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2010 FINAL RESULTS

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Highlights

- Profit attributable to shareholders amounted to HK\$476 million, an improvement of 105.5% over that for the previous year, translating into earnings of HK\$1.09 per share
- A decrease in expenses relating to Minibonds Repurchase Scheme, lower impairment allowances required on loans and advances, and a reduction in impairment loss on available-for-sale securities had contributed to the significant improvement in profit attributable to shareholders
- The Bank made impairment allowances on loans and advances in the amount of HK\$18 million, a shrinkage of 82.6% against those made for the last year in 2009
- Asset quality of loans and advances continued to improve with gross impaired loans as a percentage of gross advances to customers descended by 43.8% from 0.16% in December 2009 to 0.09% in December 2010 and gross rescheduled loans as a percentage of gross advances to customers diminished by 28.6% from 0.98% in December 2009 to 0.70% in December 2010
- Net interest income slightly moved down 0.9% from that of the last year 2009 to HK\$816 million as net interest margin narrowed 2 basis points from the previous year to 1.21%
- Total loans to customers rose 15.7% from December 2009 to HK\$37,928 million
- Capital adequacy ratio rose 12.29% from December 2009 to 17.91% after the Bank placed a US\$ 225 million subordinated notes offering in October 2010 and core capital ratio was at 11.22%
- The Bank's core business lines and overall financial health are sound, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements
- A final cash dividend of HK\$0.35 per share is proposed for the year ended 31 December 2010 (2009 final cash dividend : HK\$0.20 per share)
- Total dividends for the financial year of 2010, including the interim cash dividend of HK\$0.10 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)

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the audited consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2010, together with the comparative figures for the corresponding year in 2009.

CONSOLIDATED INCOME STATEMENT

	NOTES	2010 HK\$'000	2009 HK\$'000	Variance %
Interest income		1,178,582	1,184,922	- 0.54
Interest expense		(362,455)	(361,591)	+ 0.24
Net interest income	4	816,127	823,331	- 0.87
Fee and commission income		291,763	307,299	- 5.06
Fee and commission expense		(51,589)	(43,670)	+ 18.13
Net fee and commission income	5	240,174	263,629	- 8.90
Net gains on financial instruments at fair value through profit or loss	6	23,752	76,878	- 69.10
Net gains (losses) on fair value hedge	6	13,294	(118)	+ 11,366.10
Other operating income	7	158,134	146,222	+ 8.15
Operating expenses	8	(711,935)	(978,415)	- 27.24
		539,546	331,527	+ 62.75
Impairment allowances on loans and advances	15	(17,785)	(102,289)	- 82.61
Net gain on disposal of prepaid lease payments for land		-	362	- 100.00
Net loss on disposal of property and equipment		(79)	(14)	+ 464.29
Net gain on disposal of available-for-sale securities		14,445	24,810	- 41.78
Net gain on disposal of and fair value adjustments on investment properties	16	15,895	31,148	- 48.97
Impairment loss on available-for-sale securities		(2,739)	(43,571)	- 93.71
Impairment loss on goodwill	23	-	(10,000)	+ 100.00
Share of profits of jointly controlled entities		19,036	32,410	- 41.27
Profit before taxation		568,319	264,383	+ 114.96
Taxation	9	(92,157)	(32,635)	+ 182.39
Profit for the year		476,162	231,748	+ 105.47
Earnings per share - basic	11	HK\$1.09	HK\$0.53	+ 105.47

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	HK\$'000	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

