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創興銀行有限公司
Chong Hing Bank Limited

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

2011 INTERIM RESULTS

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Highlights

- Profit attributable to shareholders amounted to HK\$409 million, an improvement of 111.5% over that for the corresponding period in previous year, translating into earnings of HK\$0.94 per share
- A recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme of HK\$235 million and reversal in impairment allowance on loan and advances of HK\$109 million from amount recovered on a secured loan which was previously written-off had contributed to the significant improvement in profit attributable to shareholders
- Asset quality of loans and advances continued to be good with gross rescheduled loans as a percentage of gross advances to customers diminished by 12.9% from 0.7% in December 2010 to 0.61% in June 2011 and gross impaired loans as a percentage of gross advances to customers was at 0.21% in June 2011
- Net interest income moved down 6% from that of the corresponding period in 2010 to HK\$387 million as net interest margin narrowed 14 basis points from corresponding period in 2010 to 1.11%
- Net fee and commission income increased by 3.6% from that of the corresponding period in 2010 to HK\$114 million
- Total loans and advances to customers rose 7.4% from December 2010 to HK\$40,726 million
- Capital adequacy ratio eased 5.4% to 16.94% after the increase in loans and core capital ratio was at 10.79%
- 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
- An interim cash dividend of HK\$0.15 per share is declared for the six months ended 30 June 2011 (2010 interim cash dividend: HK\$0.10 per share)

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the unaudited consolidated results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2011, together with the comparative figures for the last corresponding period. This interim financial information is unaudited, but has been reviewed by Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2011

| | Notes | Six months ended 30 June | | Variance % |
|--|-------|---------------------------------|---------------------------------|---------------|
| | | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) | |
| Interest income | | 624,882 | 558,193 | +11.95 |
| Interest expense | | (238,222) | (146,725) | +62.36 |
| Net interest income | 4 | 386,660 | 411,468 | -6.03 |
| Fee and commission income | | 141,592 | 133,915 | +5.73 |
| Fee and commission expense | | (27,892) | (24,182) | +15.34 |
| Net fee and commission income | 5 | 113,700 | 109,733 | +3.62 |
| Net losses on financial assets at fair value through profit or loss | 6 | (24,661) | (5,032) | +390.08 |
| Net losses on fair value hedge | 6 | (23,533) | (238) | +9,787.82 |
| Other operating income | 7 | 325,219 | 73,342 | +343.43 |
| Operating expenses | 8 | (391,426) | (348,977) | +12.16 |
| | | 385,959 | 240,296 | +60.62 |
| Impairment allowances on loans and advances | | | | |
| - New allowances | | (39,773) | (25,571) | +55.54 |
| - Amounts reversed | 16 | 115,817 | 5,835 | +1,884.87 |
| | | 76,044 | (19,736) | -485.31 |
| Net (loss) gain on disposal of property and equipment | | (11) | 82 | -113.41 |
| Net gain on disposal of available-for-sale securities | | 7 | - | - |
| Net gain on disposal of and fair value adjustments on investment properties | 17 | 5,863 | 6,630 | -11.57 |
| Impairment loss on available-for-sale securities | | - | (1,818) | +100.00 |
| Profit from operations | | 467,862 | 225,454 | +107.52 |
| Share of profits of jointly controlled entities | | 13,638 | 2,883 | +373.05 |
| Profit before taxation | | 481,500 | 228,337 | +110.87 |
| Taxation | 10 | | | |
| - Hong Kong | | (71,711) | (33,941) | +111.28 |
| - Overseas | | (1,614) | (570) | +183.16 |
| - Deferred tax | | 806 | (434) | -285.71 |
| | | (72,519) | (34,945) | +107.52 |
| Profit for the period | | 408,981 | 193,392 | +111.48 |
| Earnings per share, basic | 11 | HK\$0.94 | HK\$0.44 | +111.48 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2011 HK\$'000 (Unaudited) | 2010 HK\$'000 (Unaudited) |
| Profit for the period | <u>408,981</u> | <u>193,392</u> |
| Other comprehensive income | | |
| Exchange differences arising on translation | 2,778 | 2,347 |
| Revaluation of available-for-sale securities: | | |
| Revaluation (loss) gain on available-for-sale securities, net | (1,631) | 3,491 |
| Share of other comprehensive (expense) income of jointly controlled entities | (119) | 126 |
| Reclassification adjustment upon disposal and impairment | (7) | 1,818 |
| | (1,757) | 5,435 |
| Income tax relating to available-for-sale securities | <u>(382)</u> | <u>(1,184)</u> |
| Other comprehensive income for the period (net of tax) | <u>639</u> | <u>6,598</u> |
| Total comprehensive income for the period | <u><u>409,620</u></u> | <u><u>199,990</u></u> |
| Total comprehensive income for the period attributable to: | | |
| Owners of the Bank | <u><u>409,620</u></u> | <u><u>199,990</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

| | Notes | 30 June 2011 HK\$'000 (Unaudited) | 31 December 2010 HK\$'000 (Audited) | Variance % |
|---|-------|---|---|---------------|
| ASSETS | | | | |
| Cash and short-term funds | 13 | 16,981,913 | 18,249,365 | -6.95 |
| Placements with banks and other financial institutions maturing between one and twelve months | | 1,770,814 | 2,282,122 | -22.40 |
| Derivative financial instruments | 14 | 15,938 | 20,542 | -22.41 |
| Financial assets at fair value through profit or loss | 15 | 1,692,036 | 1,774,453 | -4.64 |
| Available-for-sale securities | 15 | 1,376,073 | 1,212,428 | +13.50 |
| Held-to-maturity securities | 15 | 9,107,258 | 10,878,046 | -16.28 |
| Advances and other accounts | 16 | 41,596,612 | 38,835,820 | +7.11 |
| Tax recoverable | | - | 6 | -100.00 |
| Interests in jointly controlled entities | | 149,388 | 136,919 | +9.11 |
| Investment properties | 17 | 123,035 | 116,400 | +5.70 |
| Property and equipment | 18 | 713,585 | 729,771 | -2.22 |
| Prepaid lease payments for land | 19 | 2,466 | 2,535 | -2.72 |
| Goodwill | | 50,606 | 50,606 | - |
| Total assets | | 73,579,724 | 74,289,013 | -0.95 |
| LIABILITIES | | | | |
| Deposits and balances of banks and other financial institutions | | 1,718,638 | 1,039,991 | +65.26 |
| Financial assets sold under repurchase agreements | 20 | 524,507 | - | - |
| Deposits from customers | 21 | 60,888,506 | 63,500,219 | -4.11 |
| Derivative financial instruments | 14 | 252,321 | 256,426 | -1.60 |
| Other accounts and accruals | | 638,576 | 442,834 | +44.20 |
| Current tax liabilities | | 115,427 | 50,106 | +130.37 |
| Loan capital | 22 | 2,386,714 | 2,401,151 | -0.60 |
| Certificates of deposit issued | 23 | 199,803 | - | - |
| Deferred tax liabilities | 24 | 19,933 | 20,357 | -2.08 |
| Total liabilities | | 66,744,425 | 67,711,084 | -1.43 |
| Shareholders' equity | | | | |
| Share capital | | 217,500 | 217,500 | - |
| Reserves | | 6,617,799 | 6,360,429 | +4.05 |
| Shareholders' funds | | 6,835,299 | 6,577,929 | +3.91 |
| Total liabilities and shareholders' equity | | 73,579,724 | 74,289,013 | -0.95 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

| | 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 2011 (audited) | | 217,500 | 1,542,817 | (182) | 106,220 | 1,388,500 | 15,101 | 331,000 | 2,976,973 | 6,577,929 |
| Profit for the period | | - | - | - | - | - | - | - | 408,981 | 408,981 |
| Other comprehensive (expense) income for the period | | - | - | - | (2,139) | - | 2,778 | - | - | 639 |
| Total comprehensive (expense) income for the period | | - | - | - | (2,139) | - | 2,778 | - | 408,981 | 409,620 |
| Final cash dividend for financial year 2010, paid | 12 | - | - | - | - | - | - | - | (152,250) | (152,250) |
| Earmark of retained profits as regulatory reserve | | - | - | - | - | - | - | 66,000 | (66,000) | - |
| At 30 June 2011 (unaudited) | | <u>217,500</u> | <u>1,542,817</u> | <u>(182)</u> | <u>104,081</u> | <u>1,388,500</u> | <u>17,879</u> | <u>397,000</u> | <u>3,167,704</u> | <u>6,835,299</u> |
| At 1 January 2010 (audited) | | 217,500 | 1,542,817 | (182) | 55,328 | 1,388,500 | 8,048 | 287,000 | 2,675,311 | 6,174,322 |
| Profit for the period | | - | - | - | - | - | - | - | 193,392 | 193,392 |
| Other comprehensive income for the period | | - | - | - | 4,251 | - | 2,347 | - | - | 6,598 |
| Total comprehensive income for the period | | - | - | - | 4,251 | - | 2,347 | - | 193,392 | 199,990 |
| Final cash dividend for financial year 2009, paid | 12 | - | - | - | - | - | - | - | (87,000) | (87,000) |
| Earmark of retained profits as regulatory reserve | | - | - | - | - | - | - | 24,000 | (24,000) | - |
| At 30 June 2010 (unaudited) | | <u>217,500</u> | <u>1,542,817</u> | <u>(182)</u> | <u>59,579</u> | <u>1,388,500</u> | <u>10,395</u> | <u>311,000</u> | <u>2,757,703</u> | <u>6,287,312</u> |

