsidiaries	-	-	-	4,985	-	4,985
	<u>28,402,732</u>	<u>4,351,666</u>	<u>271,940</u>	<u>25,458,175</u>	<u>9,621,734</u>	<u>68,106,247</u>

**7. FINANCIAL RISK MANAGEMENT - continued****Credit risk - continued****Maximum exposure to credit risk before collateral held or other credit enhancements**

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

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term funds	17,884,442	14,713,775	17,839,340	14,671,310
Placements with banks and other financial institutions	2,282,122	2,814,566	2,282,122	2,814,566
Derivative financial instruments	20,542	331	20,542	331
Financial assets at fair value through profit or loss	1,773,880	576,590	1,773,880	576,590
Available-for-sale securities	981,594	93,548	981,594	93,548
Held-to-maturity securities	10,878,046	16,954,466	10,878,046	16,954,466
Advances and other accounts	38,835,820	33,267,735	38,627,701	32,990,451
Amounts due from subsidiaries	—	—	1,241	4,985
	<u>72,656,446</u>	<u>68,421,011</u>	<u>72,404,466</u>	<u>68,106,247</u>

Credit risk exposures relating to asset unrecorded in the statement of financial position items are as follows:

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial guarantee and other credit related contingent liabilities	1,509,606	1,074,429	1,509,606	1,074,429
Loan commitments and other credit related commitments	16,404,881	14,508,583	16,404,881	14,508,583
Other commitments	8,034	3,234	8,034	3,234
	<u>17,922,521</u>	<u>15,586,246</u>	<u>17,922,521</u>	<u>15,586,246</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Credit risk - continued

## Credit quality

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

	THE GROUP AND THE BANK	
	2010 HK\$'000	2009 HK\$'000
Neither past due nor impaired	37,701,772	32,571,552
Past due but not impaired	190,297	168,320
Impaired	35,610	53,707
	<b>37,927,679</b>	<b>32,793,579</b>
Less: Allowances for impairment	(146,653)	(134,001)
	<b>37,781,026</b>	<b>32,659,578</b>

## (i) Loans and advances neither past due nor impaired

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

	THE GROUP AND THE BANK								
	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans and tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010									
GRADES:									
Pass	1,627,537	16,641,828	11,519,712	6,219,354	244,811	793,755	90,753	369,581	37,507,331
Special mention	7,155	8,429	2,500	-	-	14,174	19	-	32,277
Substandard or below	2,346	32,799	198	125,479	-	1,342	-	-	162,164
Total	<u>1,637,038</u>	<u>16,683,056</u>	<u>11,522,410</u>	<u>6,344,833</u>	<u>244,811</u>	<u>809,271</u>	<u>90,772</u>	<u>369,581</u>	<u>37,701,772</u>
At 31 December 2009									
GRADES:									
Pass	1,266,071	15,192,196	9,149,186	5,488,452	216,415	629,905	85,157	225,307	32,252,689
Special mention	9,841	4,890	2,000	-	-	9,320	-	-	26,051
Substandard or below	2,473	21,153	120,422	144,287	-	4,477	-	-	292,812
Total	<u>1,278,385</u>	<u>15,218,239</u>	<u>9,271,608</u>	<u>5,632,739</u>	<u>216,415</u>	<u>643,702</u>	<u>85,157</u>	<u>225,307</u>	<u>32,571,552</u>

Collateral is mainly properties and fixed deposits.

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

## (ii) Loans and advances past due but not impaired

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

	THE GROUP AND THE BANK						Total HK\$'000
	Overdrafts HK\$'000	Instalment loans HK\$'000	Term loans HK\$'000	Trade finance HK\$'000	Personal loans and tax loans HK\$'000	Others HK\$'000	
At 31 December 2010							
Past due up to 30 days	5,040	5,174	-	-	-	-	10,214
Past due from 31 to 90 days	7,511	15,609	120,422	5,111	55	2,207	150,915
Past due more than 90 days	11,167	16,823	-	1,036	142	-	29,168
Total	<u>23,718</u>	<u>37,606</u>	<u>120,422</u>	<u>6,147</u>	<u>197</u>	<u>2,207</u>	<u>190,297</u>
Fair value of collateral	<u>84,582</u>	<u>148,714</u>	<u>215,042</u>	<u>17,087</u>	<u>370</u>	<u>-</u>	<u>465,795</u>
At 31 December 2009							
Past due up to 30 days	6,771	10,252	-	-	-	-	17,023
Past due from 31 to 90 days	23,114	102,003	-	12,905	143	2,235	140,400
Past due more than 90 days	730	8,393	620	985	169	-	10,897
Total	<u>30,615</u>	<u>120,648</u>	<u>620</u>	<u>13,890</u>	<u>312</u>	<u>2,235</u>	<u>168,320</u>
Fair value of collateral	<u>47,860</u>	<u>291,736</u>	<u>671</u>	<u>13,323</u>	<u>2,416</u>	<u>-</u>	<u>356,006</u>

Collateral is mainly properties and fixed deposits.

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Credit risk - continued

## Credit quality - continued

## (iii) Loans and advances individually impaired

## (a) Loans and advances to customers

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

	THE GROUP AND THE BANK						
	Overdrafts HK\$'000	Instalment loans HK\$'000	Term loans HK\$'000	Trade finance HK\$'000	Personal loans and tax loans HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2010							
Individually impaired loans	<u>4,617</u>	<u>14,444</u>	<u>3,192</u>	<u>13,182</u>	<u>4</u>	<u>171</u>	<u>35,610</u>
Fair value of collateral	<u>34,765</u>	<u>13,935</u>	<u>7,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,804</u>
At 31 December 2009							
Individually impaired loans	<u>5,788</u>	<u>39,506</u>	<u>-</u>	<u>7,477</u>	<u>451</u>	<u>485</u>	<u>53,707</u>
Fair value of collateral	<u>33,055</u>	<u>45,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,450</u>

Collateral is mainly properties and fixed deposits.

## (b) Loans and advances to banks

There are no individually impaired loans and advances to banks as at 31 December 2010 and 31 December 2009.

## (iv) Loans and advances renegotiated

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

	THE GROUP AND THE BANK	
	2010 HK\$'000	2009 HK\$'000
Renegotiated loans that would otherwise be past due or impaired	<u>122,877</u>	<u>50,124</u>

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Debt securities

Financial investments by rating agency designation

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

	THE GROUP AND THE BANK			
	Financial assets at fair value through profit or loss HK\$'000	Available-for-sale securities (excluding equity securities) HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
At 31 December 2010				
Aaa	–	–	673,163	673,163
Aa1 to Aa3	259,327	321,575	7,347,563	7,928,465
A1 to A3	46,058	240,874	2,623,804	2,910,736
Lower than A3	146,029	418,988	99,934	664,951
Unrated	1,322,466	157	133,582	1,456,205
Total	<u>1,773,880</u>	<u>981,594</u>	<u>10,878,046</u>	<u>13,633,520</u>
At 31 December 2009				
Aaa	–	–	1,854,620	1,854,620
Aa1 to Aa3	38,271	92,272	12,495,432	12,625,975
A1 to A3	94,123	–	2,544,102	2,638,225
Lower than A3	–	–	4,544	4,544
Unrated	444,196	1,276	55,768	501,240
Total	<u>576,590</u>	<u>93,548</u>	<u>16,954,466</u>	<u>17,624,604</u>

Reposessed collateral

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

Nature of assets	THE GROUP AND THE BANK	
	2010 HK\$'000	2009 HK\$'000
Residential properties	5,100	6,330
Others	<u>11,904</u>	<u>14,908</u>

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

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk

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

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

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

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

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

### Management of market risk

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

### Currency risk

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

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

The Group and the Bank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

**7. FINANCIAL RISK MANAGEMENT - continued****Market risk - continued****Currency risk - continued**

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

	THE GROUP					Total HK\$'000
	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000	
At 31 December 2010						
Assets						
Cash and short-term funds	10,980,884	1,182,844	101,069	1,388,325	4,596,243	18,249,365
Placements with banks and other financial institutions	674,999	980,696	-	-	626,427	2,282,122
Derivative financial instruments	5,508	15,034	-	-	-	20,542
Financial assets at fair value through profit or loss	1,010,431	764,022	-	-	-	1,774,453
Available-for-sale securities	189,279	990,927	-	28,493	3,729	1,212,428
Held-to-maturity securities	4,681,406	4,594,346	-	419,221	1,183,073	10,878,046
Advances to customers	35,572,651	1,992,833	-	177,205	184,990	37,927,679
Advances to banks and other financial institutions	58,229	523,436	-	48,097	-	629,762
Other financial assets	133,608	118,948	-	8,842	16,981	278,379
Total financial assets	<u>53,306,995</u>	<u>11,163,086</u>	<u>101,069</u>	<u>2,070,183</u>	<u>6,611,443</u>	<u>73,252,776</u>
Liabilities						
Deposits and balances of banks and other financial institutions	503,193	276,288	-	130,218	130,292	1,039,991
Deposits from customers	48,177,973	7,042,284	57,843	1,812,529	6,409,590	63,500,219
Derivative financial instruments	118,635	137,791	-	-	-	256,426
Loan capital	(17,771)	2,418,922	-	-	-	2,401,151
Other financial liabilities	397,200	25,765	315	2,146	17,408	442,834
Total financial liabilities	<u>49,179,230</u>	<u>9,901,050</u>	<u>58,158</u>	<u>1,944,893</u>	<u>6,557,290</u>	<u>67,640,621</u>
Net position - total financial assets and liabilities	<u>4,127,765</u>	<u>1,262,036</u>	<u>42,911</u>	<u>125,290</u>	<u>54,153</u>	<u>5,612,155</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Currency risk - continued

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Currency risk - continued

	THE BANK					Total HK\$'000
	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000	
At 31 December 2010						
Assets						
Cash and short-term funds	10,935,744	1,182,844	101,069	1,388,325	4,596,243	18,204,225
Placements with banks and other financial institutions	674,999	980,696	-	-	626,427	2,282,122
Derivative financial instruments	5,508	15,034	-	-	-	20,542
Financial assets at fair value through profit or loss	1,009,858	764,022	-	-	-	1,773,880
Available-for-sale securities	102,968	990,927	-	28,493	3,729	1,126,117
Held-to-maturity securities	4,681,406	4,594,346	-	419,221	1,183,073	10,878,046
Advances to customers	35,572,651	1,992,833	-	177,205	184,990	37,927,679
Advances to banks and other financial institutions	58,229	523,436	-	48,097	-	629,762
Other financial assets	(68,561)	118,948	-	4,133	16,981	71,501
Total financial assets	<u>52,972,802</u>	<u>11,163,086</u>	<u>101,069</u>	<u>2,065,474</u>	<u>6,611,443</u>	<u>72,913,874</u>
Liabilities						
Deposits and balances of banks and other financial institutions	503,193	276,288	-	130,218	130,292	1,039,991
Deposits from customers	48,177,055	7,042,284	57,843	1,812,529	6,409,590	63,499,301
Derivative financial instruments	118,635	137,791	-	-	-	256,426
Loan capital	(17,771)	2,418,922	-	-	-	2,401,151
Other financial liabilities	920,909	25,765	315	2,146	17,408	966,543
Total financial liabilities	<u>49,702,021</u>	<u>9,901,050</u>	<u>58,158</u>	<u>1,944,893</u>	<u>6,557,290</u>	<u>68,163,412</u>
Net position - total financial assets and liabilities	<u>3,270,781</u>	<u>1,262,036</u>	<u>42,911</u>	<u>120,581</u>	<u>54,153</u>	<u>4,750,462</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Currency risk - continued

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

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Currency risk - continued

Foreign currency sensitivity

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

	Change in currency rate					
	US Dollars		Renminbi		Macau Pataca	
	Appreciate +1%	Depreciate -1%	Appreciate +10%	Depreciate -10%	Appreciate +1%	Depreciate -1%
<b>THE GROUP</b>						
Hong Kong dollars equivalents (HK\$'000)						
<b>2010</b>						
Profit after tax	(4,787)	4,787	(876)	876	(56)	56
Other comprehensive income	<u>10,746</u>	<u>(10,746)</u>	<u>17,682</u>	<u>(17,682)</u>	<u>485</u>	<u>(485)</u>
<b>2009</b>						
Profit after tax	(2,345)	2,345	520	(520)	(14)	14
Other comprehensive income	<u>2,621</u>	<u>(2,621)</u>	<u>16,914</u>	<u>(16,914)</u>	<u>486</u>	<u>(486)</u>
<b>THE BANK</b>						
<b>2010</b>						
Profit after tax	(4,787)	4,787	(1,347)	1,347	(56)	56
Other comprehensive income	<u>10,746</u>	<u>(10,746)</u>	<u>14,687</u>	<u>(14,687)</u>	<u>485</u>	<u>(485)</u>
<b>2009</b>						
Profit after tax	(1,572)	1,572	138	(138)	(14)	14
Other comprehensive income	<u>1,841</u>	<u>(1,841)</u>	<u>14,210</u>	<u>(14,210)</u>	<u>486</u>	<u>(486)</u>

Numbers in bracket mean decrease.

