



創興銀行有限公司
Chong Hing Bank Limited

ANNUAL REPORT 2008



www.chbank.com

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FIVE-YEAR FINANCIAL SUMMARY

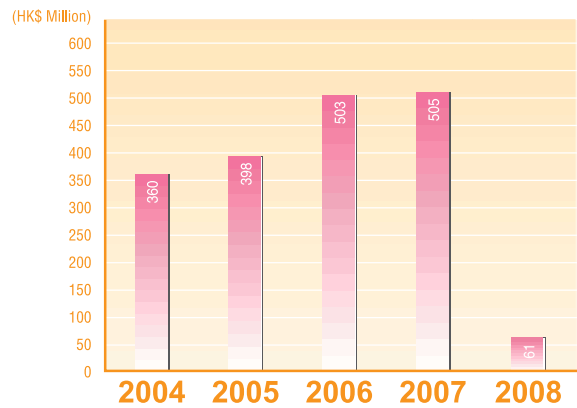
TOTAL ADVANCES TO CUSTOMERS / TOTAL CUSTOMERS' DEPOSITS / TOTAL ASSETS



CAPITAL RESOURCES



PROFIT ATTRIBUTABLE TO SHAREHOLDERS



CORPORATE INFORMATION

as at 4 March 2009

Board of Directors

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA
(Executive Chairman)

Dr LIU Lit Mo, LLD, MBE, JP
(Vice Chairman)

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

Mr Don Tit Shing LIU
(Deputy Chief Executive Officer)

Mr LAU Wai Man
(Deputy Chief Executive Officer)

Mr Wilfred Chun Ning LIU

Mr TSANG Chiu Wing

Mr WONG Har Kar

Non-executive Directors

Mr Timothy George FRESHWATER

Mr WANG Xiaoming

Mr Andrew LIU

Mr Eiichi YOSHIKAWA

Mr Christopher Kwun Shing LIU

Mr Alfred Cheuk Yu CHOW, BBS, JP

Mr MENG Qinghui

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP

Mr Wanchai CHIRANAKHORN

Mr CHENG Yuk Wo

Mr Andrew Chiu Cheung MA

General Managers

Mr Patrick Siu Cheung WAT

Mr Frederick Hoi Kit CHAN

Mr Kevin Wai Hung CHU

Ms Teresa Yuen Wah LEE

Company Secretary & Legal Counsel

Mr Michael Kin Wah YEUNG

Registered Office

Ground Floor, Chong Hing Bank Centre
24 Des Voeux Road Central, Hong Kong

Telephone : (852) 3768 1111

Facsimile : (852) 3768 1888

Telex : 75700 LCHB HX

SWIFT BIC : LCHB HK HH

Website : <http://www.chbank.com>

E-mail : info@chbank.com

Principal Legal Advisers

Anthony Chiang & Partners

Deacons

K C Ho & Fong

Kwan & Chow

Slaughter and May

Auditors

Deloitte Touche Tohmatsu

Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Stock Codes and Short Names

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

CORPORATE INFORMATION

BIOGRAPHICAL DATA ABOUT DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA

aged 79, is the Executive Chairman of the Bank. He joined the Bank in 1950 and has been its Director since 1955. He is also the Chairman of both Liu Chong Hing Investment Limited and Chong Hing Insurance Company Limited. He is also a director of The Hong Kong and China Gas Company Limited. He was a Director of Tung Wah Group of Hospitals, the President of the Hong Kong Chiu Chow Chamber of Commerce (presently Permanent Honorary President), a founder and a Permanent Honorary Chairman of the Chiu Chow Association Building (Property Holding) Limited, as well as the founder and the first Chairman of Teochew International Convention (now Permanent Honorary Chairman). Presently he is a Permanent Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong. Mr Liu is also a founder and a Manager of Liu Po Shan Memorial College, a Director of New Asia College of The Chinese University of Hong Kong, and the founder of Chiu Chow Association Secondary School. In 1975, he was appointed a Justice of the Peace and was elected Fellow of the International Banker Association. He had been a Member of the Consultative Committee for the Basic Law from 1985 to 1990 and was a Member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. He was a Member of the First Election Committee constituted under the Chief Executive Election Ordinance. Mr Liu was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region in July 2001.

Dr LIU Lit Mo, LLD, MBE, JP

aged 71, is the Vice Chairman and an Executive Director of the Bank. He was appointed a Director in 1958 and was a Deputy Managing Director of the Bank from 1961 to 1973. Dr Liu is also the Managing Director of Liu Chong Hing Investment Limited and a Director of China Motor Bus Company Limited. As for community service, Dr Liu was the Chairman of Tung Wah Group of Hospitals in 1967 and is now serving as an Adviser of the Group. He had also been President of the Hong Kong Chiu Chow Chamber of Commerce, Chairman of Hong Kong Football Association and District Governor of District 3450, Rotary International. Presently, he is a member of the Board of Trustees of United College, The Chinese University of Hong Kong and a Manager of Liu Po Shan Memorial College. He was awarded Silver Jubilee medal by Her Majesty the Queen in 1977. Dr Liu was conferred an Honorary Doctor's Degree in Laws by the Lingnan University in 2005.

Mr LIU Lit Chi

aged 69, is the Managing Director and Chief Executive Officer of the Bank. Mr Liu, who was educated in Hong Kong and the United Kingdom, was appointed as a Director since 1958 and an Executive Director since 1961. Mr Liu is also an Executive Director of Liu Chong Hing Investment Limited since 1972 and holds directorship in a number of companies in Hong Kong and elsewhere.

CORPORATE INFORMATION

Mr Don Tit Shing LIU

aged 47, is an Executive Director and Deputy Chief Executive Officer of the Bank. He graduated from Oxford University and is an associate member of the Institute of Chartered Accountants in England & Wales and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Liu joined the Bank in 1992.

Mr LAU Wai Man

aged 50, is an Executive Director and Deputy Chief Executive Officer in charge of the China and Overseas Banking Division of the Bank. He holds a Bachelor of Law degree and a Master of Business Administration degree. Mr Lau is a member of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and a Certified Financial Planner^{CM}. He was a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988 and became a Director of the Bank in August 2001. He was appointed a Deputy Chief Executive Officer of the Bank in July 2007. Before joining the Bank, he had worked for an international bank and an international accounting firm.

Mr Wilfred Chun Ning LIU

aged 47, is an Executive Director in charge of the Securities Business Division of the Bank. He holds a Bachelor's degree in Economics from University of Newcastle-upon-Tyne (UK). He joined the Bank in 1993 and became a Director in 1998.

Mr TSANG Chiu Wing

aged 51, is an Executive Director in charge of the Information Technology Division of the Bank. He holds a Master of Science degree in Electronic Commerce and Internet Computing from the University of Hong Kong, and is a member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr Tsang joined the Bank in 2000 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

Mr WONG Har Kar

aged 56, is an Executive Director in charge of the Credit Risk Management Division of the Bank. He is a member of the Institute of Chartered Accountants in England & Wales and the Hong Kong Institute of Certified Public Accountants. Mr Wong joined the Bank in 2002 and became a Director of the Bank in August 2005. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

CORPORATE INFORMATION

Non-executive Directors

Mr Timothy George FRESHWATER

aged 64, was redesignated from independent non-executive director, an office that he had held since April 1997, to non-executive director of the Bank in September 2004. He is a solicitor in the UK and Hong Kong and is a past President of the Law Society of Hong Kong. After graduating from Cambridge University, he joined the international law firm Slaughter and May in 1967 and remained with them for 29 years, leaving in July 1996 to join Jardine Fleming. He became Chairman of Jardine Fleming in 1999. In 2001, Mr Freshwater joined Goldman Sachs (Asia) L.L.C. and is now Vice Chairman.

Mr WANG Xiaoming

aged 53, has been the Executive Director of the Board of COSCO International Holdings Ltd. since January 2006. Mr Wang is also the Director and Financial Controller of COSCO (Hong Kong) Group Limited. Mr Wang graduated from Shanghai Maritime University, the PRC, majoring in accounting and has the senior accountant qualification awarded by Ministry of Communications of the PRC. Mr Wang had been the Deputy Manager of the Audit Department of China Ocean Shipping (Group) Company, Finance Manager of COSCO Bulk Carrier Co. Limited, Deputy General Manager of Finance Division of China Ocean Shipping (Group) Company and General Manager of COSCO Finance Co. Limited. He has extensive experience in corporate financial management.

Mr Andrew LIU

aged 53, a member of the Board since 1977, was redesignated from executive director to non-executive director of the Bank in May 1999. Mr Liu is also a director of Liu Chong Hing Investment Limited. He is the Chief Executive Officer of Uritas Capital Pte Ltd (formerly known as “CCMP Capital Asia Pte Ltd”). Mr Liu, holder of a Master of Arts degree from the Oxford University in England, was a solicitor with Slaughter and May in London before joining Morgan Stanley & Co Inc in New York in 1981. Mr Liu was promoted to Managing Director in 1990 before relocating to Morgan Stanley Asia Limited in Hong Kong, where he assumed the position of President and Managing Director until his resignation in September 1997. Mr Liu remains associated with Morgan Stanley as an Advisory Director. He is a son of Mr Liu Lit Man.

CORPORATE INFORMATION

Mr Eiichi YOSHIKAWA

aged 52, has been a member of the Board since July 2007. Mr Yoshikawa is Executive Officer, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Ltd, Hong Kong Branch. He joined The Bank of Tokyo, Ltd (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd) in 1981 and has about 26 years of experience in banking. Mr Yoshikawa's expertise lies in the area of Corporate Banking, Treasury and Corporate Planning activities. During this period, Mr Yoshikawa has been appointed to work in Ministry of Finance of Japan (currently Financial Service Agency of Japan), New York Office of Treasury Division, Tokyo-Mitsubishi Securities Co., Ltd (currently Mitsubishi UFJ Securities Co., Ltd). He has been a Director of Mitsubishi UFJ Securities (HK) Holdings Limited since 13 March 2007. He served as General Manager of Osaka Corporate Banking Division No. 3 before he was appointed to the current position at The Bank of Tokyo-Mitsubishi UFJ, Ltd on 25 January 2007. Mr Yoshikawa graduated from The University of Tokyo in 1981 with a Bachelor's degree in Law.

Mr Christopher Kwun Shing LIU

aged 33, became a director of the Bank in 2002 after having served as alternate director to Dr Liu Lit Chung (a former director of the Bank) between July 2000 and July 2002. Mr Liu is an executive director of Liu Chong Hing Investment Limited (the Bank's controlling shareholder), a post which he has held since August 2008 following a re-designation from his previous role since 2000 as non-executive director of the company and alternate director to Dr Liu Lit Chung (who is a non-executive director of the company). A holder of a Master of Arts degree in Jurisprudence from the University of Oxford, Mr Liu is a qualified solicitor in both England & Wales and Hong Kong. Prior to his joining Liu Chong Hing Investment Limited on a full-time basis, he was a partner of Deacons in Hong Kong focusing on corporate finance, mergers and acquisitions and private equity matters, and currently remains as an advisory legal counsel of the international law firm.

Mr Alfred Cheuk Yu CHOW, BBS, JP

aged 58, a member of the Board since February 2003, was redesignated from independent non-executive director to non-executive director of the Bank in September 2004. He graduated from the University of Hong Kong with a Bachelor of Laws Degree and a Master of Social Sciences (Public Administration) Degree. With 17 years working experience in the civil service and over 25 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors, a law firm in Hong Kong. He is also a China-Appointed Attesting Officer.

Mr MENG Qinghui

aged 53, has been the Executive Director of the Board of COSCO International Holdings Ltd. since March 2002. He is also the Managing Director of Finance Division of COSCO (Hong Kong) Group Limited and the Non-executive Director of Soundwill Holdings Limited. Mr Meng graduated from Central South University and has the PRC accountant qualification. He has extensive experience in corporate financial management and accounting and is also familiar with corporate financial planning.

CORPORATE INFORMATION

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP

aged 76, a member of the Board since October 1981, was redesignated from non-executive director to independent non-executive director of the Bank in April 2005. Dr Chan is the Ex-officio Life Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong and the Vice Chairman of All-China Federation of Returned Overseas Chinese. Dr Chan had been a Deputy to the Chinese National People's Congress from March 1988 to February 2008. Dr Chan, the Chairman of Asia Financial Holdings Limited, also serves as an independent non-executive director of K. Wah International Holdings Limited and Keck Seng Investments (Hong Kong) Limited respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Mr Wanchai CHIRANAKHORN

aged 69, an Independent Non-executive Director since September 1998, is the Chairman of Executive Board of Directors of C Wans Assets Co, Ltd. He has more than 25 years of experience as an international banker. Upon graduation from Baptist College, Hong Kong in 1964, he served in banks in Hong Kong, London, Bangkok and Malaysia. He joined the Bank in 1985 and became a Director in 1987. Before his departure in May 1995, Mr Chiranakhorn served as an Executive Director in charge of the Overseas Business Development Department. He was a Non-executive Director from May 1995 to September 1998.

Mr CHENG Yuk Wo

aged 48, has been an Independent Non-executive Director of the Bank since September 2004. Mr Cheng is also a member of the Bank's Audit Committee and Remuneration Committee. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr Cheng has more than 20 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies. Mr Cheng also serves as an independent non-executive director and non-executive director for certain other listed companies.

Mr Andrew Chiu Cheung MA

aged 67, has been an Independent Non-executive Director of the Bank since August 2007. Mr Ma is a founder and former director of Andrew Ma DFK (CPA) Limited. He is presently a director of Mayee Management Limited. Mr Ma has more than 30 years' experience in the field of accounting and finance. He received his bachelor's degree in economics from The London School of Economics and Political Science (University of London) in England. Mr Ma is a fellow member of the Institute of Chartered Accountants in England & Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. He is currently also an independent non-executive director of several other listed companies in Hong Kong.

CORPORATE INFORMATION

General Managers

Mr Patrick Siu Cheung WAT

aged 55, General Manager, is the head of Retail Banking Division. He holds a Bachelor of Arts degree from the University of Hong Kong in 1975. He has held senior positions in Finance, Business Development, Operations, Internal Control and Quality functions with major US banks in Hong Kong and the UK. He has been trained in TQM (Total Quality Management) and as Black Belt in Six Sigma quality programs. Mr Wat is also responsible for change management and productivity improvements since joining the Bank in 2003.

Mr Frederick Hoi Kit CHAN

aged 48, General Manager, is the head of Finance and Treasury Management Division. He graduated from Imperial College, University of London in Computing Science and obtained a Master of Business Administration degree from Henley Management College, U.K. He is a fellow of the Institute of Chartered Accountants in England & Wales, a member of the British Computer Society and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Chan has more than 20 years of experience in the financial services industry and worked for an international accounting firm and major international banks in London and Hong Kong in financial reporting and strategic management before joining the Bank in 2004.

Mr Kevin Wai Hung CHU

aged 51, General Manager, is the head of Wealth Management Division. He graduated from Columbia University with a Master degree in Engineering. He has more than 20 years of financial services experience and worked for a number of major international banks in their corporate banking and private banking departments. Mr Chu rejoined the Bank in 2008 after his return from overseas residence.

Ms Teresa Yuen Wah LEE

aged 55, General Manager, is the head of Corporate and Commercial Banking Division. She holds a Bachelor of Social Sciences degree in Economics, Business Administration and Finance from the University of Hong Kong in 1977 and a MBA degree from the Chinese University of Hong Kong in 1984. She has about 30 years of experience in the banking industry in Hong Kong and Australia. She has held various senior positions with two major international banks and a major local bank prior to joining the Bank in 2005.

Company Secretary & Legal Counsel

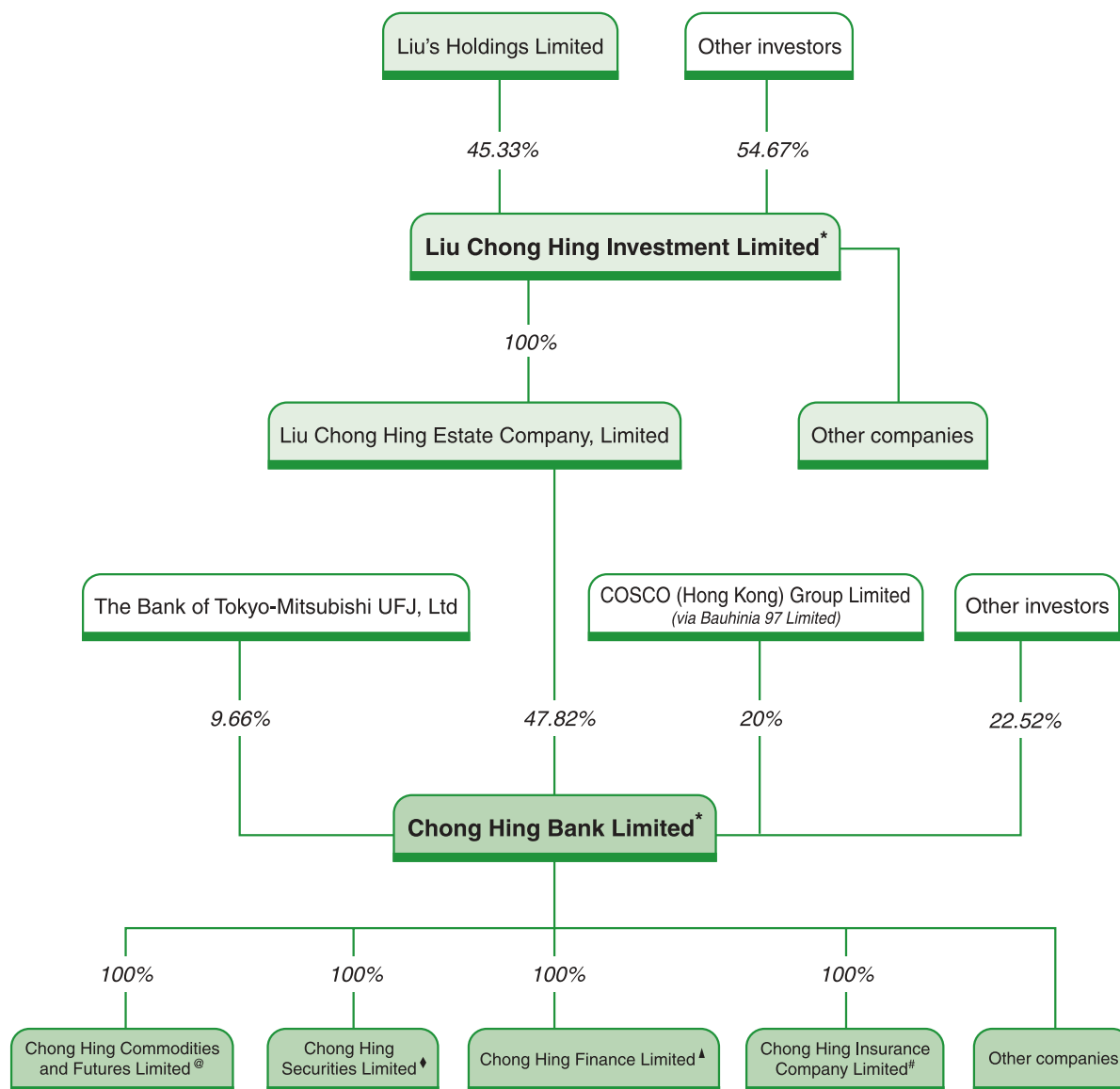
Mr Michael Kin Wah YEUNG

aged 52, General Manager of the Corporate Affairs Division, obtained a Bachelor of Arts degree in legal studies, political science and philosophy from Rice University (Texas, USA) in 1980 and a Doctor of Jurisprudence degree from the School of Law of The University of Texas at Austin (Texas, USA) in 1983. Mr Yeung, who is registered in the Master Roll of Attorneys maintained by the Supreme Court of Illinois in the United States, had served as the Company Secretary of FPB Bank Holding Company Limited (the then Hong Kong-listed banking arm of the First Pacific Group) and South China Morning Post (Holdings) Limited (now known as SCMP Group Limited) before resuming his position as the Company Secretary of the Bank in 1997.