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| OPERATING ACTIVITIES | | |
| Profit before taxation | 481,500 | 228,337 |
| Adjustments for: | | |
| Depreciation | 26,724 | 27,353 |
| Release of prepaid lease payments for land | 33 | 32 |
| Net loss (gain) on disposal of property and equipment | 11 | (82) |
| Net gain on disposal of and fair value adjustments on investment properties | (5,863) | (6,630) |
| Net gain on disposal of available-for-sale securities | (7) | – |
| Impairment loss on available-for-sale securities | – | 1,818 |
| (Reversals) impairment allowances on loans and advances | (76,044) | 19,736 |
| Net (gains) losses on hedging instruments | (17,456) | 7,601 |
| Fair value adjustment of hedged interest rate risk of subordinated notes | 51,606 | – |
| Revaluation gain on available-for-sale securities attributable to hedged risk | (10,617) | (7,363) |
| Dividend income from investments | (4,341) | (4,617) |
| Share of profits of jointly controlled entities | (13,638) | (2,883) |
| Interest income from available-for-sale securities and held-to-maturity securities | (116,364) | (174,721) |
| Interest expense on loan capital | 36,851 | 6,466 |
| Exchange adjustments | 1,671 | 5,753 |
| Operating cash flows before movements in operating assets and liabilities | 354,066 | 100,800 |
| (Increase) decrease in operating assets: | | |
| Money at call and short notice with original maturity over three months | (1,321,161) | 1,970,103 |
| Exchange fund bills with original maturity over three months | (100,506) | (138,342) |
| Placements with banks and other financial institutions with original maturity over three months | 300,499 | (963,204) |
| Financial assets at fair value through profit or loss | 82,417 | (270,874) |
| Bills receivable | (41,538) | (31,773) |
| Trade bills | (148,617) | (6,003) |
| Other advances to customers | (2,494,280) | (2,724,127) |
| Interest receivable and other accounts | (187,560) | 160,851 |
| Advances to banks and other financial institutions | 194,192 | (399,093) |
| Increase (decrease) in operating liabilities: | | |
| Deposits and balances of banks and other financial institutions with original maturity over three months | 324,504 | 1,066 |
| Financial assets sold under repurchase agreements | 524,507 | – |
| Certificates of deposit issued | 199,803 | – |
| Deposits from customers | (2,611,713) | (273,395) |
| Other accounts and accruals | 179,021 | (18,118) |
| Derivative financial instruments | 17,955 | (4,148) |
| Cash used in operations | (4,728,411) | (2,596,257) |
| Hong Kong Profits Tax paid | (6,405) | (4,998) |
| Overseas tax paid | (1,593) | (570) |
| NET CASH USED IN OPERATING ACTIVITIES | (4,736,409) | (2,601,825) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – continued
FOR THE SIX MONTHS ENDED 30 JUNE 2011

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| INVESTING ACTIVITIES | | |
| Interest received on available-for-sale securities and held-to-maturity securities | 109,390 | 172,549 |
| Dividends received on investments | 4,341 | 4,617 |
| Dividends received from jointly controlled entities | 1,050 | 1,680 |
| Purchase of available-for-sale securities | (154,711) | (150,286) |
| Purchase of held-to-maturity securities | (2,977,545) | (18,478,973) |
| Purchase of property and equipment | (10,516) | (10,096) |
| Proceeds from sale and redemption of available-for-sale securities | 52 | – |
| Proceeds from redemption of held-to-maturity securities | 4,748,333 | 19,499,052 |
| Proceeds from disposals of property and equipment | – | 125 |
| Proceeds from disposal of an investment property | – | 635 |
| NET CASH GENERATED FROM INVESTING ACTIVITIES | 1,720,394 | 1,039,303 |
| FINANCING ACTIVITIES | | |
| Interest paid on loan capital | (18,870) | (5,978) |
| Repurchase of loan capital | (66,936) | – |
| Dividends paid | (152,250) | (87,000) |
| NET CASH USED IN FINANCING ACTIVITIES | (238,056) | (92,978) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (3,254,071) | (1,655,500) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 17,025,454 | 11,074,304 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | 13,771,383 | 9,418,804 |
| Represented by: | | |
| Cash and balances with banks and other financial institutions | 4,424,490 | 9,461,679 |
| Money at call and short notice | 11,908,960 | 2,498,001 |
| Exchange fund bills | 648,463 | 555,634 |
| Placements with banks and other financial institutions maturing between one and twelve months | 1,770,814 | 3,707,638 |
| Deposits and balances of banks and other financial institutions | (1,718,638) | (2,332,547) |
| Less: Amounts with original maturity over three months | (3,262,706) | (4,471,601) |
| | 13,771,383 | 9,418,804 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and method of computation adopted in the 2010 annual financial statements have been applied consistently to this interim financial information except for the following:

There are a number of new or revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2011. The application of the new or revised HKFRSs has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

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

| | |
|------------------------------|---|
| HKFRS 7 (Amendments) | Disclosures - Transfers of financial assets ¹ |
| HKFRS 9 | Financial instruments ² |
| HKFRS 10 | Consolidated financial statements ² |
| HKFRS 11 | Joint arrangements ² |
| HKFRS 12 | Disclosure of interests in other entities ² |
| HKFRS 13 | Fair value measurement ² |
| HKAS 1 (as revised in 2011) | Presentation of financial statements ⁴ |
| HKAS 12 (Amendments) | Deferred tax: Recovery of underlying assets ³ |
| HKAS 19 (as revised in 2011) | Employment benefits ² |
| HKAS 27 (as revised in 2011) | Separate financial statements ² |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures ² |

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

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2012.

⁴ Effective for annual periods beginning on or after 1 July 2012.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

2. PRINCIPAL ACCOUNTING POLICIES - continued

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

2. PRINCIPAL ACCOUNTING POLICIES - continued

The amendments to HKAS 12 titled “Deferred tax: Recovery of underlying assets” mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property”. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The board of directors anticipates 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 30 June 2011, the Group’s carrying amounts of deferred tax liabilities arising from the investment properties which have been considered as recovered through use is HK\$12,344,000 (31 December 2010: HK\$11,191,000). The board of directors considers that, if the Group and the Bank have early applied the amendments to HKAS 12, the deferred tax liabilities arising from the investment properties may be reduced.

HKFRS 10 replaces the parts of HKAS27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (1) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall the application of HKFRS requires a lot of judgment.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties’ rights and obligations under the arrangements. In contrast, under HKAS31, there are three different types of joint arrangements: joint controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entries under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. SEGMENT INFORMATION

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:

1. Corporate and retail banking
2. Treasury activities
3. Securities dealing
4. Others comprising investment holding, insurance, other investment advisory services and property investments.

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

Six months ended 30 June 2011

| | Corporate and retail banking HK\$'000 | Treasury activities HK\$'000 | Securities dealing HK\$'000 | Others HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|---|--|------------------------------------|-----------------------------------|--------------------|------------------------------|--------------------------|--------------------------|
| Interest income from external customers | 359,703 | 263,577 | 1,602 | - | 624,882 | - | 624,882 |
| Interest expense to external customers | (181,651) | (56,571) | - | - | (238,222) | - | (238,222) |
| Inter-segment interest income (Note) | 65,742 | - | - | - | 65,742 | (65,742) | - |
| Inter-segment interest expense (Note) | - | (65,742) | - | - | (65,742) | 65,742 | - |
| Net interest income | 243,794 | 141,264 | 1,602 | - | 386,660 | - | 386,660 |
| Fees and commission income | 59,424 | - | 82,168 | - | 141,592 | - | 141,592 |
| Fees and commission expense | (27,596) | - | (296) | - | (27,892) | - | (27,892) |
| Net gain (losses) on financial assets at fair value through profit or loss | 116 | (24,727) | - | (50) | (24,661) | - | (24,661) |
| Net losses on fair value hedge | - | (23,533) | - | - | (23,533) | - | (23,533) |
| Other operating income (expenses) | 274,578 | 35,099 | (2) | 15,544 | 325,219 | - | 325,219 |
| Segment revenue | | | | | | | |
| - total operating income | 550,316 | 128,103 | 83,472 | 15,494 | 777,385 | - | 777,385 |
| Comprising: | | | | | | | |
| - segment revenue from external customers | 484,574 | 193,845 | 83,472 | 15,494 | | | |
| - inter-segment transactions | 65,742 | (65,742) | - | - | | | |
| Operating expenses | (242,867) | (14,622) | (35,067) | (4,663) | (297,219) | - | (297,219) |
| Impairment allowances on loans and advances | 76,044 | - | - | - | 76,044 | - | 76,044 |
| Net loss on disposal of property and equipment | (11) | - | - | - | (11) | - | (11) |
| Net gain on disposal of available-for-sale securities | - | - | - | 7 | 7 | - | 7 |
| Net gain on disposal of and fair value adjustments on investment properties | - | - | - | 5,863 | 5,863 | - | 5,863 |
| Segment profit | 383,482 | 113,481 | 48,405 | 16,701 | 562,069 | - | 562,069 |
| Unallocated expenses | | | | | | | (94,207) |
| Share of profits of jointly controlled entities | | | | | | | 13,638 |
| Profit before taxation | | | | | | | 481,500 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. SEGMENT INFORMATION – continued

As at 30 June 2011

| | Corporate and retail banking HK\$'000 | Treasury activities HK\$'000 | Securities dealing HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|--|--|------------------------------------|-----------------------------------|--------------------|--------------------------|
| Segment assets | 46,148,536 | 26,262,928 | 290,065 | 425,519 | 73,127,048 |
| Interests in jointly controlled entities | | | | | 149,388 |
| Unallocated assets | | | | | 303,288 |
| Consolidated total assets | | | | | <u>73,579,724</u> |
| Segment liabilities | 61,143,900 | 5,117,892 | 224,182 | 47,566 | 66,533,540 |
| Unallocated liabilities | | | | | 210,885 |
| Consolidated total liabilities | | | | | <u>66,744,425</u> |

Other information

Six months ended 30 June 2011

| | Corporate and retail banking HK\$'000 | Treasury activities HK\$'000 | Securities dealing HK\$'000 | Others HK\$'000 | Segment total HK\$'000 | Unallocated HK\$'000 | Consolidated HK\$'000 |
|---|--|------------------------------------|-----------------------------------|--------------------|------------------------------|-------------------------|--------------------------|
| Capital additions | 5,771 | 407 | 162 | 35 | 6,375 | 4,141 | 10,516 |
| Depreciation | 15,135 | 794 | 2,892 | 55 | 18,876 | 7,848 | 26,724 |
| Release of prepaid lease payments for land | <u>33</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>33</u> | <u>-</u> | <u>33</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. SEGMENT INFORMATION – continued