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Interest rate risk

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

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

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

	THE GROUP					
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
At 31 December 2010						
Assets						
Cash and short-term funds	17,712,165	34,780	-	-	502,420	18,249,365
Placements with banks and other financial institutions	1,063,271	1,218,851	-	-	-	2,282,122
Derivative financial instruments	-	-	-	-	20,542	20,542
Financial assets at fair value through profit or loss	1,642,649	57,324	27,850	-	46,630	1,774,453
Available-for-sale securities	981,437	-	-	-	230,991	1,212,428
Held-to-maturity securities	5,927,068	2,781,282	2,167,696	-	2,000	10,878,046
Advances to customers	37,094,495	673,690	55,550	2,610	101,334	37,927,679
Advances to banks and other financial institutions	590,996	38,000	-	-	766	629,762
Other financial assets	-	-	-	-	278,379	278,379
Total financial assets	<u>65,012,081</u>	<u>4,803,927</u>	<u>2,251,096</u>	<u>2,610</u>	<u>1,183,062</u>	<u>73,252,776</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,025,168	-	-	-	14,823	1,039,991
Deposits from customers	55,278,276	3,826,027	6,137	-	4,389,779	63,500,219
Derivative financial instruments	-	-	-	-	256,426	256,426
Loan capital	2,533,464	-	-	-	(132,313)	2,401,151
Other financial liabilities	-	-	-	-	442,834	442,834
Total financial liabilities	<u>58,836,908</u>	<u>3,826,027</u>	<u>6,137</u>	<u>-</u>	<u>4,971,549</u>	<u>67,640,621</u>
Net position - total financial assets and liabilities	<u>6,175,173</u>	<u>977,900</u>	<u>2,244,959</u>	<u>2,610</u>	<u>(3,788,487)</u>	<u>5,612,155</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Interest rate risk - continued

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Interest rate risk - continued

	THE BANK					Total HK\$'000
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	
At 31 December 2010						
Assets						
Cash and short-term funds	17,712,166	-	-	-	492,059	18,204,225
Placements with banks and other financial institutions	1,063,271	1,218,851	-	-	-	2,282,122
Derivative financial instruments	-	-	-	-	20,542	20,542
Financial assets at fair value through profit or loss	1,642,649	57,324	27,850	-	46,057	1,773,880
Available-for-sale securities	981,437	-	-	-	144,680	1,126,117
Held-to-maturity securities	5,927,068	2,781,282	2,167,696	-	2,000	10,878,046
Advances to customers	37,094,495	673,690	55,550	2,610	101,334	37,927,679
Advances to banks and other financial institutions	590,996	38,000	-	-	766	629,762
Other financial assets	-	-	-	-	71,501	71,501
Total financial assets	<u>65,012,082</u>	<u>4,769,147</u>	<u>2,251,096</u>	<u>2,610</u>	<u>878,939</u>	<u>72,913,874</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,025,168	-	-	-	14,823	1,039,991
Deposits from customers	55,277,358	3,826,027	6,137	-	4,389,779	63,499,301
Derivative financial instruments	-	-	-	-	256,426	256,426
Loan capital	2,533,464	-	-	-	(132,313)	2,401,151
Other financial liabilities	696,156	-	-	-	270,387	966,543
Total financial liabilities	<u>59,532,146</u>	<u>3,826,027</u>	<u>6,137</u>	<u>-</u>	<u>4,799,102</u>	<u>68,163,412</u>
Net position - total financial assets and liabilities	<u>5,479,936</u>	<u>943,120</u>	<u>2,244,959</u>	<u>2,610</u>	<u>(3,920,163)</u>	<u>4,750,462</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Interest rate risk - continued

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Market risk - continued

## Interest rate risk - continued

## Interest rate sensitivity

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

	2010		2009	
	Change in basis points		Change in basis points	
	+100	-10	+100	-10
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Profit after tax	31,091	(3,109)	48,804	(4,880)
Other comprehensive income	(15)	2	(2,293)	229
<b>THE BANK</b>				
Profit after tax	30,752	(3,075)	48,222	(4,822)
Other comprehensive income	(15)	2	(2,293)	229

Numbers in bracket mean decrease.

## Price risk

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

## Price sensitivity

	2010		2009	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Profit after tax	158,490	(158,490)	54,740	(54,740)
Other comprehensive income	117,671	(117,671)	23,575	(23,575)
<b>THE BANK</b>				
Profit after tax	155,495	(155,495)	52,036	(52,036)
Other comprehensive income	109,437	(109,437)	16,353	(16,353)

Numbers in bracket mean decrease.

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk

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

#### *Management of liquidity risk*

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

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

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Liquidity risk - continued

## Management of liquidity risk - continued

	THE GROUP							
	Repayable on demand	Repayable within 1 month	Repayable	Repayable	Repayable	Repayable after 5 years	Undated	Total
			after 1 month but within 3 months	after 3 months but within 1 year	after 1 year but within 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Liabilities adjusted with interest payable</b>								
At 31 December 2010								
Deposits and balances of banks and other financial institutions	18,189	995,760	26,738	1	-	-	-	1,040,688
Deposits from customers	24,974,937	26,574,204	8,144,461	3,885,212	15,352	-	7,059	63,601,225
Loan capital	-	-	2,409	859,447	420,298	2,329,153	-	3,611,307
Other financial liabilities	298,547	18,010	8,559	31,698	18,518	-	-	375,332
Total undiscounted financial liabilities	<u>25,291,673</u>	<u>27,587,974</u>	<u>8,182,167</u>	<u>4,776,358</u>	<u>454,168</u>	<u>2,329,153</u>	<u>7,059</u>	<u>68,628,552</u>
At 31 December 2009								
Deposits and balances of banks and other financial institutions	10,218	1,437,850	19	2	-	-	-	1,448,089
Deposits from customers	24,493,419	23,301,777	8,390,709	4,511,942	158,631	-	-	60,856,478
Loan capital	-	510	2,869	8,606	980,850	-	-	992,835
Other financial liabilities	461,497	7,263	13,015	25,938	16,059	-	-	523,772
Total undiscounted financial liabilities	<u>24,965,134</u>	<u>24,747,400</u>	<u>8,406,612</u>	<u>4,546,488</u>	<u>1,155,540</u>	<u>-</u>	<u>-</u>	<u>63,821,174</u>
	THE BANK							
	Repayable on demand	Repayable within 1 month	Repayable	Repayable	Repayable	Repayable after 5 years	Undated	Total
			after 1 month but within 3 months	after 3 months but within 1 year	after 1 year but within 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Liabilities adjusted with interest payable</b>								
At 31 December 2010								
Deposits and balances of banks and other financial institutions	18,189	995,760	26,738	1	-	-	-	1,040,688
Deposits from customers	24,974,837	26,573,286	8,144,461	3,885,212	15,352	-	7,059	63,600,207
Loan capital	-	-	2,409	859,447	420,298	2,329,153	-	3,611,307
Other financial liabilities	365,841	468,132	54,886	10,281	-	-	-	899,140
Total undiscounted financial liabilities	<u>25,358,867</u>	<u>28,037,178</u>	<u>8,228,494</u>	<u>4,754,941</u>	<u>435,650</u>	<u>2,329,153</u>	<u>7,059</u>	<u>69,151,342</u>
At 31 December 2009								
Deposits and balances of banks and other financial institutions	10,218	1,437,850	19	2	-	-	-	1,448,089
Deposits from customers	24,493,329	23,299,216	8,390,379	4,511,942	158,631	-	-	60,853,497
Loan capital	-	510	2,869	8,606	980,850	-	-	992,835
Other financial liabilities	506,881	391,937	75,910	28,640	-	-	-	1,003,368
Total undiscounted financial liabilities	<u>25,010,428</u>	<u>25,129,513</u>	<u>8,469,177</u>	<u>4,549,190</u>	<u>1,139,481</u>	<u>-</u>	<u>-</u>	<u>64,297,789</u>

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

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

	<b>THE GROUP AND THE BANK</b>				
	<b>Less than 1 month HK\$'000</b>	<b>1 - 3 months HK\$'000</b>	<b>3 months to 1 year HK\$'000</b>	<b>1 - 5 years HK\$'000</b>	<b>Over 5 years HK\$'000</b>
At 31 December 2010					
Derivatives settled net					
Interest rate contracts					
- inflow (outflow)	<u>3,890</u>	<u>(17,810)</u>	<u>40,176</u>	<u>3,610</u>	<u>201,444</u>
Derivatives settled gross					
Exchange rate contracts					
- inflow	11,313	7,498	480,510	-	-
- outflow	<u>(11,481)</u>	<u>(7,564)</u>	<u>(482,929)</u>	<u>-</u>	<u>-</u>
	<u>(168)</u>	<u>(66)</u>	<u>(2,419)</u>	<u>-</u>	<u>-</u>
At 31 December 2009					
Derivatives settled net					
Interest rate contracts					
- inflow (outflow)	<u>(666)</u>	<u>401</u>	<u>(495)</u>	<u>(55,002)</u>	<u>-</u>
Derivatives settled gross					
Exchange rate contracts					
- inflow	7,053	49,762	1,015	-	-
- outflow	<u>(6,945)</u>	<u>(49,674)</u>	<u>(978)</u>	<u>-</u>	<u>-</u>
	<u>108</u>	<u>88</u>	<u>37</u>	<u>-</u>	<u>-</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Liquidity risk - continued

## Statement of financial position

The dates of the contractual amounts of the Group's and the Bank's commitments and contingencies unrecorded in the statement of financial position that commit it to extending credit to customers and other facilities, financial guarantees, future minimum lease payments under non-cancellable operating leases and capital commitments are summarised in the table below:

	THE GROUP			
	No later than 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2010				
Loan commitments	16,404,881	–	–	16,404,881
Guarantee, acceptances and other financial facilities	1,509,606	–	–	1,509,606
Operating lease commitments	35,260	38,068	–	73,328
Capital commitments	8,034	–	–	8,034
Total	<u>17,957,781</u>	<u>38,068</u>	<u>–</u>	<u>17,995,849</u>
At 31 December 2009				
Loan commitments	14,508,583	–	–	14,508,583
Guarantee, acceptances and other financial facilities	1,074,429	–	–	1,074,429
Operating lease commitments	30,034	42,480	332	72,846
Capital commitments	3,234	–	–	3,234
Total	<u>15,616,280</u>	<u>42,480</u>	<u>332</u>	<u>15,659,092</u>
	THE BANK			
	No later than 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2010				
Loan commitments	16,404,881	–	–	16,404,881
Guarantee, acceptances and other financial facilities	1,509,606	–	–	1,509,606
Operating lease commitments	33,696	36,526	–	70,222
Capital commitments	8,034	–	–	8,034
Total	<u>17,956,217</u>	<u>36,526</u>	<u>–</u>	<u>17,992,743</u>
At 31 December 2009				
Loan commitments	14,508,583	–	–	14,508,583
Guarantee, acceptances and other financial facilities	1,074,429	–	–	1,074,429
Operating lease commitments	27,832	39,542	332	67,706
Capital commitments	3,234	–	–	3,234
Total	<u>15,614,078</u>	<u>39,542</u>	<u>332</u>	<u>15,653,952</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Liquidity risk - continued

## Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statement of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	THE GROUP							
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those repayable as demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2010								
Assets								
Cash and short-term funds	11,534,709	6,044,642	602,956	67,058	-	-	-	18,249,365
Placements with banks and other financial institutions	-	-	1,063,271	1,218,851	-	-	-	2,282,122
Derivative financial instruments	-	41	166	17	13,181	7,137	-	20,542
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	573	573
- Designated at fair value	-	-	-	309,808	1,310,741	153,331	-	1,773,880
Available-for-sale securities	-	-	-	38,581	828,393	114,620	230,834	1,212,428
Held-to-maturity securities	-	335,019	729,502	3,600,365	6,211,160	2,000	-	10,878,046
Advances to customers	1,803,197	3,748,913	2,390,371	6,415,681	12,761,926	10,632,459	175,132	37,927,679
Advances to banks and other financial institutions	14,894	362,679	240,621	11,568	-	-	-	629,762
Other financial assets	243,755	93,273	29,431	50,393	866	-	(139,339)	278,379
Total financial assets	13,596,555	10,584,567	5,056,318	11,712,322	21,126,267	10,909,547	267,200	73,252,776
Liabilities								
Deposits and balances of banks and other financial institutions	17,850	995,465	26,676	-	-	-	-	1,039,991
Deposits from customers	24,974,680	26,541,874	8,117,105	3,844,185	15,316	-	7,059	63,500,219
Derivative financial instruments	-	203	298	33,305	124,556	98,064	-	256,426
Loan capital	-	-	-	-	-	2,401,151	-	2,401,151
Other financial liabilities	299,067	39,248	22,053	63,947	18,519	-	-	442,834
Total financial liabilities	25,291,597	27,576,790	8,166,132	3,941,437	158,391	2,499,215	7,059	67,640,621
Net position - total financial assets and liabilities	(11,695,042)	(16,992,223)	(3,109,814)	7,770,885	20,967,876	8,410,332	260,141	5,612,155
Of which certificates of deposit included in :								
Held-to-maturity securities	-	-	360,000	115,502	442,336	-	-	917,838
Of which debt securities included in :								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	309,808	1,310,741	153,331	-	1,773,880
Available-for-sale securities	-	-	-	38,581	828,393	114,620	-	981,594
Held-to-maturity securities	-	335,019	729,502	3,600,365	6,211,160	2,000	-	10,878,046
	-	335,019	729,502	3,948,754	8,350,294	269,951	-	13,633,520

## 7. FINANCIAL RISK MANAGEMENT - continued

## Liquidity risk - continued

## Analysis of assets and liabilities by remaining maturity - continued

	THE GROUP							Total HK\$'000
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	
At 31 December 2009								
Assets								
Cash and short-term funds	4,204,022	10,409,504	235,383	199,771	-	-	-	15,048,680
Placements with banks and other financial institutions	-	-	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	175	119	37	-	-	-	331
Financial assets at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	140	140
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	179,101	272,649
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
Advances to customers	1,456,020	2,234,769	1,501,287	4,773,751	13,014,912	9,628,458	184,382	32,793,579
Advances to banks and other financial institutions	9,958	60,466	30,961	13,298	-	-	-	114,683
Other financial assets	341,785	86,790	22,146	35,886	703	-	(127,837)	359,473
Total financial assets	6,011,785	16,934,508	3,872,976	11,415,346	20,835,022	9,629,734	235,786	68,935,157
Liabilities								
Deposits and balances of banks and other financial institutions	10,218	1,437,500	-	-	-	-	-	1,447,718
Deposits from customers	24,492,361	23,282,401	8,369,759	4,487,837	156,057	-	-	60,788,415
Derivative financial instruments	-	296	20	1,373	42,724	-	-	44,413
Loan capital	-	-	-	-	-	967,199	-	967,199
Other financial liabilities	462,336	20,846	23,489	32,962	16,383	-	-	556,016
Total financial liabilities	24,965,915	24,741,043	8,393,268	4,522,172	215,164	967,199	-	63,803,761
Net position - total financial assets and liabilities	(18,953,130)	(7,806,535)	(4,520,292)	6,893,174	20,619,858	8,662,535	235,786	5,131,396
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	-	67,510	280,000	-	-	347,510
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	-	93,548
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
	-	4,142,804	1,431,063	4,230,054	7,819,407	1,276	-	17,624,604

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

	THE BANK							Undated HK\$'000	Total HK\$'000
	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Repayable after 5 years HK\$'000		
At 31 December 2010									
Assets									
Cash and short-term funds	11,524,349	6,044,642	602,956	32,278	-	-	-	-	18,204,225
Placements with banks and other financial institutions	-	-	1,063,271	1,218,851	-	-	-	-	2,282,122
Derivative financial instruments	-	41	166	17	13,181	7,137	-	-	20,542
Financial assets at fair value through profit or loss									
- Designated at fair value	-	-	-	309,808	1,310,741	153,331	-	-	1,773,880
Available-for-sale securities	-	-	-	38,581	828,393	114,620	144,523	-	1,126,117
Held-to-maturity securities	-	335,019	729,502	3,600,365	6,211,160	2,000	-	-	10,878,046
Advances to customers	1,803,197	3,748,913	2,390,371	6,415,681	12,761,926	10,632,459	175,132	-	37,927,679
Advances to banks and other financial institutions	14,894	362,679	240,621	11,568	-	-	-	-	629,762
Other financial assets	39,307	95,355	28,768	49,144	866	-	(141,939)	-	71,501
<b>Total financial assets</b>	<b>13,381,747</b>	<b>10,586,649</b>	<b>5,055,655</b>	<b>11,676,293</b>	<b>21,126,267</b>	<b>10,909,547</b>	<b>177,716</b>	<b>-</b>	<b>72,913,874</b>
Liabilities									
Deposits and balances of banks and other financial institutions									
Deposits from customers	17,850	995,465	26,676	-	-	-	-	-	1,039,991
Derivative financial instruments	-	203	298	33,305	124,556	98,064	-	-	256,426
Loan capital	-	-	-	-	-	2,401,151	-	-	2,401,151
Other financial liabilities	366,262	489,370	68,380	42,530	1	-	-	-	966,543
<b>Total financial liabilities</b>	<b>25,358,792</b>	<b>28,025,994</b>	<b>8,212,459</b>	<b>3,920,020</b>	<b>139,873</b>	<b>2,499,215</b>	<b>7,059</b>	<b>-</b>	<b>68,163,412</b>
<b>Net position - total financial assets and liabilities</b>	<b>(11,977,045)</b>	<b>(17,439,345)</b>	<b>(3,156,804)</b>	<b>7,756,273</b>	<b>20,986,394</b>	<b>8,410,332</b>	<b>170,657</b>	<b>-</b>	<b>4,750,462</b>
Of which certificates of deposit included in:									
Held-to-maturity securities	-	-	360,000	115,502	442,336	-	-	-	917,838
Of which debt securities included in:									
Financial assets at fair value through profit or loss									
- Designated at fair value	-	-	-	309,808	1,310,741	153,331	-	-	1,773,880
Available-for-sale securities	-	-	-	38,581	828,393	114,620	-	-	981,594
Held-to-maturity securities	-	335,019	729,502	3,600,365	6,211,160	2,000	-	-	10,878,046
	-	335,019	729,502	3,948,754	8,350,294	269,951	-	-	13,633,520

## 7. FINANCIAL RISK MANAGEMENT - continued

## Liquidity risk - continued

## Analysis of assets and liabilities by remaining maturity - continued

	THE BANK							Total
	Repayable within 1 month Repayable on demand HK\$'000	Repayable within 1 month Repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	
At 31 December 2009								
Assets								
Cash and short-term funds	4,198,892	10,372,131	235,383	199,771	-	-	-	15,006,177
Placements with banks and other financial institutions	-	-	652,017	2,162,549	-	-	-	2,814,566
Derivative financial instruments	-	175	119	37	-	-	-	331
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	102,916	196,464
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
Advances to customers	1,456,020	2,234,769	1,501,287	4,773,751	13,014,912	9,628,458	184,382	32,793,579
Advances to banks and other financial institutions	9,958	60,466	30,961	13,298	-	-	-	114,683
Other financial assets	72,936	89,068	21,392	33,239	703	-	(130,164)	87,174
Total financial assets	5,737,806	16,899,413	3,872,222	11,412,699	20,835,022	9,629,734	157,134	68,544,030
Liabilities								
Deposits and balances of banks and other financial institutions	10,218	1,437,500	-	-	-	-	-	1,447,718
Deposits from customers	24,492,362	23,279,840	8,369,429	4,487,837	156,057	-	-	60,785,525
Derivative financial instruments	-	296	20	1,373	42,724	-	-	44,413
Loan capital	-	-	-	-	-	967,199	-	967,199
Other financial liabilities	507,629	405,520	86,384	35,664	324	-	-	1,035,521
Total financial liabilities	25,010,209	25,123,156	8,455,833	4,524,874	199,105	967,199	-	64,280,376
Net position - total financial assets and liabilities	(19,272,403)	(8,223,743)	(4,583,611)	6,887,825	20,635,917	8,662,535	157,134	4,263,654
Of which certificates of deposit included in:								
Held-to-maturity securities	-	-	-	67,510	280,000	-	-	347,510
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	88,276	488,314	-	-	576,590
Available-for-sale securities	-	-	-	-	92,272	1,276	-	93,548
Held-to-maturity securities	-	4,142,804	1,431,063	4,141,778	7,238,821	-	-	16,954,466
	-	4,142,804	1,431,063	4,230,054	7,819,407	1,276	-	17,624,604

**7. FINANCIAL RISK MANAGEMENT - continued****Fair value of financial assets and liabilities**

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

	<b>THE GROUP AND THE BANK</b>			
	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Financial assets				
- Held-to-maturity securities	<u>10,878,046</u>	<u>16,954,466</u>	<u>10,934,849</u>	<u>16,975,145</u>
Financial liabilities				
- Loan capital	<u>2,401,151</u>	<u>967,199</u>	<u>2,539,933</u>	<u>872,438</u>

The fair value of investments in securities and loan capital is based on quoted market prices provided by pricing service provider and market dealers.

The fair value of derivative financial instruments is calculated using quoted prices. Where such prices are not available, the derivatives are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts or the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, as appropriate.

The fair value of other financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

**Fair value measurements recognised in the statement of financial position**

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

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

## 7. FINANCIAL RISK MANAGEMENT - continued

## Fair value measurements recognised in the statement of financial position - continued

	THE GROUP			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010				
Financial assets held for trading	573	–	–	573
Financial assets designated at fair value through profit or loss	1,621,827	–	152,053	1,773,880
Available-for-sale securities	1,138,126	–	74,302	1,212,428
Derivative financial assets not used for hedging	–	2,857	–	2,857
Derivative financial assets used for hedging	–	17,685	–	17,685
Derivative financial liabilities not used for hedging	–	(148,733)	–	(148,733)
Derivative financial liabilities used for hedging	–	(107,693)	–	(107,693)
Total	<u>2,760,526</u>	<u>(235,884)</u>	<u>226,355</u>	<u>2,750,997</u>

	THE BANK			
	Fair value hierarchy			Total
	Level 1	Level 2	Level 3	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010				
Financial assets held for trading	–	–	–	–
Financial assets designated at fair value through profit or loss	1,621,827	–	152,053	1,773,880
Available-for-sale securities	1,055,783	–	70,334	1,126,117
Derivative financial assets not used for hedging	–	2,857	–	2,857
Derivative financial assets used for hedging	–	17,685	–	17,685
Derivative financial liabilities not used for hedging	–	(148,733)	–	(148,733)
Derivative financial liabilities used for hedging	–	(107,693)	–	(107,693)
Total	<u>2,677,610</u>	<u>(235,884)</u>	<u>222,387</u>	<u>2,664,113</u>

## 7. FINANCIAL RISK MANAGEMENT - continued

## Fair value measurements recognised in the statement of financial position - continued

	<b>THE GROUP</b>			
	<b>Fair value hierarchy</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
At 31 December 2009				
Financial assets held for trading	140	–	–	140
Financial assets designated at fair value through profit or loss	444,196	–	132,394	576,590
Available-for-sale securities	197,147	–	75,502	272,649
Derivative financial assets not used for hedging	–	331	–	331
Derivative financial liabilities not used for hedging	–	(44,285)	–	(44,285)
Derivative financial liabilities used for hedging	–	(128)	–	(128)
<b>Total</b>	<b>641,483</b>	<b>(44,082)</b>	<b>207,896</b>	<b>805,297</b>

	<b>THE BANK</b>			
	<b>Fair value hierarchy</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
At 31 December 2009				
Financial assets held for trading	–	–	–	–
Financial assets designated at fair value through profit or loss	444,196	–	132,394	576,590
Available-for-sale securities	124,930	–	71,534	196,464
Derivative financial assets not used for hedging	–	331	–	331
Derivative financial liabilities not used for hedging	–	(44,285)	–	(44,285)
Derivative financial liabilities used for hedging	–	(128)	–	(128)
<b>Total</b>	<b>569,126</b>	<b>(44,082)</b>	<b>203,928</b>	<b>728,972</b>

There were no transfers between Levels 1 and 2 in both years.

