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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)

2014 INTERIM RESULTS

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Highlights

- Net operating profit before impairment was HK\$408 million and improved by 21.7% from the corresponding period in previous year
- Profit attributable to shareholders amounted to HK\$2,337 million and after excluding the profit from the disposal of Chong Hing Bank Centre, amounted to HK\$387 million, an increase of 40% over that for the corresponding period in previous year, translating into earnings of HK\$0.89 per share and annualised return on equity of 9.85%
- Net interest income increased by 30.2% as total assets rose by 6.3% year on year with advances and other accounts increasing by 12.6% and net interest margin widened 33 basis points from 1.19% for the first half of 2013 to 1.52%
- Operating expenses rose by 16% from the corresponding period in previous year mainly due to the lease payment for Chong Hing Bank Centre
- As of 30 June 2014, compared with the figures as of 31 December 2013, total loans and advances to customers increased by 7.6% to HK\$48,546 million. Through ongoing close monitoring, the quality of our loans and advances remained high. Impaired loan ratio was at a considerably low level of 0.06% and rescheduled loan ratio at 0.03%, while provision coverage of impaired loans and advances stood at a solidly comfortable level of 737.23%
- New impairment allowances on loans and advances at HK\$30 million in the first half of 2014 were similar to those for the corresponding period in previous year, and a total of HK\$74 million of impairment allowances on loans and advances was reversed after recoveries from various customers
- Total capital ratio increased from 14.57% in December 2013 to 14.97% in June 2014 after the improvement in profit attributable to shareholders and an interim dividend from Chong Hing Securities Limited contributed to the growth in the Bank's capital base. The Tier 1 capital ratio was at 11.42% and the Common Equity Tier 1 capital ratio was also at 11.42%
- The Bank's core business lines and financial health are strong and sound, asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements
- An interim cash dividend of HK\$0.19 per share is declared for the six months ended 30 June 2014 (2013 interim cash dividend: HK\$0.14 per share)

The Board of 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 2014, together with the comparative figures for the last correspondence period. The financial information in this results announcement is extracted from the interim financial information for the six months ended 30 June 2014. The interim financial information is unaudited, but has been reviewed by PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Equity” issued by the Hong Kong Institute of Certified Public Accountants, and the Bank’s Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

for the six months ended 30 June 2014

	Notes	Six months ended 30 June		Variance %
		2014 HK\$’000 (Unaudited)	2013 HK\$’000 (Unaudited)	
Interest income		959,820	762,101	+25.94
Interest expense		(340,496)	(286,363)	+18.90
Net interest income	6	619,324	475,738	+30.18
Fee and commission income		136,744	140,228	-2.48
Fee and commission expenses		(36,982)	(34,351)	+7.66
Net fee and commission income	7	99,762	105,877	-5.78
Net trading income	8	36,898	42,563	-13.31
Other operating income	9	67,277	69,266	-2.87
Operating expenses	10	(415,415)	(358,253)	+15.96
		407,846	335,191	+21.68
Impairment allowances on loans and allowances				
- New allowances		(29,737)	(28,269)	+5.20
- Amounts reversed		73,949	10,677	+592.60
		44,212	(17,592)	-351.32
Net gains on disposal of assets held for sale	20	1,960,732	-	-
Net losses on disposal of property and equipment		(5,927)	(978)	+506.03
Net gains on disposal of available-for-sale securities		3	51	-94.12
Net gains on disposal of and fair value adjustments on investment properties	21	-	4,237	-100.00
Share of profits of associates		14,904	8,348	+78.53
Profit before taxation		2,421,770	329,257	+635.53
Taxation	12	(84,462)	(52,950)	+59.51
Profit for the period				
- attributable to owners of the Bank		2,337,308	276,307	+745.91
Earnings per share - basic	13	HK\$5.37	HK\$0.64	+745.91

The notes on pages 9 to 39 form an integral part of this consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period	<u>2,337,308</u>	<u>276,307</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(15,869)	8,268
Fair value gains (losses) on available-for-sale securities arising during the period	53,067	(70,701)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(3)	(51)
Income tax effect relating to disposal of available-for-sale securities	–	8
Income tax effect relating to fair value change of available-for-sale securities	(8,606)	11,873
Share of other comprehensive expense of associates	<u>(57)</u>	<u>(230)</u>
Other comprehensive income (expense) for the period (net of tax)	<u>28,532</u>	<u>(50,833)</u>
Total comprehensive income for the period	<u><u>2,365,840</u></u>	<u><u>225,474</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Bank	<u><u>2,365,840</u></u>	<u><u>225,474</u></u>

The notes on pages 9 to 39 form an integral part of this consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	<i>Notes</i>	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)	Variance %
Assets				
Cash and short-term funds	15	17,501,215	16,145,437	+8.40
Placements with banks and other financial institutions maturing between one to twelve months		7,105,721	7,920,502	-10.29
Derivative financial instruments	16	251,469	170,135	+47.81
Financial assets at fair value through profit or loss	17	311	92,179	-99.66
Available-for-sale securities	17	6,190,914	5,433,241	+13.95
Held-to-maturity securities	17	5,579,451	8,326,722	-32.99
Advances and other accounts	19	49,178,018	45,803,583	+7.37
Tax recoverable		7	796	-99.12
Assets held for sale	20	-	269,268	-100.00
Interests in associates		212,184	199,437	+6.39
Investment properties	21	135,706	136,575	-0.64
Property and equipment	22	618,141	635,702	-2.76
Prepaid lease payments for land	23	2,366	2,403	-1.54
Deferred tax assets	28	1,279	1,501	-14.79
Goodwill	11	50,606	50,606	-
Total assets		<u>86,827,388</u>	<u>85,188,087</u>	+1.92
Liabilities				
Deposits and balances of banks and other financial institutions		597,632	1,674,231	-64.30
Financial assets sold under repurchase agreements	24	1,454,852	1,256,657	+15.77
Deposits from customers	25	72,497,665	71,164,904	+1.87
Certificates of deposit	26	1,292,375	563,003	+129.55
Derivative financial instruments	16	84,611	100,653	-15.94
Other accounts and accruals		949,483	852,430	+11.39
Current tax liabilities		134,473	52,146	+157.88
Loan capital	27	1,805,048	1,766,436	+2.19
Deferred tax liabilities	28	22,976	25,661	-10.46
Total liabilities		<u>78,839,115</u>	<u>77,456,121</u>	+1.79
Equity attributable to owners of the Bank				
Share capital normal value		-	217,500	-100.00
Other statutory capital reserves		-	1,542,817	-100.00
Share capital		1,760,317	1,760,317	-
Reserves		6,227,956	5,971,649	+4.29
Total equity		<u>7,988,273</u>	<u>7,731,966</u>	+3.31
Total liabilities and equity		<u>86,827,388</u>	<u>85,188,087</u>	+1.92

The notes on pages 9 to 39 form an integral part of this consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014

	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 2014		217,500	1,542,817	(182)	182,923	1,388,500	44,258	441,000	3,915,150	7,731,966
Profit for the period		-	-	-	-	-	-	-	2,337,308	2,337,308
Exchange differences arising on translation		-	-	-	-	-	(15,869)	-	-	(15,869)
Fair value gains of available-for-sale securities arising during the period		-	-	-	53,067	-	-	-	-	53,067
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(3)	-	-	-	-	(3)
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	(8,606)	-	-	-	-	(8,606)
Share of other comprehensive expense of associates		-	-	-	(57)	-	-	-	-	(57)
Other comprehensive income (expense)		-	-	-	44,401	-	(15,869)	-	-	28,532
Total comprehensive income (expense) for the period		-	-	-	44,401	-	(15,869)	-	2,337,308	2,365,840
Transition no-par value regime on 3 March 2014		1,542,817	(1,542,817)	-	-	-	-	-	-	-
Special interim dividend paid	14	-	-	-	-	-	-	-	(1,965,983)	(1,965,983)
Final dividend paid	14	-	-	-	-	-	-	-	(143,550)	(143,550)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	44,000	(44,000)	-
At 30 June 2014		<u>1,760,317</u>	<u>-</u>	<u>(182)</u>	<u>227,324</u>	<u>1,388,500</u>	<u>28,389</u>	<u>485,000</u>	<u>4,098,925</u>	<u>7,988,273</u>

In accordance with the transitional provisions set out in section 37 of Schedule 11 to Hong Kong Companies Ordinance (Cap 622), on 3 March 2014, any amount standing to the credit of the share premium amount has become part of the company's share capital.

The notes on pages 9 to 39 form an integral part of this consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014

	<i>Note</i>	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 2013		217,500	1,542,817	(182)	187,327	1,388,500	26,236	387,000	3,624,882	7,374,080
Profit for the period		-	-	-	-	-	-	-	276,307	276,307
Exchange differences arising on translation		-	-	-	-	-	8,268	-	-	8,268
Fair value losses of available-for-sale securities arising during the period		-	-	-	(70,701)	-	-	-	-	(70,701)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(51)	-	-	-	-	(51)
Income tax effect relating to disposal of available-for-sale securities		-	-	-	8	-	-	-	-	8
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	11,873	-	-	-	-	11,873
Share of other comprehensive expense of associates		-	-	-	(230)	-	-	-	-	(230)
Other comprehensive (expense) income		-	-	-	(59,101)	-	8,268	-	-	(50,833)
Total comprehensive (expense) income for the period		-	-	-	(59,101)	-	8,268	-	276,307	225,474
Final dividend paid	14	-	-	-	-	-	-	-	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	36,000	(36,000)	-
At 30 June 2013		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>128,226</u>	<u>1,388,500</u>	<u>34,504</u>	<u>423,000</u>	<u>3,712,939</u>	<u>7,447,304</u>

The retained profits of the Group included retained profits of HK\$95,371,000 (30 June 2013: retained profits of HK\$70,712,000) retained by the associates of the Group.

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 "HKMA").