Six months ended 30 June 2010

| | Corporate and retail banking HK\$'000 | Treasury activities HK\$'000 | Securities dealing HK\$'000 | Others HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|---|--|------------------------------------|-----------------------------------|--------------------|------------------------------|--------------------------|--------------------------|
| Interest income from external customers | 320,918 | 236,384 | 891 | – | 558,193 | – | 558,193 |
| Interest expense to external customers | (139,833) | (6,892) | – | – | (146,725) | – | (146,725) |
| Inter-segment interest income (<i>Note</i>) | 59,182 | – | – | – | 59,182 | (59,182) | – |
| Inter-segment interest expense (<i>Note</i>) | – | (59,182) | – | – | (59,182) | 59,182 | – |
| Net interest income | 240,267 | 170,310 | 891 | – | 411,468 | – | 411,468 |
| Fees and commission income | 50,654 | – | 83,261 | – | 133,915 | – | 133,915 |
| Fees and commission expense | (23,745) | – | (437) | – | (24,182) | – | (24,182) |
| Net gains (losses) on financial assets at fair value through profit or loss | 206 | (5,048) | – | (190) | (5,032) | – | (5,032) |
| Net losses on fair value hedge | – | (238) | – | – | (238) | – | (238) |
| Other operating income | 36,992 | 19,314 | – | 17,036 | 73,342 | – | 73,342 |
| Segment revenue | | | | | | | |
| - total operating income | 304,374 | 184,338 | 83,715 | 16,846 | 589,273 | – | 589,273 |
| Comprising: | | | | | | | |
| - segment revenue from external customers | 245,192 | 243,520 | 83,715 | 16,846 | | | |
| - inter-segment transactions | 59,182 | (59,182) | – | – | | | |
| Operating expenses | (210,160) | (12,684) | (28,322) | (5,107) | (256,273) | – | (256,273) |
| Impairment allowances on loans and advances | (19,736) | – | – | – | (19,736) | – | (19,736) |
| Net gain on disposal of property and equipment | 82 | – | – | – | 82 | – | 82 |
| Net gain on disposal of and fair value adjustments on investment properties | – | – | – | 6,630 | 6,630 | – | 6,630 |
| Impairment loss on available-for-sale securities | – | (1,818) | – | – | (1,818) | – | (1,818) |
| Segment profit | 74,560 | 169,836 | 55,393 | 18,369 | 318,158 | – | 318,158 |
| Unallocated expenses | | | | | | | (92,704) |
| Share of profits of jointly controlled entities | | | | | | | 2,883 |
| Profit before taxation | | | | | | | 228,337 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. SEGMENT INFORMATION – continued

As at 31 December 2010

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

Other information

Six months ended 30 June 2010

| | Corporate and retail banking HK\$'000 | Treasury activities HK\$'000 | Securities dealing HK\$'000 | Others HK\$'000 | Segment total HK\$'000 | Unallocated HK\$'000 | Consolidated HK\$'000 |
|---|--|------------------------------------|-----------------------------------|--------------------|------------------------------|-------------------------|--------------------------|
| Capital additions | 3,676 | 124 | 533 | 11 | 4,344 | 5,752 | 10,096 |
| Depreciation | 15,651 | 828 | 2,813 | 255 | 19,547 | 7,806 | 27,353 |
| Release of prepaid lease payments for land | 32 | – | – | – | 32 | – | 32 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

3. SEGMENT INFORMATION – continued

Geographical information

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

| | Six months ended 30 June 2011 | | As at 30 June 2011 | | | |
|-------------------|--|--|-----------------------------|----------------------------------|---|--|
| | Total operating income HK\$'000 | Profit before taxation HK\$'000 | Total assets HK\$'000 | Total liabilities HK\$'000 | Total contingent liabilities and commitments HK\$'000 | Capital expenditure during the period HK\$'000 |
| Hong Kong | 759,127 | 472,793 | 71,831,985 | 65,817,416 | 17,186,457 | 10,277 |
| Macau and Shantou | 11,715 | 5,132 | 1,201,441 | 828,215 | 212,775 | 151 |
| America | 6,543 | 3,575 | 546,298 | 98,794 | 40,154 | 88 |
| Total | <u>777,385</u> | <u>481,500</u> | <u>73,579,724</u> | <u>66,744,425</u> | <u>17,439,386</u> | <u>10,516</u> |

| | Six months ended 30 June 2010 | | As at 31 December 2010 | | | |
|-------------------|--|--|-----------------------------|----------------------------------|---|--|
| | Total operating income HK\$'000 | Profit before taxation HK\$'000 | Total assets HK\$'000 | Total liabilities HK\$'000 | Total contingent liabilities and commitments HK\$'000 | Capital expenditure during the year HK\$'000 |
| Hong Kong | 575,000 | 222,778 | 72,771,971 | 66,984,755 | 17,682,021 | 20,959 |
| Macau and Shantou | 7,526 | 1,605 | 974,891 | 607,733 | 198,247 | 1,166 |
| America | 6,747 | 3,954 | 542,151 | 118,596 | 42,253 | 37 |
| Total | <u>589,273</u> | <u>228,337</u> | <u>74,289,013</u> | <u>67,711,084</u> | <u>17,922,521</u> | <u>22,162</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

4. NET INTEREST INCOME

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Interest income | | |
| Short-term funds and placements | 116,796 | 64,252 |
| Investments in securities | 135,838 | 171,824 |
| Loans and advances | 349,031 | 318,750 |
| Interest rate swap | 23,217 | 3,367 |
| | <u>624,882</u> | <u>558,193</u> |
| Interest expense | | |
| Deposits and balances from banks, other financial institutions and customers | (186,311) | (138,364) |
| Financial assets sold under repurchase agreements | (852) | – |
| Interest rate swaps | (14,200) | (1,895) |
| Certificates of deposit in issue | (8) | – |
| Loan capital in issue | (36,851) | (6,466) |
| | <u>(238,222)</u> | <u>(146,725)</u> |
| Net interest income | <u>386,660</u> | <u>411,468</u> |
| Included within interest income | | |
| Interest income on impaired loans and advances | <u>243</u> | <u>415</u> |

Included within interest income and interest expense are HK\$582,191,000 (2010: HK\$554,084,000) and HK\$224,022,000 (2010: HK\$144,830,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

5. NET FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|----------------------------------|--------------------------|-----------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Fee and commission income | | |
| Securities dealings | 82,168 | 83,261 |
| Credit lines | 6,359 | 6,170 |
| Trade finance | 5,440 | 4,890 |
| Credit card services | 30,208 | 25,901 |
| Agency services | 11,390 | 8,532 |
| Others | 6,027 | 5,161 |
| Total fee and commission income | <u>141,592</u> | <u>133,915</u> |
| Less: Fee and commission expense | <u>(27,892)</u> | <u>(24,182)</u> |
| Net fee and commission income | <u>113,700</u> | <u>109,733</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

6. NET LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS / NET LOSSES ON FAIR VALUE HEDGE

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Net losses on financial assets at fair value through profit or loss | | |
| - designated at fair value through profit or loss | (24,694) | (5,049) |
| - held for trading | 33 | 17 |
| | <u>(24,661)</u> | <u>(5,032)</u> |
| Net losses on fair value hedge | | |
| - net (losses) gains on hedged items attributable to the hedged risk | (40,989) | 7,363 |
| - net gains (losses) on hedging instruments | 17,456 | (7,601) |
| | <u>(23,533)</u> | <u>(238)</u> |

7. OTHER OPERATING INCOME

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Dividend income | 4,341 | 4,617 |
| - Listed investments | 2,341 | 2,337 |
| - Unlisted investments | 2,000 | 2,280 |
| Net gains on dealing in foreign currencies | 35,099 | 19,314 |
| Net rental income | 6,598 | 6,583 |
| - Gross rents from properties | 7,094 | 7,024 |
| - Less: Outgoings | (496) | (441) |
| Safe deposit box rentals | 14,889 | 12,233 |
| Insurance underwriting profit | 4,605 | 5,855 |
| Other banking services income | 22,664 | 22,571 |
| Recovery of amounts previously written-off in relation to Minibonds Repurchase Scheme (Note) | 234,632 | – |
| Others | 2,391 | 2,169 |
| | <u>325,219</u> | <u>73,342</u> |

Note: The Bank announced on 28 March 2011 that it has entered into an agreement (“Agreement”) with the Lehman Brothers, the trustee and the receiver for the Lehman Brothers Minibonds (“Minibonds”), and fifteen other distributing banks in relation to the recovery of the Minibonds underlying collateral (“Collateral”). Pursuant to the Agreement, the Bank received recoveries of amounts previously written-off amounting to HK\$234,632,000 from the Collateral during the period, net of an ex-gratia payment to customers who held the Minibonds.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

8. OPERATING EXPENSES

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Auditor's remuneration | 1,901 | 1,850 |
| Staff costs: | | |
| Salaries and other costs | 198,011 | 189,673 |
| Retirement benefits scheme contributions | 13,983 | 10,721 |
| Total staff costs | 211,994 | 200,394 |
| Depreciation | 26,724 | 27,353 |
| Release of prepaid lease payments for land | 33 | 32 |
| Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land | | |
| Rentals and rates for premises | 23,182 | 21,634 |
| Others | 8,892 | 9,305 |
| Other operating expenses | 118,700 | 88,409 |
| | 391,426 | 348,977 |

9. IMPAIRMENT LOSS ON GOODWILL

For the six-month period ended 30 June 2011, the management has reviewed the goodwill for impairment testing purposes. The review comprises of a comparison of the carrying amount and the value in use of an acquired subsidiary (the cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on five-year financial budgets approved by management and with a stable growth beyond the five-year projection 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. Key assumptions include an average growth rate of 4% (2010: 4%) in revenues and selection of discount rates of 12% (2010: 12%).

The management of the Group determines that there is no impairment loss on the goodwill for the six-month period ended 30 June 2011 and 30 June 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

10. TAXATION

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the period.

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

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$408,981,000 (2010: HK\$193,392,000) and on 435,000,000 (2010: 435,000,000) ordinary shares in issue during the period.

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

12. DIVIDENDS

On 30 April 2011, a dividend of HK\$0.35 per share amounting to HK\$152,250,000 was paid to shareholders as the final dividend for 2010.

On 29 April 2010, a dividend of HK\$0.2 per share totalling HK\$87,000,000 was paid to shareholders as the final dividend for 2009.

Subsequent to the end of the interim period, the directors have determined that a total amount of interim dividend in respect of the financial year ending 31 December 2011 of HK\$65,250,000 (2010: HK\$43,500,000) at a rate of HK\$0.15 (2010: HK\$0.10) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 22 September 2011.