## 7. FINANCIAL RISK MANAGEMENT - continued

## Fair value measurements recognised in the statement of financial position - continued

## Reconciliation of Level 3 fair value measurements of financial assets

	THE GROUP			THE BANK		
	Financial assets designated at fair value through profit or loss HK\$'000	Available-for-sale securities HK\$'000	Total HK\$'000	Financial assets designated at fair value through profit or loss HK\$'000	Available-for-sale securities HK\$'000	Total HK\$'000
Balance at 1 January 2009	316,460	115,360	431,820	316,460	111,392	427,852
Total net gains (losses) recognised in consolidated income statement	15,885	(43,571)	(27,686)	15,885	(43,571)	(27,686)
Total net gains (losses) recognised in the revaluation reserve	–	1,570	1,570	–	1,570	1,570
Purchases	–	2,195	2,195	–	2,195	2,195
Matured / disposals	(200,000)	–	(200,000)	(200,000)	–	(200,000)
Net transfers out of Level 3	–	–	–	–	–	–
Foreign exchange rate movements	49	(52)	(3)	49	(52)	(3)
Balance at 31 December 2009 and 1 January 2010	132,394	75,502	207,896	132,394	71,534	203,928
Total net gains (losses) recognised in consolidated income statement	(1,172)	(2,739)	(3,911)	(1,172)	(2,739)	(3,911)
Total net gains (losses) recognised in the revaluation reserve	–	6,148	6,148	–	6,148	6,148
Purchases	108,966	–	108,966	108,966	–	108,966
Matured / disposals	(88,276)	(4,891)	(93,167)	(88,276)	(4,891)	(93,167)
Net transfers out of Level 3	–	–	–	–	–	–
Foreign exchange rate movements	141	282	423	141	282	423
Balance at 31 December 2010	152,053	74,302	226,355	152,053	70,334	222,387

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

Of the total net gains or losses for the year included in consolidated income statement, HK\$3,911,000 loss (2009: HK\$33,961,000 loss) relates to investments held at the end of the reporting period. Fair value gains or losses of investments are included in net gains on financial instruments at fair value through profit or loss and impairment loss on available-for-sale securities, as appropriate.

Included in other comprehensive income is an amount of HK\$1,257,000 gain (2009: HK\$1,570,000 gain) relates to available-for-sale securities held at the end of the reporting period.

**8. NET INTEREST INCOME**

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income		
Short term funds and placements	172,253	168,991
Investments in securities	323,845	321,749
Loans and advances	667,788	682,340
Interest rate swaps	14,696	11,842
	<u>1,178,582</u>	<u>1,184,922</u>
Interest expense		
Deposits and balances from banks and customers	(334,754)	(318,534)
Loan capital in issue	(23,492)	(19,736)
Interest rate swaps	(4,209)	(23,321)
	<u>(362,455)</u>	<u>(361,591)</u>
Net interest income	<u>816,127</u>	<u>823,331</u>
Included within interest income		
Interest income on impaired loans and advances	<u>695</u>	<u>3,676</u>

Included within interest income and interest expense are HK\$1,159,890,000 (2009: HK\$1,168,283,000) and HK\$358,246,000 (2009: HK\$338,270,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

**9. NET FEE AND COMMISSION INCOME**

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fees and commission income		
Securities dealings	182,873	208,063
Credit lines	14,010	12,683
Trade finance	10,902	11,290
Credit card services	55,435	47,560
Agency services	17,898	18,933
Others	10,645	8,770
Total fees and commission income	<u>291,763</u>	<u>307,299</u>
Less: Fees and commission expense	<u>(51,589)</u>	<u>(43,670)</u>
Net fees and commission income	<u>240,174</u>	<u>263,629</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fee income	85,280	75,099
- fee expense	<u>(48,811)</u>	<u>(41,953)</u>
	<u>36,469</u>	<u>33,146</u>

**10. NET GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS / NET GAINS (LOSSES) ON FAIR VALUE HEDGE**

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net gains on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss	23,717	76,827
- held for trading	<u>35</u>	<u>51</u>
	<u>23,752</u>	<u>76,878</u>
Net gains (losses) on fair value hedge		
- net gains on hedged items attributable to the hedged risk	98,560	117
- net losses on hedging instruments	<u>(85,266)</u>	<u>(235)</u>
	<u>13,294</u>	<u>(118)</u>

**11. OTHER OPERATING INCOME**

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividend income		
Listed investments	3,876	4,585
Unlisted investments	3,857	3,482
Net gains on dealing in foreign currencies	46,276	36,300
Gross rents from investment properties	14,067	14,105
Less: Outgoings	(885)	(1,210)
Net rental income	13,182	12,895
Safe deposit box rentals	27,235	26,415
Insurance underwriting profit	11,675	11,857
Other banking services income	45,044	41,983
Others	<u>6,989</u>	<u>8,705</u>
	<u>158,134</u>	<u>146,222</u>

**12. OPERATING EXPENSES**

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Auditor's remuneration	<b>3,896</b>	3,935
Staff costs (including directors' emoluments)		
Salaries and other costs	<b>378,523</b>	376,887
Retirement benefits scheme contributions	<b>23,618</b>	19,586
Total staff costs	<b>402,141</b>	396,473
Release of prepaid lease payments for land	<b>66</b>	64
Depreciation	<b>55,117</b>	53,224
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land		
Rentals and rates for premises	<b>44,462</b>	42,724
Others	<b>20,364</b>	20,698
Expenses relating to Minibonds Repurchase Scheme*	<b>16,221</b>	287,717
Other operating expenses	<b>169,668</b>	173,580
	<b><u>711,935</u></b>	<b><u>978,415</u></b>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$38,683,000 (2009: HK\$37,335,000).

\* The Bank announced on 22 July 2009 that it had, without admission of any liability, entered into an agreement ("Repurchase Scheme") with the Securities and Futures Commission, the Hong Kong Monetary Authority and fifteen other distributing banks in relation to the repurchase of the Lehman Brothers Minibonds ("Minibonds"). The amount paid to repurchase the Minibonds together with other expenses under the Repurchase Scheme, amounting to HK\$16 million in 2010 (2009: HK\$288 million), represents expenses incurred by the Bank to compensate its customers who had suffered from the collapse of the Lehman Brothers Group.

### 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2010				2009			
	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors								
Liu Lit Man	-	-	-	-	108	5,085	188	5,381
Liu Lit Mo	150	487	34	671	75	487	26	588
Liu Lit Chi	100	5,209	190	5,499	70	5,293	143	5,506
Don Tit Shing Liu	100	5,197	317	5,614	70	2,728	142	2,940
Lau Wai Man	100	2,278	174	2,552	70	2,224	128	2,422
Wilfred Chun Ning Liu	100	2,031	123	2,254	70	2,140	92	2,302
Tsang Chiu Wing	100	2,103	159	2,362	70	2,041	114	2,225
Wong Har Kar	100	1,995	137	2,232	70	1,950	104	2,124
Total executive directors' emoluments	<u>750</u>	<u>19,300</u>	<u>1,134</u>	<u>21,184</u>	<u>603</u>	<u>21,948</u>	<u>937</u>	<u>23,488</u>
Non-executive directors								
Timothy George Freshwater	150	80	-	230	130	80	-	210
Wang Xiaomong	100	-	-	100	70	-	-	70
Andrew Liu	100	29	-	129	70	30	-	100
Hidemitsu Otsuka	39	-	-	39	-	-	-	-
Christopher Kwun Shing Liu	100	-	-	100	70	-	-	70
Alfred Cheuk Yu Chow	150	-	-	150	130	-	-	130
Meng Qinghui	100	-	-	100	70	-	-	70
Eiichi Yoshikawa	61	-	-	61	70	-	-	70
Total non-executive directors' emoluments	<u>800</u>	<u>109</u>	<u>-</u>	<u>909</u>	<u>610</u>	<u>110</u>	<u>-</u>	<u>720</u>
Independent non-executive directors								
Robin Yau Hing Chan	150	-	-	150	130	-	-	130
Wanchai Chiranakhorn	150	-	-	150	130	-	-	130
Cheng Yuk Wo	150	-	-	150	130	-	-	130
Andrew Chiu Cheung Ma	150	-	-	150	130	-	-	130
Total independent non-executive directors' emoluments	<u>600</u>	<u>-</u>	<u>-</u>	<u>600</u>	<u>520</u>	<u>-</u>	<u>-</u>	<u>520</u>
Total	<u>2,150</u>	<u>19,409</u>	<u>1,134</u>	<u>22,693</u>	<u>1,733</u>	<u>22,058</u>	<u>937</u>	<u>24,728</u>

The five highest paid individuals in the Group in 2010 and 2009 were all directors of the Bank and details of their emoluments are included in above. No directors waived any emoluments in the years ended 31 December 2010 and 31 December 2009.

14. TAXATION

	2010 HK\$'000	2009 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	87,768	37,056
- under (over) provision in prior years	<u>2,938</u>	<u>(1,352)</u>
	90,706	35,704
Overseas taxation	1,796	1,898
Deferred tax ( <i>note 30</i> )	<u>(345)</u>	<u>(4,967)</u>
	<u><u>92,157</u></u>	<u><u>32,635</u></u>

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the year.

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

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

	2010 HK\$'000	2009 HK\$'000
Profit before taxation	<u>568,319</u>	<u>264,383</u>
Tax at the domestic income tax rate of 16.5% (2009: 16.5%)	93,773	43,624
Tax effect of share of profit of jointly controlled entities	(3,141)	(5,126)
Tax effect of expenses not deductible for tax purpose	414	7,271
Tax effect of income not taxable for tax purpose	(3,794)	(11,700)
Under (over) provision in prior years	2,582	(1,595)
Effect of different tax rates of subsidiaries operating in other jurisdictions	295	161
Others	<u>2,028</u>	<u>—</u>
Tax charge for the year	<u><u>92,157</u></u>	<u><u>32,635</u></u>

**15. DIVIDENDS**

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Dividends recognised as distribution during the year:		
2010 Interim - HK\$0.10 (2009: 2009 Interim - HK\$0.08) per share	<b>43,500</b>	34,800
2009 Final - HK\$0.20 (2009: 2008 Final - HK\$0.05) per share	<b>87,000</b>	21,750
	<b><u>130,500</u></b>	<u>56,550</u>

The final dividend of HK\$0.35 per share, totalling HK\$152,250,000, in respect of the current financial year (2009: HK\$0.20 per share, totalling HK\$87,000,000) has been proposed by the directors and is subject to approval by the shareholders in the next annual general meeting.

**16. EARNINGS PER SHARE - BASIC**

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$476,162,000 (2009: HK\$231,748,000) and on 435,000,000 (2009: 435,000,000) ordinary shares in issue during the year.

There was no dilution of earnings per share as no potential ordinary shares were in issue for the year ended 31 December 2010 (2009: nil).