	NOTES	31 December 2010 HK\$'000	31 December 2009 HK\$'000 (Restated)	Variance %	1 January 2009 HK\$'000 (Restated)
Assets					
Cash and short-term funds	12	18,249,365	15,048,680	+ 21.27	17,659,927
Placements with banks and other financial institutions maturing between one to twelve months		2,282,122	2,814,566	– 18.92	5,367,858
Derivative financial instruments	13	20,542	331	+ 6,106.04	429
Financial assets at fair value through profit or loss	14	1,774,453	576,730	+ 207.67	680,680
Available-for-sale securities	14	1,212,428	272,649	+ 344.68	196,527
Held-to-maturity securities	14	10,878,046	16,954,466	– 35.84	9,727,685
Advances and other accounts	15	38,835,820	33,267,735	+ 16.74	33,634,842
Tax recoverable		6	31,925	– 99.98	38,113
Interests in jointly controlled entities		136,919	119,418	+ 14.66	82,999
Investment properties	16	116,400	103,199	+ 12.79	129,801
Property and equipment	17	729,771	762,657	– 4.31	794,704
Prepaid lease payments for land	18	2,535	2,564	– 1.13	3,147
Goodwill	23	50,606	50,606	–	60,606
Total assets		<u>74,289,013</u>	<u>70,005,526</u>	+ 6.12	<u>68,377,318</u>
Liabilities					
Deposits and balances of banks and other financial institutions		1,039,991	1,447,718	– 28.16	1,525,509
Deposits from customers	19	63,500,219	60,788,415	+ 4.46	59,401,660
Derivative financial instruments	13	256,426	44,413	+ 477.37	39,303
Other accounts and accruals		442,834	556,016	– 20.36	477,381
Current tax liabilities		50,106	15,671	+ 219.74	5,104
Loan capital	20	2,401,151	967,199	+ 148.26	965,454
Deferred tax liabilities	22	20,357	11,772	+ 72.93	6,283
Total liabilities		<u>67,711,084</u>	<u>63,831,204</u>	+ 6.08	<u>62,420,694</u>
Equity attributable to owners of the Bank					
Share capital	21	217,500	217,500	–	217,500
Reserves		6,360,429	5,956,822	+ 6.78	5,739,124
Total equity		<u>6,577,929</u>	<u>6,174,322</u>	+ 6.54	<u>5,956,624</u>
Total liabilities and equity		<u>74,289,013</u>	<u>70,005,526</u>	+ 6.12	<u>68,377,318</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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	10	-	-	-	-	-	-	-	(43,500)	(43,500)
Final dividend paid for financial year 2009	10	-	-	-	-	-	-	-	(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	10	-	-	-	-	-	-	-	(34,800)	(34,800)
Final dividend paid for financial year 2008	10	-	-	-	-	-	-	-	(21,750)	(21,750)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	(20,000)	20,000	-
At 31 December 2009		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>55,328</u>	<u>1,388,500</u>	<u>8,048</u>	<u>287,000</u>	<u>2,675,311</u>	<u>6,174,322</u>

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

	2010	2009
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
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
	180,458	84,799
(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	(940,722)	611,655
Hong Kong Profits Tax paid	(23,846)	(17,459)
Overseas tax paid	(2,302)	(3,388)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(966,870)	590,808

	2010	2009
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
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
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	<u>5,513,100</u>	<u>(6,973,919)</u>
FINANCING ACTIVITIES		
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)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	<u>1,404,920</u>	<u>(75,884)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>5,951,150</u>	<u>(6,458,995)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>11,074,304</u>	<u>17,533,299</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
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	<u>(2,466,042)</u>	<u>(5,341,224)</u>
	<u>17,025,454</u>	<u>11,074,304</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial information in this final results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2010 but is derived from those financial statements.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory financial statements for the year ended 31 December 2009 except that the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

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

New and revised HKFRSs affecting presentation and disclosure only

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 was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated 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 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 and HK\$318,969,000 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 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.

1. BASIS OF PREPARATION - 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)
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>

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)
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>

As the changes in accounting policies described above have been applied retrospectively, comparative figures as at 1 January 2009 are presented in the statement of financial position and in the relevant notes 17 and 18.

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

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

² Effective for annual periods beginning on or after 1 July 2010.

³ Effective for annual periods beginning on or after 1 July 2011.

⁴ Effective for annual periods beginning on or after 1 January 2013.

⁵ Effective for annual periods beginning on or after 1 January 2012.

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

⁷ 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.

2. 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 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 directors considers that, if the Group has early applied the amendments to HKAS 12, the deferred tax liabilities arising from the investment properties may be reduced.

The directors 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.

3. 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.

3. 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 <i>(note)</i>	138,757	-	-	-	(138,757)	-
Inter-segment interest expense <i>(note)</i>	-	(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.

3. 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
Assets					
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					<u>298,894</u>
Consolidated total assets					<u><u>74,289,013</u></u>
Liabilities					
Segment liabilities	63,652,994	3,730,762	131,636	47,437	67,562,829
Unallocated corporate liabilities					<u>148,255</u>
Consolidated total liabilities					<u><u>67,711,084</u></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 reportable segments are the same as the Group's accounting policies.

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, 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.

3. 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.

3. 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
Assets					
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					<u>331,273</u>
Consolidated total assets					<u><u>70,005,526</u></u>
Liabilities					
Segment liabilities	60,987,105	2,464,100	240,003	41,854	63,733,062
Unallocated corporate liabilities					<u>98,142</u>
Consolidated total liabilities					<u><u>63,831,204</u></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>

3. 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	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets	Capital expenditure during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets	Capital expenditure during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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.