[#] *Member of the Liu's family*

ABRIDGED CORPORATE STRUCTURE

as at 4 March 2009



* Listed on The Stock Exchange of Hong Kong Limited

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

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

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

Licensed under the Insurance Companies Ordinance as an insurance company

SHAREHOLDERS' CALENDAR

as at 4 March 2009

13 August 2008	Interim results for the first half of 2008 announced.
27 August 2008	Interim Report 2008 despatched.
17 through 19 September 2008 (both days inclusive)	Register of Members closed for the purpose of ascertaining dividend entitlements.
25 September 2008	Interim cash dividend for 2008 of HK\$0.15 per share paid.
4 March 2009	Final results for the year of 2008 announced.
27 March 2009	Annual Report 2008 will be despatched.
22 through 24 April 2009 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining dividend entitlements.
29 April 2009	2009 Annual General Meeting will be held.
30 April 2009	If approved by shareholders at the 2009 Annual General Meeting, the final cash dividend for 2008 of HK\$0.05 per share will be paid.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Chong Hing Bank Limited (the “Bank”) for the year of 2009 will be held in the Function Room on the 1st Floor of Mandarin Oriental, Hong Kong at 5 Connaught Road Central, Hong Kong on Wednesday, 29 April 2009 at 11:15 am for the purposes of conducting the following items of ordinary and special business:

Ordinary business

- (1) To receive and adopt the Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2008.
- (2) To declare the final cash dividend for the year ended 31 December 2008.
- (3) To re-elect directors and fix their and the other directors’ remuneration.
- (4) To re-appoint auditors and authorise the directors to fix the auditors’ remuneration.

Special business

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

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

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

(6) THAT

(a) subject to paragraph (c), the exercise by the directors of the Bank during the Relevant Period of all the powers of the Bank to allot, issue and deal with additional shares in the capital of the Bank and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorise the directors of the Bank during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Bank pursuant to the approval in paragraph (a), otherwise than pursuant to (i) any Rights Issue, (ii) any scrip dividend or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Bank in accordance with the Articles of Association of the Bank, or (iii) any exercise of options granted under the share option scheme of the Bank adopted on 25 April 2002, shall not exceed the aggregate of:

(aa) 20 per cent of the aggregate nominal amount of the shares in the capital of the Bank in issue at the date of the passing of this resolution; and

(bb) (if the directors are so authorised by a separate ordinary resolution of the shareholders of the Bank) the nominal amount of any share capital of the Bank repurchased by the Bank subsequent to the passing of this resolution,

and the said approval be and is hereby limited accordingly; and

(d) for the purpose of this resolution:

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

(i) the conclusion of the next annual general meeting of the Bank;

(ii) the expiration of the period within which the next annual general meeting of the Bank is required by law to be held; or

(iii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting.

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

NOTICE OF ANNUAL GENERAL MEETING

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

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

- (8) **THAT** the Articles of Association of the Bank are hereby amended as follows:

- (a) by replacing the words “rules of the Stock Exchange” with the words “Listing Rules” in the definition of “Associates” in Article 2:

“ “Associates”

shall have the meaning as ascribed to it from time to time under the Listing Rules;”;

- (b) by adding the following new definition immediately after the definition of “Directors” or “Board” in Article 2:

“ “Listing Rules”

shall mean Rules Governing the Listing of Securities on the Stock Exchange;”;

- (c) by replacing Article 57 in its entirety with the following:

“57. An annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than twenty-one days’ Notice, and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by not less than fourteen days’ Notice, or in any case such other minimum notice period as may be specified in the Listing Rules from time to time. The Notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given (as well as the day of the general meeting), and shall specify the place, the day and the hour of meeting and, in case of special business, the general nature of that business. Notice of a general meeting shall be given, in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are, under these Articles, entitled to receive such Notices from the Company. Subject to the provisions of the Companies Ordinance, a meeting of the Company shall notwithstanding that it is called by shorter Notice than that specified in this Article be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five percent in nominal value of the shares giving that right.”;

NOTICE OF ANNUAL GENERAL MEETING

- (d) by adding the words “required or” before the words “duly demanded” in the margin description of Article 65 and replacing Article 65 in its entirety with the following:

“65. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the Listing Rules or (before or on the declaration of the result of the show of hands or the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that rights.

Unless a poll be so required or demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.”;

- (e) by replacing the words “rules of the Stock Exchange” with the words “Listing Rules” in Article 75(ii):

“75. (ii) Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”;

- (f) by adding the following new Article 82A and its margin note of “Appointment of multiple proxies” immediately after Article 82:

“82A. If a member of the Company is, or is a nominee of, a recognised clearing house (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)), it may authorise such person or persons as it thinks fit to act as its representative(s) or proxy(ies) at any general meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation or proxy form shall specify the number and class of shares in respect of which each such person is so authorised. The person so authorised shall be deemed to have been duly authorised without the need of producing any documents of title, notarised authorisation and/or further evidence for substantiating the facts that it is duly authorised and shall be entitled to exercise the same power on behalf of the recognised clearing house (or its nominee(s)) which he represents as that clearing house (or its nominee(s)) could exercise if it were an individual member of the Company.”; and

NOTICE OF ANNUAL GENERAL MEETING

(g) by replacing the words “rules of the Stock Exchange” with the words “Listing Rules” in Article 153(ii):

“153. (ii) Where a shareholder (a “Consenting Shareholder”) has, subject to due compliance with all applicable laws, rules and regulations, including, without limitation, the Listing Rules, consented to treat the publication of the relevant financial documents and/or the summary financial report on the Company’s computer network as discharging the Company’s obligation under law to send a copy of the relevant financial documents and/or the summary financial report, then publication by the Company, in accordance with law, on the Company’s computer network of the relevant financial documents and/or the summary financial report at least twenty-one days before the date of the general meeting shall, in relation to each Consenting Shareholder, be deemed to discharge the Company’s obligations under sub-clause (i).”.

Any other ordinary business

(9) To transact any other ordinary business.

By Order of the Board

Michael K W Yeung

Company Secretary

27 March 2009

Notes:

- i. A shareholder entitled to attend and vote at the 2009 annual general meeting of the shareholders is entitled to appoint a proxy to attend and vote in his stead. A proxy does not have to be a shareholder of the Bank. Forms of proxy are to be lodged with the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong not later than 48 hours before the time for the holding of the 2009 annual general meeting of the shareholders and any adjournment thereof.
- ii. The Register of Members of the Bank will be closed from Wednesday, 22 April 2009 to Friday, 24 April 2009 (both days inclusive), during which period no transfer of shares can be registered. In order to be entitled to attend and vote at the 2009 annual general meeting of the shareholders, and to qualify for the final dividend in question, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 pm on Tuesday, 21 April 2009.
- iii. The Bank’s Annual Report 2008 includes an Explanatory Statement on Resolutions 5 through 8 in question, and information both on the retiring directors who have offered themselves for re-election at the 2009 annual general meeting of the shareholders and on poll voting.
- iv. The Bank’s Memorandum and Articles of Association is written in the English language and there is no official Chinese translation thereof. In case of any discrepancies between the English version of the proposed amendments to the Bank’s Memorandum and Articles of Association and its Chinese translation, the English version shall prevail in all circumstances.

EXECUTIVE CHAIRMAN'S STATEMENT



Mr Liu Lit Man, GBS, JP, FIBA
Executive Chairman

Economic Review

Hit by the global financial tsunami, the Hong Kong economy slowed down significantly in 2008. Unemployment rate rebounded towards the end of the year to over 4%, while the stock market slumped with an accumulated fall in 2008 of about 48% in Hang Seng Index. The property market was weak. Property price fell and turnover plunged, with the number of registered transactions down by 22% year-on-year.

Triggered by the US subprime mortgage problems, a number of financial conglomerates were on the brink of bankruptcy, elevating the financial storm to a global-scale financial tsunami that dealt a heavy blow to the world economy. The US has acknowledged that its recession began at the end of 2007. In a bid to stimulate economic recovery, the US Federal Reserve Board (“FRB”) made two rate cuts to 1% in October last year. In mid-December, the FRB resolved to further reduce the target range for the federal funds rate to a record-low 0% to 0.25%, ushering in a zero-rate era for the US and other regions across the globe.

Results Announcement

For the financial year of 2008, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$61 million, a decrease of 88.0% over that for the year before. This was mainly due to the reduction in net interest income, further impairment losses on structured investment vehicles and share of loss of jointly controlled entities. Actual increases in foreign currency deposits were offset by reduction in their Hong Kong dollar equivalent values because of the sharp fall in foreign currency exchange rates against the Hong Kong dollars. Total customers’ deposits decreased 1.5% to HK\$59,402 million. Total loans to customers (after accounting for impairment allowances) increased 4.4% to \$33,269 million. Capital adequacy ratio increased 10.0% to 15.64%, while average annual liquidity ratio decreased 9.6% to 50.48%. Loan-to-deposit ratio increased 7.0% to 51.52%. Total assets decreased 1.0% to HK\$68,377 million. Shareholders’ funds (before final dividend), compared with the shareholders’ funds for the previous year, decreased 5.0% to HK\$5,957 million. Your board has recommended paying the final cash dividend of HK\$0.05 per share for the financial year of 2008 to shareholders whose names appear in the Register of Members at the close of business on Friday, 24 April 2009. Total dividends for the financial year of 2008 including the interim cash dividend of HK\$0.15 per share paid earlier amounted to HK\$0.20 per share.

EXECUTIVE CHAIRMAN'S STATEMENT

Profit Analysis

On an audited, consolidated basis, net interest income decreased 11.0% from that of 2007 to HK\$864 million in 2008. In view of the uncertainty in the financial markets, the Bank had maintained a more liquid balance sheet and reduced its investments in debt securities and this resulted in lower interest income. The Hong Kong dollar interest rates had fallen by around 2% year-on-year and this had reduced the interest income on the shareholders' funds. Interest margin decreased 11.1% to 1.28%. After accounting for the net fee and commission income, which amounted to HK\$217 million, net losses on financial assets at fair value through profit or loss, which amounted to HK\$48 million and the other operating income, which amounted to HK\$146 million, total operating income was HK\$1,179 million and total operating expense was HK\$772 million. Fees and commission income from securities dealings were 31.3% lower than those of last year in line with the changes in the investors' sentiments in Hong Kong. Additional resources had been devoted to the handling of compliance issues, including the enhancement of the Bank's anti-money laundering and counter-terrorist financing software and hardware to meet statutory and regulatory requirements. This had in turn contributed to an increase in operating expense. Cost-to-income ratio increased 44.7% to 65.49%. Operating profit before impairment allowances, fair value adjustments and net gain on disposal decreased 47.7% to HK\$407 million. The Bank made impairment allowances on loans and advances in the amount of HK\$91 million for 2008, an increase of 10.1% against those made for 2007. In 2007 the Bank recognised HK\$370 million impairment losses on structured investment vehicles ("SIVs"), which were categorised as available-for-sale securities, and further impairment losses of HK\$166 million were recognised in 2008. As of 31 December 2008, the residual book value of such SIVs was HK\$17 million. Together with fair value adjustments on other available-for-sale securities, total impairment loss on available-for-sale securities was HK\$265 million in 2008. The Bank has several jointly controlled entities which are accounted for using the equity method. Two of these entities reported losses this year because of reduction in the value of their investment portfolios and the Bank shared a net loss of HK\$90 million in 2008 which was a sharp turnaround from a share of profit of HK\$66 million in 2007. Moreover, from time to time as part of its product offerings to customers, the Bank sells and distributes third party investment products, including the minibond series related to Lehman Brothers (the "Minibonds"). Owing to the continuing developments relating to the Minibonds incident and some of such developments are not wholly within the control of the Bank, it is difficult to assess at this stage whether potential outcomes will have any significant adverse impact on the Bank. After accounting for the impairment allowances and share of loss of jointly controlled entities as well as the charge for taxation, profit attributable to shareholders amounted to HK\$61 million, a decrease of 88.0%, translating into earnings of HK\$0.14 per share. Net asset value per share (before final dividend), compared with the net asset value per share for the previous year, decreased 5.0% to HK\$13.69.

Business Review

Loan Business

Benefiting from the then still-active property market in early 2008, the Bank recorded over 14% growth in outstanding residential mortgage loans for the year. The outstanding personal loans maintained its upward trend in 2008. The number of tax loan applications received through branches improved over that of last year, which was attributable to the active cross-selling efforts of the branches. Furthermore, the Bank launched its auto loan business in 2008 covering taxis, public light buses and private vehicles. The corporate lending business also recorded growth in 2008. In particular, as of November 2008, both outstanding instalment loans and outstanding syndicated loans increased by over 15% from those of the corresponding period last year.

EXECUTIVE CHAIRMAN'S STATEMENT

Card Business

In 2008, the Bank achieved double-digit growth in the number of credit cards issued and merchant sales volume. The spending amount expanded steadily, while merchant sales volume through China UnionPay cards almost doubled from that of the same period last year. The newly designed “MSN@VISA Credit Card”, which allows cardholders an option to print their MSN nicknames on the card face, was extremely well received by the youth generation since its January launch.



Ms Carol Chow, Senior Manager, Card Business Department of the Bank (centre), Mr Leslie Chu, Country Manager, Hong Kong Online Services Group, MSN of Microsoft (right), and Mr James Dixon, Country Manager, Hong Kong and Macau, Greater China Region, VISA International, officiated at the New MSN@VISA Credit Card Launching Ceremony.

Securities Business

The global securities market was badly dented by the US subprime mortgage problems and the financial tsunami in 2008. In the local stock market, total turnover and the number of initial public offerings both dropped substantially, presenting a significant challenge to the securities business. Fortunately, the Bank's wholly-owned Chong Hing Securities Limited still remained profitable thanks to its highly regarded service quality. In particular, the number of active customers increased satisfactorily by more than 10% over that of the previous year.



Mr Frederick Chan, General Manager, Finance and Treasury Management Division of the Bank (2nd from right) and Mr Cheung Kin Fat, General Manager, Business Advisory and Planning of The Link Management Limited (3rd from right), together with the renowned gourmet Mr Chua Lam (2nd from left), officiated at the celebration ceremony of “The Link Credit Card” for its number of cards issued reached 12,388.

Insurance Business

In the light of the weak economy, both individual and corporate customers became more conservative towards insurance expenses. In addition, the shrinking property market also resulted in a decline of premium income from mortgage fire insurance. The instability of the Hong Kong insurance sector was reflected in diminishing insurance profit and deteriorating claim status. Increasing insurance losses were seen in certain insurance businesses. Nevertheless, the Bank's wholly-owned Chong Hing Insurance Company Limited managed to sustain growth in overall gross written premium for the year, which was attributable to the satisfactory performance in the direct insurance and re-insurance segments in the first half of the year.

EXECUTIVE CHAIRMAN'S STATEMENT

China Business

In March 2008, our Shantou Branch obtained approval from the China Banking Regulatory Commission to conduct Renminbi business, becoming the first foreign bank to provide such services in Eastern Guangdong. In November, a ceremony was held to commemorate the relocation of our Shantou Branch to self-owned premises. The ceremony was graced with the presence of over 300 guests including high-ranking officials of the government and the banking regulatory authorities.

Corporate Responsibility

The Bank embarked on a whole new corporate image promotion campaign in 2008, focusing on its niche as a “community bank” and dedication to providing comprehensive and quality banking services to the local community.



Leung King Estate Branch in Tuen Mun commenced business on 30 June 2008. Together with Hau Tak Estate Branch and Choi Ming Court Branch in Tseung Kwan O, three new branches were opened in 2008.

In line with its “community bank” approach, the Bank further expanded its service network. In mid-2008, three new branches were opened in Tuen Mun and Tseung Kwan O, bringing the total number of the Bank’s local branches to 50 besides its headquarters in Central. Furthermore, the Bank has plans to open a few more local branches in the near future.

EXECUTIVE CHAIRMAN'S STATEMENT

The Bank has also taken proactive initiatives to help the community. In early 2008, the Bank sponsored the “Care for the Elderly Blood Donation Campaign” organised by the Hong Kong Red Cross and held the “Chong Hing Blood Donation Day”. In the following May, in response to the devastating earthquake in Sichuan, the Bank initiated an in-house fund-raising campaign for the relief of earthquake victims. In recognition of the Bank’s active participation in various other community affairs, The Hong Kong Council of Social Service granted the Bank the “Caring Company” logo award for the second consecutive year.

In January 2007, the Bank received overwhelming response when it encouraged its guests to make cash donation instead of sending flower bouquets to celebrate its renaming and grand opening of its new headquarters. The donation was matched by the Bank’s own contribution on a dollar-for-dollar basis to fund education projects in the impoverished regions of the Mainland. This year, the Bank again contributed funds for the construction of new teaching buildings for three rural primary schools in Hanyang City of Shaanxi Province, and Zhenyuan County and Zhaotong City of Yunnan Province. To date, seven primary schools in the Mainland have received reconstruction sponsorships from the Bank.



The Bank has sponsored the “Care for the Elderly Blood Donation Campaign” organised by the Hong Kong Red Cross for raising fund to support services for the elderly under the organization.



EXECUTIVE CHAIRMAN'S STATEMENT



Starting from September 2008, advertisements were placed in major media including television, radio and other outdoor platforms such as buses and trams, in order to strengthen the Bank's corporate image of "community bank".



Economic Outlook

In response to the rapidly deteriorating global economy devastated by the financial tsunami, the Mainland government embarked on a four trillion RMB stimulus package, comprising ten measures, to increase construction and infrastructure investment and to boost domestic demand and consumption in a slowing economy heavily struck by a plunge in exports.

EXECUTIVE CHAIRMAN'S STATEMENT

The Mainland government will encourage quality enterprises to tap into the international capitalisation platform of Hong Kong through listing or bonds issue. It also expressed its support for the development of Renminbi businesses in Hong Kong, including allowing more use of the currency in the valuation and settlement in trading with surrounding regions and allowing Renminbi bond issuance in Hong Kong by local businesses or financial institutions with relatively more operations in the Mainland.

In early December last year, a series of packages was announced by the Hong Kong Government, including an expanded \$100 billion Special Loan Guarantee Scheme to support small and medium-sized enterprises; allocation of government resources to create employment opportunities; and an undertaking to strengthen cooperation with the Mainland in increasing the scale of Renminbi businesses in Hong Kong as well as the number of visitors under the Individual Visit Scheme. In mid-December, the Mainland government rolled out 14 measures to maintain the continued financial stability of Hong Kong. These included approval of a currency swap agreement between the People's Bank of China and the Hong Kong Monetary Authority for fund injection into Hong Kong when necessary; allowing Renminbi trade payments in Hong Kong by qualified enterprises; encouraging mainland companies to conduct international financial businesses in Hong Kong; and supporting the listing of mainland enterprises in Hong Kong.

All in all, the Asian market was dragged down by the fall of many developed economies and Hong Kong will likely experience economic recession. Nonetheless, in the light of Hong Kong's advantages such as strong overall development momentum and support from the Mainland through the Mainland and Hong Kong Closer Economic Partnership Arrangement and further relaxation of travel arrangement for Mainland citizens to visit Hong Kong, plus the relief measures introduced by the two governments, the local economy remains stable, efficient and in a good position to stimulate growth and navigate through the current financial hard times. It is, therefore, anticipated that the Hong Kong economy will recover when the external environment improves.

EXECUTIVE CHAIRMAN'S STATEMENT

The Bank's core business lines and overall financial health are sound. Its capital adequacy and liquidity ratios are well above the relevant statutory requirements. The Bank will continue to expand its business and adhere to its commitment to discharge its responsibilities as a community bank, endeavouring to provide ever better services to the public at large and better return to its shareholders. Last but not least, on behalf of the Board, I would like to express my heartfelt gratitude to our customers and shareholders for their trust and support, to my fellow Directors for their well-planned strategies, and to our fellow staff members for their hard work and dedication.

By Order of the Board

Liu Lit Man

Executive Chairman

4 March 2009

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

BUSINESS

The Group's total operating income (net of interest expense and fee and commission expense) is analysed and reported by significant business classes as follows:

	2008 HK\$'000	2007 HK\$'000
Corporate and retail banking	566,453	685,674
Treasury activities	396,720	424,754
Securities dealing activities	141,036	209,968
Other banking-related services	<u>75,185</u>	<u>100,298</u>
	<u><u>1,179,394</u></u>	<u><u>1,420,694</u></u>

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

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

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

Other banking-related services of the Group include investment holding, insurance, other investment advisory services and property investments.