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

	<b>THE GROUP</b>		<b>THE BANK</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash and balances with banks and other financial institutions	<b>11,677,098</b>	4,427,240	<b>11,666,737</b>	4,422,110
Money at call and short notice	<b>6,024,310</b>	6,704,160	<b>5,989,531</b>	6,666,787
Exchange fund bills	<b>547,957</b>	3,917,280	<b>547,957</b>	3,917,280
	<b><u>18,249,365</u></b>	<u>15,048,680</u>	<b><u>18,204,225</u></b>	<u>15,006,177</u>

**18. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>THE GROUP AND THE BANK</b>					
	<b>Notional amount</b>	<b>2010</b>		<b>Notional amount</b>	<b>2009</b>	
		<b>Assets</b>	<b>Liabilities</b>		<b>Assets</b>	<b>Liabilities</b>
<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	
Derivatives held for trading						
- Foreign currency related contracts	537,681	247	6,603	57,830	331	131
- Interest rate swaps	1,343,081	2,610	142,130	535,100	-	44,154
Derivatives held for hedging						
- Interest rate swaps	2,467,306	15,033	104,887	54,285	-	128
- Cross-currency interest rate swaps	233,306	2,652	2,806	-	-	-
		<b><u>20,542</u></b>	<b><u>256,426</u></b>		<b><u>331</u></b>	<b><u>44,413</u></b>

**18. DERIVATIVE FINANCIAL INSTRUMENTS - continued**

The replacement costs and credit risk weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	THE GROUP AND THE BANK					
	2010			2009		
	Notional amount	Replacement cost	Credit risk weighted amount	Notional amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts	770,987	2,899	8,939	57,830	331	535
Interest rate contracts	3,810,387	17,643	13,285	589,385	-	1,004
		<u>20,542</u>	<u>22,224</u>		<u>331</u>	<u>1,539</u>

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

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

**Fair value hedge of fixed-rate bonds**

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of the fair value of available-for-sale securities with carrying amounts of HK\$942,856,000 (2009: HK\$54,948,000) as at 31 December 2010. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping fixed-rate bonds from fixed rates to floating rates and for foreign currency exposure to Hong Kong Dollars and the US Dollars. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms and management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments.

During the years ended 31 December 2010 and 2009, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result both the changes in fair value of the bonds and the fair value of the interest rate swaps and cross-currency interest rate swaps were included in the consolidated income statement.

**Fair value hedge of subordinated loan issued**

During the year ended 31 December 2010, the Group designates an interest rate swap as fair value hedge of the fair value change of the interest rate movement of the US\$225 million subordinated notes issued (see note 27 for details). The purpose is to minimise its exposure to fair value changes of its fixed-rate notes by swapping fixed-rate notes from fixed rates to floating rates. The interest rate swap and the hedged subordinated note have the same terms and management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was considered effective in hedging the fair value exposure to interest rate movements and, as a result, both the changes in fair value of the interest rate movement of the notes and the corresponding interest rate swap of HK\$96,859,000 were presented as "net gains (losses) on fair value hedge" in the consolidated income statement.

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

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

## 19. INVESTMENTS IN SECURITIES

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2010</b>										
Equity securities:										
Listed in Hong Kong	573	-	184,800	-	185,373	-	-	102,457	-	102,457
Listed overseas	-	-	10,471	-	10,471	-	-	10,471	-	10,471
	573	-	195,271	-	195,844	-	-	112,928	-	112,928
Unlisted	-	-	35,563	-	35,563	-	-	31,595	-	31,595
	573	-	230,834	-	231,407	-	-	144,523	-	144,523
Debt securities:										
Certificates of deposit	-	-	-	917,838	917,838	-	-	-	917,838	917,838
Structured products	-	1,773,880	-	-	1,773,880	-	1,773,880	-	-	1,773,880
Other debt securities - Unlisted	-	-	981,594	9,960,208	10,941,802	-	-	981,594	9,960,208	10,941,802
	-	1,773,880	981,594	10,878,046	13,633,520	-	1,773,880	981,594	10,878,046	13,633,520
Total:										
Listed in Hong Kong	573	-	184,800	-	185,373	-	-	102,457	-	102,457
Listed overseas	-	-	10,471	-	10,471	-	-	10,471	-	10,471
Unlisted	-	1,773,880	1,017,157	10,878,046	13,669,083	-	1,773,880	1,013,189	10,878,046	13,665,115
	573	1,773,880	1,212,428	10,878,046	13,864,927	-	1,773,880	1,126,117	10,878,046	13,778,043
Market value of listed securities:										
Listed in Hong Kong	573	-	184,800	-	185,373	-	-	102,457	-	102,457
Listed overseas	-	-	10,471	-	10,471	-	-	10,471	-	10,471
	573	-	195,271	-	195,844	-	-	112,928	-	112,928
As analysed by issuing entities:										
Central government and central banks	-	-	-	142,902	142,902	-	-	-	142,902	142,902
Public sector entities	-	-	56,267	93,779	150,046	-	-	56,267	93,779	150,046
Banks and other financial institutions	250	305,385	281,434	9,011,811	9,598,880	-	305,385	267,552	9,011,811	9,584,748
Corporate entities	323	1,468,495	867,656	1,629,554	3,966,028	-	1,468,495	799,195	1,629,554	3,897,244
Others	-	-	7,071	-	7,071	-	-	3,103	-	3,103
	573	1,773,880	1,212,428	10,878,046	13,864,927	-	1,773,880	1,126,117	10,878,046	13,778,043

Included in available-for-sale securities are financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,718,000 (2009: HK\$116,294,000). Impairment losses of HK\$116,561,000 (2009: HK\$115,018,000) has been recognised for these investments. All other available-for-sale securities and investments in securities are neither past due nor impaired.

Certain held-to-maturity certificates of deposit of approximately HK\$15,567,000 (2009: HK\$15,510,000) 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.

**19. INVESTMENTS IN SECURITIES - continued**

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

## 20. ADVANCES AND OTHER ACCOUNTS

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Bills receivable	364,625	302,986	364,625	302,986
Trade bills	142,479	118,258	142,479	118,258
Other advances to customers	37,420,575	32,372,335	37,420,575	32,372,335
	<u>37,927,679</u>	<u>32,793,579</u>	<u>37,927,679</u>	<u>32,793,579</u>
Interest receivable	127,602	90,429	127,468	90,410
Impairment allowances				
- Individually assessed	(21,564)	(25,905)	(21,564)	(25,905)
- Collectively assessed	(125,089)	(108,096)	(125,089)	(108,096)
	<u>37,908,628</u>	<u>32,750,007</u>	<u>37,908,494</u>	<u>32,749,988</u>
Advances to banks and other				
financial institutions	629,762	114,683	629,762	114,683
	<u>38,538,390</u>	<u>32,864,690</u>	<u>38,538,256</u>	<u>32,864,671</u>
Other accounts	297,430	403,045	89,445	125,780
	<u>38,835,820</u>	<u>33,267,735</u>	<u>38,627,701</u>	<u>32,990,451</u>

Included in the “Advances to banks and other financial institutions” of the Group and the Bank is an amount of approximately HK\$104,862,000 (2009: HK\$114,683,000) placed as reserve funds with the financial institutions in the People’s Republic of China by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the People’s Republic of China.

**20. ADVANCES AND OTHER ACCOUNTS - continued**

Impairment allowances on advances:

	THE GROUP			THE BANK		
	Individual	Collective	Total	Individual	Collective	Total
	assessment	assessment		assessment	assessment	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2010	25,905	108,096	134,001	25,905	108,096	134,001
Increase in impairment allowances	11,556	16,926	28,482	11,556	16,926	28,482
Amounts reversed	(10,697)	-	(10,697)	(10,697)	-	(10,697)
Amounts written off	(5,185)	-	(5,185)	(5,185)	-	(5,185)
Recoveries of advances written off in previous years	680	-	680	680	-	680
Unwinding effect of discount rate	(695)	-	(695)	(695)	-	(695)
Exchange difference	-	67	67	-	67	67
Balance at 31 December 2010	<u>21,564</u>	<u>125,089</u>	<u>146,653</u>	<u>21,564</u>	<u>125,089</u>	<u>146,653</u>

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

Details of the impaired loans are as follows:

	THE GROUP AND THE BANK	
	2010	2009
	HK\$'000	HK\$'000
Gross impaired loans	35,610	53,707
Less: Impairment allowances under individual assessment	(21,564)	(25,905)
Net impaired loans	<u>14,046</u>	<u>27,802</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.09%</u>	<u>0.16%</u>
Market value of collateral pledged	<u>84,804</u>	<u>103,950</u>

**21. INVESTMENTS IN SUBSIDIARIES**

(i)	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at cost	<u><b>261,784</b></u>	<u><b>338,323</b></u>

Details of the principal subsidiaries as at 31 December 2010 and 2009 are as follows:

Name of company	Place of incorporation / operation	Issued and fully paid ordinary share capital	Percentage of issued share capital directly held	Principal activities
Chong Hing (Nominees) Limited	Hong Kong	HK\$100,000	100%	Provision of nominee services
Chong Hing Finance Limited	Hong Kong	HK\$25,000,000	100%	Deposit-taking and lending
Chong Hing Information Technology Limited	Hong Kong	HK\$100,000	100%	Provision of electronic data processing services
Liu Chong Hing Banking Corporation, Cayman - in voluntary liquidation	Cayman Islands	Issued: US\$10,000,000 Fully paid: Nil (2009: US\$10,000,000)	100%	General merchant banking
Chong Hing Securities Limited	Hong Kong	HK\$10,000,000	100%	Stockbroking
Chong Hing Commodities and Futures Limited	Hong Kong	HK\$5,000,000	100%	Investment holding and commodities and futures broking
Gallbraith Limited	Hong Kong	HK\$16,550,000	100%	Property investment
Card Alliance Company Limited	Hong Kong	HK\$18,000,000	100%	Credit card management
Chong Hing Insurance Company Limited	Hong Kong	HK\$85,000,000	100%	Insurance underwriting

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

## (ii) Amounts due from subsidiaries

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amounts due from subsidiaries	<u><b>1,241</b></u>	<u><b>4,985</b></u>

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

**22. INTERESTS IN JOINTLY CONTROLLED ENTITIES**

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	21,500	21,500
Share of post-acquisition profits and other comprehensive income net of dividends received	<u>136,919</u>	<u>119,418</u>	<u>–</u>	<u>–</u>
	<u><b>136,919</b></u>	<u><b>119,418</b></u>	<u><b>21,500</b></u>	<u><b>21,500</b></u>

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

As at 31 December 2010, the Group had interests in the following jointly controlled entities:

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

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

	2010	2009
	HK\$'000	HK\$'000
Assets	872,676	741,582
Liabilities	(735,758)	(622,164)
Income	56,367	66,028
Expense	<u>(37,331)</u>	<u>(33,618)</u>

## 23. INVESTMENT PROPERTIES

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	103,199	129,801	76,160	104,050
Net increase in fair value recognised in the income statement	12,765	5,148	11,350	4,110
Disposals	(1,060)	(32,000)	(1,060)	(32,000)
Exchange adjustments	1,496	250	–	–
At 31 December	<u>116,400</u>	<u>103,199</u>	<u>86,450</u>	<u>76,160</u>

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

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

	2010	2009
	HK\$'000	HK\$'000
Net gain on disposal of investment properties	3,130	26,000
Net gain on fair value adjustments on investment properties	12,765	5,148
	<u>15,895</u>	<u>31,148</u>

Investment properties owned by the Group and by the Bank were revalued at 31 December 2010 by adopting the direct comparison approach and reference to the recent transactions for similar premises by Vigers Hong Kong Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group and the Bank comprises:

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties				
Held in Hong Kong on long-term lease (over 50 years unexpired)	–	1,060	–	1,060
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	86,450	75,100	86,450	75,100
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	29,950	27,039	–	–
	<u>116,400</u>	<u>103,199</u>	<u>86,450</u>	<u>76,160</u>