4. NET INTEREST INCOME

	2010 HK\$'000	2009 HK\$'000
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	<u>14,696</u>	<u>11,842</u>
	<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	<u>(4,209)</u>	<u>(23,321)</u>
	<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.

5. NET FEE AND COMMISSION INCOME

	2010 HK\$'000	2009 HK\$'000
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	<u>10,645</u>	<u>8,770</u>
Total fees and commission income	291,763	307,299
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>

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

	2010	2009
	HK\$'000	HK\$'000
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>

7. OTHER OPERATING INCOME

	2010	2009
	HK\$'000	HK\$'000
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>

8. OPERATING EXPENSES

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

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.

9. 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 22</i>)	<u>(345)</u>	<u>(4,967)</u>
	<u>92,157</u>	<u>32,635</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>92,157</u>	<u>32,635</u>

10. DIVIDENDS

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

11. 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).

12. CASH AND SHORT-TERM FUNDS

	2010	2009
	HK\$'000	HK\$'000
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	<u>547,957</u>	<u>3,917,280</u>
	<u>18,249,365</u>	<u>15,048,680</u>

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount HK\$'000	2010		Notional amount HK\$'000	2009	
		Fair values Assets HK\$'000	Fair values Liabilities HK\$'000		Fair values Assets HK\$'000	Fair values Liabilities HK\$'000
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	<u>2,652</u>	<u>2,806</u>	-	<u>-</u>	<u>-</u>
		<u>20,542</u>	<u>256,426</u>		<u>331</u>	<u>44,413</u>

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:

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

13. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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 20 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.

14. INVESTMENTS IN SECURITIES

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

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.

14. INVESTMENTS IN SECURITIES - continued

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

15. ADVANCES AND OTHER ACCOUNTS

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

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

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2010	25,905	108,096	134,001
Increase in impairment allowances	11,556	16,926	28,482
Amounts reversed	(10,697)	–	(10,697)
Amounts written off	(5,185)	–	(5,185)
Recoveries of advances written off in previous years	680	–	680
Unwinding effect of discount rate	(695)	–	(695)
Exchange difference	–	67	67
Balance at 31 December 2010	<u>21,564</u>	<u>125,089</u>	<u>146,653</u>
Balance at 1 January 2009	5,799	108,988	114,787
Increase in impairment allowances	116,880	–	116,880
Amounts reversed	(13,694)	(897)	(14,591)
Amounts written off	(91,538)	–	(91,538)
Recoveries of advances written off in previous years	12,134	–	12,134
Unwinding effect of discount rate	(3,676)	–	(3,676)
Exchange difference	–	5	5
Balance at 31 December 2009	<u>25,905</u>	<u>108,096</u>	<u>134,001</u>

15. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

	2010 HK\$'000	2009 HK\$'000
Gross impaired loans	35,610	53,707
Less: Impairment allowances under individual assessment	<u>(21,564)</u>	<u>(25,905)</u>
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>

16. INVESTMENT PROPERTIES

	2010 HK\$'000	2009 HK\$'000
At 1 January	103,199	129,801
Net increase in fair value recognised in the income statement	12,765	5,148
Disposals	<u>(1,060)</u>	<u>(32,000)</u>
Exchange adjustments	<u>1,496</u>	<u>250</u>
At 31 December	<u>116,400</u>	<u>103,199</u>

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

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

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

Investment properties owned by the Group was 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 comprises:

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

17. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2010	396,264	316,663	498,720	1,211,647
Additions	–	–	22,162	22,162
Disposals	–	–	(5,876)	(5,876)
Exchange adjustments	–	–	363	363
At 31 December 2010	<u>396,264</u>	<u>316,663</u>	<u>515,369</u>	<u>1,228,296</u>
ACCUMULATED DEPRECIATION				
At 1 January 2010	77,295	40,746	330,949	448,990
Depreciation	6,008	6,634	42,475	55,117
Eliminated on disposals	–	–	(5,672)	(5,672)
Exchange adjustments	–	(114)	204	90
At 31 December 2010	<u>83,303</u>	<u>47,266</u>	<u>367,956</u>	<u>498,525</u>
CARRYING AMOUNTS				
At 31 December 2010	<u>312,961</u>	<u>269,397</u>	<u>147,413</u>	<u>729,771</u>
At 1 January 2010	<u>318,969</u>	<u>275,917</u>	<u>167,771</u>	<u>762,657</u>
	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2009	396,264	316,883	477,734	1,190,881
Additions	–	–	21,326	21,326
Disposals	–	(220)	(344)	(564)
Exchange adjustments	–	–	4	4
At 31 December 2009	<u>396,264</u>	<u>316,663</u>	<u>498,720</u>	<u>1,211,647</u>
ACCUMULATED DEPRECIATION				
At 1 January 2009	71,284	34,204	290,689	396,177
Provided for the year	6,011	6,624	40,589	53,224
Eliminated on disposals	–	(82)	(329)	(411)
At 31 December 2009	<u>77,295</u>	<u>40,746</u>	<u>330,949</u>	<u>448,990</u>
CARRYING AMOUNTS				
At 31 December 2009	<u>318,969</u>	<u>275,917</u>	<u>167,771</u>	<u>762,657</u>
At 1 January 2009	<u>324,980</u>	<u>282,679</u>	<u>187,045</u>	<u>794,704</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%

17. PROPERTY AND EQUIPMENT - continued

The carrying amount of leasehold land shown above comprise:

	2010	2009
	HK\$'000	HK\$'000
Leasehold land		
Held on long-term lease (over 50 years unexpired)	121,851	124,800
Held on medium-term lease (10 - 50 years unexpired)	187,578	193,145
Held on short-term lease (less than 10 years unexpired)	3,532	1,024
	<u>312,961</u>	<u>318,969</u>

The carrying amount of buildings shown above comprise:

	2010	2009
	HK\$'000	HK\$'000
Leasehold properties (building)		
Held in Hong Kong on long-term lease (over 50 years unexpired)	202,845	207,380
Held in Hong Kong on medium-term lease (10-50 years unexpired)	59,614	61,556
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,938	6,981
	<u>269,397</u>	<u>275,917</u>

18. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2010	2009
	HK\$'000	HK\$'000
COST		
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	<u>37</u>	<u>–</u>
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>

19. DEPOSITS FROM CUSTOMERS

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

Included in the balances of the Group 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.

20. LOAN CAPITAL

	2010	2009
	HK\$'000	HK\$'000
US\$100.5 million (2009: US\$125 million) floating rate subordinated notes due 2016 at amortised cost (<i>Note (a)</i>)	781,372	967,199
US\$225 million fixed rate subordinated notes due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (<i>Note (b)</i>)	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 issued 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.

21. SHARE CAPITAL

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

22. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Total HK\$'000
At 1 January 2010	15,533	(19,645)	8,919	6,965	11,772
Charge (credit) to consolidated income statement for the year (<i>Note 9</i>)	(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 (<i>Note 9</i>)	(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>

23. IMPAIRMENT LOSS ON GOODWILL

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 in 2008.

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.

24. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

	2010 HK\$'000	2009 HK\$'000
Within one year	35,260	30,034
In the second to fifth years inclusive	38,068	42,480
Over five years	-	332
	<u>73,328</u>	<u>72,846</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:

	2010 HK\$'000	2009 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	8,034	3,234

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:

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

25. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest and rental expenses	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 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 had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 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.

Compensation of key management personnel

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

	2010 HK\$'000	2009 HK\$'000
Short-term benefits	<u>52,534</u>	<u>52,749</u>
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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

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

	31 December 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	<u>4,511,922</u>	<u>69,982</u>	<u>1,113</u>	<u>2,037,889</u>	<u>3,192</u>
	<u><u>37,927,679</u></u>	<u><u>125,089</u></u>	<u><u>21,564</u></u>	<u><u>25,531,546</u></u>	<u><u>35,610</u></u>

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - 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
	29,031,766	33,176	18,953	20,975,582	27,195
Trade finance	692,339	20,205	5,393	231,044	10,156
Loans for use outside Hong Kong	3,069,474	54,715	1,559	1,619,902	16,356
	<u>32,793,579</u>	<u>108,096</u>	<u>25,905</u>	<u>22,826,528</u>	<u>53,707</u>

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

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:

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

2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

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

31 December 2010					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	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>
31 December 2009					
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	31,088,554	32,085	37,351	24,346	98,748
People's Republic of China	396,303	3,642	3,642	1,305	3,557
Macau	143,159	-	-	-	616
America	388,867	12,714	12,714	254	5,175
Others	<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>