13. CASH AND SHORT-TERM FUNDS

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|---|--------------------------|------------------------------|
| Cash and balances with banks and other financial institutions | 4,424,490 | 11,677,098 |
| Money at call and short notice | 11,908,960 | 6,024,310 |
| Exchange fund bills | 648,463 | 547,957 |
| | <u>16,981,913</u> | <u>18,249,365</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

14. DERIVATIVE FINANCIAL INSTRUMENTS

30 June 2011

| | Notional amount HK\$'000 | Fair values Assets HK\$'000 | Liabilities HK\$'000 |
|--|--------------------------------|-----------------------------------|-------------------------|
| Derivatives held for trading: | | | |
| - Foreign currency related contracts | 780,902 | 1,174 | 7,415 |
| - Interest rate swaps | 1,165,678 | 6,107 | 163,697 |
| Derivatives held for hedging: | | | |
| Derivatives designated as hedging instruments in fair value hedges: | | | |
| - Interest rate swaps | 2,622,534 | 8,478 | 77,536 |
| - Cross-currency interest rate swaps | 233,306 | 179 | 3,673 |
| | | <u>15,938</u> | <u>252,321</u> |

31 December 2010

| | Notional amount HK\$'000 | Fair values Assets HK\$'000 | Liabilities HK\$'000 |
|--|--------------------------------|-----------------------------------|-------------------------|
| Derivatives held for trading: | | | |
| - Foreign currency related contracts | 537,681 | 247 | 6,603 |
| - Interest rate swaps | 1,343,081 | 2,610 | 142,130 |
| Derivatives held for hedging: | | | |
| Derivatives designated as hedging instruments in fair value hedges: | | | |
| - Interest rate swaps | 2,467,306 | 15,033 | 104,887 |
| - Cross-currency interest rate swaps | 233,306 | 2,652 | 2,806 |
| | | <u>20,542</u> | <u>256,426</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

15. INVESTMENTS IN SECURITIES

| | Financial assets at fair value through profit or loss | | | | |
|--|--|---|--|--|-------------------|
| | Held for trading HK\$'000 | Designated at fair value HK\$'000 | Available- for-sale securities HK\$'000 | Held-to- maturity securities HK\$'000 | Total HK\$'000 |
| 30 June 2011 | | | | | |
| Equity securities: | | | | | |
| Listed in Hong Kong | 272 | - | 187,820 | - | 188,092 |
| Listed overseas | - | - | 10,169 | - | 10,169 |
| | <u>272</u> | <u>-</u> | <u>197,989</u> | <u>-</u> | <u>198,261</u> |
| Unlisted | - | - | 33,064 | - | 33,064 |
| | <u>272</u> | <u>-</u> | <u>231,053</u> | <u>-</u> | <u>231,325</u> |
| Debt securities: | | | | | |
| Certificates of deposit | - | - | - | 1,104,078 | 1,104,078 |
| Structured products | - | 1,691,764 | - | - | 1,691,764 |
| Other debt securities - Unlisted | - | - | 1,145,020 | 8,003,180 | 9,148,200 |
| | <u>-</u> | <u>1,691,764</u> | <u>1,145,020</u> | <u>9,107,258</u> | <u>11,944,042</u> |
| Total: | | | | | |
| Listed in Hong Kong | 272 | - | 187,820 | - | 188,092 |
| Listed overseas | - | - | 10,169 | - | 10,169 |
| Unlisted | - | 1,691,764 | 1,178,084 | 9,107,258 | 11,977,106 |
| | <u>272</u> | <u>1,691,764</u> | <u>1,376,073</u> | <u>9,107,258</u> | <u>12,175,367</u> |
| Market value of listed securities: | | | | | |
| Listed in Hong Kong | 272 | - | 187,820 | - | 188,092 |
| Listed overseas | - | - | 10,169 | - | 10,169 |
| | <u>272</u> | <u>-</u> | <u>197,989</u> | <u>-</u> | <u>198,261</u> |
| As analysed by issuing entities: | | | | | |
| Central government and central banks | - | - | - | 132,021 | 132,021 |
| Public sector entities | - | - | 56,932 | 95,116 | 152,048 |
| Banks and other financial institutions | 31 | 455,131 | 287,970 | 7,451,430 | 8,194,562 |
| Corporate entities | 241 | 1,236,633 | 1,026,600 | 1,428,691 | 3,692,165 |
| Others | - | - | 4,571 | - | 4,571 |
| | <u>272</u> | <u>1,691,764</u> | <u>1,376,073</u> | <u>9,107,258</u> | <u>12,175,367</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

15. INVESTMENTS IN SECURITIES – continued

| | Financial assets at fair value through profit or loss | | Available- for-sale securities | Held-to- maturity securities | Total |
|--|--|---|--------------------------------------|------------------------------------|-------------------|
| | Held for trading HK\$'000 | Designated at fair value HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 31 December 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 (other debt securities-unlisted) are financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,699,000 (31 December 2010: HK\$116,718,000). Impairment losses of approximately HK\$115,700,000 (31 December 2010: HK\$116,561,000) has been recognised for these investments.

Unlisted equity securities classified as available-for-sale amounting to approximately HK\$32,974,000 (31 December 2010: HK\$32,974,000) are measured at cost less impairment because their fair value cannot be reliably measured.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

15. INVESTMENTS IN SECURITIES – continued

The fair value of held-to-maturity securities as at 30 June 2011 amounted to approximately HK\$9,115,272,000 (31 December 2010: HK\$10,934,849,000). Debt securities classified as held-to-maturity amounted to approximately HK\$132,021,000 (31 December 2010: HK\$142,902,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of People's Republic of China.

Certain held-to-maturity certificates of deposit of approximately HK\$15,564,000 (31 December 2010: HK\$15,567,000) 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.

16. ADVANCES AND OTHER ACCOUNTS

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|--|--------------------------|------------------------------|
| Advances to customers | | |
| Bills receivable | 406,163 | 364,625 |
| Trade bills | 291,096 | 142,479 |
| Other advances to customers | 40,028,754 | 37,420,575 |
| | <u>40,726,013</u> | <u>37,927,679</u> |
| Interest receivable | 154,856 | 127,602 |
| Impairment allowances | | |
| - Individually assessed | (50,260) | (21,564) |
| - Collectively assessed | (134,277) | (125,089) |
| | <u>40,696,332</u> | <u>37,908,628</u> |
| Advances to banks and other financial institutions | 435,570 | 629,762 |
| | <u>41,131,902</u> | <u>38,538,390</u> |
| Other accounts | 464,710 | 297,430 |
| | <u>41,596,612</u> | <u>38,835,820</u> |

Included in the "Advances to banks and other financial institutions" of the Group of HK\$145,334,000 (31 December 2010: HK\$104,862,000) are amounts placed as reserve funds with financial institutions in the People's Republic of China by the Shantou Branch of the Bank in compliance with the requirements of "Regulations Governing Foreign Financial Institutions of the People's Republic of China".

Other accounts as at 30 June 2011 included a reversal on advances amounting to HK\$109,000,000 that was written-off in previous years, the amount was received subsequent to the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

16. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

| | 30 June 2011 | 31 December 2010 |
|---|-----------------|------------------|
| | HK\$'000 | HK\$'000 |
| Gross impaired loans | 85,228 | 35,610 |
| Less: Impairment allowances under individual assessment | <u>(50,260)</u> | <u>(21,564)</u> |
| Net impaired loans | <u>34,968</u> | <u>14,046</u> |
| Gross impaired loans as a percentage of gross advances to customers | <u>0.21%</u> | <u>0.09%</u> |
| Market value of collateral pledged | <u>137,129</u> | <u>84,804</u> |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

17. INVESTMENT PROPERTIES

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|---|--------------------------|------------------------------|
| At 1 January | 116,400 | 103,199 |
| Disposals | – | (1,060) |
| Net increase in fair value recognised in the condensed consolidated income statement | 5,863 | 12,765 |
| Exchange difference | <u>772</u> | <u>1,496</u> |
| At 30 June / 31 December | <u><u>123,035</u></u> | <u><u>116,400</u></u> |

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

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 |
| Net gain on disposal of investment properties | – | 3,130 |
| Net gain on fair value adjustments on investment properties | <u>5,863</u> | <u>3,500</u> |
| | <u><u>5,863</u></u> | <u><u>6,630</u></u> |

Investment properties owned by the Group were revalued on 30 June 2011 on an open market value basis by Vigers Hong Kong Limited, independent professional qualified valuers. The market value is mainly arrived at by reference to comparable market transactions for similar properties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

18. PROPERTY AND EQUIPMENT

| | Leasehold land HK\$'000 | Buildings HK\$'000 | Equipment HK\$'000 | Total HK\$'000 |
|---------------------------------|-------------------------------|-----------------------|-----------------------|-------------------|
| COST | | | | |
| At 1 January 2011 | 396,264 | 316,663 | 515,369 | 1,228,296 |
| Additions | – | – | 10,516 | 10,516 |
| Disposals | – | – | (8,148) | (8,148) |
| Exchange adjustments | – | – | 91 | 91 |
| At 30 June 2011 | <u>396,264</u> | <u>316,663</u> | <u>517,828</u> | <u>1,230,755</u> |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2011 | 83,303 | 47,266 | 367,956 | 498,525 |
| Depreciation | 3,003 | 3,183 | 20,538 | 26,724 |
| Eliminated on disposals | – | – | (8,137) | (8,137) |
| Exchange adjustments | – | – | 58 | 58 |
| At 30 June 2011 | <u>86,306</u> | <u>50,449</u> | <u>380,415</u> | <u>517,170</u> |
| CARRYING AMOUNTS | | | | |
| At 30 June 2011 | <u>309,958</u> | <u>266,214</u> | <u>137,413</u> | <u>713,585</u> |
| | 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> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

19. PREPAID LEASE PAYMENTS FOR LAND

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|---|--------------------------|------------------------------|
| COST | | |
| Outside Hong Kong held on: | | |
| Leases of between 10 to 50 years | <u>2,466</u> | <u>2,535</u> |
| Net book value at 1 January | <u>2,535</u> | <u>2,564</u> |
| Release of prepaid operating lease payments | (33) | (66) |
| Exchange adjustments | <u>(36)</u> | <u>37</u> |
| Net book value at 31 December | <u><u>2,466</u></u> | <u><u>2,535</u></u> |
| Analysed as: | | |
| Current portion | 66 | 66 |
| Non-current portion | <u>2,400</u> | <u>2,469</u> |
| Total | <u><u>2,466</u></u> | <u><u>2,535</u></u> |

20. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|--|--------------------------|------------------------------|
| Analysed by collateral type: | | |
| Debt securities classified as available-for-sale | <u>524,507</u> | <u>–</u> |

21. DEPOSITS FROM CUSTOMERS

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|--------------------------------------|--------------------------|------------------------------|
| Demand deposits and current accounts | 4,722,071 | 4,389,690 |
| Savings deposits | 19,046,853 | 20,568,661 |
| Time, call and notice deposits | <u>37,119,582</u> | <u>38,541,868</u> |
| | <u><u>60,888,506</u></u> | <u><u>63,500,219</u></u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

22. LOAN CAPITAL

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|---|--------------------------|------------------------------|
| US\$91.9 million (2010: US\$100.5 million) callable floating rate subordinated notes due 2016 (Note (a)) | 714,801 | 781,372 |
| US\$225 million fixed rate subordinated notes due 2020 under fair value hedge (after adjustment of hedge interest rate risk) (Note (b)) | 1,671,913 | 1,619,779 |
| | <u>2,386,714</u> | <u>2,401,151</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 months 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 months LIBOR plus 1.93%, payable quarterly.