MAJOR CUSTOMERS

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

DIRECTORS' REPORT

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 43.

The state of affairs of the Group and the Bank as at 31 December 2008 are set out in the balance sheets on pages 44 and 45 respectively.

DIVIDENDS

An interim dividend of HK\$0.15 per share amounting to HK\$65,250,000 was paid to the shareholders during the year. The directors now recommend the payment of a final cash dividend for the year ended 31 December 2008 of HK\$0.05 per share amounting to HK\$21,750,000 to the shareholders on the Register of Members on 24 April 2009.

SHARE CAPITAL

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

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in the consolidated statement of changes in equity on page 46 to 47 and note 29 to the consolidated financial statements, respectively.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2008. The net increase in fair value arising on the revaluation, which has been credited directly to the consolidated income statement, amounted to HK\$39,560,000. Details of the investment properties of the Group and the Bank are set out in note 23 to the consolidated financial statements.

PROPERTY AND EQUIPMENT

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

SHARE OPTION SCHEME

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

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors

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

Non-executive Directors

Mr Timothy George FRESHWATER
Mr WANG Xiaoming
Mr Andrew LIU
Mr Eiichi YOSHIKAWA
Mr Christopher Kwun Shing LIU
Mr Alfred Cheuk Yu CHOW, BBS, JP
Mr MENG Qinghui

Independent Non-executive Directors

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

Mr Frank Shui Sang JIN resigned as Executive Director on 16 August 2008.

Article 101 of the Bank's Articles of Association stipulates that, among other things, one-third of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. Accordingly, Mr Liu Lit Man, Mr Timothy George Freshwater, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow, Mr Tsang Chiu Wing and Mr Wong Har Kar shall retire and offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REPORT

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

As at 31 December 2008, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

Interests in securities

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Man	3,447,928	—	248,018,628 <i>Note (1)</i>	251,466,556	57.80840
Liu Lit Mo	1,009,650	—	248,018,628 <i>Note (1)</i>	249,028,278	57.24788
Liu Lit Chi	313,248	—	250,281,839 <i>Notes (1) & (2)</i>	250,595,087	57.60807
Don T S Liu	15,000	—	—	15,000	0.00345
Robin Y H Chan	48,400	—	1,018,000 <i>Note (3)</i>	1,066,400	0.24515
Timothy G Freshwater	396	—	—	396	0.00009
Andrew Liu	165,000	—	—	165,000	0.03793

Notes:

- (1) 248,018,628 shares in the Bank are attributed as follows:
- (i) 208,018,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
 - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi UFJ, Ltd ("Bank of Tokyo-Mitsubishi UFJ"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi UFJ has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi UFJ is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,018,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

DIRECTORS' REPORT

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

Other interests and short positions in securities

Under the SFO, other than those interests disclosed above, as at 31 December 2008, none of the directors (including the chief executive officer), nor their respective associates, had any other interests (nor any short positions) in any securities (nor in any underlying securities) in the Bank and its associated corporations. Moreover, as at 31 December 2008, none of the directors (including the chief executive officer), nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities in the Bank and its associated corporations, much less had any such rights exercised.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2008, the register maintained under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors (including the chief executive officer), the following parties had interests and short positions in the securities and underlying securities in the Bank:

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Liu Chong Hing Estate Company, Limited	Beneficial owner	208,018,628 <i>Notes (1) and (3)</i>	47.82
Liu Chong Hing Investment Limited	Interest of a controlled corporation	208,018,628 <i>Notes (1) and (3)</i>	47.82
Liu's Holdings Limited	Interest of a controlled corporation	208,018,628 <i>Notes (1) and (3)</i>	47.82
Bauhinia 97 Limited	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO (Hong Kong) Group Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES - continued

Notes:

- (1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited. Liu's Holdings Limited, a private company, had interest in about 45% of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 208,018,628 shares in question all relate to the same block of 208,018,628 shares held by Liu Chong Hing Estate.
- (2) Bauhinia 97 Limited is a wholly-owned subsidiary of COSCO (Hong Kong) Group Limited, which in turn is a wholly-owned subsidiary of China Ocean Shipping (Group) Company. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Limited.
- (3) The Bank of Tokyo-Mitsubishi UFJ, Ltd is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc. The references to the 42,000,000 shares in question both relate to the same block of 42,000,000 shares registered in the name of Bank of Tokyo-Mitsubishi UFJ.

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

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as at 31 December 2008.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

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

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

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

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

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

DIRECTORS' REPORT

DECLARATION OF INTERESTS

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

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

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

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$1,107,000 (2007: HK\$1,319,000).

STATEMENT OF COMPLIANCE

In preparing the accounts for 2008, the Bank has fully complied with the Banking (Disclosure) Rules.

EMOLUMENT POLICY

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

SUFFICIENCY OF PUBLIC FLOAT

The Group has maintained a sufficient public float throughout the year ended 31 December 2008.

AUDITOR

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

On behalf of the Board

Liu Lit Man

Executive Chairman

4 March 2009

CORPORATE GOVERNANCE REPORT

as at 4 March 2009

Corporate Governance Practices

The board of directors of the Bank (the “Board”) is well aware that maintaining good corporate governance standards is important to the effective and efficient operation of the Bank. The Board has therefore adopted and implemented various measures to ensure that a high standard of corporate governance practices is maintained. The directors confirm that, for the financial year ended 31 December 2008, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

Board and Senior Management Oversight and Risk Management

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

Directors’ Securities Transactions

The Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2008, 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.

CORPORATE GOVERNANCE REPORT

Board of Directors

The Board is composed of the following directors. During the year of 2008, four board meetings were held and the attendance of each director is set out as follows:

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Mr Liu Lit Man is the Executive Chairman of the Bank and Mr Liu Lit Chi is its Managing Director and Chief Executive Officer. The roles and responsibilities of the Executive Chairman and the Managing Director and Chief Executive Officer are separate. They are assumed by two different individuals. The Executive Chairman is responsible for the management of the Board, while the Managing Director and Chief Executive Officer is charged with the responsibilities to manage the day-to-day business of the Bank.

Auditors' Remuneration

The remuneration paid and payable to the Group's auditors, Messrs Deloitte Touche Tohmatsu, for 2008 amounted to:

	HKD
Audit services	3,500,000
Interim review	405,000
Tax, information technology and regulatory consulting	305,800
Corporate finance	<u>502,500</u>
Total	<u><u>4,713,300</u></u>

Remuneration Committee

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

The Remuneration Committee reviews and makes recommendations to the Board on the remuneration policy applicable to directors and senior management of the Bank, and ensures that the Bank is able to attract, retain, and motivate a high-calibre team of senior executives which is essential to the success of the Bank. The terms of reference of the Remuneration Committee sets out its roles.

The Remuneration Committee meets twice a year. During the year of 2008, two meetings were held and the attendance of each member is set out as follows:

Name of Member	Number of Committee	
	Meetings Attended	Attendance Rate
Mr Wanchai CHIRANAKHORN <i>(Chairman)</i>	2 / 2	100%
Mr CHENG Yuk Wo	2 / 2	100%
Mr Alfred Cheuk Yu CHOW, BBS, JP	2 / 2	100%

CORPORATE GOVERNANCE REPORT

The Remuneration Committee is provided with sufficient resources to discharge its duties and the following is a summary of the work of the Remuneration Committee during 2008:

- (i) discussion and review of the current remuneration policy and structure applicable to all employees as a whole;
- (ii) discussion and review of the directors' fees; and
- (iii) discussion and review of the benefits in kind, including group medical benefits and annual leave entitlement to all employees of the Bank.

The emolument payable to directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the directors' remuneration are set out in note 13 to the financial statements.

Audit Committee

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

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

CORPORATE GOVERNANCE REPORT

The Audit Committee shall meet at least three times a year. During the year of 2008, the Audit Committee held four meetings and record of individual attendance of members is set out as follows:

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

To discharge its responsibilities, the Audit Committee performed the following major reviews in 2008:

Financial Statements

The Audit Committee met with the external auditors and the senior executive in charge of Finance and Treasury Management Division to discuss the accounts for the year ended 31 December 2007 and for the six months ended 30 June 2008. The Audit Committee reviewed and discussed with the external auditors to ensure that the Bank's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

Relationship with the External Auditors

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

Internal Control Review

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

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF CHONG HING BANK LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 132, which comprise the consolidated and the Bank balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

4 March 2009

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CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
Interest income		2,171,336	3,310,484
Interest expense		<u>(1,307,010)</u>	<u>(2,339,871)</u>
Net interest income	8	<u>864,326</u>	<u>970,613</u>
Fee and commission income		265,220	326,641
Fee and commission expense		<u>(48,419)</u>	<u>(43,229)</u>
Net fee and commission income	9	216,801	283,412
Net (losses) gains on financial assets designated at fair value through profit or loss	10	(48,299)	10,372
Other operating income	11	146,566	156,297
Operating expenses	12	<u>(772,431)</u>	<u>(642,894)</u>
		406,963	777,800
Impairment allowances on loans and advances	20	(91,334)	(82,922)
Net gain (loss) on disposal of property and equipment		294	(64)
Net gain on disposal of land		–	2,591
Net gain on disposal of investment properties		–	14,420
Net gain on disposal of available-for-sale securities		108,706	177,351
Fair value adjustment on investment properties	23	39,560	14,391
Impairment loss on available-for-sale securities		(264,654)	(369,627)
Impairment loss on goodwill	33	<u>(20,000)</u>	<u>(30,000)</u>
Profit from operations		179,535	503,940
Share of (loss) profit of jointly controlled entities		<u>(90,240)</u>	<u>66,074</u>
Profit before taxation		89,295	570,014
Taxation	14	<u>(28,675)</u>	<u>(64,982)</u>
Profit for the year		<u>60,620</u>	<u>505,032</u>
Dividends	15	<u>256,650</u>	<u>282,750</u>
Earnings per share, basic and diluted	16	<u>HK\$0.14</u>	<u>HK\$1.16</u>

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
Assets			
Cash and short-term funds	17	17,659,927	14,763,977
Placements with banks and other financial institutions maturing between one to twelve months		5,367,858	3,084,147
Derivative financial instruments	18	429	60
Financial assets at fair value through profit or loss	19	680,680	1,134,422
Available-for-sale securities	19	196,527	876,661
Held-to-maturity securities	19	9,727,685	15,607,980
Advances and other accounts	20	33,634,842	32,495,890
Tax recoverable		38,113	19,816
Interests in jointly controlled entities	22(i)	82,999	142,230
Loan to a jointly controlled entity	22(ii)	–	5,267
Investment properties	23	129,801	60,241
Property and equipment	24	469,724	446,873
Prepaid lease payments for land	25	328,127	334,231
Goodwill	33	60,606	80,606
Total assets		<u>68,377,318</u>	<u>69,052,401</u>
Liabilities			
Deposits and balances of banks and other financial institutions		1,525,509	456,858
Deposits from customers	26	59,401,660	60,327,437
Derivative financial instruments	18	39,303	114,546
Other accounts and accruals		477,381	861,619
Current tax liabilities		5,104	35,008
Loan capital	27	965,454	970,871
Deferred tax liabilities	30	6,283	15,274
Total liabilities		<u>62,420,694</u>	<u>62,781,613</u>
Shareholders' equity			
Share capital	28	217,500	217,500
Reserves		5,739,124	6,053,288
Shareholders' funds		<u>5,956,624</u>	<u>6,270,788</u>
Total liabilities and shareholders' equity		<u>68,377,318</u>	<u>69,052,401</u>

The consolidated financial statements on pages 43 to 132 were approved and authorised for issue by the Board of Directors on 4 March 2009 and signed on its behalf by:

Liu Lit Man, *Executive Chairman*

Liu Lit Mo, *Vice Chairman-Executive Director*

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

Michael K W Yeung, *Company Secretary*

BALANCE SHEET

as at 31 December 2008

	NOTES	2008 HK\$'000	2007 HK\$'000
Assets			
Cash and short-term funds	17	17,617,546	14,713,472
Placements with banks and other financial institutions maturing between one to twelve months		5,367,858	3,084,147
Derivative financial instruments	18	429	60
Financial assets at fair value through profit or loss	19	680,567	1,134,158
Available-for-sale securities	19	150,725	724,187
Held-to-maturity securities	19	9,727,685	15,607,980
Advances and other accounts	20	33,477,333	32,093,440
Tax recoverable		37,976	19,816
Investments in subsidiaries	21(i)	348,323	333,323
Amounts due from subsidiaries	21(ii)	3,711	3,407
Interests in jointly controlled entities	22(i)	21,500	56,500
Loan to a jointly controlled entity	22(ii)	–	5,267
Investment properties	23	104,050	35,900
Property and equipment	24	449,072	425,599
Prepaid lease payments for land	25	842,027	848,465
Deferred tax assets	30	–	2,077
Total assets		68,828,802	69,087,798
Liabilities			
Deposits and balances of banks and other financial institutions		1,525,509	456,858
Deposits from customers	26	59,398,427	60,323,598
Amounts due to subsidiaries	36	704,828	658,146
Derivative financial instruments	18	39,303	114,546
Other accounts and accruals		297,748	457,448
Current tax liabilities		2,422	3,333
Loan capital	27	965,454	970,871
Deferred tax liabilities	30	3,744	–
Total liabilities		62,937,435	62,984,800
Shareholders' equity			
Share capital	28	217,500	217,500
Reserves	29	5,673,867	5,885,498
Shareholders' funds		5,891,367	6,102,998
Total liabilities and shareholders' equity		68,828,802	69,087,798

Approved and authorised for issue by the Board of Directors on 4 March 2009 and signed on its behalf by:

Liu Lit Man, *Executive Chairman*

Liu Lit Mo, *Vice Chairman-Executive Director*

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

Michael K W Yeung, *Company Secretary*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

Notes	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2008	217,500	1,542,817	(182)	138,680	1,388,500	330	356,000	2,627,143	6,270,788
Revaluation losses, net	-	-	-	(300,495)	-	-	-	-	(300,495)
Exchange differences arising from translation of foreign operations	-	-	-	-	-	7,194	-	-	7,194
Deferred taxation arising from revaluation movement	-	-	-	20,060	-	-	-	-	20,060
Share of reserves of a jointly-controlled entity	-	-	-	(841)	-	-	-	-	(841)
Net income (expense) recognised directly in equity	-	-	-	(281,276)	-	7,194	-	-	(274,082)
Profit for the year	-	-	-	-	-	-	-	60,620	60,620
Reversal of reserve upon impairment	-	-	-	264,654	-	-	-	-	264,654
Reversal of reserve upon disposal	-	-	-	(108,706)	-	-	-	-	(108,706)
Total recognised income (expense) for the year	-	-	-	(125,328)	-	7,194	-	60,620	(57,514)
Interim dividend paid for financial year 2008	-	-	-	-	-	-	-	(65,250)	(65,250)
Final dividend paid for financial year 2007	-	-	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	(49,000)	49,000	-
At 31 December 2008	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>13,352</u>	<u>1,388,500</u>	<u>7,524</u>	<u>307,000</u>	<u>2,480,113</u>	<u>5,956,624</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

	Notes	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2007		217,500	1,542,817	(182)	142,386	1,388,500	(152)	165,000	2,595,861	6,051,730
Revaluation losses, net		-	-	-	(206,538)	-	-	-	-	(206,538)
Exchange differences arising from translation of foreign operations		-	-	-	-	-	482	-	-	482
Deferred taxation arising from revaluation movement	30	-	-	-	10,556	-	-	-	-	10,556
Net income (expense) recognised directly in equity		-	-	-	(195,982)	-	482	-	-	(195,500)
Profit for the year		-	-	-	-	-	-	-	505,032	505,032
Reversal of reserve upon impairment		-	-	-	369,627	-	-	-	-	369,627
Reversal of reserve upon disposal		-	-	-	(177,351)	-	-	-	-	(177,351)
Total recognised income (expense) for the year		-	-	-	(3,706)	-	482	-	505,032	501,808
Interim dividend paid for financial year 2007	15	-	-	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid for financial year 2006	15	-	-	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	191,000	(191,000)	-
At 31 December 2007		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>138,680</u>	<u>1,388,500</u>	<u>330</u>	<u>356,000</u>	<u>2,627,143</u>	<u>6,270,788</u>

The retained profits of the Group included accumulated loss of HK\$28,876,000 (2007: accumulated profits of HK\$64,514,000) retained by the jointly controlled entities of the Group.

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

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	2008	2007
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	89,295	570,014
Adjustments for:		
Net (gain) loss on disposal of property and equipment	(294)	64
Net gain on disposal of investment properties	–	(14,420)
Net gain on disposal of land	–	(2,591)
Net gain on disposal of available-for-sale securities	(108,706)	(177,351)
Impairment allowances on loans and advances	91,334	82,922
Impairment loss on goodwill	20,000	30,000
Impairment loss on available-for-sale securities	264,654	369,627
Dividend income from equity securities	(12,853)	(11,859)
Share of loss (profit) of jointly controlled entities	90,240	(66,074)
Fair value adjustment on investment properties	(39,560)	(14,391)
Depreciation	43,925	36,846
Amortisation of prepaid lease payments for land	6,104	5,710
Interest income from held-to-maturity securities and available-for-sale securities	(462,018)	(702,669)
Interest expense on loan capital	42,122	63,971
Exchange adjustments	615	2,871
Operating cash flows before movements in operating assets and liabilities	24,858	172,670
Decrease (increase) in interest receivable and other accounts	381,973	(153,985)
(Decrease) increase in other accounts and accruals	(383,060)	107,551
Increase in placements with banks and other financial institutions with original maturity over three months	(303,466)	(850,625)
Decrease in exchange fund bills with original maturity over three months	47,155	155,580
Decrease in money at call and short notice with original maturity over three months	690,017	624,478
Decrease (increase) in bills receivable	175,514	(25,354)
Increase in trade bills	(736)	(26,220)
Increase in other advances to customers	(1,808,623)	(4,880,739)
(Increase) decrease in advances to banks and other financial institutions	(59,328)	341
Decrease in deposits and balances of banks and other financial institutions with original maturity over three months	(1,841)	(79,162)
Decrease (increase) in financial assets at fair value through profit or loss	453,742	(523,611)
(Increase) decrease in derivative assets	(369)	117,732
Decrease in derivative liabilities	(75,243)	–
(Decrease) increase in deposits from customers	(925,777)	5,652,205
Cash (generated from) used in operations	(1,785,184)	290,861
Hong Kong Profits Tax paid	(58,868)	(71,290)
Overseas tax paid	(6,939)	(2,972)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(1,850,991)	216,599

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	2008	2007
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
Interest received on held-to-maturity securities and available-for-sale securities	542,974	706,817
Dividends received on investments	12,853	11,859
Dividend income from jointly controlled entities	3,150	23,100
Capital investment in jointly controlled entities	(35,000)	–
Purchase of held-to-maturity securities	(24,380,625)	(26,184,962)
Purchase of available-for-sale securities	(42,160)	(364,551)
Purchase of property and equipment	(67,667)	(103,050)
Purchase of prepaid lease payments for land	–	(28,171)
Proceeds from redemption of held-to-maturity securities	30,260,920	24,480,155
Proceeds from sale and redemption of available-for-sale securities	421,799	379,493
Proceeds from disposal of property and equipment	1,185	95
Proceeds from disposal of land	–	7,356
Purchases of investment properties	(30,000)	–
Proceeds from disposal of investment properties	–	50,820
Repayment of loan from a jointly controlled entity	5,267	25,733
NET CASH FROM (USED IN) INVESTING ACTIVITIES	6,692,696	(995,306)
CASH USED IN FINANCING ACTIVITIES		
Interest paid on loan capital	(42,180)	(63,333)
Dividends paid	(256,650)	(282,750)
NET CASH USED IN FINANCING ACTIVITIES	(298,830)	(346,083)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,542,875	(1,124,790)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	12,990,424	14,115,214
CASH AND CASH EQUIVALENTS AT 31 DECEMBER,		
represented by		
Cash and balances with banks and other financial institutions	4,087,415	1,833,309
Money at call and short notice	13,180,425	9,776,851
Exchange fund bills	392,087	3,153,817
Placements with banks and other financial institutions maturing between one to twelve months	5,367,858	3,084,147
Deposits and balances of banks and other financial institutions	(1,525,509)	(456,858)
Less: Amounts with original maturity over three months	(3,968,977)	(4,400,842)
	17,533,299	12,990,424

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

1. GENERAL

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

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

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

In the current year, the Group and the Bank have applied the following amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of financial assets
HK(IFRIC) - INT 11	HKFRS 2: Group and treasury share transactions
HK(IFRIC) - INT 12	Service concession arrangements
HK(IFRIC) - INT 14	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group and the Bank have not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Bank anticipated that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group and the Bank.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ²
HKAS 39 (Amendment)	Eligible hedged items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ²
HKFRS 2 (Amendment)	Vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business combinations ³
HKFRS 8	Operating segments ²
HK(IFRIC) - INT 13	Customer loyalty programmes ⁴
HK(IFRIC) - INT 15	Agreements for the construction of real estate ²
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation ⁵
HK(IFRIC) - INT 17	Distribution of non-cash assets to owners ³
HK(IFRIC) - INT 18	Transfer of assets from customers ⁶

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 July 2009.