3. CROSS-BORDER CLAIMS

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

	2010			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
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	<u>3,162,961</u>	<u>–</u>	<u>854</u>	<u>3,163,815</u>
	2009			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	12,509,722	119,294	754,727	13,383,743
- of which - China	5,159,827	24,266	578,685	5,762,778
- of which - Australia	3,226,306	936	518	3,227,760
- of which - Japan	3,004,146	937	8,807	3,013,890
North America	934,459	16,036	1,986,426	2,936,921
Europe	10,703,175	1,334	10,866	10,715,375
- of which - United Kingdom	3,320,357	339	246	3,320,942
- of which - France	<u>3,065,360</u>	<u>–</u>	<u>88</u>	<u>3,065,448</u>

4. CURRENCY RISK

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

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

6. NON-BANK MAINLAND EXPOSURES

	31 December 2010			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total 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			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total 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>

7. 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.

8. CAPITAL ADEQUACY RATIO

	2010	2009
	%	%
Capital adequacy ratio	17.91	15.95
Core capital ratio	11.22	12.72

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, "standardized (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.

8. CAPITAL ADEQUACY RATIO - continued

Capital base

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

	2010 HK\$'000	2009 HK\$'000
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	<u>(40,632)</u>	<u>(87,537)</u>
Total core capital	5,087,424	5,164,359
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	3,079,568	1,405,614
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.

9. BASIS OF CONSOLIDATION

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

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

10. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Liu Chong Hing Banking Corporation, Cayman - in voluntary liquidation

Right Way Investments Limited

STATEMENT OF COMPLIANCE

In preparing the accounts for 2010, the Bank has fully complied with the Banking (Disclosure) Rules of the Hong Kong Banking Ordinance.

FINAL DIVIDEND

The directors will recommend at the forthcoming annual general meeting of the shareholders to be held on Wednesday, 4 May 2011 the payment of the final cash dividend for 2010 of HK\$0.35 per share. This final cash dividend, if approved, will be paid on Thursday, 5 May 2011 to shareholders whose names are listed on the register of members of the Bank on Friday, 29 April 2011.

CLOSURE OF REGISTER OF MEMBERS

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 cash dividend, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 26 April 2011.

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.

CORPORATE GOVERNANCE

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.

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

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

The Bank’s Annual Report 2010, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

CHAIRMAN'S STATEMENT

Economic Review

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:

Key Financial Data	2010 HK\$'000 (unless otherwise specified)	2009 HK\$'000 (unless otherwise specified)	Variance %
1. Net operating profit before impairment	539,546	331,527	+ 62.75
2. Profit attributable to shareholders	476,162	231,748	+ 105.47
3. Return on equity	7.55%	3.75%	+101.33
4. Earnings per share	HK\$1.09	HK\$0.53	+ 105.66
5. Net interest income	816,127	823,331	– 0.87
6. Net interest margin	1.21%	1.23%	– 1.63
7. Net fee and commission income	240,174	263,629	– 8.90
8. Operating expenses	711,935	978,415	– 27.24
9. Cost-to-income ratio	56.89%	74.69%	– 23.83
10. Impairment allowances on loans and advances	17,785	102,289	– 82.61
11. Total loans and advances to customers	37,927,679	32,793,579	+ 15.66
12. Impaired loan ratio	0.09%	0.16%	– 43.75
13. Provision coverage of impaired loans and advances	411.83%	249.50%	+ 65.06
14. Rescheduled loan ratio	0.70%	0.98%	– 28.57
15. Total customer deposits	63,500,219	60,788,415	+ 4.46
16. Loan-to-deposit ratio	54.78%	49.57%	+ 10.51
17. Total assets	74,289,013	70,005,526	+ 6.12
18. Net asset value per share (before final dividend)	HK\$15.12	HK\$14.19	+ 6.55
19. Capital adequacy ratio	17.91%	15.95%	+ 12.29
20. Core capital ratio	11.22%	12.72%	– 11.79
21. Average liquidity ratio	45.20%	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 placed a US\$225 million subordinated notes offering in October 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.

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.

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.

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.

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 Bank also actively participated in and supported activities of other charitable organisations such as Po Leung Kuk, Tung Wah Group of Hospitals and Yan Chai Hospital, fulfilling its social responsibility as a "Caring Company" awarded by the Hong Kong Council of Social Service.

In January 2007, the Bank received overwhelming support when it encouraged 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.

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.

REVIEW OF FINANCIAL REPORT

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

BOARD OF DIRECTORS

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

By Order of the Board

Liu Lit Mo

Chairman

2 March 2011