During the six months ended 30 June 2011, the Bank repurchased a portion of the notes with a total principal amount of US\$8,600,000 (during the year ended 31 December 2010: US\$24,500,000). Such repurchased notes were cancelled after receiving prior approval of the Hong Kong Monetary Authority (the "HKMA"). At 30 June 2011, the remaining outstanding principal amount of the notes is US\$91.9 million (31 December 2010: US\$100.5 million).

(b) *This represented subordinated notes qualifying as tier 2 capital with face value of US\$225,000,000 listed on 5 November 2010. The notes will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the notes is no longer fully qualified as term subordinated debts for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the notes by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the notes shall thereafter constitute unsubordinated obligations and the rate of interest on the notes shall be reduced from 6% per annum to 5.5% per annum.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

23. CERTIFICATES OF DEPOSIT ISSUED

On 22 June 2011, the Bank issued certificates of deposit which will be matured on 29 June 2012 and the interest rate is 1.2% per annum.

24. DEFERRED TAXATION

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

| | 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 2011 | 13,302 | (20,031) | 11,191 | 15,895 | 20,357 |
| (Credit) charge to consolidated income statement for the period | (411) | (1,548) | 1,153 | – | (806) |
| Charge to other comprehensive income for the period | – | – | – | 382 | 382 |
| At 30 June 2011 | <u>12,891</u> | <u>(21,579)</u> | <u>12,344</u> | <u>16,277</u> | <u>19,933</u> |
| At 1 January 2010 | 15,533 | (19,645) | 8,919 | 6,965 | 11,772 |
| (Credit) charge to consolidated income statement for the year | (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> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

25. MATURITY PROFILES

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

| | Repayable on demand HK\$'000 | Repayable within 1 month (except those repayable on demand) HK\$'000 | Repayable after 1 month but within 3 months HK\$'000 | Repayable after 3 months but within 1 year HK\$'000 | Repayable after 1 year but within 5 years HK\$'000 | Repayable after 5 years HK\$'000 | Past due / Undated HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|--|---|--|---|---|-----------------------------------|-------------------|
| At 30 June 2011 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and short-term funds | 3,803,446 | 12,209,014 | 898,552 | 70,901 | - | - | - | 16,981,913 |
| Placements with banks and other financial institutions | - | - | 1,529,294 | 241,520 | - | - | - | 1,770,814 |
| Derivative financial instruments | - | - | 326 | 848 | 10,670 | 4,094 | - | 15,938 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - Held for trading | - | - | - | - | - | - | 272 | 272 |
| - Designated at fair value | - | - | - | 328,141 | 1,363,623 | - | - | 1,691,764 |
| Available-for-sale securities | - | - | - | 39,054 | 993,811 | 112,155 | 231,053 | 1,376,073 |
| Held-to-maturity securities | - | 555,845 | 1,062,047 | 2,071,105 | 5,174,408 | 243,853 | - | 9,107,258 |
| Advances to customers | 1,849,681 | 3,761,656 | 2,677,806 | 6,357,447 | 13,434,056 | 11,159,898 | 1,485,469 | 40,726,013 |
| Advances to banks and other financial institutions | 9,640 | 90,584 | 38,265 | 297,081 | - | - | - | 435,570 |
| Other assets | 286,581 | 193,234 | 68,139 | 64,567 | 872 | - | 860,716 | 1,474,109 |
| Total assets | 5,949,348 | 16,810,333 | 6,274,429 | 9,470,664 | 20,977,440 | 11,520,000 | 2,577,510 | 73,579,724 |
| Liabilities | | | | | | | | |
| Deposits and balances of banks and other financial institutions | 14,295 | 1,336,458 | 367,885 | - | - | - | - | 1,718,638 |
| Financial assets sold under repurchase agreements | - | 241,242 | - | 283,265 | - | - | - | 524,507 |
| Deposits from customers | 23,788,433 | 22,427,696 | 10,405,614 | 4,248,074 | 18,689 | - | - | 60,888,506 |
| Certificates of deposit issued | - | - | - | 199,803 | - | - | - | 199,803 |
| Derivative financial instruments | - | 2,191 | 155 | 58,288 | 123,630 | 68,057 | - | 252,321 |
| Loan capital | - | - | - | - | - | 2,386,714 | - | 2,386,714 |
| Other liabilities | 467,900 | 43,871 | 44,145 | 182,842 | 35,178 | - | - | 773,936 |
| Total liabilities | 24,270,628 | 24,051,458 | 10,817,799 | 4,972,272 | 177,497 | 2,454,771 | - | 66,744,425 |
| Net position - total assets and liabilities | (18,321,280) | (7,241,125) | (4,543,370) | 4,498,392 | 20,799,943 | 9,065,229 | 2,577,510 | 6,835,299 |
| Of which certificates of deposit included in: | | | | | | | | |
| Held-to-maturity securities | - | 99,993 | 315,782 | 27,604 | 660,699 | - | - | 1,104,078 |
| Of which debt securities included in: | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - Designated at fair value | - | - | - | 328,141 | 1,363,623 | - | - | 1,691,764 |
| Available-for-sale securities | - | - | - | 39,054 | 993,812 | 112,154 | - | 1,145,020 |
| Held-to-maturity securities | - | 555,845 | 1,062,047 | 2,071,105 | 5,174,408 | 243,853 | - | 9,107,258 |
| | - | 555,845 | 1,062,047 | 2,438,300 | 7,531,843 | 356,007 | - | 11,944,042 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

25. MATURITY PROFILES – continued

| | Repayable on demand HK\$'000 | Repayable within 1 month (except those repayable on demand) HK\$'000 | Repayable after 1 month but within 3 months HK\$'000 | Repayable after 3 months but within 1 year HK\$'000 | Repayable after 1 year but within 5 years HK\$'000 | Repayable after 5 years HK\$'000 | Past due / Undated HK\$'000 | Total HK\$'000 |
|--|---------------------------------------|--|---|--|---|---|-----------------------------------|-------------------|
| At 31 December 2010 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and short-term funds | 11,534,709 | 6,044,642 | 602,956 | 67,058 | – | – | – | 18,249,365 |
| Placements with banks and other financial institutions | – | – | 1,063,271 | 1,218,851 | – | – | – | 2,282,122 |
| Derivative financial instruments | – | 41 | 166 | 17 | 13,181 | 7,137 | – | 20,542 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - Held for trading | – | – | – | – | – | – | 573 | 573 |
| - Designated at fair value | – | – | – | 309,808 | 1,310,741 | 153,331 | – | 1,773,880 |
| Available-for-sale securities | – | – | – | 38,581 | 828,393 | 114,620 | 230,834 | 1,212,428 |
| Held-to-maturity securities | – | 335,019 | 729,502 | 3,600,365 | 6,211,160 | 2,000 | – | 10,878,046 |
| Advances to customers | 1,803,197 | 3,748,913 | 2,390,371 | 6,415,681 | 12,761,926 | 10,632,459 | 175,132 | 37,927,679 |
| Advances to banks and other assets financial institutions | 14,894 | 362,679 | 240,621 | 11,568 | – | – | – | 629,762 |
| Other assets | 243,755 | 93,273 | 29,431 | 50,399 | 866 | – | 896,892 | 1,314,616 |
| Total assets | 13,596,555 | 10,584,567 | 5,056,318 | 11,712,328 | 21,126,267 | 10,909,547 | 1,303,431 | 74,289,013 |
| Liabilities | | | | | | | | |
| Deposits and balances of banks and other financial institutions | 17,850 | 995,465 | 26,676 | – | – | – | – | 1,039,991 |
| Deposits from customers | 24,974,680 | 26,541,874 | 8,117,105 | 3,844,185 | 15,316 | – | 7,059 | 63,500,219 |
| Derivative financial instruments | – | 203 | 298 | 33,305 | 124,556 | 98,064 | – | 256,426 |
| Loan capital | – | – | – | – | – | 2,401,151 | – | 2,401,151 |
| Other liabilities | 299,067 | 39,248 | 22,053 | 114,053 | 38,876 | – | – | 513,297 |
| Total liabilities | 25,291,597 | 27,576,790 | 8,166,132 | 3,991,543 | 178,748 | 2,499,215 | 7,059 | 67,711,084 |
| Net position - total assets and liabilities | <u>(11,695,042)</u> | <u>(16,992,223)</u> | <u>(3,109,814)</u> | <u>7,720,785</u> | <u>20,947,519</u> | <u>8,410,332</u> | <u>1,296,372</u> | <u>6,577,929</u> |
| Of which certificates of deposit included in: | | | | | | | | |
| Held-to-maturity securities | <u>–</u> | <u>–</u> | <u>360,000</u> | <u>115,502</u> | <u>442,336</u> | <u>–</u> | <u>–</u> | <u>917,838</u> |
| Of which debt securities included in: | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - Designated at fair value | – | – | – | 309,808 | 1,310,741 | 153,331 | – | 1,773,880 |
| Available-for-sale securities | – | – | – | 38,581 | 828,393 | 114,620 | – | 981,594 |
| Held-to-maturity securities | <u>–</u> | <u>335,019</u> | <u>729,502</u> | <u>3,600,365</u> | <u>6,211,160</u> | <u>2,000</u> | <u>–</u> | <u>10,878,046</u> |
| | <u>–</u> | <u>335,019</u> | <u>729,502</u> | <u>3,948,754</u> | <u>8,350,294</u> | <u>269,951</u> | <u>–</u> | <u>13,633,520</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