⁴ Effective for annual periods beginning on or after 1 July 2008.

⁵ Effective for annual periods beginning on or after 1 October 2008.

⁶ Effective for transfers on or after 1 July 2009.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

Subsidiary companies are companies in which the Group has the power to govern the financial and operating policies to obtain benefits from its activities and this is generally accompanied by a shareholding of more than one half of the voting rights.

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

Goodwill arising on acquisitions of net assets and operations of another entity which have been previously charged directly to reserves prior to 1 January 2005 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill - continued

Goodwill arising on acquisitions on or after 1 January 2005

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

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

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

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

Interests in jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Interest income and expenses

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

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

Fees and commission income

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

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

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are provided.

Dividends

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

Property and equipment

Leasehold buildings and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties

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

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

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

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments for land

Leasehold premises held for own use is split into a lease of land and building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Prepaid lease payments are stated at cost and amortised over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Bank's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

Retirement benefit costs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

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

Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Effective interest method

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value and losses arising from changes in fair value are recognised directly in the investment revaluation reserve with the exception of impairment losses. Interest income calculated using the effective interest method and foreign exchange gains and losses arising on translation are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the consolidated income statement for the period.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Impairment of financial assets

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

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

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

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

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When the financial assets are considered to be uncollectible, the amounts are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. The net gain or loss recognised in the consolidated income statement excludes any interest paid on the financial liabilities.

Other financial liabilities

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

Offsetting financial instruments

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

Equity instruments

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the consolidated income statement immediately.

Embedded derivatives

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

Financial guarantee contracts

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

Derecognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Fiduciary assets

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

Cash and cash equivalents

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

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCE OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

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

Key sources of estimation uncertainty

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

(a) Impairment allowances on loans and advances

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

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

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

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

(b) Fair value of derivatives and other financial instruments

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

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

Details of the assumptions used are disclosed in Note 7.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

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

Key sources of estimation uncertainty - continued

(c) Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of the investment is less than its cost. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(d) Estimated impairment of goodwill

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

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

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

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

Critical judgements in applying the entity's accounting policies

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

Held-to-maturity investments

The Group classified certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Details of these assets are set out in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into the following operating divisions - corporate and retail banking, treasury, securities dealing and other banking-related services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

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

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

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

Other banking-related services of the Group include investment holding, insurance, other investment advisory services and property investments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

- (i) Segment information about these businesses for the year ended 31 December 2008 is presented below:

INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,102,344	1,066,191	2,801	-	-	2,171,336
Interest expense to external customers	(1,250,306)	(56,704)	-	-	-	(1,307,010)
Inter-segment interest income <i>(note)</i>	607,244	-	-	-	(607,244)	-
Inter-segment interest expense <i>(note)</i>	-	(607,244)	-	-	607,244	-
Net interest income	<u>459,282</u>	<u>402,243</u>	<u>2,801</u>	<u>-</u>	<u>-</u>	<u>864,326</u>
Fee and commission income	79,368	-	139,266	46,586	-	265,220
Fee and commission expense	(42,985)	-	(945)	(4,489)	-	(48,419)
Net gains (losses) on financial assets designated at fair value through profit or loss	-	(48,508)	-	209	-	(48,299)
Other operating income	<u>70,788</u>	<u>42,985</u>	<u>(86)</u>	<u>32,879</u>	<u>-</u>	<u>146,566</u>
Total operating income	<u>566,453</u>	<u>396,720</u>	<u>141,036</u>	<u>75,185</u>	<u>-</u>	<u>1,179,394</u>
Operating expenses	(423,857)	(28,542)	(51,788)	(22,177)	-	(526,364)
Impairment allowances on loans and advances	(91,334)	-	-	-	-	(91,334)
Net gain on disposal of property and equipment	294	-	-	-	-	294
Net gain on disposal of available-for-sale securities	-	-	-	108,706	-	108,706
Fair value adjustment on investment properties	-	-	-	39,560	-	39,560
Impairment loss on available-for-sale securities	-	(264,654)	-	-	-	(264,654)
Impairment loss on goodwill	-	-	-	(20,000)	-	(20,000)
Segment profit	<u>51,556</u>	<u>103,524</u>	<u>89,248</u>	<u>181,274</u>	<u>-</u>	<u>425,602</u>
Unallocated corporate expenses						<u>(246,067)</u>
Profit from operations						179,535
Share of losses of jointly controlled entities				(90,240)		<u>(90,240)</u>
Profit before taxation						89,295
Taxation						<u>(28,675)</u>
Profit for the year						<u>60,620</u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

(i) Segment information about these businesses as at 31 December 2008 is presented below:

BALANCE SHEET

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

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	45,467	651	2,024	4,830	14,695	67,667
Depreciation	<u>25,331</u>	<u>1,103</u>	<u>4,055</u>	<u>792</u>	<u>12,644</u>	<u>43,925</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

(ii) Segment information about these businesses for the year ended 31 December 2007 is presented below:

INCOME STATEMENT

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,626,540	1,675,038	8,906	-	-	3,310,484
Interest expense to external customers	(2,228,507)	(111,364)	-	-	-	(2,339,871)
Inter-segment interest income <i>(note)</i>	1,156,760	-	-	-	(1,156,760)	-
Inter-segment interest expense <i>(note)</i>	-	(1,156,760)	-	-	1,156,760	-
Net interest income	554,793	406,914	8,906	-	-	970,613
Fee and commission income	76,659	-	202,794	47,188	-	326,641
Fee and commission expense	(37,162)	-	(1,672)	(4,395)	-	(43,229)
Net gains (losses) in financial assets designated at fair value through profit or loss	-	(12,019)	-	22,391	-	10,372
Other operating income	91,384	29,859	(60)	35,114	-	156,297
Total operating income	685,674	424,754	209,968	100,298	-	1,420,694
Operating expenses	(366,304)	(27,222)	(51,471)	(21,919)	-	(466,916)
Impairment allowances on loans and advances	(82,922)	-	-	-	-	(82,922)
Net loss on disposal of property and equipment	(64)	-	-	-	-	(64)
Net gain on disposal of land	2,591	-	-	-	-	2,591
Net gain on disposal of investment properties	-	-	-	14,420	-	14,420
Net gain on disposal of available-for-sale securities	-	-	-	177,351	-	177,351
Fair value adjustment on investment properties	-	-	-	14,391	-	14,391
Impairment loss on available-for-sale securities	-	(369,627)	-	-	-	(369,627)
Impairment loss on goodwill	-	-	-	(30,000)	-	(30,000)
Segment profit	<u>238,975</u>	<u>27,905</u>	<u>158,497</u>	<u>254,541</u>	<u>-</u>	679,918
Unallocated corporate expenses						<u>(175,978)</u>
Profit from operations						503,940
Share of profits of jointly controlled entities				<u>66,074</u>		<u>66,074</u>
Profit before taxation						570,014
Taxation						<u>(64,982)</u>
Profit for the year						<u>505,032</u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(a) Business segments - continued

(ii) Segment information about these businesses as at 31 December 2007 is presented below:

BALANCE SHEET

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	34,309,585	33,100,358	433,174	803,642	68,646,759
Interests in jointly controlled entities	-	-	-	142,230	142,230
Loan to a jointly controlled entity	-	-	-	5,267	5,267
Unallocated corporate assets					258,145
Consolidated total assets					<u>69,052,401</u>
Liabilities					
Segment liabilities	60,666,292	1,559,890	366,359	37,096	62,629,637
Unallocated corporate liabilities					151,976
Consolidated total liabilities					<u>62,781,613</u>

OTHER INFORMATION

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Other banking- related services HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	75,166	2,355	28,007	2,528	23,165	131,221
Depreciation	22,446	836	1,819	751	10,994	36,846

(b) Geographical segments

Geographical segmentation is analysed by the Group based on the locations of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. For both years 2007 and 2008, more than 90% of the Group's revenue were generated by customers located in Hong Kong and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiary companies located in Hong Kong. More than 90% of assets were located in Hong Kong and the remaining assets were extended to branches outside Hong Kong, mainly in the Mainland China and America.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - continued

(b) Geographical segments - continued

Details of geographical segmentation are set out below:

	2008					
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,123,459	47,197	66,291,572	61,423,248	15,270,371	59,502
Asia Pacific (excluding Hong Kong)	37,725	29,980	1,195,689	798,598	224,438	8,134
America	18,210	12,118	890,057	198,848	62,460	31
Total	<u>1,179,394</u>	<u>89,295</u>	<u>68,377,318</u>	<u>62,420,694</u>	<u>15,557,269</u>	<u>67,667</u>
	2007					
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,358,206	485,868	67,041,552	61,410,227	17,442,739	122,962
Asia Pacific (excluding Hong Kong)	39,243	67,039	1,541,043	1,134,006	325,076	8,231
America	23,245	17,107	469,806	237,380	176,433	28
Total	<u>1,420,694</u>	<u>570,014</u>	<u>69,052,401</u>	<u>62,781,613</u>	<u>17,944,248</u>	<u>131,221</u>

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

7. FINANCIAL RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

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

Categories of financial instruments

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Fair value through profit or loss	680,680	1,134,422	680,567	1,134,158
Held-to-maturity investments	9,727,685	15,607,980	9,727,685	15,607,980
Loans and receivables (including cash and cash equivalents)	56,662,627	50,344,014	56,462,737	49,891,059
Available-for-sale investments	196,527	876,661	150,725	724,187
Financial liabilities				
Fair value through profit or loss	474,384	960,546	300,653	561,132
Amortised cost	60,927,169	60,784,295	60,923,936	60,780,456

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk

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

Management of credit risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Management of credit risk - continued

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

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

Risk mitigation policies

Some specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Other risk mitigations

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment allowances shown in the balance sheet are based on the five rating grades adopted by the Hong Kong Monetary Authority, with the majority of the impairment allowances arising from the bottom three gradings.

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

	31 December 2008				
	Gross loans and advances	Collective impairment allowances	Individual impairment allowances	Loans and advances secured by collateral	Gross impaired advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,449,043	13,268	-	208,406	-
- Property investment	7,561,256	-	-	6,820,072	-
- Financial concerns	3,031,254	-	-	1,342,433	-
- Stockbrokers	157,647	186	523	140,359	523
- Wholesale and retail trade	976,687	1,265	115	685,344	115
- Manufacturing	2,051,389	6,960	16	1,045,633	223
- Transport and transport equipment	932,535	-	-	275,741	-
- Recreational activities	2,535	8	-	1,284	-
- Information technology	198	24	-	10	-
- Others	5,296,954	14,241	145	2,322,465	26,646
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	693,850	-	382	693,468	1,607
- Loans for the purchase of other residential properties	5,456,764	3,503	-	5,452,820	-
- Credit card advances	116,180	4,225	220	-	252
- Others	1,557,603	2,340	2,882	1,515,209	6,785
	<u>29,283,895</u>	<u>46,020</u>	<u>4,283</u>	<u>20,503,244</u>	<u>36,151</u>
Trade finance	804,393	7,026	-	143,778	-
Loans for use outside Hong Kong	3,156,339	55,942	1,516	1,727,937	64,423
	<u>33,244,627</u>	<u>108,988</u>	<u>5,799</u>	<u>22,374,959</u>	<u>100,574</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Impairment and provisioning policies - continued

	31 December 2007				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,134,798	14,652	-	614,626	-
- Property investment	6,506,746	2,333	-	5,992,508	19,262
- Financial concerns	2,523,724	-	-	888,553	-
- Stockbrokers	347,428	-	516	336,497	516
- Wholesale and retail trade	833,578	2,181	212	673,111	2,136
- Manufacturing	2,224,813	2,830	12,035	1,121,713	4,177
- Transport and transport equipment	630,345	69	-	34,651	-
- Recreational activities	45,335	-	-	1,602	-
- Information technology	187	-	-	184	-
- Others	4,829,971	10,467	84	2,125,324	58,383
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	680,384	-	430	680,262	3,950
- Loans for the purchase of other residential properties	4,704,769	4,864	284	4,690,081	284
- Credit card advances	133,586	7,475	308	-	353
- Others	1,677,388	9,243	3,003	1,588,352	9,335
	<u>27,273,052</u>	<u>54,114</u>	<u>16,872</u>	<u>18,747,464</u>	<u>98,396</u>
Trade finance	918,496	8,317	-	288,315	3,520
Loans for use outside Hong Kong	3,530,335	54,289	1,004	1,622,618	113,904
	<u>31,721,883</u>	<u>116,720</u>	<u>17,876</u>	<u>20,658,397</u>	<u>215,820</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets is disclosed below:

Geographical locations

	THE GROUP				THE BANK			
	Asia Pacific excluding			Total	Asia Pacific excluding			Total
	Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000		Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000	
At 31 December 2008								
Short-term funds	1,616,155	5,964,649	9,643,835	17,224,639	1,573,812	5,964,649	9,643,835	17,182,296
Placements with banks and other financial institutions	-	1,625,000	3,742,858	5,367,858	-	1,625,000	3,742,858	5,367,858
Derivative financial instruments	429	-	-	429	429	-	-	429
Financial assets at fair value through profit or loss	-	339,360	341,207	680,567	-	339,360	341,207	680,567
Available-for-sale securities	-	-	52,395	52,395	-	-	52,395	52,395
Held-to-maturity securities	801,190	3,523,286	5,403,209	9,727,685	801,190	3,523,286	5,403,209	9,727,685
Advances and other accounts	31,402,108	1,025,730	1,207,004	33,634,842	31,247,674	1,022,666	1,206,993	33,477,333
Amounts due from subsidiaries	-	-	-	-	3,711	-	-	3,711
	<u>33,819,882</u>	<u>12,478,025</u>	<u>20,390,508</u>	<u>66,688,415</u>	<u>33,626,816</u>	<u>12,474,961</u>	<u>20,390,497</u>	<u>66,492,274</u>

	THE GROUP				THE BANK			
	Asia Pacific excluding			Total	Asia Pacific excluding			Total
	Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000		Hong Kong HK\$'000	Hong Kong HK\$'000	Others HK\$'000	
At 31 December 2007								
Short term funds	4,179,308	3,426,258	6,851,415	14,456,981	4,128,840	3,426,258	6,851,415	14,406,513
Placements with banks and other financial institutions	-	1,120,238	1,963,909	3,084,147	-	1,120,238	1,963,909	3,084,147
Derivative financial instruments	60	-	-	60	60	-	-	60
Financial assets at fair value through profit or loss	413,390	456,896	263,872	1,134,158	413,390	456,896	263,872	1,134,158
Available-for-sale securities	-	-	239,042	239,042	-	-	239,042	239,042
Held-to-maturity securities	1,667,831	5,865,020	8,075,129	15,607,980	1,667,831	5,865,020	8,075,129	15,607,980
Advances and other accounts	29,593,226	1,513,271	1,389,393	32,495,890	29,193,701	1,511,035	1,388,704	32,093,440
Amounts due from subsidiaries	-	-	-	-	3,407	-	-	3,407
Loan to a jointly controlled entity	5,267	-	-	5,267	5,267	-	-	5,267
	<u>35,859,082</u>	<u>12,381,683</u>	<u>18,782,760</u>	<u>67,023,525</u>	<u>35,412,496</u>	<u>12,379,447</u>	<u>18,782,071</u>	<u>66,574,014</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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

Industry sectors

	THE GROUP					
	Financial institutions	Central government	Public sector	Corporate	Others	Total
		and central banks	entities	entities	entities	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 31 December 2008						
Short term funds	16,249,216	975,423	-	-	-	17,224,639
Placements with banks and other financial institutions	5,367,858	-	-	-	-	5,367,858
Derivative financial instruments	-	-	-	429	-	429
Financial assets at fair value through profit or loss	275,085	-	-	405,482	-	680,567
Available-for-sale securities	35,755	-	-	16,640	-	52,395
Held-to-maturity securities	8,033,861	289,181	67,547	1,337,096	-	9,727,685
Advances and other accounts	89,187	120,605	295,132	23,901,186	9,228,732	33,634,842
	<u>30,050,962</u>	<u>1,385,209</u>	<u>362,679</u>	<u>25,660,833</u>	<u>9,228,732</u>	<u>66,688,415</u>
At 31 December 2007						
Short term funds	11,303,164	3,153,817	-	-	-	14,456,981
Placements with banks and other financial institutions	3,084,147	-	-	-	-	3,084,147
Derivative financial instruments	-	-	-	60	-	60
Financial assets at fair value through profit or loss	475,282	118,393	-	535,484	4,999	1,134,158
Available-for-sale securities	208,436	-	-	30,606	-	239,042
Held-to-maturity securities	15,060,293	534,442	11,245	2,000	-	15,607,980
Advances and other accounts	2,928,236	-	-	20,196,779	9,370,875	32,495,890
Loan to a jointly controlled entity	5,267	-	-	-	-	5,267
	<u>33,064,825</u>	<u>3,806,652</u>	<u>11,245</u>	<u>20,764,929</u>	<u>9,375,874</u>	<u>67,023,525</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

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

Industry sectors - continued

	THE BANK					Total HK\$'000
	Financial institutions HK\$'000	Central government and central banks HK\$'000	Public sector entities HK\$'000	Corporate entities HK\$'000	Others HK\$'000	
At 31 December 2008						
Short term funds	16,206,873	975,423	-	-	-	17,182,296
Placements with banks and other financial institutions	5,367,858	-	-	-	-	5,367,858
Derivative financial instruments	-	-	-	429	-	429
Financial assets at fair value through profit or loss	275,085	-	-	405,482	-	680,567
Available-for-sale securities	35,755	-	-	16,640	-	52,395
Held-to-maturity securities	8,033,861	289,181	67,547	1,337,096	-	9,727,685
Advances and other accounts	88,184	120,056	295,132	23,745,229	9,228,732	33,477,333
Amounts due from subsidiaries	-	-	-	3,711	-	3,711
	<u>30,007,616</u>	<u>1,384,660</u>	<u>362,679</u>	<u>25,508,587</u>	<u>9,228,732</u>	<u>66,492,274</u>
At 31 December 2007						
Short term funds	11,252,696	3,153,817	-	-	-	14,406,513
Placements with banks and other financial institutions	3,084,147	-	-	-	-	3,084,147
Derivative financial instruments	-	-	-	60	-	60
Financial assets at fair value through profit or loss	475,282	118,393	-	535,484	4,999	1,134,158
Available-for-sale securities	208,436	-	-	30,606	-	239,042
Held-to-maturity securities	15,060,293	534,442	11,245	2,000	-	15,607,980
Advances and other accounts	2,928,236	-	-	19,794,853	9,370,351	32,093,440
Amounts due from subsidiaries	2,680	-	-	727	-	3,407
Loan to a jointly controlled entity	5,267	-	-	-	-	5,267
	<u>33,017,037</u>	<u>3,806,652</u>	<u>11,245</u>	<u>20,363,730</u>	<u>9,375,350</u>	<u>66,574,014</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term funds	17,224,639	14,456,981	17,182,296	14,406,513
Placements with banks and other financial institutions	5,367,858	3,084,147	5,367,858	3,084,147
Derivative financial instruments	429	60	429	60
Financial assets at fair value through profit or loss	680,567	1,134,158	680,567	1,134,158
Available-for-sale securities	52,395	239,042	52,395	239,042
Held-to-maturity securities	9,727,685	15,607,980	9,727,685	15,607,980
Advances and other accounts	33,634,842	32,495,890	33,477,333	32,093,440
Amounts due from subsidiaries	–	–	3,711	3,407
Loan to a jointly controlled entity	–	5,267	–	5,267
	<u>66,688,415</u>	<u>67,023,525</u>	<u>66,492,274</u>	<u>66,574,014</u>