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

The notes on pages 9 to 39 form an integral part of this consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	2,421,770	329,257
Adjustments for:		
Net interest income	(619,324)	(475,738)
Net (reversal) charge of impairment allowances on loans and advances	(44,212)	17,592
Net gains on disposal of assets held for sale	(1,960,732)	–
Net losses on disposal of property and equipment	5,927	978
Net gains on disposal of available-for-sale securities	(3)	(51)
Net gains on disposal of and fair value adjustments on investment properties	–	(4,237)
Share of profits of associates	(14,904)	(8,348)
Net losses on financial instruments at fair value through profit or loss	5,094	–
Net (gains) losses on fair value hedge	(688)	262
Dividend received from investments	(5,025)	(5,246)
Depreciation	23,620	27,787
Release of prepaid lease payments for land	33	33
Exchange adjustments	(16,367)	8,745
Operating cash flows before movements in operating assets and liabilities	(204,811)	(108,966)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	2,112,968	1,332,145
Exchange fund bills with original maturity over three months	(540,188)	50,028
Placements with banks and other financial institutions with original maturity over three months	1,282,235	(4,116,070)
Financial assets at fair value through profit or loss	91,868	1,122,060
Advances to customers	(3,355,166)	(3,433,321)
Advances to banks and other financial institutions	–	1,746,471
Other accounts	46,058	63,246
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	(1,074,567)	(771,531)
Financial assets sold under repurchase agreements	198,195	3,668
Deposits from customers	1,332,761	1,247,167
Certificates of deposit	729,372	(490,125)
Derivative financial instruments	(137,367)	39,156
Other accounts and accruals	66,385	(13,113)
Cash generated from (used in) operations	547,743	(3,329,185)
Hong Kong Profits Tax paid	589	(2,486)
Overseas tax paid	(12,881)	(9,176)
Interest received	789,975	641,460
Interest paid	(277,132)	(273,295)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	1,048,294	(2,972,682)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS - continued*for the six months ended 30 June 2014*

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Interest received on available-for-sale securities and held-to-maturity securities	157,562	170,783
Dividends received on investments	5,025	5,246
Dividends received from associates	2,100	4,200
Purchase of held-to-maturity securities	(2,489,904)	(12,987,556)
Purchase of available-for-sale securities	(630,809)	(535,943)
Purchase of property and equipment	(13,666)	(14,479)
Proceeds from redemption of held-to-maturity securities	5,227,536	11,030,602
Proceeds from sale and redemption of available-for-sale securities	269	199
Proceeds from disposal of assets held for sale	2,230,000	–
Proceeds from disposal of property and equipment	2,133	199
Proceeds from disposal of investment properties	–	3,927
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	<u>4,490,246</u>	<u>(2,322,822)</u>
FINANCING ACTIVITIES		
Interest paid on loan capital	(30,963)	(31,806)
Dividends paid	(2,109,533)	(152,250)
NET CASH USED IN FINANCING ACTIVITIES	<u>(2,140,496)</u>	<u>(184,056)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,398,044	(5,479,560)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>13,857,128</u>	<u>14,868,955</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>17,255,172</u></u>	<u><u>9,389,395</u></u>
Represented by:		
Cash and balances with banks and other financial institutions	1,173,023	3,597,412
Money at call and short notice with original maturity of three months or less	14,435,879	6,489,238
Exchange fund bills with original maturity of three months or less	–	49,999
Placements with banks and other financial institutions with original maturity of three months or less	2,243,902	827,166
Deposits and balances of banks and other financial institutions with original maturity of three months or less	(597,632)	(1,574,420)
	<u><u>17,255,172</u></u>	<u><u>9,389,395</u></u>

The notes on pages 9 to 39 form an integral part of this consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

1. GENERAL INFORMATION

Chong Hing Bank Limited (the “Bank”) is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited.

Up to 14 February 2014, its immediate holding company was Liu Chong Hing Estate Company Limited and its ultimate holding company was Liu Chong Hing Investment Limited (“LCHI”), both of which are incorporated in Hong Kong. Since then, its immediate holding company is Yuexiu Financial Holdings Limited and its ultimate holding company is Guangzhou Yue Xiu Holdings Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office and principal place of business of the Bank is disclosed in the Interim Report.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

The Group has adopted HK(IFRIC)-Int 21 “Levies”. HK(IFRIC)-Int 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of HKAS 37 “Provisions”. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised. The Group is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial information for the period ended 30 June 2014. The Group does not expect HK(IFRIC)-Int 21 to have a significant effect on the results for the financial year ending 31 December 2014.

Other amendments to HKFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

3. SEGMENT INFORMATION

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

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

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

Six months ended 30 June 2014

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Operating segment revenue and results						
Interest income from external customers	598,206	358,368	3,246	-	-	959,820
Interest expense to external customers	(293,562)	(46,934)	-	-	-	(340,496)
Inter-segment interest income (Note 1)	132,221	-	-	-	(132,221)	-
Inter-segment interest expense (Note 1)	-	(132,221)	-	-	132,221	-
Net interest income	436,865	179,213	3,246	-	-	619,324
Fee and commission income	77,158	-	59,586	-	-	136,744
Fee and commission expenses	(36,978)	-	(4)	-	-	(36,982)
Net trading income	544	36,364	-	(10)	-	36,898
Other operating income (Note 2)	47,047	-	-	20,177	-	67,224
Segment revenue						
Total operating income	524,636	215,577	62,828	20,167	-	823,208
Comprising:						
- segment revenue from external customers	392,415	347,798	62,828	20,167		
- inter-segment transactions	132,221	(132,221)	-	-		
Operating expenses (Note 3)	(241,539)	(16,729)	(31,852)	(7,106)	-	(297,226)
Reversal of impairment allowances on						
loans and advances	44,212	-	-	-	-	44,212
Net losses on disposal of property and equipment	(5,927)	-	-	-	-	(5,927)
Net gains on disposal of available-for-sale securities	-	-	-	3	-	3
Segment profit	321,382	198,848	30,976	13,064	-	564,270
Unallocated corporate expenses						(118,189)
Unallocated corporate income						53
Net gains on disposal of assets held for sale						1,960,732
Share of profits of associates						14,904
Profit before taxation						2,421,770

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the other operating income in the condensed consolidated statement of income and other operating income in the operating segments is the unallocated corporate income.

3. The difference between the operating expenses in the condensed consolidated statement of income and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2014

3. SEGMENT INFORMATION - continued

At 30 June 2014

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	50,333,439	35,358,603	209,867	448,686	86,350,595
Interests in associates					212,184
Unallocated corporate assets					<u>264,609</u>
Consolidated total assets					<u><u>86,827,388</u></u>
Liabilities					
Segment liabilities	73,097,720	5,314,313	109,032	93,787	78,614,852
Unallocated corporate liabilities					<u>224,263</u>
Consolidated total liabilities					<u><u>78,839,115</u></u>

Other information

Six months ended 30 June 2014

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	7,536	11	650	127	5,342	13,666
Depreciation	16,155	385	1,112	96	5,872	23,620
Release of prepaid lease payments for land	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

3. SEGMENT INFORMATION - continued

Six months ended 30 June 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	501,680	258,484	1,937	–	–	762,101
Interest expense to external customers	(238,428)	(47,935)	–	–	–	(286,363)
Inter-segment interest income (<i>Note 1</i>)	116,010	–	–	–	(116,010)	–
Inter-segment interest expense (<i>Note 1</i>)	–	(116,010)	–	–	116,010	–
Net interest income	379,262	94,539	1,937	–	–	475,738
Fee and commission income	75,788	–	64,440	–	–	140,228
Fee and commission expenses	(34,150)	–	(201)	–	–	(34,351)
Net trading income	257	42,351	–	(45)	–	42,563
Other operating income	45,015	–	–	24,251	–	69,266
Segment revenue						
Total operating income	466,172	136,890	66,176	24,206	–	693,444
Comprising:						
- segment revenue from external customers	350,162	252,900	66,176	24,206		
- inter-segment transactions	116,010	(116,010)	–	–		
Operating expenses (<i>Note 2</i>)	(224,714)	(15,010)	(31,932)	(5,441)	–	(277,097)
Net charge of impairment allowances on loans and advances	(17,592)	–	–	–	–	(17,592)
Net losses on disposal of property and equipment	(978)	–	–	–	–	(978)
Net gains on disposal of available-for-sale securities	–	–	–	51	–	51
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	4,237	–	4,237
Segment profit	<u>222,888</u>	<u>121,880</u>	<u>34,244</u>	<u>23,053</u>	<u>–</u>	402,065
Unallocated corporate expenses						(81,156)
Share of profits of associates						8,348
Profit before taxation						<u>329,257</u>

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the condensed consolidated statement of income and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

3. SEGMENT INFORMATION - continued

At 31 December 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	49,053,404	34,735,973	239,241	448,102	84,476,720
Interests in associates					199,437
Unallocated corporate assets					511,930
Consolidated total assets					<u>85,188,087</u>
Liabilities					
Segment liabilities	71,427,805	5,443,608	135,351	94,297	77,101,061
Unallocated corporate liabilities					355,060
Consolidated total liabilities					<u>77,456,121</u>

Other information

Six months ended 30 June 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	4,888	280	70	79	9,162	14,479
Depreciation	17,642	687	1,805	187	7,466	27,787
Release of prepaid lease payments for land	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33</u>

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. 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 amounting to or exceeding 10% of the Group's total operating income.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

3. SEGMENT INFORMATION - continued

Geographical information

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

	Six months ended 30 June 2014			At 30 June 2014			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	699,529	2,311,748	10,242	84,544,994	78,189,934	18,354,582	999,467
Macau and Shantou, Mainland China	114,007	103,354	3,416	1,641,418	599,536	496,548	19,026
America	9,725	6,668	8	640,976	49,645	13,614	477
Total	<u>823,261</u>	<u>2,421,770</u>	<u>13,666</u>	<u>86,827,388</u>	<u>78,839,115</u>	<u>18,864,744</u>	<u>1,018,970</u>
	Six months ended 30 June 2013			At 31 December 2013			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	637,458	284,557	13,709	82,966,678	76,813,803	18,064,831	1,009,636
Macau and Shantou, Mainland China	47,639	39,429	268	1,569,851	591,861	477,982	14,486
America	8,347	5,271	502	651,558	50,457	16,913	535
Total	<u>693,444</u>	<u>329,257</u>	<u>14,479</u>	<u>85,188,087</u>	<u>77,456,121</u>	<u>18,559,726</u>	<u>1,024,657</u>

Note: Total operating income consists of net interest income, net fee and commission income, net trading income and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion) and goodwill.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

There have been no changes in the Group's Risk Management Department and risk management policies since year end, except for the appointment of the Chief Risk Officer in June 2014. The Group is currently revisiting its risk management framework but there are no impacts to the Group during the current 6-month period in the first half of 2014.

4.2 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 30 June 2014.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 30 June 2014				
Financial assets held for trading	311	–	–	311
Available-for-sale securities				
Equity securities	208,941	–	365	209,306
Other debt securities	–	5,936,861	9,103	5,945,964
Derivative financial assets not used for hedging	–	116,249	–	116,249
Derivative financial assets used for hedging	–	135,220	–	135,220
Derivative financial liabilities not used for hedging	–	(24,507)	–	(24,507)
Derivative financial liabilities used for hedging	–	(60,104)	–	(60,104)
Total	209,252	6,103,719	9,468	6,322,439

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

4.2 Fair value estimation - continued

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2013.