26. RELATED PARTY TRANSACTIONS

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

| | Interest, commission and rental income | | Interest and rental expenses | |
|--|---|---|---|---|
| | Six months ended 30 June 2011 HK\$'000 | Six months ended 30 June 2010 HK\$'000 | Six months ended 30 June 2011 HK\$'000 | Six months ended 30 June 2010 HK\$'000 |
| Investing enterprises having significant influence on the Group | <u>3,867</u> | <u>3,867</u> | <u>12,620</u> | <u>11,530</u> |
| Jointly controlled entities | <u>8,257</u> | <u>5,875</u> | <u>1,466</u> | <u>1,135</u> |
| Directors of the Bank and their associates | <u>2,926</u> | <u>2,449</u> | <u>2,663</u> | <u>2,138</u> |

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

| | Amounts due from related parties | | Amounts due to related parties | |
|--|-------------------------------------|------------------------------|-----------------------------------|------------------------------|
| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
| Investing enterprises having significant influence on the Group | <u>-</u> | <u>-</u> | <u>154,105</u> | <u>142,239</u> |
| Jointly controlled entities | <u>41,409</u> | <u>43,552</u> | <u>36,433</u> | <u>128,358</u> |
| Directors of the Bank and their associates | <u>790,037</u> | <u>767,225</u> | <u>507,908</u> | <u>615,771</u> |

Compensation of key management personnel

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

| | Six months ended 30 June | |
|--------------------------|--------------------------|------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 |
| Short term benefits | <u>28,304</u> | <u>24,949</u> |
| Post employment benefits | <u>2,117</u> | <u>1,757</u> |
| | <u>30,421</u> | <u>26,706</u> |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

27. 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 dissolution*

Right Way Investments Limited

** Dissolved on 6 July 2011.*

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. Advances to customers - by industry sectors

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

| | 30 June 2011 | | | | |
|---|--------------------------------------|--|--|--|-------------------------------------|
| | Gross loans and advances HK\$'000 | Collective impairment allowances HK\$'000 | Individual impairment allowances HK\$'000 | Loans and advances secured by collateral HK\$'000 | Gross impaired advances HK\$'000 |
| Loans for use in Hong Kong | | | | | |
| Industrial, commercial and financial | | | | | |
| - Property development | 2,015,798 | 3,305 | - | 396,507 | - |
| - Property investment | 8,138,283 | - | 2,120 | 7,770,260 | 1,773 |
| - Financial concerns | 2,581,930 | - | - | 1,635,590 | - |
| - Stockbrokers | 1,192,712 | 358 | - | 1,028,732 | - |
| - Wholesale and retail trade | 1,578,264 | - | 10,721 | 798,285 | 15,660 |
| - Manufacturing | 1,675,826 | 2,822 | 10,788 | 803,113 | 10,789 |
| - Transport and transport equipment | 954,377 | - | 1 | 424,322 | 1 |
| - Recreational activities | 1,020 | 4 | - | 1,020 | - |
| - Information technology | 405 | 41 | - | 162 | - |
| - Others | 7,882,876 | 24,605 | 6,368 | 3,430,290 | 28,205 |
| Individuals | | | | | |
| - Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 567,735 | - | 6 | 567,729 | 6 |
| - Loans for the purchase of other residential properties | 6,289,160 | 334 | - | 6,286,148 | - |
| - Credit card advances | 69,058 | 2,079 | 257 | 2,575 | 333 |
| - Others | 1,664,678 | 542 | 6,313 | 1,326,021 | 10,480 |
| | 34,612,122 | 34,090 | 36,574 | 24,470,754 | 67,247 |
| Trade finance | 1,104,967 | 25,679 | 10,698 | 338,614 | 14,954 |
| Loans for use outside Hong Kong | 5,008,924 | 74,508 | 2,988 | 2,319,475 | 3,027 |
| | <u>40,726,013</u> | <u>134,277</u> | <u>50,260</u> | <u>27,128,843</u> | <u>85,228</u> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. Advances to customers - by industry sectors - continued

| | 31 December 2010 | | | | |
|---|--------------------------------------|--|--|--|-------------------------------------|
| | Gross loans and advances HK\$'000 | Collective impairment allowances HK\$'000 | Individual impairment allowances HK\$'000 | Loans and advances secured by collateral HK\$'000 | Gross impaired advances HK\$'000 |
| Loans for use in Hong Kong | | | | | |
| Industrial, commercial and financial | | | | | |
| - Property development | 1,554,102 | 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 |
| | 32,564,869 | 35,540 | 12,675 | 23,191,495 | 19,236 |
| Trade finance | 850,888 | 19,567 | 7,776 | 302,162 | 13,182 |
| Loans for use outside Hong Kong | 4,511,922 | 69,982 | 1,113 | 2,037,889 | 3,192 |
| | <u>37,927,679</u> | <u>125,089</u> | <u>21,564</u> | <u>25,531,546</u> | <u>35,610</u> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

1. Advances to customers - by industry sectors - continued

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written-off during the six months ended 30 June 2011 and 2010 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

| | Advances overdue for over three months as at 30 June HK\$'000 | 2011 | Advances written-off during the six months ended 30 June HK\$'000 |
|---|--|--|---|
| | | New impairment allowances during the six months ended 30 June HK\$'000 | |
| Loans for use in Hong Kong | | | |
| Industrial, commercial and financial | | | |
| - Property investment | 13,113 | 10 | - |
| - Others | 10,194 | 8,859 | - |
| Individuals | | | |
| - Loans for the purchase of other residential properties | 2,730 | - | - |
| Loans for use outside Hong Kong | <u>3,027</u> | <u>1,957</u> | <u>-</u> |
| | | 2010 | |
| | Advances overdue for over three months as at 31 December HK\$'000 | New impairment allowances during the six months ended 30 June HK\$'000 | Advances written-off during the six months ended 30 June HK\$'000 |
| | | | |
| Loans for use in Hong Kong | | | |
| Industrial, commercial and financial | | | |
| - Property investment | 13,178 | 10 | - |
| - Others | 4,291 | 62 | - |
| Individuals | | | |
| - Loans for the purchase of other residential properties | 2,746 | 104 | - |
| Loans for use outside Hong Kong | <u>3,192</u> | <u>154</u> | <u>-</u> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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:

| | 30 June 2011 | | | | |
|----------------------------|----------------------------|--|----------------------------------|---|---|
| | 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 | 39,249,784 | 193,054 | 82,201 | 49,147 | 124,678 |
| People's Republic of China | 372,009 | 3,027 | 3,027 | 1,113 | 3,430 |
| Macau | 127,565 | - | - | - | 722 |
| America | 410,253 | - | - | - | 5,447 |
| Others | 566,402 | - | - | - | - |
| | <u>40,726,013</u> | <u>196,081</u> | <u>85,228</u> | <u>50,260</u> | <u>134,277</u> |

| | 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 | 643,578 | - | - | - | - |
| | <u>37,927,679</u> | <u>64,674</u> | <u>35,610</u> | <u>21,564</u> | <u>125,089</u> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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:

| 30 June 2011 | | | | |
|----------------------------------|--|--|----------------------------|---------------------------|
| | Banks and other financial institutions HK\$'000 | Public sector entities HK\$'000 | Others HK\$'000 | Total HK\$'000 |
| Asia Pacific excluding Hong Kong | 15,039,831 | 111,541 | 721,450 | 15,872,822 |
| - of which - China | 8,407,654 | 51,217 | 546,307 | 9,005,178 |
| Western Europe | <u>7,448,268</u> | <u>2,387</u> | <u>181,349</u> | <u>7,632,004</u> |
| 31 December 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 |
| Western 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> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

4. Overdue and rescheduled assets

| | 30 June 2011 | | 31 December 2010 | |
|---|--|---|--|---|
| | Gross amount of advances HK\$'000 | Percentage to total advances % | Gross amount of advances HK\$'000 | Percentage to total advances % |
| Advances overdue for | | | | |
| - 6 months or less but over 3 months | 141,361 | 0.3 | 11,704 | 0.0 |
| - 1 year or less but over 6 months | 15,603 | 0.0 | 6,224 | 0.0 |
| - Over 1 year | 39,117 | 0.1 | 46,746 | 0.1 |
| Total overdue advances | 196,081 | 0.5 | 64,674 | 0.2 |
| Rescheduled advances | 250,184 | 0.6 | 264,476 | 0.7 |
| Individual impairment allowances made in respect of overdue loans and advances | 36,174 | | 21,499 | |
| Covered portion of overdue loans and advances | 169,618 | | 37,472 | |
| Uncovered portion of overdue loans and advances | 26,463 | | 27,202 | |
| | 196,081 | | 64,674 | |
| Market value of collateral held against covered portion of overdue loans and advances | 524,907 | | 198,709 | |

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 30 June 2011 and 31 December 2010, nor were there any rescheduled advances to banks and other financial institutions.

Repossession assets held by the Group as at 30 June 2011 amounted to HK\$55,000,000 (31 December 2010: HK\$17,004,000).

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

5. Non-bank Mainland exposures

| 30 June 2011 | | | | |
|---|---|--|-------------------|---|
| | On-balance sheet exposure HK\$'000 | Off-balance sheet exposure HK\$'000 | Total HK\$'000 | Individual impairment allowance HK\$'000 |
| Types of counterparties | | | | |
| Mainland entities | 1,642,935 | 135,000 | 1,777,935 | – |
| Companies and individuals outside Mainland where the credit is granted for use in Mainland | 4,559,940 | 949,055 | 5,508,995 | 12,588 |
| Other counterparties the exposures to whom are considered to be non-bank Mainland exposures | <u>39,645</u> | <u>–</u> | <u>39,645</u> | <u>–</u> |
| | <u>6,242,520</u> | <u>1,084,055</u> | <u>7,326,575</u> | <u>12,588</u> |
| 31 December 2010 | | | | |
| | On-balance sheet exposure HK\$'000 | Off-balance sheet exposure HK\$'000 | Total HK\$'000 | Individual impairment allowance HK\$'000 |
| Types of counterparties | | | | |
| Mainland entities | 911,503 | 168,917 | 1,080,420 | – |
| Companies and individuals outside Mainland where the credit is granted for use in Mainland | 3,424,365 | 1,028,352 | 4,452,717 | 10,360 |
| Other counterparties the exposures to whom are considered to be non-bank Mainland exposures | <u>16,404</u> | <u>–</u> | <u>16,404</u> | <u>–</u> |
| | <u>4,352,272</u> | <u>1,197,269</u> | <u>5,549,541</u> | <u>10,360</u> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