**24. PROPERTY AND EQUIPMENT**

	THE GROUP				THE BANK			
	Leasehold				Leasehold			
	land	Buildings	Equipment	Total	land	Buildings	Equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>								
At 1 January 2010	396,264	316,663	498,720	1,211,647	911,671	312,863	441,514	1,666,048
Additions	-	-	22,162	22,162	-	-	18,295	18,295
Disposals	-	-	(5,876)	(5,876)	-	-	(4,769)	(4,769)
Exchange adjustments	-	-	363	363	-	-	363	363
At 31 December 2010	<u>396,264</u>	<u>316,663</u>	<u>515,369</u>	<u>1,228,296</u>	<u>911,671</u>	<u>312,863</u>	<u>455,403</u>	<u>1,679,937</u>
<b>ACCUMULATED DEPRECIATION</b>								
At 1 January 2010	77,295	40,746	330,949	448,990	79,148	40,546	293,333	413,027
Depreciation	6,008	6,634	42,475	55,117	6,353	6,538	35,530	48,421
Eliminated on disposals	-	-	(5,672)	(5,672)	-	-	(4,574)	(4,574)
Exchange adjustments	-	(114)	204	90	-	(114)	203	89
At 31 December 2010	<u>83,303</u>	<u>47,266</u>	<u>367,956</u>	<u>498,525</u>	<u>85,501</u>	<u>46,970</u>	<u>324,492</u>	<u>456,963</u>
<b>CARRYING AMOUNTS</b>								
At 31 December 2010	<u>312,961</u>	<u>269,397</u>	<u>147,413</u>	<u>729,771</u>	<u>826,170</u>	<u>265,893</u>	<u>130,911</u>	<u>1,222,974</u>
At 1 January 2010	<u>318,969</u>	<u>275,917</u>	<u>167,771</u>	<u>762,657</u>	<u>832,523</u>	<u>272,317</u>	<u>148,181</u>	<u>1,253,021</u>

	THE GROUP				THE BANK			
	Leasehold				Leasehold			
	land	Buildings	Equipment	Total	land	Buildings	Equipment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COST</b>								
At 1 January 2009	396,264	316,883	477,734	1,190,881	911,671	313,083	428,659	1,653,413
Additions	-	-	21,326	21,326	-	-	13,125	13,125
Disposals	-	(220)	(344)	(564)	-	(220)	(274)	(494)
Exchange adjustments	-	-	4	4	-	-	4	4
At 31 December 2009	<u>396,264</u>	<u>316,663</u>	<u>498,720</u>	<u>1,211,647</u>	<u>911,671</u>	<u>312,863</u>	<u>441,514</u>	<u>1,666,048</u>
<b>ACCUMULATED DEPRECIATION</b>								
At 1 January 2009	71,284	34,204	290,689	396,177	72,791	34,100	258,570	365,461
Provided for the year	6,011	6,624	40,589	53,224	6,357	6,528	35,025	47,910
Eliminated on disposals	-	(82)	(329)	(411)	-	(82)	(262)	(344)
At 31 December 2009	<u>77,295</u>	<u>40,746</u>	<u>330,949</u>	<u>448,990</u>	<u>79,148</u>	<u>40,546</u>	<u>293,333</u>	<u>413,027</u>
<b>CARRYING AMOUNTS</b>								
At 31 December 2009	<u>318,969</u>	<u>275,917</u>	<u>167,771</u>	<u>762,657</u>	<u>832,523</u>	<u>272,317</u>	<u>148,181</u>	<u>1,253,201</u>
At 1 January 2009	<u>324,980</u>	<u>282,679</u>	<u>187,045</u>	<u>794,704</u>	<u>838,880</u>	<u>278,983</u>	<u>170,089</u>	<u>1,287,952</u>

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

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

**24. PROPERTY AND EQUIPMENT - continued**

	THE GROUP		THE BANK	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
The carrying amount of leased land shown above comprise:				
Leasehold land				
Held on long-term lease (over 50 years unexpired)	121,851	124,800	645,295	648,869
Held on medium-term lease (10 - 50 years unexpired)	187,578	193,145	177,343	182,630
Held on short-term lease (less than 10 years unexpired)	3,532	1,024	3,532	1,024
	<u>312,961</u>	<u>318,969</u>	<u>826,170</u>	<u>832,523</u>
The carrying amount of buildings shown above comprise:				
Leasehold properties (building)				
Held in Hong Kong on long-term lease (over 50 years unexpired)	202,845	207,380	202,845	207,380
Held in Hong Kong on medium-term lease (10-50 years unexpired)	59,614	61,556	56,110	57,956
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,938	6,981	6,938	6,981
	<u>269,397</u>	<u>275,917</u>	<u>265,893</u>	<u>272,317</u>

**25. PREPAID LEASE PAYMENTS FOR LAND**

The Group's and the Bank's prepaid lease payments for land comprise:

	THE GROUP AND THE BANK	
	2010 HK\$'000	2009 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,535</u>	<u>2,564</u>
Net book value at 1 January	2,564	3,147
Disposals	–	(519)
Release of prepaid operating lease payments	(66)	(64)
Exchange adjustments	37	–
Net book value at 31 December	<u>2,535</u>	<u>2,564</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,469</u>	<u>2,498</u>
Total	<u>2,535</u>	<u>2,564</u>

**26. DEPOSITS FROM CUSTOMERS**

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	4,389,690	4,790,745	4,389,690	4,790,745
Savings deposits	20,568,661	19,644,533	20,568,661	19,644,533
Time, call and notice deposits	38,541,868	36,353,137	38,540,950	36,350,247
	<u>63,500,219</u>	<u>60,788,415</u>	<u>63,499,301</u>	<u>60,785,525</u>

Included in the balances of the Group and the Bank is an aggregate amount of approximately HK\$142,239,000 (2009: HK\$59,749,000) representing deposits of companies and their subsidiaries having significant influence on the Group.

**27. LOAN CAPITAL**

	THE GROUP AND THE BANK	
	2010	2009
	HK\$'000	HK\$'000
US\$100.5 million (2009: US\$125 million) floating rate subordinated notes due 2016 at amortised cost (Note (a))	781,372	967,199
US\$225 million fixed rate subordinated notes due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Note (b))	1,619,779	—
	<u>2,401,151</u>	<u>967,199</u>

Notes:

- (a) This represented subordinated notes qualifying as tier 2 capital issued on 15 December 2006. The notes will mature on 16 December 2016 and are redeemable at the option of the Group in December 2011 at their principal amount. The notes bear interest at the rate of three 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.

During the year ended 31 December 2010, the Bank repurchased a portion of the notes with a total principal amount of US\$24,500,000. Such repurchased notes were cancelled after receiving prior approval of the Hong Kong Monetary Authority (the "HKMA"). At 31 December 2010, the remaining outstanding principal amount of the notes is US\$100.5 million (2009: US\$125 million).

- (b) This represented subordinated notes qualifying as tier 2 capital with face value of US\$225,000,000 listed on 5 November 2010. The notes will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the notes is no longer fully qualified as term subordinated debts for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the notes by serving the "Change in Status Notice" to the noteholders. Upon a Change in Status Notice becoming effective, the notes shall thereafter constitute unsubordinated obligations and the rate of interest on the notes shall be reduced from 6.00% per annum to 5.50% per annum.

**28. SHARE CAPITAL**

	<b>2010 &amp; 2009</b>
	<b>HK\$'000</b>
Authorised: 600,000,000 shares of HK\$0.50 each	<b>300,000</b>
Issued and fully paid: 435,000,000 shares of HK\$0.50 each	<b>217,500</b>

**29. RESERVES**

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE BANK</b>							
At 1 January 2010	1,542,817	24,613	1,378,500	8,283	287,000	2,523,786	5,764,999
Profit for the year	-	-	-	-	-	389,161	389,161
Exchange differences arising on translation	-	-	-	5,072	-	-	5,072
Net revaluation gain on available-for-sale securities	-	53,551	-	-	-	-	53,551
Reclassification adjustment upon disposal and impairment	-	(6,024)	-	-	-	-	(6,024)
Income tax relating to available-for-sale securities	-	(6,925)	-	-	-	-	(6,925)
Other comprehensive income	-	40,602	-	5,072	-	-	45,674
Total comprehensive income for the year	-	40,602	-	5,072	-	389,161	434,835
Interim dividend paid	-	-	-	-	-	(43,500)	(43,500)
Final dividend paid	-	-	-	-	-	(87,000)	(87,000)
Earmark of retained profits as regulatory reserve	-	-	-	-	44,000	(44,000)	-
At 31 December 2010	<u>1,542,817</u>	<u>65,215</u>	<u>1,378,500</u>	<u>13,355</u>	<u>331,000</u>	<u>2,738,447</u>	<u>6,069,334</u>
At 1 January 2009	1,542,817	(3,199)	1,378,500	8,060	307,000	2,440,689	5,673,867
Profit for the year	-	-	-	-	-	119,647	119,647
Exchange differences arising on translation	-	-	-	223	-	-	223
Net revaluation gain on available-for-sale securities	-	11,077	-	-	-	-	11,077
Reclassification adjustment upon disposal and impairment	-	21,696	-	-	-	-	21,696
Income tax relating to available-for-sale securities	-	(4,961)	-	-	-	-	(4,961)
Other comprehensive income	-	27,812	-	223	-	-	28,035
Total comprehensive income for the year	-	27,812	-	223	-	119,647	147,682
Interim dividend paid	-	-	-	-	-	(34,800)	(34,800)
Final dividend paid	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve	-	-	-	-	(20,000)	20,000	-
At 31 December 2009	<u>1,542,817</u>	<u>24,613</u>	<u>1,378,500</u>	<u>8,283</u>	<u>287,000</u>	<u>2,523,786</u>	<u>5,764,999</u>

The Bank's reserves available for distribution to owners as at 31 December 2010 comprised retained profits of HK\$2,675,226,000 (2009: HK\$2,487,725,000) and general reserve of HK\$1,378,500,000 (2009: HK\$1,378,500,000).

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

**30. DEFERRED TAXATION**

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

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
At 1 January 2010	15,533	(19,645)	8,919	6,965	11,772
Charge (credit) to consolidated income statement for the year (Note 14)	(2,231)	(386)	2,272	–	(345)
Charge to other comprehensive income for the year	–	–	–	8,930	8,930
At 31 December 2010	<u>13,302</u>	<u>(20,031)</u>	<u>11,191</u>	<u>15,895</u>	<u>20,357</u>
At 1 January 2009	15,645	(18,428)	12,557	(3,491)	6,283
Credit to consolidated income statement for the year (Note 14)	(112)	(1,217)	(3,638)	–	(4,967)
Charge to other comprehensive income for the year	–	–	–	10,456	10,456
At 31 December 2009	<u>15,533</u>	<u>(19,645)</u>	<u>8,919</u>	<u>6,965</u>	<u>11,772</u>
<b>THE BANK</b>					
At 1 January 2010	12,193	(19,645)	7,126	4,095	3,769
Charge (credit) to income statement for the year	136	(386)	1,753	–	1,503
Charge to other comprehensive income for the year	–	–	–	6,925	6,925
At 31 December 2010	<u>12,329</u>	<u>(20,031)</u>	<u>8,879</u>	<u>11,020</u>	<u>12,197</u>
At 1 January 2009	12,794	(18,427)	10,243	(866)	3,744
Credit to income statement for the year	(601)	(1,218)	(3,117)	–	(4,936)
Charge to other comprehensive income for the year	–	–	–	4,961	4,961
At 31 December 2009	<u>12,193</u>	<u>(19,645)</u>	<u>7,126</u>	<u>4,095</u>	<u>3,769</u>

**31. SHARE OPTION SCHEME**

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

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

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

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

**32. LOANS TO OFFICERS**

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

	<b>THE GROUP AND THE BANK</b>		
	<b>31 December 2010</b>	<b>31 December 2009</b>	<b>1 January 2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Aggregate balance of all relevant loans			
outstanding at the end of the reporting period	<u>76,285</u>	<u>54,004</u>	<u>91,117</u>

	<b>THE GROUP AND THE BANK</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Maximum aggregate balance of relevant loans during the year	<u>97,891</u>	<u>124,770</u>

The loans have no fixed repayment terms and the applicable interest rate ranges from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$75,283,000 (2009: HK\$53,138,000) with collateral.

**33. IMPAIRMENT LOSS ON GOODWILL**

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

For the year ended 31 December 2010, management has reviewed goodwill for impairment. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on four year financial budgets approved by management and estimated terminal value at the end of the three year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and selection of discount rates (12%).