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 31 December 2013				
Financial assets held for trading	211	–	–	211
Financial assets designated at fair value through profit or loss	–	91,968	–	91,968
Available-for-sale securities				
Equity securities	207,393	–	71	207,464
Other debt securities	–	5,182,952	6,371	5,189,323
Derivative financial assets not used for hedging	–	11,062	–	11,062
Derivative financial assets used for hedging	–	159,073	–	159,073
Derivative financial liabilities not used for hedging	–	(53,070)	–	(53,070)
Derivative financial liabilities used for hedging	–	(47,583)	–	(47,583)
Total	<u>207,604</u>	<u>5,344,402</u>	<u>6,442</u>	<u>5,558,448</u>

There were no transfers between Levels 1, 2 and 3 in both years.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

4.2 Fair value estimation - continued

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

	Carrying amount HK\$'000	Fair value HK\$'000
At 30 June 2014		
Financial assets		
- Held-to-maturity securities	<u>5,579,451</u>	<u>5,627,277</u>
Financial liabilities		
- Loan capital	<u>1,805,048</u>	<u>1,877,353</u>
At 31 December 2013		
Financial assets		
- Held-to-maturity securities	<u>8,326,722</u>	<u>8,362,290</u>
Financial liabilities		
- Loan capital	<u>1,766,436</u>	<u>1,800,816</u>

4.3 Valuation techniques

The fair values of listed securities is determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of convertible bonds designated as financial assets at fair value through profit or loss, debt securities classified as available-for-sale securities, certificates of deposit and other debt securities classified as held-to-maturity securities and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair value of foreign currency forward contracts is measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair value of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

There were no other changes in the Group's valuation techniques during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

4.4 Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets designated at fair value through profit or loss HK\$'000	Available- for-sale securities HK\$'000	Total HK\$'000
Balance at 1 January 2013	419,101	2,711	421,812
Total net losses recognised in profit or loss	(493)	–	(493)
Total net gains recognised in other comprehensive income	–	3,731	3,731
Disposals	<u>(418,608)</u>	<u>–</u>	<u>(418,608)</u>
Balance at 1 January 2014	–	6,442	6,442
Total net gains recognised in other comprehensive income	<u>–</u>	3,026	3,026
Balance at 30 June 2014	<u><u>–</u></u>	<u>9,468</u>	<u>9,468</u>

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, 0.01% (2013: 0.01%), of total assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a big impact on the Group's financial positions.

Included in other comprehensive income is an amount of HK\$3,026,000 (2013: HK\$3,731,000) related to equity and other debt securities classified as available-for-sale held at the end of the current reporting period and reported as fair value gains on available-for-sale securities arising during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

5. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has financial assets and financial liabilities that:

- are offset in the Group's condensed consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the condensed consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements. In addition, the Group receives and pledges collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions, giving each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

Under the Continuous Net Settlement, money obligations receivable and payable with the Hong Kong Securities Clearing Company Limited on the same settlement date are settled on a net basis.

6. NET INTEREST INCOME

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Interest income		
Balances and placements with banks and other financial institutions	214,135	119,853
Investments in securities	149,056	146,717
Loans and advances	594,838	481,028
Interest rate swaps	1,791	14,503
	<u>959,820</u>	<u>762,101</u>
Interest expense		
Deposits and balances of banks and other financial institutions	(3,035)	(6,027)
Deposits from customers	(293,509)	(238,409)
Financial assets sold under repurchase agreements	(4,620)	(928)
Certificates of deposit	(6,747)	(2,408)
Loan capital in issue	(31,255)	(31,761)
Interest rate swaps	(1,330)	(6,830)
	<u>(340,496)</u>	<u>(286,363)</u>
Net interest income	<u>619,324</u>	<u>475,738</u>
Included within interest income		
Interest income on impaired loans and advances	<u>145</u>	<u>99</u>

Included within interest income and interest expense are HK\$958,199,000 (2013: HK\$749,420,000) and HK\$339,166,000 (2013: HK\$279,533,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$149,056,000 (2013: HK\$146,717,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Fee and commission income		
Securities dealings	59,586	64,440
Credit lines	9,166	7,799
Trade finance	6,297	5,829
Credit card services	39,850	37,137
Agency services	14,553	17,219
Others	7,292	7,804
Total fee and commission income	136,744	140,228
Less: Fee and commission expenses	(36,982)	(34,351)
Net fee and commission income	99,762	105,877
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities, that are not held for trading nor designed at fair value through profit or loss		
- Fee income	59,412	54,289
- Fee expenses	(36,809)	(33,956)
	22,603	20,333

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

8. NET TRADING INCOME

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Foreign exchange	36,806	35,330
Net expenses from financial assets designated at fair value	(9,342)	(76,898)
Net gains on financial instruments at fair value through profit or loss	8,746	84,393
Net gains (losses) on fair value hedge:		
- Net gains (losses) on hedged items attributable to the hedged risk	40,679	(13,387)
- Net (losses) gains on hedging instruments	(39,991)	13,125
	<u>36,898</u>	<u>42,563</u>

“Net trading income - foreign exchange” includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Bank entered into the foreign exchange swaps for its treasury management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference of the forward contracts and spot was recognized separately as “Net gains (losses) on financial instruments at fair value through profit or loss” and “Other operating income” respectively.

To better reflect financial performance arising from foreign exchange business of the Group, the Group has decided to present all foreign exchange related gains or losses into “Net trading income - foreign exchange”. Comparative information has been reclassified to conform with the current period’s presentation.

9. OTHER OPERATING INCOME

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Dividend income		
- Listed investments	2,825	2,446
- Unlisted investments	2,200	2,800
	5,025	5,246
Gross rents from investment properties	5,451	8,452
Less: Outgoings	(630)	(543)
Net rental income	4,821	7,909
Safe deposit box rentals	21,828	19,072
Insurance underwriting premium less claims and commission expense	10,331	11,095
Other banking services income	23,460	24,411
Others	1,812	1,533
	<u>67,277</u>	<u>69,266</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

10. OPERATING EXPENSES

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Auditor's remuneration	2,183	2,033
Staff costs (including directors' emoluments)		
- Salaries and other costs	222,518	214,506
- Retirement benefits scheme contributions	16,234	15,508
Total staff costs	238,752	230,014
Depreciation	23,620	27,787
Release of prepaid lease payments for land	33	33
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land:		
- Rentals and rates for premises	44,851	20,430
- Others	11,265	9,568
Other operating expenses	94,711	68,388
	<u>415,415</u>	<u>358,253</u>

Included in the premises and equipment expenses are minimum lease payments under operating leases of HK\$41,076,000 (2013: HK\$16,842,000).

11. IMPAIRMENT LOSS ON GOODWILL

For the six-month period ended 30 June 2014, the management has reviewed goodwill for impairment testing purposes. The review comprised 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 the insurance business.

The value in use calculations primarily use cash flow projections based on the five-year financial budgets approved by the management of the subsidiary 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 and estimated value. Key assumptions include the expected growth in revenues (growth rate at 3.5% to 4%) and the selection of the discount rate of 12% (2013: 12%).

Value in use is derived by discounting the expected future cash flows.

The management of the Group determines that there was no impairment loss on the goodwill for the six-month period ended 30 June 2014 and 30 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

12. TAXATION

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax	72,643	43,691
Overseas taxation	22,765	9,093
Deferred tax	(10,946)	166
	<u>84,462</u>	<u>52,950</u>

Hong Kong Profits Tax is calculated at 16.5% (2013: 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.

13. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$2,337,308,000 (2013: HK\$276,307,000) and on 435,000,000 (2013: 435,000,000) ordinary shares in issue during the period. The basic earnings per share excluding the net gains on disposal of Chong Hing Bank Centre was HK\$0.89.

No diluted earnings per share was presented as there was no potential ordinary shares in issue during both periods.

14. DIVIDENDS

On 23 May 2014, a dividend of HK\$0.33 per share totalling HK\$143,550,000 was paid to shareholders as the final dividend for 2013.

At an extraordinary general meeting on 20 December 2013, a special interim dividend of HK\$4.5195 per share, totaling HK\$1,965,982,500 to shareholders on the Bank's register of members as of 4 February 2014 was approved. The conditions for payment of the special interim dividend were satisfied on 5 February 2014, when the Partial Disposal, as defined and stipulated in the joint announcement made by the Bank, the ultimate holding company and Guangzhou Yue Xiu Holdings Limited on 25 October 2013, became unconditional, and on 19 February 2014 when the completion of the Property Transfer, as defined and stipulated in this joint arrangement, took place. The special interim dividend of HK\$4.5195 per share was paid on 20 February 2014.

On 24 May 2013, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final dividend for 2012.

Subsequent to the end of the interim period, the board of directors has declared that a total amount of interim dividend in respect of the financial year ending 31 December 2014 of HK\$82,650,000 (2013: HK\$60,900,000) at a rate of HK\$0.19 (2013: HK\$0.14) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 26 September 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

17. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading	Designated at fair value	HK\$'000	HK\$'000	HK\$'000
30 June 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:					
Listed in Hong Kong	311	–	200,557	–	200,868
Listed overseas	–	–	8,384	–	8,384
	<u>311</u>	<u>–</u>	<u>208,941</u>	<u>–</u>	<u>209,252</u>
Unlisted	–	–	36,009	–	36,009
	<u>311</u>	<u>–</u>	<u>244,950</u>	<u>–</u>	<u>245,261</u>
Debt securities:					
Certificates of deposit	–	–	–	1,853,114	1,853,114
Other debt securities					
- Unlisted	–	–	5,945,964	3,726,337	9,672,301
	<u>–</u>	<u>–</u>	<u>5,945,964</u>	<u>5,579,451</u>	<u>11,525,415</u>
Total:					
Listed in Hong Kong	311	–	200,557	–	200,868
Listed overseas	–	–	8,384	–	8,384
Unlisted	–	–	5,981,973	5,579,451	11,561,424
	<u>311</u>	<u>–</u>	<u>6,190,914</u>	<u>5,579,451</u>	<u>11,770,676</u>
Market value of listed securities:					
Listed in Hong Kong	311	–	200,557	–	200,868
Listed overseas	–	–	8,384	–	8,384
	<u>311</u>	<u>–</u>	<u>208,941</u>	<u>–</u>	<u>209,252</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	–	8,671	8,671
Public sector entities	–	–	54,333	250,466	304,799
Banks and other financial institutions	42	–	356,305	3,740,044	4,096,391
Corporate entities	269	–	5,775,430	1,580,270	7,355,969
Others	–	–	4,846	–	4,846
	<u>311</u>	<u>–</u>	<u>6,190,914</u>	<u>5,579,451</u>	<u>11,770,676</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

17. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
31 December 2013					
Equity securities:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
	211	–	207,393	–	207,604
Unlisted	–	–	36,525	–	36,525
	<u>211</u>	<u>–</u>	<u>243,918</u>	<u>–</u>	<u>244,129</u>
Debt securities:					
Certificates of deposit	–	–	–	4,675,621	4,675,621
Convertible bonds	–	91,968	–	–	91,968
Other debt securities					
- Unlisted	–	–	5,189,323	3,651,101	8,840,424
	<u>–</u>	<u>91,968</u>	<u>5,189,323</u>	<u>8,326,722</u>	<u>13,608,013</u>
Total:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
Unlisted	–	91,968	5,225,848	8,326,722	13,644,538
	<u>211</u>	<u>91,968</u>	<u>5,433,241</u>	<u>8,326,722</u>	<u>13,852,142</u>
Market value of listed securities:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
	<u>211</u>	<u>–</u>	<u>207,393</u>	<u>–</u>	<u>207,604</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	–	7,627	7,627
Public sector entities	–	–	55,029	176,769	231,798
Banks and other financial institutions	43	–	363,505	6,619,205	6,982,753
Corporate entities	168	91,968	5,010,154	1,523,121	6,625,411
Others	–	–	4,553	–	4,553
	<u>211</u>	<u>91,968</u>	<u>5,433,241</u>	<u>8,326,722</u>	<u>13,852,142</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

17. INVESTMENTS IN SECURITIES - continued

For the equity securities classified as available-for-sale securities, impairment losses accumulated through the years of HK\$44,739,000 (2013: HK\$44,740,000) have been provided by the Group.