6. Currency risk

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

| | 30 June 2011 | | |
|--------------------------------|---------------|----------------|----------------|
| | US\$ | RMB | Total |
| Equivalent in thousand of HK\$ | | | |
| Spot assets | 11,653,993 | 4,847,469 | 16,501,462 |
| Spot liabilities | (10,836,960) | (4,685,405) | (15,522,365) |
| Forward purchases | 424,124 | 122,754 | 546,878 |
| Forward sales | (1,193,751) | (232,327) | (1,426,078) |
| Net long position | <u>47,406</u> | <u>52,491</u> | <u>99,897</u> |
| | MOP | RMB | Total |
| Net structural position | <u>48,545</u> | <u>105,169</u> | <u>153,714</u> |

| | 31 December 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 | – | (20,005) | (20,005) |
| 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> |

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

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

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|--|--------------------------|------------------------------|
| Contingent liabilities and commitments | | |
| - contractual amounts | | |
| Direct credit substitutes | 1,199,353 | 1,148,074 |
| Trade related contingencies | 413,048 | 361,532 |
| Forward asset purchases | 8,612 | 8,034 |
| Other commitments: | | |
| Which are unconditionally cancellable without prior notice | 7,733,519 | 7,081,907 |
| With an original maturity of one year and under | 5,979,821 | 7,460,718 |
| With an original maturity of over one year | 2,105,033 | 1,862,256 |
| | <u>17,439,386</u> | <u>17,922,521</u> |

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

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

| | 30 June 2011 | | 31 December 2010 | |
|--|---------------------------------|---|---------------------------------|---|
| | Replacement cost HK\$'000 | Credit risk weighted amount HK\$'000 | Replacement cost HK\$'000 | Credit risk weighted amount HK\$'000 |
| Contingent liabilities and commitments | N/A | 2,965,513 | N/A | 2,971,294 |
| Exchange rate contracts | 1,353 | 9,933 | 2,899 | 8,939 |
| Interest rate contracts | 14,585 | 14,183 | 17,643 | 13,285 |
| | <u>15,938</u> | <u>2,989,629</u> | <u>20,542</u> | <u>2,993,518</u> |

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

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

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

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

7. The contractual amounts of each of the following classes of contingent liabilities and commitments outstanding are: - continued

Assets pledged

As at 30 June 2011, debt securities which are classified as available for sale with carrying amount of approximately HK\$659,200,000 (31 December 2010: HK\$Nil) were pledged under securities sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from end of the reporting period.

8. Capital adequacy and liquidity ratio

| | 30 June 2011 | 31 December 2010 |
|--|--------------------------|------------------|
| | % | % |
| Capital adequacy ratio | 16.94 | 17.91 |
| Core capital ratio | <u>10.79</u> | <u>11.22</u> |
| | Six months ended 30 June | |
| | 2011 | 2010 |
| | % | % |
| Average liquidity ratio for the period | <u>41.79</u> | <u>45.01</u> |

The capital adequacy ratio is compiled in accordance with the Capital Rules under section 98A of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) ("Banking Ordinance") for the implementation of the "Basel II" capital accord, which became effective on 1 January 2007. In accordance with the Capital Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the 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.

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

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

9. Other financial information

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2011 and 31 December 2010 and reported to the Hong Kong Monetary Authority is analysed as follows:

| | 30 June 2011 HK\$'000 | 31 December 2010 HK\$'000 |
|--|--------------------------|------------------------------|
| Core capital | | |
| Paid up ordinary share capital | 217,500 | 217,500 |
| Share premium | 1,542,817 | 1,542,817 |
| Published reserves | 3,261,600 | 3,367,739 |
| Profit and loss account | 322,719 | (40,632) |
| Total core capital | 5,344,636 | 5,087,424 |
| Other deductions from core capital | (122,256) | (122,650) |
| Core capital after deductions | 5,222,380 | 4,964,774 |
| Supplementary capital | | |
| Reserves attributable to fair value gains on revaluation of holdings of land and buildings | 5,293 | 5,293 |
| Collective impairment allowances | 134,275 | 125,075 |
| Regulatory reserve for general banking risks | 397,000 | 331,000 |
| Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities | 32,253 | 22,734 |
| Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss | 77,264 | 79,774 |
| Term subordinated debt | 2,449,649 | 2,515,692 |
| Total supplementary capital | 3,095,734 | 3,079,568 |
| Other deductions from supplementary capital | (122,256) | (122,651) |
| Supplementary capital after deductions | 2,973,478 | 2,956,917 |
| Total capital base after deductions | 8,195,858 | 7,921,691 |
| Total risk-weighted amount | 48,390,987 | 44,239,387 |

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

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

10. Statement of compliance

In preparing the interim financial information for 2011, the Bank has fully complied with the Banking (Disclosure) Rules.

11. Basis of consolidation

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

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

12. Other operating income

Included within fee and commission income and fee and commission expense, other than amounts included in determining the effective interest rate, are HK\$45,143,000 (2010: HK\$39,475,000) and HK\$27,184,000 (2010: HK\$22,666,000) arising from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

13. Risk management

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

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

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

13. Risk management – continued

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

(i) Capital management

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

(ii) Credit risk

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

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

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

(iii) Liquidity risk

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

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

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

13. Risk management – continued

(iv) Market risk

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

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

(v) Foreign exchange risk

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

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

(vi) Interest rate risk

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

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

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2011

13. Risk management – continued

(vii) Operational and legal risk

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

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

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

(viii) Reputation risk

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

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

INTERIM DIVIDEND

The directors have declared an interim cash dividend for 2011 of HK\$0.15 per share, payable on Thursday, 29 September 2011 to shareholders whose names are listed on the register of members of the Bank on Thursday, 22 September 2011 (2010 interim cash dividend: HK\$0.1 per share paid on 30 September 2010).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Tuesday, 20 September 2011 to Thursday, 22 September 2011 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2011 interim cash dividend, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Monday, 19 September 2011.

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

The Bank purchased a total nominal amount of US\$8,600,000 of its US\$125,000,000 Floating Rate Subordinated Notes due 2016 in the open market in April and June 2011 for about US\$8,566,000. Save for the above, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2011.

CORPORATE GOVERNANCE

The directors confirm that, for the accounting period for the six months ended 30 June 2011, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the accounting period for the six months ended 30 June 2011, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank’s own code in question.

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

The Bank’s Interim Report 2011, 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

The year of 2011 started off with the Hong Kong economy staying robust. Compared with that of the same period last year, gross domestic product for the first quarter leaped by 7.2% in real terms. Taking the first six months of 2011 together, total retail sales increased by 24.4% in value and 19.1% in volume on the back of rising local consumption demand and tourist spending compared with those of the same period last year. The labour market saw further widespread improvement, with unemployment rate coming down progressively to 3.5%. On the stock market front, Hang Seng Index zigzagged downwards in the wake of challenges in external environment. Subsequent to considerable movements in June, the index closed at 22,398 on the last trading day of the first half of the year, representing a drop of around 3% for the period.

Being the second largest economy in the world, China has been experiencing increasing inflation since 2010. Signs of economic slowdown in the mainland have emerged from the monetary tightening policy with the Central Government fine-tuning its macro economic policy.

After its rate-fixing meeting in June, the US Federal Reserve Board ("FRB") announced that it would keep the target range for the federal funds rate at 0% to 0.25% and that the policy of low rate is expected to continue for an extended period. In addition, the FRB would keep on purchasing US Treasury securities with the principal payments from its securities holdings after the completion of the Quantitative Easing 2 exercise as scheduled.

Results Announcement and Profit Analysis

The results for the six months ended 30 June 2011 of the Bank, on an unaudited, consolidated basis, are summarised below:

| Key Financial Data | Six months ended 30 June 2011 HK\$'000 (unless otherwise specified) | Six months ended 30 June 2010 HK\$'000 (unless otherwise specified) | Variance % |
|--|--|--|-----------------------|
| 1. Net operating profit before impairment | 385,959 | 240,296 | +60.62 |
| 2. Profit attributable to shareholders | 408,981 | 193,392 | +111.48 |
| 3. Return on equity | 12.32% (annualised) | 7.55% (for Year 2010) | +63.18 |
| 4. Earnings per share | HK\$0.94 | HK\$0.44 | +111.48 |
| 5. Net interest income | 386,660 | 411,468 | -6.03 |
| 6. Net interest margin | 1.11% | 1.25% | -11.20 |
| 7. Net fee and commission income | 113,700 | 109,733 | +3.62 |
| 8. Other operating income | 325,219 | 73,342 | +343.43 |
| 9. Operating expenses | 391,426 | 348,977 | +12.16 |
| 10. Cost-to-income ratio | 50.35% | 59.22% | -14.98 |
| 11. Impairment allowances on loans and advances | | | |
| - Net (amounts reversed) allowances | (76,044) | 19,736 | -485.31 |
| 12. Total loans and advances to customers | 40,726,013 | 37,927,679 (as of December 2010) | +7.38 |
| 13. Impaired loan ratio | 0.21% | 0.09% (as of December 2010) | +133.33 |
| 14. Provision coverage of impaired loans and advances | 216.52% | 411.83% (as of December 2010) | -47.42 |
| 15. Rescheduled loan ratio | 0.61% | 0.70% (as of December 2010) | -12.86 |
| 16. Total customer deposits | 60,888,506 | 63,500,219 (as of December 2010) | -4.11 |
| 17. Loan-to-deposit ratio | 60.58% | 54.78% (as of December 2010) | +10.59 |
| 18. Total assets | 73,579,724 | 74,289,013 (as of December 2010) | -0.95 |
| 19. Net asset value per share | HK\$15.71 (before interim cash dividend) | HK\$15.12 (before final cash dividend) (as of December 2010) | +3.91 |
| 20. Capital adequacy ratio | 16.94% | 17.91% (as of December 2010) | -5.42 |
| 21. Core capital ratio | 10.79% | 11.22% (as of December 2010) | -3.83 |
| 22. Average liquidity ratio | 41.79% | 45.01% | -7.15 |

Analysis of Key Financial Data

For the first half of 2011, on an unaudited, consolidated basis, net operating profit before impairment amounted to HK\$386 million, an increase of 60.6% or HK\$146 million over that for the corresponding period in previous year. Net interest income decreased by HK\$25 million to HK\$387 million as net interest margin narrowed 14 basis points from 1.25% for the first half of 2010 and 10 basis points from 1.21% for Year 2010 to 1.11%. As the Hong Kong dollar prime rate had not increased and the HIBOR rates increased by around 5 basis points year-on-year, the interest income from the Bank's property-related loans and advances could not be increased by much and yet competitive pricing on time deposits by other banks had caused the interest expense on deposits from customers to increase. The subordinated notes issued in November 2010 contributed to the increase in the interest expense on loan capital in issue and the interest income on interest rate swap, but the Bank had already put in place a portfolio of debt securities which helped to further mitigate the interest expense on the subordinated notes. Securities dealing fees and commission income recorded HK\$82 million, similar to those of the corresponding period in previous year. Net gains on dealing in foreign currencies rose 82% to HK\$35 million as volume of foreign exchange business increased significantly, particularly in the Renminbi exchange business. The recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme was HK\$235 million and was included under other operating income for the first half of 2011. A total amount of HK\$304 million had been incurred as expenses relating to the Lehman Brothers Minibonds Repurchase Scheme in 2009 and 2010, resulting in a net loss to the Bank of HK\$69 million after the recovery of the Lehman Brothers Minibonds collateral, the ex-gratia payment to customers and the obligation under the Expenses Funding Agreement in question. Moreover, subsequent to 30 June 2011, a delinquent borrower agreed to repay a secured loan that was previously written-off by the Bank. An amount of HK\$109 million was recovered by the Bank from the borrower on 28 July 2011. This recovered amount was reflected in the income statement as of 30 June 2011 as a reversal of impairment allowances on loans and advances. On the other fronts, operating expenses increased by HK\$42 million from the corresponding period in previous year as staff costs increased by 6% and the Bank continued to invest in the branch network and develop its wealth management business.