Credit risk exposures relating to off-balance sheet items are as follows:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial guarantee and other credit related contingent liabilities	1,014,062	1,239,142	1,014,062	1,239,142
Loan commitments and other credit related commitments	14,529,659	16,606,916	14,529,659	16,606,916
Other commitments	87,054	98,190	83,946	95,514
	<u>15,630,775</u>	<u>17,944,248</u>	<u>15,627,667</u>	<u>17,941,572</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality

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

	THE GROUP	
	31 December 2008	31 December 2007
	HK\$'000	HK\$'000
Neither past due nor impaired	33,234,931	31,626,817
Past due but not impaired	164,255	222,517
Impaired	100,574	215,820
	<u>33,499,760</u>	<u>32,065,154</u>
Less: allowances for impairment	<u>(114,787)</u>	<u>(134,596)</u>
	<u><u>33,384,973</u></u>	<u><u>31,930,558</u></u>

	THE BANK	
	31 December 2008	31 December 2007
	HK\$'000	HK\$'000
Neither past due nor impaired	33,234,248	31,625,904
Past due but not impaired	164,255	222,517
Impaired	100,574	215,820
	<u>33,499,077</u>	<u>32,064,241</u>
Less: allowances for impairment	<u>(114,783)</u>	<u>(134,590)</u>
	<u><u>33,384,294</u></u>	<u><u>31,929,651</u></u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality - continued

(i) Loans and advances neither past due nor impaired

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

	THE GROUP								
	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans/tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008									
GRADES:									
Pass	2,112,448	14,889,393	8,975,212	5,362,572	435,557	760,580	121,027	368,136	33,024,925
Special mention	20,121	19,272	-	-	-	7,281	-	-	46,674
Substandard or below	-	15,635	-	147,697	-	-	-	-	163,332
Total	2,132,569	14,924,300	8,975,212	5,510,269	435,557	767,861	121,027	368,136	33,234,931
At 31 December 2007									
GRADES:									
Pass	2,482,893	12,881,686	8,631,073	5,478,920	384,865	829,442	73,648	473,598	31,236,125
Special mention	12,884	186,542	3,000	-	-	3,992	-	-	206,418
Substandard or below	-	12,552	-	171,722	-	-	-	-	184,274
Total	2,495,777	13,080,780	8,634,073	5,650,642	384,865	833,434	73,648	473,598	31,626,817
THE BANK									
	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans/tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008									
GRADES:									
Pass	2,112,448	14,888,979	8,975,212	5,362,572	435,557	760,580	121,027	367,867	33,024,242
Special mention	20,121	19,272	-	-	-	7,281	-	-	46,674
Substandard or below	-	15,635	-	147,697	-	-	-	-	163,332
Total	2,132,569	14,923,886	8,975,212	5,510,269	435,557	767,861	121,027	367,867	33,234,248
At 31 December 2007									
GRADES:									
Pass	2,482,893	12,881,157	8,631,073	5,478,920	384,865	829,442	73,648	473,214	31,235,212
Special mention	12,884	186,542	3,000	-	-	3,992	-	-	206,418
Substandard or below	-	12,552	-	171,722	-	-	-	-	184,274
Total	2,495,777	13,080,251	8,634,073	5,650,642	384,865	833,434	73,648	473,214	31,625,904

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality - continued

(ii) Loans and advances past due but not impaired

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

	THE GROUP AND THE BANK							Total HK\$'000
	Overdrafts HK\$'000	Instalment loans HK\$'000	Term loans HK\$'000	Syndication loans HK\$'000	Trade finance HK\$'000	Personal loans/		
						tax loans HK\$'000	Others HK\$'000	
At 31 December 2008								
Past due up to 30 days	3,302	10,145	-	-	1,962	-	-	15,409
Past due from 31 to 90 days	7,878	94,967	5,704	-	19,484	280	2,925	131,238
Past due more than 90 days	5,296	11,644	-	-	668	-	-	17,608
Total	<u>16,476</u>	<u>116,756</u>	<u>5,704</u>	<u>-</u>	<u>22,114</u>	<u>280</u>	<u>2,925</u>	<u>164,255</u>
Fair value of collateral	<u>40,896</u>	<u>240,585</u>	<u>-</u>	<u>-</u>	<u>28,474</u>	<u>-</u>	<u>-</u>	<u>309,955</u>
At 31 December 2007								
Past due up to 30 days	2,074	8,380	-	-	13,363	67	-	23,884
Past due from 31 to 90 days	17,503	56,550	1,460	-	35,548	302	2,919	114,282
Past due more than 90 days	15,779	57,468	-	-	11,104	-	-	84,351
Total	<u>35,356</u>	<u>122,398</u>	<u>1,460</u>	<u>-</u>	<u>60,015</u>	<u>369</u>	<u>2,919</u>	<u>222,517</u>
Fair value of collateral	<u>110,490</u>	<u>347,862</u>	<u>362</u>	<u>-</u>	<u>42,737</u>	<u>-</u>	<u>-</u>	<u>501,451</u>

Collateral is mainly properties and fixed deposits.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Credit quality - continued

(iii) Loans and advances individually impaired

(a) Loans and advances to customers

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

	THE GROUP AND THE BANK							
	Overdrafts	Instalment loans	Term loans	Syndication loans	Trade finance	Personal loans/ tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2008								
Individually impaired loans	<u>27,743</u>	<u>9,034</u>	<u>62,857</u>	<u>-</u>	<u>113</u>	<u>575</u>	<u>252</u>	<u>100,574</u>
Fair value of collateral	<u>174,295</u>	<u>11,920</u>	<u>283,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>470,173</u>
At 31 December 2007								
Individually impaired loans	<u>57,863</u>	<u>18,496</u>	<u>121,816</u>	<u>12,910</u>	<u>3,633</u>	<u>749</u>	<u>353</u>	<u>215,820</u>
Fair value of collateral	<u>176,991</u>	<u>22,871</u>	<u>289,241</u>	<u>26,000</u>	<u>4,400</u>	<u>-</u>	<u>-</u>	<u>519,503</u>

Collaterals are mainly properties and fixed deposits.

(b) Loans and advances to banks

There are no individually impaired loans and advances to banks as at 31 December 2008 and 31 December 2007.

(iv) Loans and advances renegotiated

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

	THE GROUP AND THE BANK	
	2008 HK\$'000	2007 HK\$'000
Renegotiated loans that would otherwise be past due or impaired	<u>17,017</u>	<u>918</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Credit risk - continued

Debt securities

Financial investments by rating agency designation

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

	THE GROUP AND THE BANK			
	Financial asset at fair value through profit or loss HK\$'000	Available- for-sale securities (excluding equity securities) HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
At 31 December 2008				
Aaa	–	–	653,637	653,637
Aa1 to Aa3	232,475	35,755	7,210,258	7,478,488
A1 to A3	83,985	–	1,671,001	1,754,986
Lower than A3	–	–	74,529	74,529
Unrated	364,107	16,640	118,260	499,007
Total	<u>680,567</u>	<u>52,395</u>	<u>9,727,685</u>	<u>10,460,647</u>
At 31 December 2007				
Aaa	71,211	–	1,244,723	1,315,934
Aa1 to Aa3	499,575	39,012	11,842,288	12,380,875
A1 to A3	39,012	–	1,859,745	1,898,757
Lower than A3	–	100,831	296,937	397,768
Unrated	524,360	99,199	364,287	987,846
Total	<u>1,134,158</u>	<u>239,042</u>	<u>15,607,980</u>	<u>16,981,180</u>

Reposessed collateral

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

Nature of assets	THE GROUP AND THE BANK	
	2008 HK\$'000	2007 HK\$'000
Residential properties	12,750	63,070
Others	15,644	39,700

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk

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

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

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

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

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

Management of market risk

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

Foreign exchange risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Foreign exchange risk - continued

The following table indicates the concentration of currency risk at the balance sheet dates:

	THE GROUP					Total
	HK\$	US\$	MOP	RMB	Others	
Hong Kong dollars equivalents (HK\$'000)						
At 31 December 2008						
Assets						
Cash and short-term funds	5,521,439	7,363,797	127,061	663,657	3,983,973	17,659,927
Placements with banks and other financial institutions	4,285,000	782,750	-	-	300,108	5,367,858
Derivative financial instruments	429	-	-	-	-	429
Financial assets at fair value through profit or loss	599,320	81,360	-	-	-	680,680
Available-for-sale securities	81,457	84,692	-	28,493	1,885	196,527
Held-to-maturity securities	4,485,688	3,366,209	-	163,432	1,712,356	9,727,685
Advances to customers	31,588,692	1,463,522	17,982	67,497	106,934	33,244,627
Advances to banks and other financial institutions	56,460	481	-	59,471	-	116,412
Other assets	1,174,185	161,829	590	36,638	9,931	1,383,173
Total assets	<u>47,792,670</u>	<u>13,304,640</u>	<u>145,633</u>	<u>1,019,188</u>	<u>6,115,187</u>	<u>68,377,318</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,114,675	332,181	-	-	78,653	1,525,509
Deposits from customers	40,452,603	11,944,793	96,525	870,132	6,037,607	59,401,660
Derivative financial instruments	39,303	-	-	-	-	39,303
Loan capital	(3,296)	968,750	-	-	-	965,454
Other liabilities	419,539	37,181	2,782	5,280	23,986	488,768
Total liabilities	<u>42,022,824</u>	<u>13,282,905</u>	<u>99,307</u>	<u>875,412</u>	<u>6,140,246</u>	<u>62,420,694</u>
Net on-balance sheet position	<u>5,769,846</u>	<u>21,735</u>	<u>46,326</u>	<u>143,776</u>	<u>(25,059)</u>	<u>5,956,624</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Foreign exchange risk - continued

	THE GROUP					Total
	HK\$	US\$	MOP	RMB	Others	
Hong Kong dollars equivalents (HK\$'000)						
At 31 December 2007						
Assets						
Cash and short-term funds	9,814,179	3,269,551	85,227	460,829	1,134,191	14,763,977
Placements with banks and other financial institutions	959,999	1,630,681	-	-	493,467	3,084,147
Derivative financial instruments	60	-	-	-	-	60
Financial assets at fair value through profit or loss	807,088	327,334	-	-	-	1,134,422
Available-for-sale securities	224,822	647,823	-	-	4,016	876,661
Held-to-maturity securities	6,061,007	6,128,323	-	69,700	3,348,950	15,607,980
Advances to customers	30,256,331	1,248,302	26,973	-	190,277	31,721,883
Advances to banks and other financial institutions	56,670	414	-	-	-	57,084
Other assets	1,584,552	196,331	170	10,444	14,690	1,806,187
Total assets	49,764,708	13,448,759	112,370	540,973	5,185,591	69,052,401
Liabilities						
Deposits and balances of banks and other financial institutions	3,116	277,707	-	-	176,035	456,858
Deposits from customers	42,301,866	12,389,216	62,443	434,323	5,139,589	60,327,437
Derivative financial instruments	114,546	-	-	-	-	114,546
Loan capital	(4,417)	975,288	-	-	-	970,871
Other liabilities	799,007	77,984	3,843	7,679	23,388	911,901
Total liabilities	43,214,118	13,720,195	66,286	442,002	5,339,012	62,781,613
Net on-balance sheet position	6,550,590	(271,436)	46,084	98,971	(153,421)	6,270,788

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Foreign exchange risk - continued

	THE BANK					Total
	HK\$	US\$	MOP	RMB	Others	
Hong Kong dollars equivalents (HK\$'000)						
At 31 December 2008						
Assets						
Cash and short-term funds	5,479,058	7,363,797	127,061	663,657	3,983,973	17,617,546
Placements with banks and other financial institutions	4,285,000	782,750	-	-	300,108	5,367,858
Derivative financial instruments	429	-	-	-	-	429
Financial assets at fair value through profit or loss	599,207	81,360	-	-	-	680,567
Available-for-sale securities	35,655	84,692	-	28,493	1,885	150,725
Held-to-maturity securities	4,485,688	3,366,209	-	163,432	1,712,356	9,727,685
Advances to customers	31,588,278	1,463,522	17,982	67,497	106,934	33,244,213
Advances to banks and other financial institutions	56,460	481	-	59,471	-	116,412
Other assets	1,742,715	161,829	590	8,302	9,931	1,923,367
Total assets	48,272,490	13,304,640	145,633	990,852	6,115,187	68,828,802
Liabilities						
Deposits and balances of banks and other financial institutions	1,114,675	332,181	-	-	78,653	1,525,509
Deposits from customers	40,449,370	11,944,793	96,525	870,132	6,037,607	59,398,427
Derivative financial instruments	39,303	-	-	-	-	39,303
Loan capital	(3,296)	968,750	-	-	-	965,454
Other liabilities	942,098	37,181	2,782	2,695	23,986	1,008,742
Total liabilities	42,542,150	13,282,905	99,307	872,827	6,140,246	62,937,435
Net on-balance sheet position	5,730,340	21,735	46,326	118,025	(25,059)	5,891,367

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Foreign exchange risk - continued

	THE BANK					Total
	HK\$	US\$	MOP	RMB	Others	
Hong Kong dollars equivalents (HK\$'000)						
At 31 December 2007						
Assets						
Cash and short-term funds	9,763,674	3,269,551	85,227	460,829	1,134,191	14,713,472
Placements with banks and other financial institutions	959,999	1,630,681	–	–	493,467	3,084,147
Derivative financial instruments	60	–	–	–	–	60
Financial assets at fair value through profit or loss	806,824	327,334	–	–	–	1,134,158
Available-for-sale securities	72,348	647,823	–	–	4,016	724,187
Held-to-maturity securities	6,061,007	6,128,323	–	69,700	3,348,950	15,607,980
Advances to customers	30,255,802	1,248,302	26,973	–	190,277	31,721,354
Advances to banks and other financial institutions	56,670	414	–	–	–	57,084
Other assets	1,825,867	196,331	170	8,298	14,690	2,045,356
Total assets	<u>49,802,251</u>	<u>13,448,759</u>	<u>112,370</u>	<u>538,827</u>	<u>5,185,591</u>	<u>69,087,798</u>
Liabilities						
Deposits and balances of banks and other financial institutions	3,116	277,707	–	–	176,035	456,858
Deposits from customers	42,298,027	12,389,216	62,443	434,323	5,139,589	60,323,598
Derivative financial instruments	114,546	–	–	–	–	114,546
Loan capital	(4,417)	975,288	–	–	–	970,871
Other liabilities	1,008,179	77,984	3,843	5,533	23,388	1,118,927
Total liabilities	<u>43,419,451</u>	<u>13,720,195</u>	<u>66,286</u>	<u>439,856</u>	<u>5,339,012</u>	<u>62,984,800</u>
Net on-balance sheet position	<u>6,382,800</u>	<u>(271,436)</u>	<u>46,084</u>	<u>98,971</u>	<u>(153,421)</u>	<u>6,102,998</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Foreign exchange risk - continued

Foreign currency sensitivity

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

	Change in currency rate					
	US Dollars		Renminbi		Macau Pataca	
	Appreciate +1%	Depreciate -1%	Appreciate +10%	Depreciate -10%	Appreciate +10%	Depreciate -10%
THE GROUP						
Hong Kong dollars equivalents (HK\$'000)						
2008						
Profit before tax	(903)	903	14,536	(14,536)	4,633	(4,633)
Other equity	23	(23)	-	-	-	-
2007						
Profit before tax	(2,855)	2,855	9,818	(9,818)	4,608	(4,608)
Other equity	46	(46)	-	-	-	-
THE BANK						
2008						
Profit before tax	(903)	903	11,961	(11,961)	4,633	(4,633)
Other equity	23	(23)	-	-	-	-
2007						
Profit before tax	(2,855)	2,855	9,818	(9,818)	4,608	(4,608)
Other equity	46	(46)	-	-	-	-

Numbers in bracket mean decrease.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk

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

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

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

	THE GROUP					Total
	Up to	3 - 12	1 - 5	Over	Non-	
	3 months	months	years	5 years	interest	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	bearing	HK\$'000
At 31 December 2008						
Assets						
Cash and short-term funds	16,941,384	271,937	-	-	446,606	17,659,927
Placements with banks and other financial institutions	4,449,267	918,591	-	-	-	5,367,858
Derivative financial instruments	-	-	-	-	429	429
Financial assets at fair value through profit or loss	599,208	-	-	-	81,472	680,680
Available-for-sale securities	35,754	-	-	-	160,773	196,527
Held-to-maturity securities	7,408,355	2,293,174	24,156	-	2,000	9,727,685
Advances to customers	32,309,117	737,016	58,967	3,106	136,421	33,244,627
Advances to banks and other financial institutions	85,063	30,408	-	-	941	116,412
Other assets	-	-	-	-	1,383,173	1,383,173
Total assets	61,828,148	4,251,126	83,123	3,106	2,211,815	68,377,318
Liabilities						
Deposits and balances of banks and other financial institutions	1,514,356	-	-	-	11,153	1,525,509
Deposits from customers	52,972,817	3,416,549	4,621	-	3,007,673	59,401,660
Derivative financial instruments	-	-	-	-	39,303	39,303
Loan capital	965,454	-	-	-	-	965,454
Other liabilities	-	-	-	-	488,768	488,768
Total liabilities	55,452,627	3,416,549	4,621	-	3,546,897	62,420,694
Total interest sensitivity gap	6,375,521	834,577	78,502	3,106	(1,335,082)	5,956,624

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

	THE GROUP					Total HK\$'000
	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	
At 31 December 2007						
Assets						
Cash and short-term funds	14,361,137	51,052	–	–	351,788	14,763,977
Placements with banks and other financial institutions	2,684,574	399,573	–	–	–	3,084,147
Derivative financial instruments	–	–	–	–	60	60
Financial assets at fair value						
through profit or loss	861,059	–	78,023	–	195,340	1,134,422
Available-for-sale securities	239,042	–	–	–	637,619	876,661
Held-to-maturity securities	12,871,862	2,655,195	78,923	–	2,000	15,607,980
Advances to customers	30,561,808	822,886	50,875	2,846	283,468	31,721,883
Advances to banks and other financial institutions	9,733	20,620	26,731	–	–	57,084
Other assets	–	–	–	–	1,806,187	1,806,187
Total assets	<u>61,589,215</u>	<u>3,949,326</u>	<u>234,552</u>	<u>2,846</u>	<u>3,276,462</u>	<u>69,052,401</u>
Liabilities						
Deposits and balances of banks and other financial institutions	437,555	–	–	–	19,303	456,858
Deposits from customers	54,953,819	2,355,240	13,216	–	3,005,162	60,327,437
Derivative financial instruments	–	–	–	–	114,546	114,546
Loan capital	970,871	–	–	–	–	970,871
Other liabilities	–	–	–	–	911,901	911,901
Total liabilities	<u>56,362,245</u>	<u>2,355,240</u>	<u>13,216</u>	<u>–</u>	<u>4,050,912</u>	<u>62,781,613</u>
Total interest sensitivity gap	<u>5,226,970</u>	<u>1,594,086</u>	<u>221,336</u>	<u>2,846</u>	<u>(774,450)</u>	<u>6,270,788</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

	THE BANK					Total HK\$'000
	Up to	3 - 12	1 - 5	Over	Non-	
	3 months HK\$'000	months HK\$'000	years HK\$'000	5 years HK\$'000	interest bearing HK\$'000	
At 31 December 2008						
Assets						
Cash and short-term funds	16,882,390	271,937	-	-	463,219	17,617,546
Placements with banks and other financial institutions	4,449,267	918,591	-	-	-	5,367,858
Derivative financial instruments	-	-	-	-	429	429
Financial assets at fair value through profit or loss	599,207	-	-	-	81,360	680,567
Available-for-sale securities	35,754	-	-	-	114,971	150,725
Held-to-maturity securities	7,408,355	2,293,174	24,156	-	2,000	9,727,685
Advances to customers	32,308,703	737,016	58,967	3,106	136,421	33,244,213
Advances to bank and other financial institutions	85,063	30,408	-	-	941	116,412
Other assets	-	-	-	-	1,923,367	1,923,367
Total assets	61,768,739	4,251,126	83,123	3,106	2,722,708	68,828,802
Liabilities						
Deposits and balances of banks and other financial institutions	1,514,356	-	-	-	11,153	1,525,509
Deposits from customers	52,969,584	3,416,549	4,621	-	3,007,673	59,398,427
Derivative financial instruments	-	-	-	-	39,303	39,303
Loan capital	965,454	-	-	-	-	965,454
Other liabilities	697,853	-	-	-	310,889	1,008,742
Total liabilities	56,147,247	3,416,549	4,621	-	3,369,018	62,937,435
Total interest sensitivity gap	5,621,492	834,577	78,502	3,106	(646,310)	5,891,367