Unlisted equity securities classified as available-for-sale securities held by the Group amounting to HK\$35,644,000 (2013: HK\$36,454,000) are measured at cost less impairment. No impairment has been recognised for these equity securities.

Certain held-to-maturity certificates of deposit of HK\$17,053,000 (2013: HK\$17,060,000) 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.

Debt securities classified as held-to-maturity amounting to HK\$8,671,000 (2013: HK\$7,627,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China ("PRC").

The debt securities classified as available-for-sale securities and held-to-maturity securities held by the Group are mainly guaranteed or issued by corporates and financial institutions from Hong Kong, the PRC and Australia.

The certificates of deposit classified as held-to-maturity securities held by the Group are mainly issued by banks from the PRC and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$775,388,000 (2013: HK\$2,474,632,000) and held-to-maturity debt securities amounting to HK\$340,721,000 (2013: HK\$256,467,000) held by the Group are credit exposures to the PRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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18. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 30 June 2014 and 31 December 2013 that were transferred to an entity with terms to repurchase these debt securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these debt securities to the entity, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 24). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities is transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the Group's condensed consolidated statement of financial position.

	30 June 2014		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	1,263,427	394,140	1,657,567
Carrying amount of associated liabilities (<i>Note 24</i>)	<u>1,114,183</u>	<u>340,669</u>	<u>1,454,852</u>

	31 December 2013		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	1,287,098	156,463	1,443,561
Carrying amount of associated liabilities (<i>Note 24</i>)	<u>1,115,597</u>	<u>141,060</u>	<u>1,256,657</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

19. ADVANCES AND OTHER ACCOUNTS

	30 June 2014	31 December 2013
	HK\$'000	HK\$'000
Advances to customers		
Bills receivable	446,870	406,924
Trade bills	5,033,367	2,164,983
Other advances to customers	43,065,772	42,548,307
	<u>48,546,009</u>	<u>45,120,214</u>
Interest receivable	236,963	215,923
Impairment allowances		
- Individually assessed	(26,756)	(14,755)
- Collectively assessed	(203,766)	(189,425)
	<u>48,552,450</u>	<u>45,131,957</u>
Other accounts	625,568	671,626
	<u>49,178,018</u>	<u>45,803,583</u>

Included in the "Other Accounts" of the Group is an amount of approximately HK\$246,141,000 (2013: HK\$271,049,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Such reserve funds include the mandatory reserve deposits and surplus reserve deposits placed with the People's Bank of China, amounting to HK\$49,532,000 (2013: HK\$55,791,000) and HK\$28,424,000 (2013: HK\$44,157,000) respectively. The mandatory reserve deposits are not available for the Group's daily operation. The balance of HK\$168,185,000 (2013: HK\$171,101,000) comprises fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of "Other Accounts" of the Group amounting to HK\$379,427,000 (2013: HK\$400,577,000) mainly comprised accounts receivable from HKSCC and brokerage clients in relation to securities dealing of HK\$188,384,000 (2013: HK\$208,206,000) and a variation margin of HK\$3,013,000 (2013: HK\$20,554,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements.

Details of the impaired loans are as follows:

	30 June 2014	31 December 2013
	HK\$'000	HK\$'000
Gross impaired loans	31,270	18,734
Less: Impairment allowances under individual assessment	(26,756)	(14,755)
Net impaired loans	<u>4,514</u>	<u>3,979</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.06%</u>	<u>0.04%</u>
Market value of collateral pledged	<u>16,095</u>	<u>14,081</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 INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

20. ASSETS HELD FOR SALE

The carrying amount of assets held for sale comprises:

	30 June 2014	31 December 2013
	HK\$'000	HK\$'000
Leasehold land in Hong Kong		
Held on long-term lease (over 50 years unexpired)	–	82,271
Leasehold properties (building) in Hong Kong		
Held on long-term lease (over 50 years unexpired)	–	186,997
	<u>–</u>	<u>269,268</u>

On 25 October 2013, qualifying shareholders of the Bank received an acquisition offer from Yuexiu Financial Holdings Limited (“Yuexiu Financial”) for a maximum of 326,250,000 shares of the Bank (representing 75% of its shares in issue) at an offer price of HK\$35.69 per share. At the same time, the Bank and LCHI entered into an agreement in respect of the transfer and the lease of Chong Hing Bank Centre (the “Property”), the Bank’s head office building in Central, pursuant to which the Property would be transferred by the Bank to LCHI at HK\$2,230 million, and the ground floor and 18 other floors of the Property would then be leased by LCHI to the Bank for a term of five years with the option for the Bank to renew the lease for a further term of five years. The Bank would distribute the proceeds of the transfer of the Property less the unaudited carrying value of the Property as at 30 June 2013 (such unaudited carrying value being approximately HK\$264 million) to its shareholders by way of a special interim dividend of HK\$4.5195 per share in cash.

Approval was granted by the Hong Kong Monetary Authority on 8 January 2014 for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) (“Guangzhou Yue Xiu Holdings”), Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu Enterprises”) and Yuexiu Financial (hereinafter collectively referred to as “Yue Xiu”) to become a controlling shareholder of the Bank. Yuexiu Financial is a wholly-owned subsidiary of Yue Xiu Enterprises. Yue Xiu Enterprises is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings, which is a state-owned limited liability company established in the PRC beneficially wholly-owned by the Guangzhou Municipal People’s Government of the PRC.

The acquisition by Yue Xiu of a controlling shareholding interest in the Bank, amounting to 75% of the Bank’s issued share capital, was completed on 14 February 2014. On 19 February 2014, the sale of the Property was completed, and on 20 February 2014, the special interim dividend was paid. The sale of the property produced net gains of HK\$1,960,732,000 before taxation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

21. INVESTMENT PROPERTIES

	2014	2013
	HK\$'000	HK\$'000
At 1 January	136,575	135,318
Net increase in fair value recognised in profit or loss	–	1,910
Disposals	–	(1,600)
Exchange difference	<u>(869)</u>	<u>947</u>
At 30 June / 31 December	<u>135,706</u>	<u>136,575</u>

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

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Net gains on disposal of investment properties	–	2,327
Net gains on fair value adjustments on investment properties	<u>–</u>	<u>1,910</u>
	<u>–</u>	<u>4,237</u>

Investment properties owned by the Group were revalued at 30 June 2014 by adopting the direct comparison approach and which reference to the recent transactions for similar premises by Vigers Appraisal & Consulting Limited, independent professional qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties were estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

The investment properties are rented out under operating leases.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$4,700 to HK\$17,000 per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

Investment properties are classified as Level 3 under fair value hierarchy as at 30 June 2014 and 31 December 2013. There were no transfers into or out of Level 3 during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

22. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2014	491,963	167,103	565,426	1,224,492
Additions	–	–	13,666	13,666
Disposals	–	–	(19,476)	(19,476)
Exchange adjustments	–	(91)	443	352
At 30 June 2014	491,963	167,012	560,059	1,219,034
ACCUMULATED DEPRECIATION				
At 1 January 2014	111,112	41,878	435,800	588,790
Depreciation	5,381	2,096	16,143	23,620
Eliminated on disposals	–	–	(11,416)	(11,416)
Exchange adjustments	–	(1)	(100)	(101)
At 30 June 2014	116,493	43,973	440,427	600,893
CARRYING AMOUNTS				
At 30 June 2014	375,470	123,039	119,632	618,141
At 1 January 2014	380,851	125,225	129,626	635,702
COST				
At 1 January 2013	575,421	375,285	546,606	1,497,312
Additions	–	6,675	26,467	33,142
Disposals	(419)	(141)	(7,726)	(8,286)
Exchange adjustments	–	406	79	485
Reclassified to assets held for sale	(83,039)	(215,122)	–	(298,161)
At 31 December 2013	491,963	167,103	565,426	1,224,492
ACCUMULATED DEPRECIATION				
At 1 January 2013	101,005	62,214	405,713	568,932
Depreciation	10,974	7,526	36,378	54,878
Eliminated on disposals	(99)	(96)	(6,359)	(6,554)
Exchange adjustments	–	359	68	427
Reclassified to assets held for sale	(768)	(28,125)	–	(28,893)
At 31 December 2013	111,112	41,878	435,800	588,790
CARRYING AMOUNTS				
At 31 December 2013	380,851	125,225	129,626	635,702

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

23. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments for land comprise:

	2014 HK\$'000	2013 HK\$'000
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,403	2,423
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	<u>(4)</u>	<u>46</u>
Net book value at 30 June / 31 December	<u>2,366</u>	<u>2,403</u>
Analysed as:		
Current portion	33	66
Non-current portion	<u>2,333</u>	<u>2,337</u>
Total	<u>2,366</u>	<u>2,403</u>

24. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	1,114,183	1,115,597
Held-to-maturity	<u>340,669</u>	<u>141,060</u>
	<u>1,454,852</u>	<u>1,256,657</u>

As at 30 June 2014, debt securities which are classified as available-for-sale and held-to-maturity with carrying amounts of HK\$1,263,427,000 (2013: HK\$1,287,098,000) and HK\$394,140,000 (2013: HK\$156,463,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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25. DEPOSITS FROM CUSTOMERS

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Demand deposits and current accounts	6,216,012	5,891,753
Savings deposits	22,580,436	22,064,051
Time, call and notice deposits	43,701,217	43,209,100
	<u>72,497,665</u>	<u>71,164,904</u>

26. CERTIFICATES OF DEPOSIT

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$1,292,375,000 as at 30 June 2014 (2013: HK\$563,003,000). Included in certificates of deposit are certificates of deposit of HK\$154,982,000 (2013: HK\$154,946,000) issued at the rate of three-month LIBOR plus 1% which will mature in September 2014 and certificates of deposit of HK\$1,137,393,000 (2013: HK\$408,057,000) issued at interest rates between 1.4% to 1.7% (2013: 1.5% to 1.7%) per annum which will mature in 2014 and 2015. All certificates of deposit issued are not secured by any collateral.