Profit attributable to shareholders amounted to HK\$409 million, an improvement of 111.5% or HK\$216 million over that for the corresponding period in previous year, translating into earnings of HK\$0.94 per share and annualised return on equity of 12.3%. The recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme and the reversal of impairment allowances on loans and advances contributed to the significant improvement in profit attributable to shareholders.

As of 30 June 2011, compared with the figures as of 31 December 2010, total loans and advances to customers increased by 7.4% to HK\$40,726 million. Asset quality of loans and advances continued to be good with impaired loan ratio at 0.21%, provision coverage of impaired loans and advances at 216.52%, and rescheduled loan ratio at 0.61%. In line with development in the banking industry, the Bank increased its level of regulatory reserve by HK\$66 million in the first half of 2011 to HK\$397 million such that the total of regulatory reserve and collectively assessed impairment allowances was 1.3% of total advances to customers in June 2011 and increased from 1.2% in December 2010. Total customer deposits decreased by 4.1% to HK\$60,889 million. Loan-to-deposit ratio increased from 54.78% in December 2010 to 60.58% in June 2011 and average liquidity ratio dropped by 7.2% to 41.8% year-on-year. Capital adequacy ratio eased 5.4% to 16.94% after the increase in loans, and core capital ratio was at 10.79%. Total assets decreased by HK\$709 million to HK\$73,580 million. The Bank's net asset value continued to grow with net asset value per share (before the payment of the interim cash dividend declared for 2011) at HK\$15.71 as of 30 June 2011 which grew by 3.9% and HK\$0.59 from 31 December 2010.

All in all, 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.

Interim Dividend

Your board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel 3". As such, your board has declared that the interim cash dividend of HK\$0.15 per share for the six months ended 30 June 2011 be payable on Thursday, 29 September 2011 to shareholders whose names appear in the Register of Members of the Bank on Thursday, 22 September 2011 (2010 interim cash dividend: HK\$0.1 per share paid on 30 September 2010).

Certificate of Deposit Programme

Following the Bank's subordinated notes issuance amounting to US\$225 million in November 2010, the Bank established a HK\$10 billion Certificate of Deposit Programme in May 2011. This programme enables the Bank to access longer-term funding from different investor bases in Hong Kong and overseas to facilitate its expansion and asset growth. Under the programme, the Bank can issue fixed rate, floating rate or discount certificates of deposit in major currencies. The Bank will manage the programme in a prudent manner under its risk management framework.

The Bank issued its first certificate of deposit under the above-mentioned programme with a term of one year totalling HK\$200 million in June 2011.

Business Review

Corporate and Retail Banking

Loan and Deposit Business

Against the backdrop of slowing turnover in the property market and rising mortgage rates of banks, the Bank still managed to record growth in the size of loan amounts for the first half of 2011 compared with that of the same period last year. The deposit and retail loan business expanded its customer base by proactively sourcing target customers with good potential for developing banking relationships during the year. In addition, a wide variety of cross-selling promotional campaigns were implemented to boost and reinforce the ties between the Bank and its customers.

As a result of global economic recovery and rate adjustment of banks, the total amounts and interest income arising from the Bank's corporate loans increased by 15% and 9% respectively compared with those of the same period last year. In addition, there was also moderate growth in income of non-interest services. To further foster its loan business growth, after joining the Hong Kong Government's Loan Guarantee Scheme for the small and medium-sized enterprises ("SMEs" collectively and "SME" singly), the Bank also actively participated in the SME Financing Guarantee Scheme launched by The Hong Kong Mortgage Corporation Limited earlier this year.

Furthermore, the Bank has been committed to providing flexible and diversified banking services to SMEs. The Bank's efforts in SME services were highly recognised by the industry as it entered the nomination for, and received, the "Best SME's Partner Award" from the Hong Kong Chamber of Small and Medium Business for the third time.

With the aim of expanding its clientele, the Bank will continue to optimise its corporate loan portfolio and strengthen its cooperation with quality corporate customers in exploring business opportunities in a prudent manner.

Card Business

For the first half of 2011, the Bank recorded an increase in the number of credit cards issued and a satisfactory double-digit growth of merchant-billed turnover compared with those of the same period last year. In December 2010, the Bank launched the Chong Hing China UnionPay Dual Currency Diamond Card. Being the first prestigious China UnionPay credit card launched in Hong Kong, it offered more diversified credit card services to customers and received the "Innovative Award" from China UnionPay.

China Business

The Bank continued to develop its mainland business. In the area of cross-border Renminbi business, the Bank's head office collaborated with its Shantou Branch as well as its fellow banks in completing cross-border Renminbi trade transactions.

Furthermore, the Bank has plans to apply for the establishment of a branch or sub-branch in Guangdong Province to actively support its business development.

Treasury Activities

Treasury activities mainly comprise money market operations and foreign exchange services. Money market operations include centralised cash management for deposit taking, interbank funding and investments in capital markets. All these activities are carried out under prudent risk management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts.

The Bank has always taken a prudent approach to liquidity management and maintains a relatively high level of liquidity position. The challenge to the Bank in respect of liquidity management is increasing with the introduction of “Basel 3” liquidity management standard and the tightening of monetary policy in China. As a result, the Bank has enhanced its liquidity management by introducing liability products, such as certificate of deposit programme and collateral swap, to tap longer-term funding from the professional markets.

In managing the net interest margin, the Bank has maintained its investments in debt securities to mitigate the stress on interest income because of the low and flattening money market yield curves and the fierce competition for retail deposits.

In the area of the developing Renminbi businesses, the Bank is adopting a prudent and stable approach. The volume in Renminbi exchange business for customers in the first half of 2011 has increased by 174% compared with that of the same period last year. The Bank offers treasury products and services such as interbank fundings, non-deliverable forward contracts, foreign currency swaps and bond investments. In May 2011, the Bank was granted access to the interbank bond market in the mainland by The People’s Bank of China for Renminbi bond investment within a prescribed limit, providing a certain value-adding channel for the Renminbi funding of the Bank.

Securities Dealing

In the second quarter of 2011, the Hong Kong stock market’s turnover continued to shrink with lukewarm response for the subscription of new stocks because of the tightening of monetary liquidity by the Central Government and the deterioration of European debt crisis. Nevertheless, the wide range of quality securities services, such as “Chong Hing Mobile Securities Services”, offered by Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, is well-received by its customers. Overall, the Bank remains cautiously optimistic about its securities business.

Other Related Businesses

Insurance Business

As Hong Kong’s economy continues to improve, Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, recorded double-digit growth in operating results and profit for the first half of 2011. For the rest of the year, Chong Hing Insurance will operate in tandem with the Bank’s approach and explore more insurance business opportunities to achieve better performance.

Corporate Responsibility

In order to practise the preaching of serving as a “community bank” and providing a comprehensive range of high quality banking services to the local community, the Bank continued to expand its service network. On 7 June 2011, Lek Yuen Estate Branch was opened in Shatin to increase the number of local branches to 52 besides the head office in Central.

In addition, the Bank has also actively participated in a number of social improvement and public welfare activities, the Hong Kong Council of Social Service awarded the Bank with the “Caring Company” logo for the fourth year in a row.

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 view of the lowering the long-term sovereign credit rating on the US, the deteriorating European debt crisis, supply chain disruptions associated with the earthquake and nuclear crisis in Japan, weak labour market indicators and sustained rise in inflation in the US, the US Federal Reserve Board lowered the forecast gross domestic product for the current and the next years with a bearish view on the economic prospects.

On the other hand, during the first half of 2011, The People's Bank of China raised the reserve requirement ratio six times, up to a historic high of 21.5%. Moreover, the National 12th Five-Year Plan (the "Plan") devotes historically a dedicated chapter on Hong Kong and Macau. The Plan serves as a nexus connecting the motherland and Hong Kong and has significant implications for promoting Hong Kong's cooperation with the international community, the mainland, and other regional areas.

Subsequent to the revision of the "Settlement Agreement on the Clearing of Renminbi Businesses" in July 2010, Hong Kong's Renminbi market has been constantly expanding. Total volumes of Renminbi deposits and cross-border trade settlement remittances have been surging each month. Demand for related products and services is fierce. Such developments have a positive impact on the further expansion of Hong Kong's Renminbi offshore businesses, reinforcing the role of Hong Kong as an offshore Renminbi business centre.

In addition, the Hong Kong economy grew steadily in the first half of 2011. Leveraging on the internationalisation of Renminbi and the promising prospects for Renminbi businesses in Hong Kong, not to mention the continuing buoyant local consumption demand and tourist spending contributing to the robust local retail market in particular and the vibrant Hong Kong economy in general, the Bank will continue to seize the moment to further its sustained steady growth through ongoing diversification and enhancement of its products and services.

Sincere Acknowledgements

Last but not least, on behalf of your board, I would like to express my heartfelt gratitude to our many customers and shareholders for their trust and support, and to the management and the staff for their invaluable dedication to the sustained and steady growth of the Bank.

REVIEW OF INTERIM FINANCIAL INFORMATION

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

BOARD OF DIRECTORS

As of the date of this announcement, the 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

10 August 2011