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

	THE BANK					Total HK\$'000
	Up to	3 - 12	1 - 5	Over	Non-	
	3 months HK\$'000	months HK\$'000	years HK\$'000	5 years HK\$'000	interest bearing HK\$'000	
At 31 December 2007						
Assets						
Cash and short-term funds	14,310,731	51,052	–	–	351,689	14,713,472
Placements with banks and other financial institutions	2,684,574	399,573	–	–	–	3,084,147
Derivative financial instruments	–	–	–	–	60	60
Financial assets at fair value through profit or loss	861,060	–	78,023	–	195,075	1,134,158
Available-for-sale securities	239,042	–	–	–	485,145	724,187
Held-to-maturity securities	12,871,862	2,655,195	78,923	–	2,000	15,607,980
Advances to customers	30,561,279	822,886	50,875	2,846	283,468	31,721,354
Advances to banks and other financial institutions	9,733	20,620	26,731	–	–	57,084
Other assets	–	–	–	–	2,045,356	2,045,356
Total assets	<u>61,538,281</u>	<u>3,949,326</u>	<u>234,552</u>	<u>2,846</u>	<u>3,362,793</u>	<u>69,087,798</u>
Liabilities						
Deposits and balances of banks and other financial institutions	437,555	–	–	–	19,303	456,858
Deposits from customers	54,949,980	2,355,240	13,216	–	3,005,162	60,323,598
Derivative financial instruments	–	–	–	–	114,546	114,546
Amount due to subsidiaries	650,125	–	–	–	8,021	658,146
Loan capital	970,871	–	–	–	–	970,871
Other liabilities	–	–	–	–	460,781	460,781
Total liabilities	<u>57,008,531</u>	<u>2,355,240</u>	<u>13,216</u>	<u>–</u>	<u>3,607,813</u>	<u>62,984,800</u>
Total interest sensitivity gap	<u>4,529,750</u>	<u>1,594,086</u>	<u>221,336</u>	<u>2,846</u>	<u>(245,020)</u>	<u>6,102,998</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Market risk - continued

Interest rate risk - continued

Interest rate sensitivity

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

	2008		2007	
	Change in basis points		Change in basis points	
	+100	-100	+100	-100
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Profit before tax	59,773	(59,773)	45,970	(45,970)
Other equity	(14)	14	(771)	771
THE BANK				
Profit before tax	59,209	(59,209)	45,437	(45,437)
Other equity	(14)	14	(771)	771

Numbers in bracket mean decrease.

Price risk

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

Price sensitivity

	2008		2007	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Profit before tax	31,355	(31,355)	52,977	(52,977)
Other equity	13,356	(13,356)	39,606	(39,606)
THE BANK				
Profit before tax	31,355	(31,355)	52,977	(52,977)
Other equity	9,173	(9,173)	24,627	(24,627)

Numbers in bracket mean decrease.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

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

Management of liquidity risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Management of liquidity risk - continued

	THE GROUP						
	Repayable on demand HK\$'000	Repayable 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 2008							
Deposits and balances of banks and other financial institutions	71,607	1,458,473	245	-	-	-	1,530,325
Deposits from customers	16,859,622	39,202,581	3,427,260	54,953	-	42,445	59,586,861
Loan capital	-	7,059	20,716	1,023,993	-	-	1,051,768
Other liabilities	296,833	41,857	24,962	23,095	-	-	386,747
Total undiscounted financial liabilities	<u>17,228,062</u>	<u>40,709,970</u>	<u>3,473,183</u>	<u>1,102,041</u>	<u>-</u>	<u>42,445</u>	<u>62,555,701</u>
At 31 December 2007							
Deposits and balances of banks and other financial institutions	27,205	435,689	-	-	-	-	462,894
Deposits from customers	15,600,482	42,888,552	2,165,694	33,069	-	7,627	60,695,424
Loan capital	-	14,596	43,307	1,146,271	-	-	1,204,174
Other liabilities	592,339	23,734	54,454	29,193	-	1,960	701,680
Total undiscounted financial liabilities	<u>16,220,026</u>	<u>43,362,571</u>	<u>2,263,455</u>	<u>1,208,533</u>	<u>-</u>	<u>9,587</u>	<u>63,064,172</u>
THE BANK							
	Repayable on demand HK\$'000	Repayable 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 2008							
Deposits and balances of banks and other financial institutions	71,607	1,458,473	245	-	-	-	1,530,325
Deposits from customers	16,859,523	39,199,348	3,427,260	54,953	-	42,445	59,583,529
Loan capital	-	7,059	20,716	1,023,993	-	-	1,051,768
Other liabilities	444,000	451,952	7,124	3,744	-	-	906,820
Total undiscounted financial liabilities	<u>17,375,130</u>	<u>41,116,832</u>	<u>3,455,345</u>	<u>1,082,690</u>	<u>-</u>	<u>42,445</u>	<u>63,072,442</u>
At 31 December 2007							
Deposits and balances of banks and other financial institutions	27,205	435,689	-	-	-	-	462,894
Deposits from customers	15,600,381	42,884,712	2,165,694	33,069	-	7,627	60,691,483
Loan capital	-	14,596	43,307	1,146,271	-	-	1,204,174
Other liabilities	514,998	387,863	5,947	-	-	-	908,808
Total undiscounted financial liabilities	<u>16,142,584</u>	<u>43,722,860</u>	<u>2,214,948</u>	<u>1,179,340</u>	<u>-</u>	<u>7,627</u>	<u>63,267,359</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Management of liquidity risk - continued

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

	THE GROUP AND THE BANK				
	Less than 1 month HK\$'000	1 - 3 months HK\$'000	3 months to 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000
	At 31 December 2008				
Derivatives settled net					
Interest rate contracts	<u>(46)</u>	<u>1,361</u>	<u>(26,122)</u>	<u>(28,943)</u>	<u>–</u>
Derivatives settled gross					
Exchange rate contracts					
- inflow	28,090	8,146	158,239	–	–
- outflow	<u>(28,360)</u>	<u>(7,936)</u>	<u>(158,354)</u>	<u>–</u>	<u>–</u>
	<u>(270)</u>	<u>210</u>	<u>(115)</u>	<u>–</u>	<u>–</u>
At 31 December 2007					
Derivatives settled net					
Interest rate contracts	<u>5,244</u>	<u>3,743</u>	<u>5,040</u>	<u>(15,283)</u>	<u>–</u>
Derivatives settled gross					
Exchange rate contracts					
- inflow	24,223	4,625	62,808	–	–
- outflow	<u>(24,286)</u>	<u>(3,946)</u>	<u>(64,127)</u>	<u>–</u>	<u>–</u>
	<u>(63)</u>	<u>679</u>	<u>(1,319)</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Off-balance sheet items

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

	THE GROUP			
	No later than 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2008				
Loan commitments	14,529,659	–	–	14,529,659
Guarantee, acceptances and other financial facilities	1,014,062	–	–	1,014,062
Operating lease commitments	39,714	33,792	–	73,506
Capital commitments	13,548	–	–	13,548
Total	15,596,983	33,792	–	15,630,775
At 31 December 2007				
Loan commitments	16,606,916	–	–	16,606,916
Guarantee, acceptances and other financial facilities	1,239,142	–	–	1,239,142
Operating lease commitments	28,150	36,839	275	65,264
Capital commitments	32,926	–	–	32,926
Total	17,907,134	36,839	275	17,944,248
	THE BANK			
	No later than 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2008				
Loan commitments	14,529,659	–	–	14,529,659
Guarantee, acceptances and other financial facilities	1,014,062	–	–	1,014,062
Operating lease commitments	38,066	32,332	–	70,398
Capital commitments	13,548	–	–	13,548
Total	15,595,335	32,332	–	15,627,667
At 31 December 2007				
Loan commitments	16,606,916	–	–	16,606,916
Guarantee, acceptances and other financial facilities	1,239,142	–	–	1,239,142
Operating lease commitments	26,288	36,025	275	62,588
Capital commitments	32,926	–	–	32,926
Total	17,905,272	36,025	275	17,941,572

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown in the balance sheet, based on the remaining period at the balance sheet date to the contractual maturity date in accordance with the guideline issued by the Hong Kong Monetary Authority, is shown below.

	THE GROUP						
	Repayable on demand HK\$'000	Repayable within 3 months or less (except on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2008							
Assets							
Cash and short-term funds	4,162,520	13,267,824	229,583	-	-	-	17,659,927
Placements with banks and other financial institutions	-	4,449,267	918,591	-	-	-	5,367,858
Derivative financial assets	-	-	-	-	-	429	429
Financial assets at fair value through profit or loss	-	49,350	295,228	335,990	-	112	680,680
Available-for-sale securities	-	-	-	35,755	16,640	144,132	196,527
Held-to-maturity securities	-	2,550,748	3,295,114	3,876,303	3,520	2,000	9,727,685
Advances to customers	2,506,692	4,471,595	4,868,474	11,571,972	9,549,718	276,176	33,244,627
Advances to banks and other financial institutions	26,380	40,032	50,000	-	-	-	116,412
Total other assets	183,817	164,435	77,616	6,691	-	950,614	1,383,173
Total assets	6,879,409	24,993,251	9,734,606	15,826,711	9,569,878	1,373,463	68,377,318
Liabilities							
Deposits and balances of banks and other financial institutions	71,494	1,454,015	-	-	-	-	1,525,509
Deposits from customers	16,859,032	39,078,582	3,370,024	51,577	-	42,445	59,401,660
Derivative financial liabilities	-	-	-	-	-	39,303	39,303
Loan capital	-	-	-	-	965,454	-	965,454
Other liabilities	297,326	126,935	41,242	23,265	-	-	488,768
Total liabilities	17,227,852	40,659,532	3,411,266	74,842	965,454	81,748	62,420,694
Net liquidity gap	(10,348,443)	(15,666,281)	6,323,340	15,751,869	8,604,424	1,291,715	5,956,624

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Analysis of assets and liabilities by remaining maturity - continued

	THE GROUP						
	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2007							
Assets							
Cash and short-term funds	1,910,782	12,803,827	49,368	-	-	-	14,763,977
Placements with banks and other financial institutions	-	2,684,574	399,573	-	-	-	3,084,147
Derivative financial instruments	-	-	-	-	-	60	60
Financial assets at fair value through profit or loss	-	-	54,236	884,846	-	195,340	1,134,422
Available-for-sale securities	-	-	-	121,082	117,960	637,619	876,661
Held-to-maturity securities	-	6,530,013	2,536,112	6,528,610	13,245	-	15,607,980
Advances to customers	2,510,697	4,104,480	4,790,328	10,604,914	9,496,204	215,260	31,721,883
Advances to banks and other financial institutions	1,084	18,000	38,000	-	-	-	57,084
Other assets	468,823	281,538	107,923	1,775	21,914	924,214	1,806,187
Total assets	4,891,386	26,422,432	7,975,540	18,141,227	9,649,323	1,972,493	69,052,401
Liabilities							
Deposits and balances of banks and other financial institutions	27,038	429,820	-	-	-	-	456,858
Deposits from customers	15,597,198	42,618,558	2,090,485	13,569	-	7,627	60,327,437
Derivative financial instruments	-	-	-	-	-	114,546	114,546
Loan capital	-	-	-	-	970,871	-	970,871
Other liabilities	606,433	185,337	84,041	34,130	-	1,960	911,901
Total liabilities	16,230,669	43,233,715	2,174,526	47,699	970,871	124,133	62,781,613
Net liquidity gap	(11,339,283)	(16,811,283)	5,801,014	18,093,528	8,678,452	1,848,360	6,270,788

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Analysis of assets and liabilities by remaining maturity - continued

	THE BANK						
	Repayable on demand HK\$'000	Repayable within 3 months or less (except on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2008							
Assets							
Cash and short-term funds	4,157,401	13,230,562	229,583	-	-	-	17,617,546
Placements with banks and other financial institutions	-	4,449,267	918,591	-	-	-	5,367,858
Derivative financial assets	-	-	-	-	-	429	429
Financial assets at fair value through profit or loss	-	49,349	295,228	335,990	-	-	680,567
Available-for-sale securities	-	-	-	35,755	16,640	98,330	150,725
Held-to-maturity securities	-	2,550,748	3,295,114	3,876,303	3,520	2,000	9,727,685
Advances to customers	2,506,692	4,471,565	4,868,383	11,571,679	9,549,718	276,176	33,244,213
Advances to banks and other financial institutions	26,380	40,032	50,000	-	-	-	116,412
Other assets	36,029	162,806	75,789	6,691	-	1,642,052	1,923,367
Total assets	6,726,502	24,954,329	9,732,688	15,826,418	9,569,878	2,018,987	68,828,802
Liabilities							
Deposits and balances of banks and other financial institutions	71,494	1,454,015	-	-	-	-	1,525,509
Deposits from customers	16,859,032	39,075,349	3,370,024	51,577	-	42,445	59,398,427
Derivative financial instruments	-	-	-	-	-	39,303	39,303
Loan capital	-	-	-	-	965,454	-	965,454
Other liabilities	444,394	537,030	23,404	3,914	-	-	1,008,742
Total liabilities	17,374,920	41,066,394	3,393,428	55,491	965,454	81,748	62,937,435
Net liquidity gap	(10,648,418)	(16,112,065)	6,339,260	15,770,927	8,604,424	1,937,239	5,891,367

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Liquidity risk - continued

Analysis of assets and liabilities by remaining maturity - continued

	THE BANK						
	Repayable on demand HK\$'000	Repayable within 3 months or less (except those repayable on demand) HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2007							
Assets							
Cash and short-term funds	1,910,683	12,753,421	49,368	-	-	-	14,713,472
Placements with banks and other financial institutions	-	2,684,574	399,573	-	-	-	3,084,147
Derivative financial instruments	-	-	-	-	-	60	60
Financial assets at fair value through profit or loss	-	-	54,237	884,846	-	195,075	1,134,158
Available-for-sale securities	-	-	-	121,082	117,960	485,145	724,187
Held-to-maturity securities	-	6,530,013	2,536,112	6,528,610	13,245	-	15,607,980
Advances to customers	2,510,697	4,104,454	4,790,244	10,604,495	9,496,204	215,260	31,721,354
Advances to banks and other financial institutions	1,084	18,000	38,000	-	-	-	57,084
Other assets	74,478	279,687	106,180	3,853	21,914	1,559,244	2,045,356
Total assets	4,496,942	26,370,149	7,973,714	18,142,886	9,649,323	2,454,784	69,087,798
Liabilities							
Deposits and balances of banks and other financial institutions	27,038	429,820	-	-	-	-	456,858
Deposits from customers	15,597,198	42,614,719	2,090,485	13,569	-	7,627	60,323,598
Derivative financial instruments	-	-	-	-	-	114,546	114,546
Loan capital	-	-	-	-	970,871	-	970,871
Other liabilities	528,990	549,466	35,534	4,937	-	-	1,118,927
Total liabilities	16,153,226	43,594,005	2,126,019	18,506	970,871	122,173	62,984,800
Net liquidity gap	(11,656,284)	(17,223,856)	5,847,695	18,124,380	8,678,452	2,332,611	6,102,998

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Fair value of financial assets and liabilities

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

	THE GROUP AND THE BANK			
	Carrying value		Fair value	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
- Held-to-maturity securities	<u>9,727,685</u>	<u>15,607,980</u>	<u>9,658,947</u>	<u>15,144,333</u>
Financial liabilities				
- Loan capital	<u>965,454</u>	<u>970,871</u>	<u>775,000</u>	<u>944,523</u>

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair value of investment in funds are determined based on the net asset values as reported by the fund administrator; and
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Capital management

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Capital management - continued

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

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

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

Capital Adequacy Ratio

	2008	2007
	%	%
Capital adequacy ratio	15.64	14.22
Core capital ratio	12.55	11.52

Capital adequacy ratio was compiled in accordance with the Banking (Capital) Rules under section 98A of the Hong Kong Banking Ordinance for the implementation of the "Basel II" capital accord, which became effective on 1 January 2007. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardized approach" for the calculation of the risk-weighted assets for credit 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, Liu Chong Hing Banking Corporation, Cayman, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited and Card Alliance Company Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

7. FINANCIAL RISK MANAGEMENT - continued

Capital base

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

	2008	2007
	HK\$'000	HK\$'000
Core capital		
Paid-up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,348,465	3,231,676
Profit and loss account	78,501	56,732
Less: Net deferred tax assets	(1)	(2,079)
Total core capital	<u>5,187,282</u>	<u>5,046,646</u>
Other deductions from core capital	(143,357)	(418,739)
Core capital after deductions	<u>5,043,925</u>	<u>4,627,907</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	5,755	5,755
Collective impairment allowances	108,988	116,720
Regulatory reserve for general banking risks	307,000	356,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	(2,415)	10,062
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	–	45,807
Term subordinated debt	965,454	970,871
Total supplementary capital	<u>1,384,782</u>	<u>1,505,215</u>
Other deductions from supplementary capital	(143,357)	(418,740)
Supplementary capital after deductions	<u>1,241,425</u>	<u>1,086,475</u>
Total capital base after deductions	<u><u>6,285,350</u></u>	<u><u>5,714,382</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

8. NET INTEREST INCOME

	2008	2007
	HK\$'000	HK\$'000
Interest income		
Short term funds and placements	606,587	978,648
Investments in securities	476,408	718,519
Loans and advances	<u>1,088,341</u>	<u>1,613,317</u>
	<u>2,171,336</u>	<u>3,310,484</u>
Interest expense		
Deposits and balances from banks and customers	(1,264,888)	(2,275,900)
Loan capital in issue	<u>(42,122)</u>	<u>(63,971)</u>
	<u>(1,307,010)</u>	<u>(2,339,871)</u>
Net interest income	<u>864,326</u>	<u>970,613</u>
Included within interest income		
Interest income on impaired loans and advances	<u>4,415</u>	<u>19,417</u>

Included within interest income and interest expense are HK\$2,156,946,000 (2007: HK\$3,294,634,000) and HK\$1,307,010,000 (2007: HK\$2,339,871,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

9. NET FEE AND COMMISSION INCOME

	2008	2007
	HK\$'000	HK\$'000
Fees and commission income		
Securities dealings	139,266	202,794
Credit lines	8,034	7,618
Trade finance	14,409	15,397
Credit card services	49,214	42,106
Agency services	46,586	47,187
Others	<u>7,711</u>	<u>11,539</u>
Total fees and commission income	<u>265,220</u>	<u>326,641</u>
Less: Fees and commission expense	<u>(48,419)</u>	<u>(43,229)</u>
Net fees and commission income	<u>216,801</u>	<u>283,412</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value		
- fee income	73,911	70,936
- fee expense	<u>(42,648)</u>	<u>(37,051)</u>
	<u>31,263</u>	<u>33,885</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

10. NET (LOSSES) GAINS ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
	HK\$'000	HK\$'000
Net (losses) gains on financial assets at fair value through profit or loss		
- designated at fair value through profit or loss	(123,908)	127,980
- deemed held for trading	<u>75,609</u>	<u>(117,608)</u>
	<u>(48,299)</u>	<u>10,372</u>

11. OTHER OPERATING INCOME

	2008	2007
	HK\$'000	HK\$'000
Dividend income		
Listed investments	9,773	8,979
Unlisted investments	3,080	2,880
Net gains on dealing in foreign currencies	42,985	29,859
Gross rents from investment properties	13,035	11,910
Less: Outgoings	(948)	(961)
Net rental income	12,087	10,949
Safe deposit box rentals	25,702	25,064
Insurance underwriting profit	8,336	10,130
Other banking services income	41,508	41,595
Actuarial gain on retirement scheme	-	21,914
Others	3,095	4,927
	<u>146,566</u>	<u>156,297</u>