27. LOAN CAPITAL

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Notes (a) & (b))	<u>1,805,048</u>	<u>1,766,436</u>

Notes:

(a) This represents a subordinated note qualifying as tier 2 capital with face value of US\$225,000,000 issued on 4 November 2010. The note will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the note no longer fully qualifies as term subordinated debt 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 note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As the "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum.

(b) The subordinated note issued is not secured by any collateral.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

28. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2014	31 December 2013
	HK\$'000	HK\$'000
Deferred tax assets	1,279	1,501
Deferred tax liabilities	<u>(22,976)</u>	<u>(25,661)</u>
	<u>(21,697)</u>	<u>(24,160)</u>

The following are the major deferred tax assets (liabilities) 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	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2014	(15,575)	29,784	(4,837)	(31,838)	(1,694)	(24,160)
Credit to profit or loss for the period	9,072	1,874	-	-	-	10,946
Charge to other comprehensive income for the period	-	-	-	(8,606)	-	(8,606)
Exchange adjustments	-	-	123	-	-	123
At 30 June 2014	<u>(6,503)</u>	<u>31,658</u>	<u>(4,714)</u>	<u>(40,444)</u>	<u>(1,694)</u>	<u>(21,697)</u>
At 1 January 2013	(11,387)	26,531	(2,909)	(32,613)	(1,694)	(22,072)
(Charge) credit to profit or loss for the year	(4,188)	3,253	(1,928)	-	-	(2,863)
Credit to other comprehensive income for the year	-	-	-	775	-	775
At 31 December 2013	<u>(15,575)</u>	<u>29,784</u>	<u>(4,837)</u>	<u>(31,838)</u>	<u>(1,694)</u>	<u>(24,160)</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

29. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on maturity information provided to and reviewed by management, 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	Undated HK\$'000	Total HK\$'000
At 30 June 2014								
Assets								
Cash and short-term funds	1,219,532	14,933,699	419,317	928,667	-	-	-	17,501,215
Placements with banks and other financial institutions	-	-	5,861,023	1,244,698	-	-	-	7,105,721
Derivative financial instruments	-	14,564	76,986	23,141	7,334	129,444	-	251,469
Financial assets at fair value through profit or loss	-	-	-	-	-	-	311	311
Available-for-sale securities	-	-	54,333	198,817	3,379,509	2,313,305	244,950	6,190,914
Held-to-maturity securities	-	698,355	610,764	1,117,426	2,414,742	738,164	-	5,579,451
Advances to customers	2,324,593	3,566,577	3,758,523	11,448,101	12,599,484	14,478,060	370,671	48,546,009
Other financial assets	359,093	167,950	143,399	210,723	244	-	(249,400)	632,009
Total financial assets	3,903,218	19,381,145	10,924,345	15,171,573	18,401,313	17,658,973	366,532	85,807,099
Liabilities								
Deposits and balances of banks and other financial institutions	19,844	427,788	150,000	-	-	-	-	597,632
Financial assets sold under repurchase agreements	-	1,108,853	345,999	-	-	-	-	1,454,852
Deposits from customers	28,816,751	18,236,733	16,044,998	9,295,814	103,369	-	-	72,497,665
Certificates of deposit	-	-	154,981	1,137,394	-	-	-	1,292,375
Derivative financial instruments	-	14,564	348	11,385	35,886	22,428	-	84,611
Loan capital	-	-	-	-	-	1,805,048	-	1,805,048
Other financial liabilities	448,497	42,560	127,454	313,408	17,564	-	-	949,483
Total financial liabilities	29,285,092	19,830,498	16,823,780	10,758,001	156,819	1,827,476	-	78,681,666
Net position								
- Total financial assets and liabilities	(25,381,874)	(449,353)	(5,899,435)	4,413,572	18,244,494	15,831,497	366,532	7,125,433
Of which certificates of deposit included in:								
Held-to-maturity securities	-	695,144	531,629	442,793	183,548	-	-	1,853,114
Of which debt securities included in:								
Available-for-sale securities	-	-	54,333	198,817	3,379,509	2,313,305	-	5,945,964
Held-to-maturity securities	-	698,355	610,764	1,117,426	2,414,742	738,164	-	5,579,451
	-	698,355	665,097	1,316,243	5,794,251	3,051,469	-	11,525,415

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29. 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	Undated HK\$'000	Total HK\$'000
At 31 December 2013								
Assets								
Cash and short-term funds	3,287,091	12,100,549	19,418	738,379	-	-	-	16,145,437
Placements with banks and other financial institutions	-	-	3,970,639	3,949,863	-	-	-	7,920,502
Derivative financial instruments	-	-	5,011	4,708	13,476	146,940	-	170,135
Financial assets at fair value through profit or loss	-	-	-	91,968	-	-	211	92,179
Available-for-sale securities	-	-	-	55,029	3,340,570	1,793,724	243,918	5,433,241
Held-to-maturity securities	-	822,978	1,316,401	2,832,052	2,616,651	738,640	-	8,326,722
Advances to customers	2,142,672	2,933,084	3,162,690	9,988,186	12,944,831	13,779,423	169,328	45,120,214
Other financial assets	359,065	177,076	146,994	177,567	206	-	(177,539)	683,369
Total financial assets	<u>5,788,828</u>	<u>16,033,687</u>	<u>8,621,153</u>	<u>17,837,752</u>	<u>18,915,734</u>	<u>16,458,727</u>	<u>235,918</u>	<u>83,891,799</u>
Liabilities								
Deposits and balances of banks and other financial institutions	99,663	772,871	736,697	65,000	-	-	-	1,674,231
Financial assets sold under repurchase agreements	-	797,541	147,533	311,583	-	-	-	1,256,657
Deposits from customers	27,994,659	19,741,663	14,959,437	8,392,797	76,348	-	-	71,164,904
Certificates of deposit	-	-	-	563,003	-	-	-	563,003
Derivative financial instruments	-	13,899	9,353	29,766	43,757	3,878	-	100,653
Loan capital	-	-	-	-	-	1,766,436	-	1,766,436
Other financial liabilities	437,538	49,394	135,125	210,117	20,256	-	-	852,430
Total financial liabilities	<u>28,531,860</u>	<u>21,375,368</u>	<u>15,988,145</u>	<u>9,572,266</u>	<u>140,361</u>	<u>1,770,314</u>	<u>-</u>	<u>77,378,314</u>
Net position								
- Total financial assets and liabilities	<u>(22,743,032)</u>	<u>(5,341,681)</u>	<u>(7,366,992)</u>	<u>8,265,486</u>	<u>18,775,373</u>	<u>14,688,413</u>	<u>235,918</u>	<u>6,513,485</u>
Of which certificates of deposit included in:								
Held-to-maturity securities	-	822,979	1,252,354	2,426,319	173,969	-	-	4,675,621
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	-	-	-	91,968	-	-	-	91,968
Available-for-sale securities	-	-	-	55,029	3,340,570	1,793,724	-	5,189,323
Held-to-maturity securities	-	822,978	1,316,401	2,832,052	2,616,651	738,640	-	8,326,722
	<u>-</u>	<u>822,978</u>	<u>1,316,401</u>	<u>2,979,049</u>	<u>5,957,221</u>	<u>2,532,364</u>	<u>-</u>	<u>13,608,013</u>

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30. 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		Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	<u>–</u>	<u>2,920</u>	<u>–</u>	<u>5,172</u>
Fellow subsidiaries	<u>8,784</u>	<u>844</u>	<u>1</u>	<u>–</u>
Associates	<u>11,627</u>	<u>14,339</u>	<u>1,366</u>	<u>1,391</u>
Key management personnel (<i>Note</i>)	<u>977</u>	<u>2,704</u>	<u>923</u>	<u>5,202</u>

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

	Loan to related parties		Deposit from related parties	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	<u>–</u>	<u>–</u>	<u>–</u>	<u>254,745</u>
Fellow subsidiaries	<u>300,000</u>	<u>36,800</u>	<u>120,612</u>	<u>–</u>
Associates	<u>11,503</u>	<u>11,503</u>	<u>100,238</u>	<u>110,166</u>
Key management personnel (<i>Note</i>)	<u>40,782</u>	<u>507,899</u>	<u>154,927</u>	<u>786,463</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As at 30 June 2014, the Group held available-for-sale debt securities issued by a fellow subsidiary of HK\$225,038,000 (31 December 2013: nil).

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

Compensation of key management personnel

The remuneration of directors and other members of the key management during the period are as follows:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Short-term benefits	<u>37,706</u>	<u>33,717</u>
Post employment benefits	<u>2,717</u>	<u>2,532</u>
	<u>40,423</u>	<u>36,249</u>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2014

31. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

32. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

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 are as follows:

	30 June 2014				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,105,452	-	-	453,937	-
- Property investment	7,813,604	30	-	7,573,940	-
- Financial concerns	1,773,499	-	-	1,359,965	-
- Stockbrokers	2,326,720	-	-	724,722	-
- Wholesale and retail trade	2,222,018	19,597	5,648	1,862,663	5,648
- Manufacturing	1,995,297	4,689	4,499	1,168,432	4,499
- Transport and transport equipment	847,610	-	-	685,969	-
- Recreational activities	1,258	4	-	1,258	-
- Information technology	19,600	112	-	17,151	-
- Others (Note 2)	7,963,204	23,603	3,317	5,198,902	5,555
Individuals					
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	458,881	73	1	458,881	1
- Loans for the purchase of other residential properties	7,329,882	432	-	7,328,819	-
- Credit card advances	82,373	8,837	521	-	622
- Others (Note 3)	2,158,234	33,754	6,454	1,625,573	6,455
	<u>36,097,632</u>	<u>91,131</u>	<u>20,440</u>	<u>28,460,212</u>	<u>22,780</u>
Trade finance	6,001,494	62,449	5,092	522,730	5,092
Loans for use outside Hong Kong	<u>6,446,883</u>	<u>50,186</u>	<u>1,224</u>	<u>3,248,559</u>	<u>3,398</u>
	<u><u>48,546,009</u></u>	<u><u>203,766</u></u>	<u><u>26,756</u></u>	<u><u>32,231,501</u></u>	<u><u>31,270</u></u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purpose.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	31 December 2013				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,479,980	2	–	642,248	–
- Property investment	8,307,110	–	2	8,272,041	2
- Financial concerns	2,407,128	–	–	1,853,502	–
- Stockbrokers	773,195	10	–	609,550	–
- Wholesale and retail trade	1,934,329	5,616	5,158	1,581,434	5,158
- Manufacturing	1,923,830	–	–	1,172,244	–
- Transport and transport equipment	755,028	–	–	654,770	–
- Recreational activities	1,296	1	–	1,297	–
- Information technology	21,067	29	–	17,231	–
- Others (Note 2)	7,770,364	6,055	4,448	4,555,683	6,684
Individuals					
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	469,597	–	–	469,597	–
- Loans for the purchase of other residential properties	7,058,570	287	–	7,057,313	–
- Credit card advances	109,166	9,136	484	–	516
- Others (Note 3)	<u>2,082,372</u>	<u>–</u>	<u>283</u>	<u>1,510,997</u>	<u>474</u>
	35,093,032	21,136	10,375	28,397,907	12,834
Trade finance	3,287,545	60,643	3,592	610,909	3,592
Loans for use outside Hong Kong	<u>6,739,637</u>	<u>107,646</u>	<u>788</u>	<u>2,926,781</u>	<u>2,308</u>
	<u>45,120,214</u>	<u>189,425</u>	<u>14,755</u>	<u>31,935,597</u>	<u>18,734</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purpose.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months as at 30 June 2014 and 31 December 2013, and new impairment allowances and advances written-off during the six months ended 30 June 2014 and 2013 in respect of industry sectors which constitute not less than 10% of gross advances to customers are analysed as follows:

	Advances overdue for over three months as at 30 June HK\$'000	2014 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	542	-	-
- Others	5,036	286	211
Individuals			
- Loans for the purchase of other residential properties	422	-	-
Trade finance	4,700	3,379	-
Loans for use outside Hong Kong	<u>40,898</u>	<u>506</u>	<u>-</u>
		2013	
	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	626	-	-
- Others	5,419	41	15
Individuals			
- Loans for the purchase of other residential properties	1,571	-	-
Loans for use outside Hong Kong	<u>77,715</u>	<u>61</u>	<u>-</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

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 2014				
	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	45,280,215	72,429	27,872	25,532	185,215
People's Republic of China	838,745	2,308	2,308	788	3,447
Macau	892,425	1,090	1,090	436	8,903
America	562,641	—	—	—	6,201
Others	971,983	—	—	—	—
	<u>48,546,009</u>	<u>75,827</u>	<u>31,270</u>	<u>26,756</u>	<u>203,766</u>

	31 December 2013				
	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	42,346,053	92,487	16,426	13,967	172,533
People's Republic of China	649,113	2,308	2,308	788	4,321
Macau	636,156	—	—	—	6,367
America	612,875	—	—	—	6,204
Others	876,017	—	—	—	—
	<u>45,120,214</u>	<u>94,795</u>	<u>18,734</u>	<u>14,755</u>	<u>189,425</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

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 2014			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	25,535,467	86,930	2,067,776	27,690,173
- of which - China	<u>15,055,332</u>	<u>28,246</u>	<u>1,009,100</u>	<u>16,092,678</u>
	31 December 2013			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	22,321,106	87,701	1,303,616	23,712,423
- of which - China	<u>15,824,927</u>	<u>30,027</u>	<u>597,953</u>	<u>16,452,907</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

4. OVERDUE AND RESCHEDULED ASSETS

	30 June 2014		31 December 2013	
	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	49,349	0.1	1,545	0.0
- 1 year or less but over 6 months	11,322	0.0	2,728	0.0
- Over 1 year	<u>15,156</u>	<u>0.1</u>	<u>90,522</u>	<u>0.2</u>
Total overdue advances	<u>75,827</u>	<u>0.2</u>	<u>94,795</u>	<u>0.2</u>
Rescheduled advances	<u>16,319</u>	<u>0.0</u>	<u>263,085</u>	<u>0.6</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>24,120</u>		<u>11,996</u>	
Covered portion of overdue loans and advances	52,930		83,564	
Uncovered portion of overdue loans and advances	<u>22,897</u>		<u>11,231</u>	
	<u>75,827</u>		<u>94,795</u>	
Market value of collateral held against covered portion of overdue loans and advances	<u>259,718</u>		<u>1,533,567</u>	

There were no advances to banks and other financial institutions or other assets which were overdue for over three months as at 30 June 2014 and 31 December 2013, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 30 June 2014 amounted to HK\$18,310,000 (2013: HK\$16,040,000).

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

5. NON-BANK MAINLAND EXPOSURES

Types of counterparties	30 June 2014			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Mainland entities	3,946,753	1,119,373	5,066,126	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,433,651	788,148	6,221,799	6,823
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>423,967</u>	<u>13,000</u>	<u>436,967</u>	<u>–</u>
	<u>9,804,371</u>	<u>1,920,521</u>	<u>11,724,892</u>	<u>6,823</u>

Types of counterparties	31 December 2013			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Mainland entities	3,166,256	606,437	3,772,693	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,275,281	989,231	7,264,512	788
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>100,593</u>	<u>–</u>	<u>100,593</u>	<u>–</u>
	<u>9,542,130</u>	<u>1,595,668</u>	<u>11,137,798</u>	<u>788</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

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 2014		
	RMB	Total	
Equivalent in thousand of HK\$			
Spot assets	14,254,408	14,254,408	
Spot liabilities	(10,825,827)	(10,825,827)	
Forward purchases	87,255	87,255	
Forward sales	(3,245,574)	(3,245,574)	
Net long position	<u>270,262</u>	<u>270,262</u>	
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>

	31 December 2013		
	RMB	Total	
Equivalent in thousand of HK\$			
Spot assets	9,344,291	9,344,291	
Spot liabilities	(8,779,126)	(8,779,126)	
Forward purchases	33,704	33,704	
Forward sales	(394,541)	(394,541)	
Net long position	<u>204,328</u>	<u>204,328</u>	
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

7. THE CONTRACTUAL AMOUNTS OF EACH OF THE FOLLOWING CLASSES OF CONTINGENT LIABILITIES AND COMMITMENTS OUTSTANDING ARE:

	30 June 2014 HK\$'000	31 December 2013 HK\$'000
Contingent liabilities and commitments - contractual amounts		
Direct credit substitutes	915,103	1,041,747
Trade-related contingencies	387,334	479,056
Forward asset purchases	9,389	7,049
Undrawn formal standby facilities, credit lines and other commitments:		
Which are unconditionally cancellable without prior notice	6,759,850	6,864,582
With an original maturity of one year and under	8,051,835	8,212,601
With an original maturity of over one year	2,324,031	1,899,267
Lease commitments	417,202	55,424
	<u>18,864,744</u>	<u>18,559,726</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 2014		31 December 2013	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	–	3,311,955	–	3,196,283
Exchange rate contracts	114,691	68,848	10,078	19,515
Interest rate contracts	136,778	47,235	160,057	51,237
	<u>251,469</u>	<u>3,428,038</u>	<u>170,135</u>	<u>3,267,035</u>

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

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The credit risk weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules and the guidelines issued by the HKMA.

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

8. CAPITAL ADEQUACY RATIOS AND LIQUIDITY RATIOS

	30 June 2014	31 December 2013
	%	%
Total capital ratio	14.97	14.57
Tier 1 capital ratio	11.42	10.82
Common Equity Tier 1 (“CET 1”) capital ratio	11.42	10.82
	Six months ended 30 June	
	2014	2013
	%	%
Average liquidity ratio for the period	38.94	42.28

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the “Basel III” capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk, “standardised (market risk) approach” for the calculation of market risk and “basic indicator approach” for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker 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 Hong Kong 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 2014

9. OTHER FINANCIAL INFORMATION

The Bank has set up a “Regulatory Disclosure” section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules. In accordance with section 24 of Banking (Disclosure) Rules, the “Regulatory Disclosure” section includes the following information:

- A detailed breakdown of the Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions to the capital base by using the standard disclosure templates as specified by the HKMA;
- A full reconciliation of the Common Equity Tier 1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions to the capital base and the balance sheet in the published financial statements; and
- The full terms and conditions of all capital instruments.

The above information will be available on the Bank’s website: www.chbank.com in the “Regulatory Disclosure” section in accordance with the Banking (Disclosure) Rules.

10. BASIS OF CONSOLIDATION

This interim financial information covers the condensed consolidated financial statements of the Bank and all its subsidiaries and includes the attributable share of interest in the Group’s associates.

In preparing the capital adequacy ratios and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority 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 associates 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.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		30 June 2014 HK\$’000	31 December 2013 HK\$’000	30 June 2014 HK\$’000	31 December 2013 HK\$’000
Chong Hing (Nominees) Limited	Provision of nominee services	437	100	100	100
Chong Hing Securities Limited	Stockbroking	521,647	797,614	413,166	581,905
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	67,350	66,074	60,745	60,149
Chong Hing Insurance Company Limited	Insurance underwriting	300,282	294,619	188,748	186,530
Chong Hing (Management) Hong Kong Limited	Provision of management services	100	720	100	100

SUPPLEMENTARY INFORMATION

for the six months ended 30 June 2014

11. 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 Finance and Capital Management Division, the Treasury Department and the Finance Department with the assistance of various qualitative and quantitative analyses.

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

(i) Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. The Group's 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 counterparty may fail to meet a commitment when it falls due.

The Group's lending policy sets out in details 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 Hong Kong 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 and deputy chief executive officers.

(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 2014

11. 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 branches outside Hong Kong and subsidiaries is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury 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.

(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 any 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 2014

11. 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 the Group's behalf do not jeopardise its reputation.

INTERIM DIVIDEND

The directors have declared an interim cash dividend for 2014 of HK\$0.19 per share, payable on Friday, 26 September 2014 to shareholders whose names are listed on the register of members of the Bank on Friday, 19 September 2014 (2013 interim cash dividend: HK\$0.14 per share paid on 26 September 2013).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Wednesday, 17 September 2014 to Friday, 19 September 2014 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2014 interim cash dividend, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Tuesday, 16 September 2014.

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

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities for the six months ended 30 June 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The directors confirm that, for the accounting period for the six months ended 30 June 2014, the Bank has complied with the former (Code on Corporate Governance Practices) and the revised (Corporate Governance Code) Code Provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except:

1. 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 such practices to be appropriate alternatives to those recommended under Code Provisions A.4.1 and A.4.2.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE - continued

2. During 1 January 2014 and 13 February 2014, as to the nomination of candidates for appointment to the board, instead of having a nomination committee in place under Code Provision A.5.1, any director was entitled to recommend for the consideration and, if thought fit, approval of the board, as well as other relevant supervisory and regulatory bodies, suitable candidates who can contribute to the Bank, and discharge their responsibilities in the interests of the Bank and its shareholders as a whole. The directors considered such a practice to be an appropriate alternative to that recommended under Code Provision A.5.1.