Value in use is derived at by discounting the expected future cash flows. Management's financial model assumes a flat growth in underwriting profit. No impairment loss has been recognised for the year ended 31 December 2010. A goodwill impairment loss of HK\$10,000,000, representing the excess of the carrying amount above the value in use, was recognised for the year ended 31 December 2009.

**34. CONTINGENT LIABILITIES AND COMMITMENTS**

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Contingent liabilities and commitments</b>				
<b>- contractual amounts</b>				
Direct credit substitutes	1,148,074	790,690	1,148,074	790,690
Trade related contingencies	361,532	283,739	361,532	283,739
Forward asset purchases	8,034	3,234	8,034	3,234
Other commitments:				
Which are unconditionally				
cancellable without prior notice	7,081,907	4,969,184	7,081,907	4,969,184
With an original maturity of one year and under	7,460,718	7,717,628	7,460,718	7,717,628
With an original maturity of over one year	1,862,256	1,821,771	1,862,256	1,821,771
Lease commitments	73,328	72,846	70,222	67,706
	<u>17,995,849</u>	<u>15,659,092</u>	<u>17,992,743</u>	<u>15,653,952</u>

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

**34. CONTINGENT LIABILITIES AND COMMITMENTS - continued**

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

	THE GROUP		THE BANK	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	35,260	30,034	33,696	27,832
In the second to fifth years inclusive	38,068	42,480	36,526	39,542
Over five years	—	332	—	332
	<u>73,328</u>	<u>72,846</u>	<u>70,222</u>	<u>67,706</u>

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

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

	THE GROUP AND THE BANK	
	2010	2009
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>8,034</u>	<u>3,234</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$2,971,294,000 (2009: HK\$2,906,189,000).

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

	THE GROUP AND THE BANK	
	2010	2009
	HK\$'000	HK\$'000
Within one year	13,432	3,890
In the second to fifth years inclusive	<u>2,611</u>	<u>4,135</u>
	<u>16,043</u>	<u>8,025</u>

**35. RETIREMENT BENEFITS SCHEME**

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

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

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

At the date of the latest formal independent actuarial valuation made on 31 December 2008, the net retirement asset of the ORSO (Defined benefit) Scheme was HK\$52,000. As at 31 December 2010 and 2009, the net retirement asset of the ORSO (Defined benefit) Scheme were considered not significant. As a result, the amounts were not recognised in the statements of financial position.

Net benefit cost:

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

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

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

**35. RETIREMENT BENEFITS SCHEME - continued**

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

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

Changes in fair value of plan assets are as follows:

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

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

	<b>2008</b>
	<b>%</b>
Cash	47
Equities	53

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

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

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

	<b>2008</b>
	<b>HK\$'000</b>
Deposits with the Bank	11,756

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

	<b>2008</b>
	<b>%</b>
Discount rate	2.8
Expected rate of return on plan assets	5.0
Expected rate of salary increase	3.0

**36. RELATED PARTY TRANSACTIONS**

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

	Interest, commission and rental income		Interest and rental expenses	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and its subsidiaries	<u>7,733</u>	<u>7,733</u>	<u>23,553</u>	<u>23,271</u>
Jointly controlled entities	<u>12,711</u>	<u>12,154</u>	<u>3,185</u>	<u>2,725</u>
Directors and their associates	<u>5,268</u>	<u>11,926</u>	<u>5,063</u>	<u>6,040</u>

The above transactions were carried out at market rates.

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

	Amounts due from related parties		Amounts due to related parties	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and its subsidiaries	<u>–</u>	<u>–</u>	<u>142,239</u>	<u>59,749</u>
Jointly controlled entities	<u>43,552</u>	<u>53,790</u>	<u>128,358</u>	<u>96,034</u>
Directors and their associates	<u>767,225</u>	<u>1,434,806</u>	<u>615,771</u>	<u>530,733</u>

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

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

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

**36. RELATED PARTY TRANSACTIONS - continued**

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

	Interest, commission and rental income		Interest and rental expenses		Computer service expense		Dividend income	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>7,584</u>	<u>6,856</u>	<u>11,513</u>	<u>11,287</u>	<u>20,537</u>	<u>24,105</u>	<u>50,000</u>	<u>60,000</u>

Other than dividend income, the above transactions were carried out at market rates.

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

	Amounts due from		Amounts due to	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>1,241</u>	<u>4,985</u>	<u>700,918</u>	<u>763,072</u>

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

**Compensation of key management personnel**

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

	THE GROUP AND THE BANK	
	2010	2009
	HK\$'000	HK\$'000
Short-term benefits	52,534	52,749
Post employment benefits	<u>3,187</u>	<u>2,460</u>
	<u>55,721</u>	<u>55,209</u>

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

**37. CAPITAL MANAGEMENT**

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

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

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

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

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

**Capital Adequacy Ratio**

	<b>2010</b>	<b>2009</b>
	%	%
Capital adequacy ratio	<b>17.91</b>	<b>15.95</b>
Core capital ratio	<b>11.22</b>	<b>12.72</b>

The capital adequacy ratios as at 31 December 2010 and 31 December 2009 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007.

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

**37. CAPITAL MANAGEMENT - continued****Capital base**

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

	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Core capital		
Paid-up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,367,739	3,491,579
Profit and loss account	(40,632)	(87,537)
Total core capital	<u>5,087,424</u>	<u>5,164,359</u>
Other deductions from core capital	<u>(122,650)</u>	<u>(122,809)</u>
Core capital after deductions	<u>4,964,774</u>	<u>5,041,550</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	5,293	5,502
Collective impairment allowances	125,075	108,096
Regulatory reserve for general banking risks	331,000	287,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	22,734	13,611
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	79,774	24,206
Term subordinated debt	<u>2,515,692</u>	<u>967,199</u>
Total supplementary capital	<u>3,079,568</u>	<u>1,405,614</u>
Other deductions from supplementary capital	<u>(122,651)</u>	<u>(122,809)</u>
Supplementary capital after deductions	<u>2,956,917</u>	<u>1,282,805</u>
Total capital base after deductions	<u><u>7,921,691</u></u>	<u><u>6,324,355</u></u>

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

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

## 1. SPECIALISED COMMITTEES

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

### (i) Executive Committee

The Executive Committee comprises all executive directors of the Bank.

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

### (ii) Executive Management Committee

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

### (iii) Executive Loans Committee

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

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

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

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

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

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

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

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

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

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

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

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

## 2. MANAGEMENT OF RISKS

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

The management of assets and liabilities of the Group is conducted under the guidance of the ALCO. The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and RMCC policies are monitored by the Treasury Management Department and the Finance Department with the assistance of various qualitative and quantitative analyses.

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

### (i) Operational and legal risk

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

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

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

### (ii) Reputation risk

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

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

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

### 3. SEGMENTAL INFORMATION

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

### 4. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and / or business activities of the borrowers. Details are set out in note 7 (credit risk) to the consolidated financial statements.

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2010 and 2009 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>2010 New impairment allowances during the year HK\$'000</b>	<b>Advances written off during the year HK\$'000</b>
Loans for use in Hong Kong			
Industrial, commercial and financial			
- property investment	13,178	19	-
- others	4,291	177	51
Individuals			
- loans for the purchase of other residential properties	2,746	173	-
- loans for used outside Hong Kong	<u>3,192</u>	<u>240</u>	<u>-</u>
		<b>2009</b>	
	<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>New impairment allowances during the year HK\$'000</b>	<b>Advances written off during the year HK\$'000</b>
Loans for use in Hong Kong			
Industrial, commercial and financial			
- property investment	2,838	12	-
- others	4,874	28,435	24,146
Individuals			
- loans for the purchase of other residential properties	<u>6,698</u>	<u>743</u>	<u>380</u>

**5. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS**

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

	<b>31 December 2010</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	36,379,383	61,482	32,418	20,451	115,968
People's Republic of China	344,543	3,192	3,192	1,113	2,964
Macau	133,795	-	-	-	709
America	426,380	-	-	-	5,448
Others	<u>643,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>37,927,679</u></u>	<u><u>64,674</u></u>	<u><u>35,610</u></u>	<u><u>21,564</u></u>	<u><u>125,089</u></u>

	<b>31 December 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	31,088,554	32,085	37,351	24,346	98,748
People's Republic of China	396,303	3,642	3,642	1,305	3,557
Macau	143,159	-	-	-	616
America	388,867	12,714	12,714	254	5,175
Others	<u>776,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>32,793,579</u></u>	<u><u>48,441</u></u>	<u><u>53,707</u></u>	<u><u>25,905</u></u>	<u><u>108,096</u></u>

**6. 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>2010</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	10,426,222	124,906	715,265	11,266,393
- of which - China	5,735,058	52,049	542,351	6,329,458
- of which - Australia	3,427,563	2,213	–	3,429,776
- of which - Japan	41,879	3,412	3,222	48,513
North America	1,608,580	32,981	1,607,133	3,248,694
Europe	7,775,750	2,501	168,397	7,946,648
- of which - United Kingdom	796,862	934	158,662	956,458
- of which - France	3,162,961	–	854	3,163,815
	<u>3,162,961</u>	<u>–</u>	<u>854</u>	<u>3,163,815</u>
				<b>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	12,509,722	119,294	754,727	13,383,743
- of which - China	5,159,827	24,266	578,685	5,762,778
- of which - Australia	3,226,306	936	518	3,227,760
- of which - Japan	3,004,146	937	8,807	3,013,890
North America	934,459	16,036	1,986,426	2,936,921
Europe	10,703,175	1,334	10,866	10,715,375
- of which - United Kingdom	3,320,357	339	246	3,320,942
- of which - France	3,065,360	–	88	3,065,448
	<u>3,065,360</u>	<u>–</u>	<u>88</u>	<u>3,065,448</u>

**7. CURRENCY RISK**

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

			<b>2010</b>		
			<b>RMB</b>	<b>AUD</b>	<b>Total</b>
Equivalent in thousand of HK\$					
Spot assets			<b>2,134,499</b>	<b>3,099,254</b>	<b>5,233,753</b>
Spot liabilities			<b>(2,101,882)</b>	<b>(3,099,460)</b>	<b>(5,201,342)</b>
Forward purchases			<b>12,430</b>	<b>2,382</b>	<b>14,812</b>
Forward sales			<u>–</u>	<u>(20,005)</u>	<u>(20,005)</u>
Net long position			<u><b>45,047</b></u>	<u><b>(17,829)</b></u>	<u><b>27,218</b></u>
			<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position			<u><b>48,545</b></u>	<u><b>105,169</b></u>	<u><b>153,714</b></u>
			<b>2009</b>		
	<b>US\$</b>	<b>MOP</b>	<b>RMB</b>	<b>AUD</b>	<b>Total</b>
Equivalent in thousand of HK\$					
Spot assets	10,635,242	115,003	1,079,649	3,684,953	15,514,847
Spot liabilities	(10,754,629)	(116,923)	(1,046,456)	(3,688,974)	(15,606,982)
Forward purchases	188,874	–	3,749	14,306	206,929
Forward sales	<u>(67,026)</u>	<u>–</u>	<u>(28,403)</u>	<u>(8,473)</u>	<u>(103,902)</u>
Net long position	<u>2,461</u>	<u>(1,920)</u>	<u>8,539</u>	<u>1,812</u>	<u>10,892</u>
			<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position			<u>48,545</u>	<u>105,169</u>	<u>153,714</u>

**8. OVERDUE AND RESCHEDULED ASSETS**

	<b>2010</b>	
	<b>Gross amount of advances HK\$'000</b>	<b>Percentage to total advances %</b>
Advances overdue for		
- 6 months or less but over 3 months	11,704	0.0
- 1 year or less but over 6 months	6,224	0.0
- over 1 year	46,746	0.1
Total overdue advances	<u>64,674</u>	<u>0.2</u>
Rescheduled advances	<u>264,476</u>	<u>0.7</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>21,499</u>	

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

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

	<b>2010 HK\$'000</b>	<b>2009 HK\$'000</b>
Covered portion of overdue loans and advances	37,472	25,724
Uncovered portion of overdue loans and advances	27,202	22,717
	<u>64,674</u>	<u>48,441</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>198,709</u>	<u>159,183</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 31 December 2010 and 31 December 2009, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 31 December 2010 amounted to HK\$17,004,000 (2009: HK\$21,238,000).