12. OPERATING EXPENSES

	2008	2007
	HK\$'000	HK\$'000
Actuarial loss on retirement scheme	21,862	-
Amortisation of prepaid lease payments for land	6,104	5,710
Auditor's remuneration	3,678	3,579
Staff costs		
Salaries and other costs	393,953	355,624
Retirement benefits scheme contributions	29,779	26,620
Total staff costs	423,732	382,244
Depreciation	43,925	36,846
Premises and equipment expenses, excluding depreciation/amortisation		
Rentals and rates for premises	38,896	35,747
Others	22,247	17,842
Other operating expenses	211,987	160,926
	<u>772,431</u>	<u>642,894</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$34,655,000 (2007: HK\$31,246,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2008				2007			
	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors (Hong Kong)								
Liu Lit Man	120	5,437	350	5,907	120	5,454	350	5,924
Liu Lit Mo	70	487	45	602	70	488	45	603
Liu Lit Chi	70	5,536	259	5,865	70	8,328	224	8,622
Don Tit Shing Liu	70	2,484	244	2,798	70	2,198	217	2,485
Lau Wai Man	70	2,328	232	2,630	70	2,053	205	2,328
Wilfred Chun Ning Liu	70	2,345	167	2,582	70	2,215	163	2,448
Tsang Chiu Wing	70	2,118	188	2,376	70	1,845	155	2,070
Wong Har Kar	70	2,020	155	2,245	70	1,827	131	2,028
Frank Shui Sang Jin	44	1,354	135	1,533	70	1,977	196	2,243
Total executive directors	<u>654</u>	<u>24,109</u>	<u>1,775</u>	<u>26,538</u>	<u>680</u>	<u>26,385</u>	<u>1,686</u>	<u>28,751</u>
Non-executive directors (Hong Kong)								
Timothy George Freshwater	100	80	-	180	100	80	-	180
Wang Xiaomong	58	-	-	58	-	-	-	-
Andrew Liu	70	29	-	99	70	11	-	81
Eiichi Yoshikawa	70	-	-	70	33	-	-	33
Christopher Kwun Shing Liu	70	-	-	70	70	-	-	70
Alfred Cheuk Yu Chow	100	-	-	100	100	-	-	100
Meng Qinghui	58	-	-	58	-	-	-	-
Xu Minjie	12	-	-	12	33	-	-	33
Wang Zhi	12	-	-	12	70	-	-	70
Sun Jiakang	-	-	-	-	37	-	-	37
Toshiaki Arai	-	-	-	-	37	-	-	37
Total non-executive directors	<u>550</u>	<u>109</u>	<u>-</u>	<u>659</u>	<u>550</u>	<u>91</u>	<u>-</u>	<u>641</u>
Independent non-executive directors (Hong Kong)								
Robin Yau Hing Chan	100	-	-	100	100	-	-	100
Wanchai Chiranakhorn	100	-	-	100	100	-	-	100
Cheng Yuk Wo	100	-	-	100	100	-	-	100
Andrew Chiu Cheung Ma	100	-	-	100	40	-	-	40
Total independent non-executive directors	<u>400</u>	<u>-</u>	<u>-</u>	<u>400</u>	<u>340</u>	<u>-</u>	<u>-</u>	<u>340</u>
Total	<u>1,604</u>	<u>24,218</u>	<u>1,775</u>	<u>27,597</u>	<u>1,570</u>	<u>26,476</u>	<u>1,686</u>	<u>29,732</u>

The five highest paid individuals in the Group in 2008 and 2007 were all directors of the Bank and details of their emoluments are included in Note 13 above.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

14. TAXATION

	2008	2007
	HK\$'000	HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	11,254	63,824
- under (over) provision in prior years	325	(557)
	<u>11,579</u>	<u>63,267</u>
Overseas taxation	6,027	3,724
Deferred tax (<i>Note 30</i>)	11,069	(2,009)
	<u>28,675</u>	<u>64,982</u>

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

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

	2008	2007
	HK\$'000	HK\$'000
Profit before taxation	89,295	570,014
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	14,734	99,752
Tax effect of share of loss (profit) of jointly controlled entities	14,890	(11,563)
Tax effect of expenses not deductible for tax purpose	20,044	6,316
Tax effect of income not taxable for tax purpose	(21,746)	(27,133)
Utilisation of tax losses previously not recognised	-	(437)
Under (over) provision in prior years	1,258	(557)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(550)	(1,541)
Effect of changes in tax rates of deferred tax	45	-
Others	-	145
Tax charge for the year	<u>28,675</u>	<u>64,982</u>

15. DIVIDENDS

	2008	2007
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
2008 Interim - HK\$0.15 (2007: HK\$0.21) per share	65,250	91,350
2007 Final - HK\$0.44 (2006: HK\$0.44) per share	191,400	191,400
	<u>256,650</u>	<u>282,750</u>

The final dividend of HK\$0.05 per share in respect of the current financial year (2007: HK\$0.44) has been proposed by the directors and is subject to approval by the shareholders in the next annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to shareholders of HK\$60,620,000 (2007: HK\$505,032,000) and on 435,000,000 (2007: 435,000,000) ordinary shares in issue during the year.

17. CASH AND SHORT-TERM FUNDS

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	4,087,415	1,833,309	4,082,297	1,833,210
Money at call and short notice	13,180,425	9,776,851	13,143,162	9,726,445
Exchange fund bills	392,087	3,153,817	392,087	3,153,817
	<u>17,659,927</u>	<u>14,763,977</u>	<u>17,617,546</u>	<u>14,713,472</u>

18. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP AND THE BANK					
	2008			2007		
	Notional amount	Fair values		Notional amount	Fair values	
HK\$'000	Assets	Liabilities	HK\$'000	Assets	Liabilities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives held for trading						
- Foreign currency related contracts	194,475	429	460	36,051	60	276
- Interest rate swaps	990,750	-	38,843	1,019,568	-	112,746
- Currency swaps	-	-	-	55,840	-	1,524
		<u>429</u>	<u>39,303</u>		<u>60</u>	<u>114,546</u>

The replacement costs and credit risk-weighted amounts of derivative exposures are as follows:

	THE GROUP AND THE BANK					
	2008			2007		
	Notional amount	Replacement cost	Credit risk-weighted amount	Notional amount	Replacement cost	Credit risk-weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts	194,475	429	876	91,891	60	626
Interest rate contracts	990,750	-	730	1,019,568	-	1,529
		<u>429</u>	<u>1,606</u>		<u>60</u>	<u>2,155</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

18. DERIVATIVE FINANCIAL INSTRUMENTS - continued

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised on balance sheets at fair value.

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

The derivative financial instruments do not qualify for hedge accounting for financial reporting but are managed in conjunction with the financial instruments designated at fair value through profit or loss.

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

19. INVESTMENTS IN SECURITIES

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
2008										
Equity securities:										
Listed in Hong Kong	113	-	76,976	-	77,089	-	-	35,142	-	35,142
Listed overseas	-	-	4,191	-	4,191	-	-	4,191	-	4,191
	113	-	81,167	-	81,280	-	-	39,333	-	39,333
Unlisted	-	-	62,965	-	62,965	-	-	58,997	-	58,997
	113	-	144,132	-	144,245	-	-	98,330	-	98,330
Debt securities:										
Certificates of deposit	-	-	-	558,720	558,720	-	-	-	558,720	558,720
Structured products	-	680,567	-	-	680,567	-	680,567	-	-	680,567
Other debt securities - Unlisted	-	-	52,395	9,168,965	9,221,360	-	-	52,395	9,168,965	9,221,360
	-	680,567	52,395	9,727,685	10,460,647	-	680,567	52,395	9,727,685	10,460,647
Total:										
Listed in Hong Kong	113	-	76,976	-	77,089	-	-	35,142	-	35,142
Listed overseas	-	-	4,191	-	4,191	-	-	4,191	-	4,191
Unlisted	-	680,567	115,360	9,727,685	10,523,612	-	680,567	111,392	9,727,685	10,519,644
	113	680,567	196,527	9,727,685	10,604,892	-	680,567	150,725	9,727,685	10,558,977
Market value of listed securities:										
Listed in Hong Kong	113	-	76,976	-	77,089	-	-	35,142	-	35,142
Listed overseas	-	-	4,191	-	4,191	-	-	4,191	-	4,191
	113	-	81,167	-	81,280	-	-	39,333	-	39,333
As analysed by issuing entities:										
Central government and central banks	-	-	-	289,181	289,181	-	-	-	289,181	289,181
Public sector entities	-	-	-	67,547	67,547	-	-	-	67,547	67,547
Bank and other financial institutions	-	275,085	42,615	8,033,861	8,351,561	-	275,085	35,755	8,033,861	8,344,701
Corporate entities	113	405,482	119,439	1,337,096	1,862,130	-	405,482	84,465	1,337,096	1,827,043
Others	-	-	34,473	-	34,473	-	-	30,505	-	30,505
	113	680,567	196,527	9,727,685	10,604,892	-	680,567	150,725	9,727,685	10,558,977

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

19. INVESTMENTS IN SECURITIES - continued

Included in financial assets designated at fair value through profit or loss are primarily:

- i) In 2008 and 2007, structured products which contain embedded derivatives such as options and credit default swaps that would otherwise have been separately accounted for; and
- ii) In 2007, bond funds (classified as “other debt securities” below) are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis, in accordance with investment strategy. Information about the bond funds is provided internally on that basis to the Group’s key management personnel.

Included in available-for-sale securities are financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,219,000 (2007: HK\$568,212,000). Impairment losses of HK\$99,579,000 (2007: HK\$369,627,000) has been recognised for these investments. All other available-for-sale securities and investments in securities are neither past due nor impaired.

Certain held-to-maturity certificates of deposit of approximately HK\$15,500,000 (2007: HK\$25,170,000) 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.

	THE GROUP					THE BANK				
	Financial assets at fair value through profit or loss					Financial assets at fair value through profit or loss				
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
2007										
Equity securities:										
Listed in Hong Kong	264	-	220,255	-	220,519	-	-	70,390	-	70,390
Listed overseas	-	-	8,614	-	8,614	-	-	8,614	-	8,614
	264	-	228,869	-	229,133	-	-	79,004	-	79,004
Unlisted	-	-	408,750	-	408,750	-	-	406,141	-	406,141
	264	-	637,619	-	637,883	-	-	485,145	-	485,145
Debt securities:										
Certificates of deposit	-	-	-	1,484,139	1,484,139	-	-	-	1,484,139	1,484,139
Structured products	-	939,082	-	-	939,082	-	939,082	-	-	939,082
Other debt securities - Unlisted	-	195,076	239,042	14,123,841	14,557,959	-	195,076	239,042	14,123,841	14,557,959
	-	1,134,158	239,042	15,607,980	16,981,180	-	1,134,158	239,042	15,607,980	16,981,180
Total:										
Listed in Hong Kong	264	-	220,255	-	220,519	-	-	70,390	-	70,390
Listed overseas	-	-	8,614	-	8,614	-	-	8,614	-	8,614
Unlisted	-	1,134,158	647,792	15,607,980	17,389,930	-	1,134,158	645,183	15,607,980	17,387,321
	264	1,134,158	876,661	15,607,980	17,619,063	-	1,134,158	724,187	15,607,980	17,466,325
Market value of listed securities:										
Listed in Hong Kong	264	-	220,255	-	220,519	-	-	70,390	-	70,390
Listed overseas	-	-	8,614	-	8,614	-	-	8,614	-	8,614
	264	-	228,869	-	229,133	-	-	79,004	-	79,004
As analysed by issuing entities:										
Central government and central banks	-	118,393	-	534,442	652,835	-	118,393	-	534,442	652,835
Public sector entities	-	-	-	11,245	11,245	-	-	-	11,245	11,245
Bank and other financial institutions	56	475,282	272,315	15,060,293	15,807,946	-	475,282	210,326	15,060,293	15,745,901
Corporate entities	208	535,484	198,204	2,000	735,896	-	535,484	107,719	2,000	645,203
Others	-	4,999	406,142	-	411,141	-	4,999	406,142	-	411,141
	264	1,134,158	876,661	15,607,980	17,619,063	-	1,134,158	724,187	15,607,980	17,466,325

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for the year ended 31 December 2008

20. ADVANCES AND OTHER ACCOUNTS

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
Bills receivable	334,215	509,729	334,215	509,729
Trade bills	165,293	164,557	165,293	164,557
Other advances to customers	32,745,119	31,047,597	32,744,705	31,047,068
	<u>33,244,627</u>	<u>31,721,883</u>	<u>33,244,213</u>	<u>31,721,354</u>
Interest receivable	138,721	286,187	138,452	285,803
Impairment allowances				
- Individually assessed	(5,799)	(17,876)	(5,799)	(17,876)
- Collectively assessed	(108,988)	(116,720)	(108,984)	(116,714)
	<u>33,268,561</u>	<u>31,873,474</u>	<u>33,267,882</u>	<u>31,872,567</u>
Advances to banks and other financial institutions	116,412	57,084	116,412	57,084
	<u>33,384,973</u>	<u>31,930,558</u>	<u>33,384,294</u>	<u>31,929,651</u>
Other accounts	249,869	565,332	93,039	163,789
	<u>33,634,842</u>	<u>32,495,890</u>	<u>33,477,333</u>	<u>32,093,440</u>

Included in the “Advances to banks and other financial institutions” of the Group and the Bank is an amount of approximately HK\$116,412,000 (2007: HK\$57,084,000) placed as reserve funds with the financial institutions in the People’s Republic of China by the Shantou Branch of the Bank in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the People’s Republic of China.

Included in the “other accounts” of the Group and the Bank is retirement benefits scheme assets of HK\$52,000 (2007: HK\$21,914,000) due to the excess of scheme assets over defined benefit obligations, as disclosed in Note 35.

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for the year ended 31 December 2008

20. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	THE GROUP			THE BANK		
	Individual	Collective	Total	Individual	Collective	Total
	assessment	assessment		assessment	assessment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2008	17,876	116,720	134,596	17,876	116,714	134,590
Increase in impairment allowances	144,819	-	144,819	144,819	-	144,819
Amounts reversed	(45,795)	(7,690)	(53,485)	(45,795)	(7,688)	(53,483)
Amounts written off	(141,853)	-	(141,853)	(141,853)	-	(141,853)
Recoveries of advances written off in previous years	35,167	-	35,167	35,167	-	35,167
Unwinding effect of discount rate	(4,415)	-	(4,415)	(4,415)	-	(4,415)
Exchange difference	-	(42)	(42)	-	(42)	(42)
Balance at 31 December 2008	<u>5,799</u>	<u>108,988</u>	<u>114,787</u>	<u>5,799</u>	<u>108,984</u>	<u>114,783</u>

	THE GROUP			THE BANK		
	Individual	Collective	Total	Individual	Collective	Total
	assessment	assessment		assessment	assessment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2007	32,161	104,464	136,625	32,161	104,447	136,608
Increase in impairment allowances	99,889	12,238	112,127	99,889	12,249	112,138
Amounts reversed	(29,205)	-	(29,205)	(29,205)	-	(29,205)
Amounts written off	(87,010)	-	(87,010)	(87,010)	-	(87,010)
Recoveries of advances written off in previous years	21,458	-	21,458	21,458	-	21,458
Unwinding effect of discount rate	(19,417)	-	(19,417)	(19,417)	-	(19,417)
Exchange difference	-	18	18	-	18	18
Balance at 31 December 2007	<u>17,876</u>	<u>116,720</u>	<u>134,596</u>	<u>17,876</u>	<u>116,714</u>	<u>134,590</u>

Details of the impaired loans are as follows:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross impaired loans	100,574	215,820	100,574	215,820
Less: Impairment allowances under individual assessment	<u>(5,799)</u>	<u>(17,876)</u>	<u>(5,799)</u>	<u>(17,876)</u>
Net impaired loans	<u>94,775</u>	<u>197,944</u>	<u>94,775</u>	<u>197,944</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.30%</u>	<u>0.68%</u>	<u>0.30%</u>	<u>0.68%</u>
Market value of collateral pledged	<u>470,173</u>	<u>519,503</u>	<u>470,173</u>	<u>519,503</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

21. INVESTMENTS IN SUBSIDIARIES

(i)	2008	2007
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>348,323</u>	<u>333,323</u>

Details of the principal subsidiaries as at 31 December 2008 are as follows:

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

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

(ii) Amounts due from subsidiaries

	2008	2007
	HK\$'000	HK\$'000
Amounts due from subsidiaries	<u>3,711</u>	<u>3,407</u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

(i)	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	21,500	56,500
Share of increases in net assets, net of dividends received	82,999	142,230	–	–
	82,999	142,230	21,500	56,500

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

As at 31 December 2008, the Group had interests in the following jointly controlled entities:

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

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

	2008	2007
	HK\$'000	HK\$'000
Assets	624,244	573,233
Liabilities	(541,245)	(431,003)
Income	61,602	105,521
Expense	(151,842)	(39,447)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES - continued

(ii) Loan to a jointly controlled entity

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loan to a jointly controlled entity	<u>–</u>	<u>5,267</u>	<u>–</u>	<u>5,267</u>

23. INVESTMENT PROPERTIES

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.

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	60,241	82,250	35,900	64,250
Addition	30,000	–	30,000	–
Net increase in fair value recognised in the income statement	39,560	14,391	38,150	8,050
Disposals	–	(36,400)	–	(36,400)
At 31 December	<u>129,801</u>	<u>60,241</u>	<u>104,050</u>	<u>35,900</u>

Investment properties owned by the Group and by the Bank were revalued at 31 December 2008 on an open market value basis by Vigers Hong Kong Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The investment properties are rented out under operating leases.

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

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties				
Held in Hong Kong on long-term lease (over 50 years unexpired)	32,550	14,500	32,550	14,500
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	71,500	21,400	71,500	21,400
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	25,751	24,341	–	–
	<u>129,801</u>	<u>60,241</u>	<u>104,050</u>	<u>35,900</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

24. PROPERTY AND EQUIPMENT

	THE GROUP			THE BANK		
	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST						
At 1 January 2008	308,345	425,175	733,520	304,545	378,551	683,096
Additions	8,538	59,129	67,667	8,538	54,649	63,187
Disposals	-	(6,567)	(6,567)	-	(4,538)	(4,538)
Exchange adjustments	-	(3)	(3)	-	(3)	(3)
At 31 December 2008	<u>316,883</u>	<u>477,734</u>	<u>794,617</u>	<u>313,083</u>	<u>428,659</u>	<u>741,742</u>
ACCUMULATED DEPRECIATION						
At 1 January 2008	27,641	259,006	286,647	27,634	229,863	257,497
Provided for the year	6,563	37,362	43,925	6,466	32,366	38,832
Eliminated on disposals	-	(5,676)	(5,676)	-	(3,656)	(3,656)
Exchange adjustments	-	(3)	(3)	-	(3)	(3)
At 31 December 2008	<u>34,204</u>	<u>290,689</u>	<u>324,893</u>	<u>34,100</u>	<u>258,570</u>	<u>292,670</u>
CARRYING AMOUNTS						
At 31 December 2008	<u>282,679</u>	<u>187,045</u>	<u>469,724</u>	<u>278,983</u>	<u>170,089</u>	<u>449,072</u>

	THE GROUP			THE BANK		
	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST						
At 1 January 2007	284,080	351,348	635,428	284,080	316,559	600,639
Additions	24,265	78,785	103,050	20,465	66,816	87,281
Disposals	-	(4,962)	(4,962)	-	(4,828)	(4,828)
Exchange adjustments	-	4	4	-	4	4
At 31 December 2007	<u>308,345</u>	<u>425,175</u>	<u>733,520</u>	<u>304,545</u>	<u>378,551</u>	<u>683,096</u>
ACCUMULATED DEPRECIATION						
At 1 January 2007	21,562	233,041	254,603	21,562	206,962	228,524
Provided for the year	6,079	30,767	36,846	6,072	27,569	33,641
Eliminated on disposals	-	(4,803)	(4,803)	-	(4,669)	(4,669)
Exchange adjustments	-	1	1	-	1	1
At 31 December 2007	<u>27,641</u>	<u>259,006</u>	<u>286,647</u>	<u>27,634</u>	<u>229,863</u>	<u>257,497</u>
CARRYING AMOUNTS						
At 31 December 2007	<u>280,704</u>	<u>166,169</u>	<u>446,873</u>	<u>276,911</u>	<u>148,688</u>	<u>425,599</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

24. PROPERTY AND EQUIPMENT - continued

The carrying amount of buildings shown above comprise:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold properties				
Held in Hong Kong on long-term lease (over 50 years unexpired)	211,918	212,036	211,918	211,885
Held in Hong Kong on medium-term lease (10-50 years unexpired)	63,498	65,450	59,802	61,808
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	7,263	3,218	7,263	3,218
	<u>282,679</u>	<u>280,704</u>	<u>278,983</u>	<u>276,911</u>

25. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments comprise:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST				
In Hong Kong held on:				
Leases of over 50 years	125,212	125,548	649,908	650,932
Leases of between 10 to 50 years	198,932	204,592	188,136	193,442
Outside Hong Kong held on:				
Leases of between 10 to 50 years	3,983	4,091	3,983	4,091
	<u>328,127</u>	<u>334,231</u>	<u>842,027</u>	<u>848,465</u>
Net book value at 1st January	334,231	316,535	848,465	842,475
Additions	-	28,171	-	17,071
Amortisation of prepaid operating lease payments	(6,104)	(5,710)	(6,438)	(6,316)
Disposals	-	(4,765)	-	(4,765)
	<u>328,127</u>	<u>334,231</u>	<u>842,027</u>	<u>848,465</u>
Analysed as:				
Current portion	6,104	5,710	6,438	6,316
Non-current portion	322,023	328,521	835,589	842,149
Total	<u>328,127</u>	<u>334,231</u>	<u>842,027</u>	<u>848,465</u>

The allocation of lease payments between leasehold land and building elements was performed by Vigers Hong Kong Limited, independent professionally qualified valuers.