The board established a board committee on 14 February 2014 known as Nomination Committee whose duties and responsibilities include the review of the diversity of the board, and the identification of individuals suitably qualified to become directors and the selection or the making of recommendations to the board on the selection of individuals nominated for directorships.

3. As set forth in the Bank's Policy Statement on Corporate Governance, the directors should bear in mind that despite their respective directorial classifications (as the case may be, as executive directors, non-executive directors or independent non-executive directors), each of them shall exercise his own judgement when matters are submitted to the board for the individual directors' collective review, decision and approval. The directors shall guard against any conflict of interest and act in good faith in the interests of the Bank as a whole at all times. They shall exercise due care, diligence and skill when performing their duties and shall use their powers for proper corporate purposes only.

In line with the Bank's Policy Statement on Corporate Governance, the Chairman has encouraged his fellow directors (be they executive directors, non-executive directors or independent non-executive directors) to freely express their views and has allowed sufficient time for discussion of issues at full board meetings. If, for example, the non-executive directors (including the independent non-executive directors) hold views contrary to those of the executive directors in respect of any matter discussed at a full board meeting, the minutes will have this reflected clearly. In the light of such an established practice, the directors are of the view that such open and free discussions at full board meetings among all the directors are more productive and, as such, there is no further need for the non-executive directors (including the independent non-executive directors) to hold meetings, under Code Provision A.2.7, without the presence of the executive 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 2014, 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 2014, 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

On entering 2014, the global economic recovery remains at a slow pace while various central banks continue to implement quantitative easing measures to stabilise the economy. Despite the cutting back of asset purchases since January in the United States, it has been announced that the low-interest rate policy would persist for quite a long period of time. Amid weak credit market and a prolonged low inflation in the Eurozone, the European Central Bank further lowered the interest rates in June and introduced negative interest rates for the first time. Japan continued to launch a series of quantitative easing measures to induce inflation with its weaker yen policy.

Against the sagging risk remaining in the macroeconomic environment, the Hong Kong economy expanded moderately. Gross domestic product in the first quarter grew by 2.5% in real terms compared with that of the same period last year. The unemployment rate for the second quarter was recorded at still a low level of 3.2%. The Hong Kong Government proposed to fine-tune the double stamp duty measure in May and drove the sales of first-hand properties, sending the overall residential property price to a record high figure. On the stock market front, the Hang Seng Index zigzagged in a narrow range for the first half of the year and closed at around 23,100 on the last trading day in June, down slightly by 0.5%.

With the moderately reviving economy across the globe and the Mainland economy in a rather good shape, the policy to targetedly lower the required reserve ratio by the State Council was eventually promulgated on 9 June. On the same day, the People's Bank of China announced to cut the Renminbi required reserve ratio by 0.5% for all commercial banks that meet prudent requirements starting from 16 June as a support from the finance sector to the real economy.

Hit by the severe weather in early 2014, the US economy was growing slower than expected. After its rate-fixing meeting in July, the Federal Reserve Board announced again to further cut the monthly asset purchases and reduce the level of quantitative easing to US\$25 billion per month and keep the target range for the federal funds rate at 0% to 0.25%.

Results Announcement and Profit Analysis

The results for the six months ended 30 June 2014 of the Bank, on an unaudited and consolidated basis, are summarised below and as the results included net gains on disposal of assets held for sale, wherever appropriate, figures excluding the profit from the disposal of Chong Hing Bank Centre (“excluding profit from CHBC”) are shown to reflect the performance of the core business lines:

Key Financial Data	Six months ended 30 June		Variance %
	2014 HK\$'000 (Unaudited) (unless otherwise specified)	2013 HK\$'000 (Unaudited) (unless otherwise specified)	
1. Net operating profit before impairment	407,846	335,191	+21.68
2. Profit attributable to shareholders excluding profit from CHBC	387,726	276,307	+40.22
3. Return on equity excluding profit from CHBC	9.85% (annualised)	7.40% (for year 2013)	+33.11
4. Earnings per share excluding profit from CHBC	HK\$0.89	HK\$0.64	+40.22
5. Net interest income	619,324	475,738	+30.18
6. Net interest margin	1.52%	1.19%	+27.73
7. Net fee and commission income	99,762	105,877	-5.78
8. Net trading income	36,898	42,563	-13.31
9. Other operating income	67,277	69,266	-2.87
10. Operating expenses	415,415	358,253	+15.96
11. Cost-to-income ratio	50.46%	51.66%	-2.32
12. Impairment allowances on loans and advances - Net amounts reversed (allowances)	44,212	(17,592)	-351.32
13. Total loans and advances to customers	48,546,009	45,120,214 (as of December 2013)	+7.59
14. Impaired loan ratio	0.06%	0.04% (as of December 2013)	+50.00
15. Provision coverage of impaired loans and advances	737.23%	1,089.83% (as of December 2013)	-32.35
16. Rescheduled loan ratio	0.03%	0.58% (as of December 2013)	-94.83
17. Total customer deposits	72,497,665	71,164,904 (as of December 2013)	+1.87
18. Loan-to-deposit ratio	59.76%	57.25% (as of December 2013)	+4.38
19. Total assets	86,827,388	85,188,087 (as of December 2013)	+1.92
20. Net asset value per share	HK\$18.36 (before interim cash dividend)	HK\$17.77 (before final cash dividend as of December 2013)	+3.31
21. Total capital ratio	14.97%	14.57% (as of December 2013)	+2.75
22. Tier 1 capital ratio	11.42%	10.82% (as of December 2013)	+5.55
23. Common Equity Tier 1 capital ratio	11.42%	10.82% (as of December 2013)	+5.55
24. Average liquidity ratio	38.94%	42.28%	-7.90

Analysis of Key Financial Data

For the first half of 2014, on an unaudited, consolidated basis, the net operating profit before impairment was HK\$408 million and improved by 21.7% from the corresponding period in previous year. Net interest income increased by 30.2% as total assets rose by 6.3% year on year with advances and other accounts increasing by 12.6% and net interest margin widened 33 basis points from 1.19% for the first half of 2013 to 1.52%. Compare to the second half of 2013, net interest margin improved and rose by 18 basis points. The increases in interest income from loans and advances and placements with banks and other financial institutions contributed to most of the growth in net interest income.

Operating expenses rose by 16% from the corresponding period in previous year mainly due to the lease payment for Chong Hing Bank Centre, which was sold on 19 February 2014. New impairment allowances on loans and advances at HK\$30 million in the first half of 2014 were similar to those for the corresponding period in previous year, and a total of HK\$74 million of impairment allowances on loans and advances was reversed after recoveries from various customers.

Profit attributable to shareholders amounted to HK\$2,337 million and after excluding the profit from CHBC, amounted to HK\$387 million, an increase of 40% over that for the corresponding period in previous year, translating into earnings of HK\$0.89 per share and annualised return on equity of 9.85%.

As of 30 June 2014, compared with the figures as of 31 December 2013, total loans and advances to customers increased by 7.6% to HK\$48,546 million with loans for use in Hong Kong increasing by 3%, trade finance increasing by 83% and loans for use outside Hong Kong reducing by 4% in the first half of 2014. The growth in trade finance was mainly related to more bills rediscounting made under letters of credit issued by credit strong counterparties in the Mainland. Non-bank Mainland on-balance sheet exposure showed modest growth of 3% and the increases were mainly attributable to corporations which are part of sizeable Mainland entities listed in Hong Kong. We continue to maintain a robust credit risk management system. Through ongoing close monitoring, the quality of our loans and advances remained high. Impaired loan ratio was at a considerably low level of 0.06% and rescheduled loan ratio at 0.03%, while provision coverage of impaired loans and advances stood at a solidly comfortable level of 737.23%. Total customer deposits remained stable at HK\$72,498 million. Loan-to-deposit ratio increased from 57.25% in December 2013 to 59.76% in June 2014 and average liquidity ratio decreased by 7.9% to 38.94% year on year.

Total capital ratio increased from 14.57% in December 2013 to 14.97% in June 2014 after the improvement in profit attributable to shareholders and an interim dividend from Chong Hing Securities Limited contributed to the growth in the Bank's capital base. The Tier 1 capital ratio was at 11.42% and the Common Equity Tier 1 capital ratio was also at 11.42%. Total assets increased by 1.9% in the first half of 2014 to HK\$86,827 million. The Bank's net asset value per share (before the payment of the interim cash dividend declared for 2014) was HK\$18.36 as of 30 June 2014.

Overall, the Bank's core business lines and financial health are strong and sound, asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements.

Interim Dividend

The board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel III". As such, the board has declared that the interim cash dividend of HK\$0.19 per share for the six months ended 30 June 2014 be payable on Friday, 26 September 2014 to shareholders whose names appear in the Register of Members of the Bank on Friday, 19 September 2014 (2013 interim cash dividend: HK\$0.14 per share paid on 26 September 2013).

Business Review

Corporate and Retail Banking

Loan and Deposit Business

The property market remained sluggish as a result of tightened property regulations implemented by the Hong Kong Government last year. Nevertheless, the Bank's residential mortgage loan balance recorded reasonable growth during the first half of 2014 compared with that of the same period last year. On the deposit business front, the Bank continued to explore its clientele of personal customers and the small and medium-sized enterprises ("SME") customers in the community and rolled out timely product and service promotions to establish a sustained stream of deposit and expand its clientele. On the retail loan business front, the Bank achieved double digit growth year-on-year in income through introducing new distribution channels at the branches to gradually grow its business scale.

In respect of corporate loan business, the Bank provided financing for enterprises in Hong Kong and the Mainland by offering proactive and diversified banking services. Coupled with the strategic adjustment of interest rates, the Bank aimed to expand its clientele and enhance profitability. During the first half of 2014, the Bank registered an increase in terms of total volume of corporate loans, interest income and net interest margin compared with those of the same period last year. Further to supporting the Hong Kong Government's Loan Guarantee Scheme for the SME, the Bank also actively participated in the "SME Financing Guarantee Scheme" of the Hong Kong Mortgage Corporation Limited to enlarge its SME client base.

The Bank will continue to allocate resources in a move to actively expand its SME clientele and strengthen its cross-border trade and capital expenditure financing business. The Bank will also fully support local enterprises to expand their business in China. Maintaining a prudent lending approach and the proactive strategy to source quality customers locally, the Bank endeavours to generate better returns for its shareholders.