## 9. NON-BANK MAINLAND EXPOSURES

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

	31 December 2009			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	978,122	180,000	1,158,122	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,299,484	723,477	4,022,961	3,622
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	10,047	–	10,047	–
	<u>4,287,653</u>	<u>903,477</u>	<u>5,191,130</u>	<u>3,622</u>

## 10. LIQUIDITY RATIO

	2010 %	2009 %
Average liquidity ratio for the year	<u>45.20</u>	<u>48.78</u>

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

**11. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS**

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

**(i) Capital charge for credit risk**

	<b>Capital requirement</b>	
	<b>2010</b> <b>HK\$'000</b>	<b>2009</b> <b>HK\$'000</b>
Sovereign exposures	–	503
Public sector entity exposures	20,113	14,659
Bank exposures	404,768	484,715
Securities firm exposures	31,893	12,751
Corporate exposures	1,859,182	1,526,309
Cash items	3,544	3,232
Regulatory retail exposures	14,474	13,425
Residential mortgage loans	362,445	351,308
Other exposures which are not past due exposures	394,080	327,852
Past due exposures	<u>28,646</u>	<u>29,877</u>
Total capital charge for on-balance sheet exposures	<u>3,119,145</u>	<u>2,764,631</u>
Direct credit substitutes	53,275	40,782
Trade-related contingencies	5,653	4,304
Forward asset purchases	643	259
Other commitments	178,133	181,323
Exchange rate contracts	715	43
Interest rate contracts	<u>1,063</u>	<u>80</u>
Total capital charge for off-balance sheet exposures	<u>239,482</u>	<u>226,791</u>
Total capital charge for credit risk	<u><u>3,358,627</u></u>	<u><u>2,991,422</u></u>

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

The market risk capital charge set out below relates to net open positions of the Group's foreign exchange exposures of HK\$209,274,000 as at 31 December 2010 (2009: HK\$14,407,000). There are no other market risk exposures as at that date.

	Capital charge	
	2010	2009
	HK\$'000	HK\$'000
Foreign exchange exposures (including gold and options)	<u>16,742</u>	<u>1,153</u>
Capital charge for market risk	<u>16,742</u>	<u>1,153</u>

The Group uses the Standardised (Market Risk) Approach for calculating market risk.

**(iii) Capital charge for operational risk**

	Capital charge	
	2010	2009
	HK\$'000	HK\$'000
Capital charge for operational risk	<u>167,188</u>	<u>182,718</u>

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

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

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

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

	2010							
	Class of credit risk exposures							
	Total exposures HK\$'000	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk- weighted amounts	Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees
	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>A. On-balance Sheet</b>								
1. Sovereign	9,927,066	10,248,546	-	-	-	-	-	-
2. Public sector entity	724,654	787,015	470,029	157,402	94,006	251,408	-	-
3. Bank	20,301,856	19,897,198	83,178	5,031,098	28,501	5,059,599	-	321,480
4. Securities firm	797,317	190,493	606,824	95,247	303,412	398,659	-	-
5. Corporate	26,221,320	4,443,798	20,653,562	2,586,226	20,653,562	23,239,788	1,123,960	768,378
6. Cash items	368,298	-	1,582,923	-	44,298	44,298	-	-
7. Regulatory retail	246,603	-	241,227	-	180,920	180,920	5,376	-
8. Residential mortgage loan	9,983,974	-	9,435,657	-	4,530,567	4,530,567	15,926	532,391
9. Other exposures which are not past due exposures	4,995,360	-	4,925,997	-	4,925,997	4,925,997	69,363	-
10. Past due exposures	338,185	-	338,185	-	358,075	358,075	298,074	-
<b>B. Off-balance Sheet</b>								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,651,686	344,881	3,306,805	192,053	2,779,241	2,971,294	494,623	137,312
2. OTC derivative transactions	76,406	75,309	1,097	21,127	1,097	22,224	-	-
Exposures deducted from Capital Base	<u>245,301</u>							

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

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

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

Properties and cash deposits are recognised collateral for past due exposures and other exposures respectively. Recognised guarantees are guarantees issued by banks and the Government of the HKSAR. The Group has also taken properties and listed shares as collateral pledged as security against loans totalling HK\$21,627,920,000 (2009: HK\$19,636,065,000) and HK\$2,597,611,000 (2009: HK\$2,263,461,000) respectively.

**(b) Counter-party credit risk exposures**

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

The following table summarises the Group’s credit exposures arising from OTC derivative transactions. There are no repo-style transactions or credit derivative contracts outstanding as at 31 December 2010.

	<b>OTC derivative transactions</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
OTC derivative		
Gross total positive fair value	<u>20,542</u>	<u>331</u>
Credit equivalent amounts	<u>76,406</u>	<u>3,081</u>
Risk-weighted amounts	<u>22,224</u>	<u>1,539</u>

**12. RISK MANAGEMENT - continued****(i) Credit risk - continued****(b) Counter-party credit risk exposures - continued**

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

	<b>OTC derivative transactions</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Notional amounts:		
- Banks	3,904,700	244,928
- Corporates	645,479	393,259
- Others	<u>27,382</u>	<u>9,028</u>
	<u><b>4,577,561</b></u>	<u><b>647,215</b></u>
Credit equivalent amounts:		
- Banks	73,306	803
- Corporates	2,764	2,188
- Others	<u>336</u>	<u>90</u>
	<u><b>76,406</b></u>	<u><b>3,081</b></u>
Risk-weighted amounts:		
- Banks	20,126	212
- Corporates	1,763	1,237
- Others	<u>335</u>	<u>90</u>
	<u><b>22,224</b></u>	<u><b>1,539</b></u>

**(c) Credit risk mitigation**

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

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

**12. RISK MANAGEMENT - continued****(i) Credit risk - continued****(c) Credit risk mitigation - continued**

The Group only accepts collateral pledged as security:

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

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

**(ii) Asset Securitisation**

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

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

Securitisation exposures	Outstanding amounts HK\$'000	2010 Exposures deducted from its	
		Core Capital HK\$'000	Supplementary Capital HK\$'000
Traditional securitisations			
Structured investment vehicles	<u>157</u>	<u>78</u>	<u>79</u>
Securitisation exposures	Outstanding amounts HK\$'000	2009 Exposures deducted from its	
		Core Capital HK\$'000	Supplementary Capital HK\$'000
Traditional securitisations			
Structured investment vehicles	<u>1,276</u>	<u>638</u>	<u>638</u>

**12. RISK MANAGEMENT - continued****(iii) Equity exposures in banking book**

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

Equity securities are accounted for as available for sale financial assets, the accounting policy of which is set out in note 4 to the consolidated financial statements on page 53. At the balance sheet date, listed equity securities are stated at fair value which is determined by reference to prices quoted in the respective stock markets. Unlisted equity securities are valued at cost, as adjusted to reflect earning multiples for comparable listed companies if the investee companies are performing at or above expectation. When deemed necessary, equity securities are carried at written down value to reflect the impairment in value of those investee companies.

	2010 HK\$'000	2009 HK\$'000
<b>THE GROUP</b>		
Net realised gains / losses from sales / liquidations	<u>14,364</u>	<u>24,810</u>
Net unrealised revaluation gains / losses:		
- Amount included in reserves but not through income statement	<u>118,802</u>	<u>59,125</u>
- Amount included in supplementary capital	<u>34,387</u>	<u>14,551</u>

**(iv) Interest rate exposures in banking book**

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

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

	2010 Currency			
	HK\$	US\$	Others	Total
Interest rate risk shock				
Equivalents in thousands of HK\$				
- Variations in earnings (+100 basis points)	<u>66,086</u>	<u>(35,004)</u>	<u>9</u>	<u>31,091</u>
- Variations in earnings (-10 basis points)	<u>(6,609)</u>	<u>3,501</u>	<u>(1)</u>	<u>(3,109)</u>

**12. RISK MANAGEMENT - continued****(iv) Interest rate exposures in banking book - continued**

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

**13. BASIS OF CONSOLIDATION**

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

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

**14. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION**

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Liu Chong Hing Banking Corporation, Cayman - in voluntary liquidation

Right Way Investments Limited

Pursuant to Rules 13.51B(1) and 13.51B(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE"), other than those changes in directors' biographical data as set out on pages 4 to 9, as well as their emoluments as set out on page 116, of this annual report, the changes in directors' information are set out as follows:

Mr Andrew LIU has been a Non-executive Director of Freeman Financial Corporation Limited, a public company listed on the HKSE, since 30 November 2010.

Mr WANG Xiaoming resigned as an Executive Director of COSCO International Holdings Limited, a public company listed on the HKSE, on 11 August 2010.

Other than those disclosed above, there is no other information in respect of the above directors and any other directors of the Bank required to be disclosed pursuant to Rules 13.51B(1) and 13.51B(3) of the Rules Governing the Listing of Securities on HKSE.

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

		<b>Telephone</b>
<b>NEW TERRITORIES BRANCHES</b>		
Butterfly Estate	Shop Nos. 131-134, Level 1, Tip Ling House Butterfly Plaza, Butterfly Estate, Tuen Mun	2463 9263
Cheung Fat Estate	Shop Nos. 304 & 311, Level 3 Cheung Fat Plaza, Cheung Fat Estate, Tsing Yi	2495 7697
Cho Yiu Chuen	G/F, Block C, King Cho Road	2742 2211
Choi Ming Court	Shop Nos. 265 & 267-268, 2/F, Choi Ming Shopping Centre Choi Ming Court, Tseung Kwan O	3409 5375
Fanling	2 Wo Lung Street, Luen Wo Market, Fanling	2675 6203
Fu Tai Estate	Shop 101, Level 1, Fu Tai Shopping Centre Fu Tai Estate, Tuen Mun	2453 7630
Hau Tak Estate	Shop Nos. L111-112, 1/F, West Wing Hau Tak Shopping Centre, Hau Tak Estate, Tseung Kwan O	2706 1863
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Sha Tin	2641 1911
Kingswood Ginza	Shop 103, 1/F, Phase 2, Kingswood Ginza Tin Shui Wai	2616 4618
Kwai Chung Estate	Shop 111, Podium Level 1, Kwai Chung Shopping Centre Kwai Chung Estate, Kwai Chung	2279 4161
Leung King Estate	Shop No. 209, Level Two, Leung King Shopping Centre Leung King Estate, Tuen Mun	2465 1882
On Ting Estate	Shop No. 103, Level 1, Restaurant Block On Ting Shopping Centre, On Ting Estate Tuen Mun	2441 7117
Sheung Shui	71 San Fung Avenue, Sheung Shui	2670 6295
Sheung Tak Estate	Shop No. 237, Sheung Tak Shopping Centre Sheung Tak Estate, Tseung Kwan O	2178 1203
Tai Wo Plaza	Shop No. 225, Level 2, Tai Wo Plaza, Tai Po	2650 0863
Tin Chak Estate	Shop 112, 1/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	2486 3423
Tsuen Wan	Jade Plaza, 298 Sha Tsui Road, Tsuen Wan	2408 7481
Tuen Mun Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	2453 0181
Wan Tau Tong Estate	Shop Nos. 11-12A, Wan Loi House Wan Tau Tong Estate, Tai Po	2656 4313
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3141 7115
Yuen Long	99-109 Castle Peak Road, Yuen Long	2475 5307

**Telephone****GUANGZHOU REPRESENTATIVE OFFICE**

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

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

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

Shanghai	Room 2605, Chong Hing Finance Centre 288 Nanjing Road West Huangpu District, Shanghai China	(86-21) 6358 8099
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**SHANTOU BRANCH**

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

Card Alliance Company Limited  
Chong Hing Commodities and Futures Limited  
Chong Hing Finance Limited  
Chong Hing Information Technology Limited  
Chong Hing Insurance Company Limited  
Chong Hing (Nominees) Limited  
Chong Hing Securities Limited  
Gallbraith Limited

**AFFILIATES**

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