Card Business

For the first half of 2014, the Bank's credit card business recorded growth in the number of credit cards issued, spending amount, accounts receivable and merchant-billed turnover compared with those of the same period last year. Overall merchant-billed turnover registered an increase of approximately 25% on a year-on-year basis. In particular, the turnover for UnionPay cards alone attained a remarkable growth of nearly 60%.

In the first quarter of 2014, the Bank continued its well-received "Dual Card Program". Under the program, customers were rewarded with fabulous treats upon successful application for UnionPay Dual Currency Credit Card together with any other Chong Hing credit card.

To maintain its strong business growth, the Bank will continue to develop its credit card and merchant acquiring businesses.

Wealth Management Business

On the retail investment business front, the Bank focused on the sales of funds and recorded solid sales growth compared with that of the same period last year. Private banking services performed satisfactorily since its launch in mid-2013, driving the growth of fixed-income investment products. Meanwhile, the Bank also gradually developed structured investment products to provide customers with a variety of choices.

Looking forward, the Bank will endeavour to achieve sound development of its wealth management business through diversifying its product mix and strengthening cross-selling.

Asset Management Business

The Bank has formulated the business of Renminbi Qualified Foreign Institutional Investor (“RQFII”) since 2013. A RMB1 billion investment quota was granted in January 2014. The Asset Management Department and its platform were subsequently established to manage the design and execution of such a quota aiming to launch RQFII discretionary account services in the fourth quarter of 2014. To respond to the market dynamics, RQFII will be the first launch of the Bank’s asset management business with subsequent development and launching of relevant products going forward. Furthermore, the asset management business will not be limited to any sole market. The Bank will focus on non-conventional asset management innovation by enhancing structural features to satisfy the demand of various customers in financial management.

Mainland Operations

Regulatory approvals of the application for opening the Bank’s Guangzhou Sub-branch of the Shantou Branch have been obtained. With the opening of the Guangzhou Sub-branch, which is expected to commence operation in mid-October 2014, the Bank will continue to actively expand its business network in the Mainland.

On the cross-border Renminbi business front, with its cross-border trade Renminbi clearing business making steady progress, the Bank has actively engaged in cooperation with its peers to strengthen the linkage between Hong Kong and the Mainland. The customer base has also continued to expand as a result. Current focus is to expand cross-border trade finance and Renminbi loan business. The Bank closely tracks the new Renminbi policies introduced by the Central Government and will continue to develop new products to cater for the market needs for Renminbi products. In addition, the Bank has obtained approval for operating its cross-border trade Renminbi clearing business for its Macau Branch to attain more comprehensive development of its business as a whole.

Treasury Activities

Treasury activities mainly comprised money market operations, foreign exchange services, investments in debt securities and the overall liquidity management of the Bank. All these activities were carried out under prudent risk management.

In view of the changing macroeconomic environment, the Bank has been closely monitoring market volatility to manage its liquidity and enhance the return on assets. The certificate of deposit programme and repurchase agreements will continue to be used to manage the Bank’s liabilities.

In the area of Renminbi business, the Bank continued to offer a comprehensive range of treasury products and services in Renminbi, covering both personal and corporate banking businesses.

Securities Business

For the first half of 2014, the overall performance of the Hong Kong stock market was less favourable than that in the same period of last year and trading remained quiet. Chong Hing Securities Limited (“Chong Hing Securities”), a wholly-owned subsidiary of the Bank, recorded moderate growth in the number of accounts in the first half of the year, and the percentage of securities trading via electronic means by customers increased by 6.4% compared with that in the same period of last year. Total commission rate remained steady. In the face of fierce competition in the retail securities market, Chong Hing Securities is well-positioned in the industry leveraging on its efficient and quality securities services.

Insurance Business

Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, recorded satisfactory growth in revenue compared with that of the same period last year. Moving forward, Chong Hing Insurance will seek further growth by expanding its insurance business proactively capitalising on the Bank’s extensive business network and offer a more comprehensive range of quality services to customers.

Corporate Responsibility

The Bank is committed to offering customers with a comprehensive range of high quality services, the Bank continues to strengthen its service scope and optimise its branch services and internet banking with a view to providing enhanced quality and efficient banking services to our customers.

The Bank has also been actively participating in and supporting activities of charitable organisations. In this connection, it was awarded the “Caring Company” logo by the Hong Kong Council of Social Service for the seventh year in 2014.

Awards

The Bank’s position in the SME market was highly recognised by the industry, and received the “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business for the sixth time.

In March 2014, the Bank received the “Straight Through Processing (STP) Award” from the Bank of New York Mellon for the sixth consecutive year. The award recognised the Bank’s outstanding performance in payment formatting and a high STP rate of over 95% in fully-automated USD payment processing without manual intervention.

Corporate Governance

The Bank is well 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. The Bank has, 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

Despite that major economies across the globe including the United States, Eurozone and Japan are implementing monetary easing stimulus to ease recession pain, the momentum of recovery in various countries is still relatively slow, and the global economy has not yet come out of the woods.

While the worldwide monetary patterns mainly display an easing tone, China continues to take a firm approach towards its economic policies. As China records a slowdown in economic growth for the third consecutive year, the Central Government strives to maintain a balance between pursuing steady growth and economic reforms and, through executing austerity measures at appropriate intervals and targeted sectors of the real economy, ensures that the economic growth target for this year will be no less than 7.5%. The Central Government puts efforts into implementing structural reforms and expanding its markets with an aim to achieving medium to fast growth for the long-term economic development in China.

Given the changing macroeconomic environment, coupled with the expected rise in interest rates and the risks involved in the flow of international funds, the Hong Kong Government continues to maintain a close working and trusting relationship with the Central Government to achieve win-win cooperation on the basis of securing stability in the Hong Kong economy, finance sector and employment. In April 2014, approval-in-principle for the pilot programme for establishing mutual stock market access between Shanghai and Hong Kong (Shanghai-Hong Kong Stock Connect) was granted to allow mutual access directly by qualified individual and institutional investors in Shanghai and Hong Kong in the two markets, facilitating the steady development of two mature markets, increasing the two-way movement of Renminbi funds onshore and offshore and further enhancing the liquidity of the Hong Kong offshore Renminbi market. In addition, the Ministry of Finance of the Central Government announced the issuance of Renminbi sovereign bonds in Hong Kong for the sixth consecutive year, of which the issue size in 2014 amounted to RMB28 billion, and made Renminbi sovereign bond issuance in Hong Kong a routine practice. This also further consolidated and enhanced Hong Kong's position as an international financial centre and offshore Renminbi business centre.

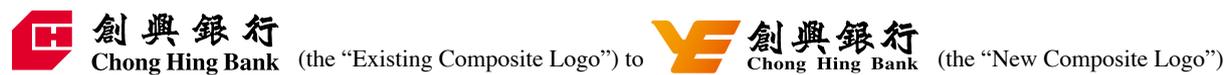
Integration with Yue Xiu Group

The Bank has been a new member of Yue Xiu Group since 14 February 2014. Guangzhou Yue Xiu Holdings Limited, a wholly state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government, is the largest state-owned enterprise group in Guangzhou in terms of asset size with leading performance in overall economic efficiency. With this connection, there is tremendous growth potential for the Bank. On 29 May, government officials of Guangdong Province visited the Bank to look into the development between Yue Xiu Group and the Bank. The delegation stressed that the Bank should actively learn from and model after the successful experiences of its peers and fully capitalise on its position as the bridge connecting Hong Kong and the Mainland with a view to developing itself into a high-end financial platform with enhanced branding and market niche, which is conducive to facilitating the financial cooperation between Hong Kong and Guangdong. In addition, the Bank together with a number of Yue Xiu Group's other financial subsidiaries participated in the 3rd China (Guangzhou) International Finance Expo held in Guangzhou from 20 June to 22 June. At the expo, the Bank displayed its well-diversified portfolio of services including cross-border commercial banking services, account services for Capital Investment Entrant Scheme, prepaid card business, and online investment and financial platform. Participating in the expo with a number of internationally recognised financial institutions allowed the Bank to interact with the peers and the public at large, creating growth opportunities for business in the future.

Going forward, the Bank will capitalise on the inherent strengths of Yue Xiu Group to actively expand the banking business. To start a new chapter of innovative development, the Bank will continue to expand its business with a focus on building Renminbi cross-border business, SME financial services and wealth management, and accelerate the further expansion of business network in the Mainland.

Change of Logo

To reflect the new ownership structure of the Bank, the “Chong Hing Bank” logo will be changed from



with the Yue Xiu logo () incorporated therein instead.

The Yue Xiu logo consists of the initial “Y” representing Yue Xiu Group and the initial “E” representing the word “Excellent”, tactfully morphed into a roc soaring into the sky to showcase the values of Yue Xiu Group, continuously progressing to achieve excellence. With golden colour as the main tone, the Yue Xiu logo exhibits the pursuit of excellence most apt for the Yue Xiu brand.

In the coming months, the Bank will start replacing the Existing Composite Logo with the New Composite Logo, which aligns with and extends the theme of the Yue Xiu brand in stressing both transcendence and pragmatism. This fusion between the brand value of the Bank since its establishment in 1948 and the brand value of Yue Xiu Group signifies that the Bank will, with the backing of Yue Xiu Group, keep on pursuing steady development like a roc with open wings while continuing to provide quality and convenient banking services to the customers.

In the light of the expected opening of the Bank’s Guangzhou Sub-branch of the Shantou Branch in mid-October 2014, that sub-branch will be the first new entity to use the New Composite Logo. According to the timetable for changing the Bank’s logo, it is expected that the New Composite Logo will be fully launched by the Bank towards the end of 2014.

Sincere Acknowledgements

I would like to express my sincerest appreciation to my fellow directors for their valuable insight and experience in leading the Bank to execute Yue Xiu Group’s business strategy and upholding the Bank’s principle of achieving sound corporate governance to create promising growth prospects. Last but not least, on behalf of the Board, I would like to express my heartfelt gratitude to our management and staff members for their commitment and dedication in providing professional services and making positive contributions to the Bank, and also to our shareholders, customers and business partners for their continued trust and support.

REVIEW OF INTERIM FINANCIAL INFORMATION

The financial information in this results announcement is extracted from the interim financial information for the six months ended 30 June 2014. This interim financial information is unaudited, but has been reviewed by Messrs PricewaterhouseCoopers, 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.

By Order of the Board

Zhang Zhaoxing

Chairman

7 August 2014

As of the date of this announcement:

- *the three Executive Directors of the Bank are Mrs Leung Ko May Yee Margaret (Deputy Chairman and Managing Director), Mr Lau Wai Man (Chief Executive Officer) and Mr Don Tit Shing Liu (Deputy Chief Executive Officer);*
- *the five Non-executive Directors are Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Alfred Cheuk Yu Chow; and*
- *the four Independent Non-executive Directors are Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo, Mr Andrew Chiu Cheung Ma and Mr Lee Ka Lun.*