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for the year ended 31 December 2008

26. DEPOSITS FROM CUSTOMERS

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	3,004,761	2,992,184	3,004,761	2,992,184
Savings deposits	13,835,350	12,584,043	13,835,350	12,584,043
Time, call and notice deposits	42,561,549	44,751,210	42,558,316	44,747,371
	<u>59,401,660</u>	<u>60,327,437</u>	<u>59,398,427</u>	<u>60,323,598</u>

Included in the balances is an aggregate amount of approximately HK\$147,110,000 (2007: HK\$174,430,000) representing deposits of companies and their subsidiaries having significant influence on the Group.

27. LOAN CAPITAL

	THE GROUP AND THE BANK	
	2008	2007
	HK\$'000	HK\$'000
US\$125 million callable floating rate subordinated notes due 2016	<u>965,454</u>	<u>970,871</u>

On 15 December 2006 the Bank issued subordinated notes qualifying as tier 2 capital with face value of US\$125,000,000.

The above subordinated notes will mature on 16 December 2016 and are redeemable at the option of the Group in December 2011 at their principal amount.

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

28. SHARE CAPITAL

	2008 & 2007
	HK\$'000
Authorised:	
600,000,000 shares of HK\$0.50 each	<u>300,000</u>
Issued and fully paid:	
435,000,000 shares of HK\$0.50 each	<u>217,500</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

29. RESERVES

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE BANK							
At 1 January 2008	1,542,817	50,512	1,378,500	335	356,000	2,557,334	5,885,498
Revaluation losses, net	-	(229,067)	-	-	-	-	(229,067)
Exchange differences arising from translation of foreign operations	-	-	-	7,725	-	-	7,725
Deferred taxation arising from revaluation movement (<i>Note 30</i>)	-	5,043	-	-	-	-	5,043
Net expense recognised directly in equity	-	(224,024)	-	7,725	-	-	(216,299)
Profit for the year	-	-	-	-	-	91,005	91,005
Reversal of reserves upon impairment	-	256,757	-	-	-	-	256,757
Reversal of reserves upon disposal	-	(86,444)	-	-	-	-	(86,444)
Total recognised income for the year	-	(53,711)	-	7,725	-	91,005	45,019
Interim dividend paid	-	-	-	-	-	(65,250)	(65,250)
Final dividend paid	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve	-	-	-	-	(49,000)	49,000	-
At 31 December 2008	<u>1,542,817</u>	<u>(3,199)</u>	<u>1,378,500</u>	<u>8,060</u>	<u>307,000</u>	<u>2,440,689</u>	<u>5,673,867</u>
At 1 January 2007	1,542,817	73,491	1,378,500	98	165,000	2,590,750	5,750,656
Revaluation losses, net	-	(328,073)	-	-	-	-	(328,073)
Exchange differences arising from translation of foreign operations	-	-	-	237	-	-	237
Deferred taxation arising from revaluation movement (<i>Note 30</i>)	-	8,423	-	-	-	-	8,423
Net expense recognised directly in equity	-	(319,650)	-	237	-	-	(319,413)
Profit for the year	-	-	-	-	-	440,334	440,334
Reversal of reserves upon impairment	-	369,627	-	-	-	-	369,627
Reversal of reserves upon disposal	-	(72,956)	-	-	-	-	(72,956)
Total recognised income for the year	-	(22,979)	-	237	-	440,334	417,592
Interim dividend paid	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid	-	-	-	-	-	(191,400)	(191,400)
Earmark of retained profits as regulatory reserve	-	-	-	-	191,000	(191,000)	-
At 31 December 2007	<u>1,542,817</u>	<u>50,512</u>	<u>1,378,500</u>	<u>335</u>	<u>356,000</u>	<u>2,557,334</u>	<u>5,885,498</u>

The Bank's reserves available for distribution to shareholders as at 31 December 2008 comprised retained profits of HK\$2,440,689,000 (2007: HK\$2,557,334,000) and general reserve of HK\$1,378,500,000 (2007: HK\$1,378,500,000).

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

30. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Total HK\$'000
THE GROUP					
At 1 January 2008	12,282	(19,726)	6,149	16,569	15,274
Charge to consolidated income statement for the year (Note 14)	3,363	1,298	6,408	–	11,069
Credit to equity for the year	–	–	–	(20,060)	(20,060)
At 31 December 2008	<u>15,645</u>	<u>(18,428)</u>	<u>12,557</u>	<u>(3,491)</u>	<u>6,283</u>
At 1 January 2007	10,403	(17,263)	7,574	27,125	27,839
Charge (credit) to consolidated income statement for the year (Note 14)	1,879	(2,463)	(1,425)	–	(2,009)
Credit to equity for the year	–	–	–	(10,556)	(10,556)
At 31 December 2007	<u>12,282</u>	<u>(19,726)</u>	<u>6,149</u>	<u>16,569</u>	<u>15,274</u>
THE BANK					
At 1 January 2008	9,283	(19,725)	4,188	4,177	(2,077)
Charge to income statement for the year	3,511	1,298	6,055	–	10,864
Credit to equity for the year	–	–	–	(5,043)	(5,043)
At 31 December 2008	<u>12,794</u>	<u>(18,427)</u>	<u>10,243</u>	<u>(866)</u>	<u>3,744</u>
At 1 January 2007	10,403	(17,260)	7,574	12,600	13,317
Credit to income statement for the year	(1,120)	(2,465)	(3,386)	–	(6,971)
Credit to equity for the year	–	–	–	(8,423)	(8,423)
At 31 December 2007	<u>9,283</u>	<u>(19,725)</u>	<u>4,188</u>	<u>4,177</u>	<u>(2,077)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

31. SHARE OPTION SCHEME

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

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

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

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

32. LOANS TO OFFICERS

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

	THE GROUP AND THE BANK	
	2008	2007
	HK\$'000	HK\$'000
Aggregate balance of all relevant loans outstanding at the balance sheet date	<u>91,177</u>	<u>85,172</u>
Maximum aggregate balance of relevant loans during the year	<u>114,996</u>	<u>172,658</u>

The loans have no fixed repayment terms and the applicable interest rate ranges from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$90,053,000 (2007: HK\$83,683,000) with collateral.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

33. IMPAIRMENT LOSS ON GOODWILL

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

For the year ended 31 December 2008, management has reviewed goodwill for impairment. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

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

Value in use is derived at by discounting the expected future cash flows at 12% discount rate. Management's financial model assumes a growth in underwriting profit of 8% per annum during the first 5 years. Cash flows beyond five years are extrapolated using a terminal growth rate of 3.5%. A goodwill impairment loss of HK\$20,000,000 (2007: HK\$30,000,000), representing the excess of the carrying amount above the value in use, has been recognised for the year ended 31 December 2008.

34. OFF-BALANCE SHEET EXPOSURES

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments				
- contractual amounts				
Direct credit substitutes	647,442	643,264	647,442	643,264
Trade-related contingencies	366,620	595,878	366,620	595,878
Forward asset purchases	13,548	32,926	13,548	32,926
Other commitments:				
Which are unconditionally cancellable without prior notice	4,703,352	5,761,482	4,703,352	5,761,482
With an original maturity of one year and under	8,105,056	8,632,587	8,105,056	8,632,587
With an original maturity of over one year	1,721,251	2,212,847	1,721,251	2,212,847
Lease commitments	73,506	65,264	70,398	62,588
	<u>15,630,775</u>	<u>17,944,248</u>	<u>15,627,667</u>	<u>17,941,572</u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

34. OFF-BALANCE SHEET EXPOSURES - continued

At the balance sheet dates, the Group had commitments for future minimum lease payments under these non-cancellable operating leases which fall due as follows:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	28,532	28,150	26,941	26,288
In the second to fifth years inclusive	36,874	36,839	35,413	36,025
Over five years	1,043	275	1,043	275
	<u>66,449</u>	<u>65,264</u>	<u>63,397</u>	<u>62,588</u>

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

Capital commitments outstanding at the balance sheet dates are as follows:

	THE GROUP		THE BANK	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>13,548</u>	<u>32,926</u>	<u>13,548</u>	<u>32,926</u>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$2,990,733,000 (2007: HK\$3,321,625,000).

At the balance sheet date, the Group and the Bank as lessor had contracted with tenants for the following future minimum lease payments:

	THE GROUP AND THE BANK	
	2008	2007
	HK\$'000	HK\$'000
Within one year	1,148	2
In the second to fifth years inclusive	38	-
	<u>1,186</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

35. RETIREMENT BENEFITS SCHEME

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

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

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

At the date of the latest formal independent actuarial valuation made on 31 December 2008, the market value of the ORSO (Defined benefit) Scheme was HK\$52,000.

Net benefit income:

	2008	2007
	HK\$'000	HK\$'000
Current service cost	(94)	(84)
Interest cost on benefit obligation	(838)	(1,014)
Expected return on plan assets	2,292	1,956
Actuarial (loss) gain recognised in the year	(23,222)	9,343
Net benefit (cost) income	<u>(21,862)</u>	<u>10,201</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

35. RETIREMENT BENEFITS SCHEME - continued

The amount included in the consolidated balance sheet arising from Group's defined benefit retirement benefit plan is as follows:

	2008	2007
	HK\$'000	HK\$'000
Present value of defined benefit obligation	(25,450)	(25,121)
Fair value of plan assets	25,502	47,035
Retirement benefit asset	52	21,914

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

	2008	2007
	HK\$'000	HK\$'000
Opening defined benefit obligation	25,121	28,742
Interest cost	94	84
Current service cost	838	1,014
Actuarial gains on obligations	(2,456)	(2,211)
Benefits forfeited (paid)	1,853	(2,508)
Closing defined benefit obligation	25,450	25,121

Changes in fair value of plan assets are as follows:

	2008	2007
	HK\$'000	HK\$'000
Opening fair value of plan assets	47,035	40,455
Expected return	2,292	1,956
Actuarial (losses) gains on plan assets	(21,369)	7,132
Benefits paid	(2,456)	(2,508)
Closing fair value of plan assets	25,502	47,035

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

35. RETIREMENT BENEFITS SCHEME - continued

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

	2008	2007
	%	%
Cash	47	29
Equities	53	71

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

The actual return on plan assets for 2008 was HK\$19,077,000 (2007: HK\$9,088,000).

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

	2008	2007
	HK\$'000	HK\$'000
Deposits with the Bank	11,756	13,270

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

	2008	2007
	%	%
Discount rate	2.8	3.5
Expected rate of return on plan assets	5.0	5.0
Expected rate of salary increase	3.0	3.0

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

36. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest and rental expenses	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and their subsidiaries	<u>7,030</u>	<u>11,033</u>	<u>26,567</u>	<u>16,769</u>
Jointly controlled entities	<u>18,788</u>	<u>13,480</u>	<u>6,624</u>	<u>12,901</u>
Directors and their associates	<u>24,046</u>	<u>20,100</u>	<u>14,202</u>	<u>26,638</u>

The above transactions were carried out at market rates.

At the balance sheet date, the Group and the Bank had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing enterprises having significant influence on the Bank and subsidiaries	<u>–</u>	<u>–</u>	<u>147,110</u>	<u>174,430</u>
Jointly controlled entities	<u>59,743</u>	<u>5,267</u>	<u>148,992</u>	<u>277,015</u>
Directors and their associates	<u>1,695,469</u>	<u>991,440</u>	<u>621,189</u>	<u>603,806</u>

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

36. RELATED PARTY TRANSACTIONS - continued

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

	Interest, commission and rental income		Interest and rental expenses		Computer service expense		Dividend income	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>7,802</u>	<u>8,852</u>	<u>18,222</u>	<u>21,314</u>	<u>26,676</u>	<u>27,700</u>	<u>48,000</u>	<u>230,000</u>

The above transactions were carried out at market rates.

At the balance sheet date, the Bank had the following material outstanding balances with subsidiaries:

	Amounts due from		Amounts due to	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>3,711</u>	<u>3,407</u>	<u>704,828</u>	<u>658,146</u>

The above outstanding balances are unsecured, non-interest bearing and, in the opinion of the directors, are repayable within three months.

Compensation of key management personnel

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

	THE GROUP AND THE BANK	
	2008	2007
	HK\$'000	HK\$'000
Short-term benefits	54,769	49,787
Post employment benefits	<u>3,996</u>	<u>3,324</u>
	<u>58,765</u>	<u>53,111</u>

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

37. CONTINGENT LIABILITY

From time to time as part of its product offerings to customers, the Bank sells and distributes third party investment products, including the minibond series related to Lehman Brothers (the "Minibonds"). Owing to the continuing developments relating to the Minibonds incident and some of such developments are not wholly within the control of the Bank, it is difficult to assess at this stage whether potential outcomes will have any significant adverse impact on the Bank.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2008

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

1. SPECIALISED COMMITTEES

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

(i) Executive Committee

The Executive Committee comprises all executive directors of the Bank.

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

(ii) Executive Management Committee

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

(iii) Executive Loans Committee

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

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

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1. SPECIALISED COMMITTEES - continued

(iv) Loans Committee

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

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

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

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

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

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

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

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

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

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2. MANAGEMENT OF RISKS

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

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

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

(i) Operational and legal risk

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

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

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

(ii) Reputation risk

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

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

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

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3. SEGMENTAL INFORMATION

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

4. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

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

The Group's collective impairment allowances, individual impairment allowance, gross impaired advances, new impairment allowances and advances written off during the year in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	31 December 2008						
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Gross impaired advances HK\$'000	Impairment allowances during the year HK\$'000	Advances written off during the year HK\$'000	
Loans for use in Hong Kong							
Industrial, commercial and financial							
- Property investment	7,561,256	-	-	-	4,218	4,218	
- Others	5,296,954	14,241	145	26,646	33,398	33,010	
Individuals							
- Loans for the purchase of other residential properties	5,456,764	3,503	-	-	309	309	
Loans for use outside Hong Kong	3,156,339	55,942	1,516	64,423	53,587	49,144	
	31 December 2007						
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Gross impaired advances HK\$'000	Impairment allowances during the year HK\$'000	Advances written off during the year HK\$'000	
Loans for use in Hong Kong							
Industrial, commercial and financial							
- Property investment	6,506,746	2,333	-	19,262	3,065	3,000	
- Others	4,829,971	10,467	84	58,383	16,166	16,065	
Individuals							
- Loans for the purchase of other residential properties	4,704,769	4,864	284	284	254	103	
Loans for use outside Hong Kong	3,530,335	54,289	1,004	113,904	32,621	35,500	

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5. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

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

	31 December 2008				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	31,321,381	60,449	45,200	4,283	96,699
People's Republic of China	382,921	55,374	55,374	1,516	3,123
Macau	465,661	-	-	-	3,741
America	332,277	-	-	-	5,425
Others	742,387	-	-	-	-
	<u>33,244,627</u>	<u>115,823</u>	<u>100,574</u>	<u>5,799</u>	<u>108,988</u>

	31 December 2007				
	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	29,035,137	201,750	118,916	16,872	98,593
People's Republic of China	185,861	96,904	96,904	1,004	2,450
Macau	1,183,673	-	-	-	10,215
America	327,637	-	-	-	5,462
Others	989,575	-	-	-	-
	<u>31,721,883</u>	<u>298,654</u>	<u>215,820</u>	<u>17,876</u>	<u>116,720</u>

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6. CROSS-BORDER CLAIMS

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

	2008			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	11,242,497	123,761	1,012,291	12,378,549
- of which - Australia	3,758,143	748	-	3,758,891
North America	4,568,927	221,934	1,797,634	6,588,495
Europe	12,287,010	1,912	188,463	12,477,385
- of which - United Kingdom	3,055,283	408	6,451	3,062,142
- of which - Germany	<u>1,420,110</u>	<u>1,319</u>	<u>11,331</u>	<u>1,432,760</u>
	2007			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	11,066,557	83,332	1,288,720	12,438,609
- of which - Australia	3,550,345	1,625	1,888	3,553,858
North America	2,475,330	16,684	1,434,847	3,926,861
Europe	13,133,599	2,433	769,382	13,905,414
- of which - United Kingdom	2,753,192	1,008	307,940	3,062,140
- of which - Germany	<u>2,704,841</u>	<u>1,304</u>	<u>3,754</u>	<u>2,709,899</u>

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7. CURRENCY RISK

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

	2008		Total
	US\$	RMB	
Hong Kong dollars equivalents (HK\$'000)			
Spot assets	14,503,430	1,018,686	15,522,116
Spot liabilities	(14,382,115)	(1,014,101)	(15,396,216)
Forward purchases	103,447	1,588	105,035
Forward sales	(213,210)	–	(213,210)
Net long position	<u>11,552</u>	<u>6,173</u>	<u>17,725</u>
		RMB	MOP
Net structural position		<u>105,169</u>	<u>48,545</u>
		2007	
	US\$	AUD	Total
Hong Kong dollars equivalents (HK\$'000)			
Spot assets	14,600,807	2,475,049	17,075,856
Spot liabilities	(14,571,481)	(2,475,105)	(17,046,586)
Forward purchases	69,167	12,740	81,907
Forward sales	(78,616)	(9,297)	(87,913)
Net long position	<u>19,877</u>	<u>3,387</u>	<u>23,264</u>
		RMB	MOP
Net structural position		<u>107,230</u>	<u>48,545</u>

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8. OVERDUE AND RESCHEDULED ASSETS

	2008	
	Gross	Percentage
	amount of	to total
	advances	advances
	HK\$'000	%
Advances overdue for		
- 6 months or less but over 3 months	5,225	0.0
- 1 year or less but over 6 months	4,505	0.0
- over 1 year	<u>106,093</u>	<u>0.3</u>
Total overdue advances	<u>115,823</u>	<u>0.3</u>
Rescheduled advances	<u>169,090</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>4,999</u>	

	2007	
	Gross	Percentage
	amount of	to total
	advances	advances
	HK\$'000	%
Advances overdue for		
- 6 months or less but over 3 months	22,180	0.1
- 1 year or less but over 6 months	12,697	0.1
- over 1 year	<u>263,777</u>	<u>0.8</u>
Total overdue advances	<u>298,654</u>	<u>1.0</u>
Rescheduled advances	<u>183,825</u>	<u>0.6</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>4,898</u>	

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

	2008	2007
	HK\$'000	HK\$'000
Covered portion of overdue loans and advances	92,444	290,558
Uncovered portion of overdue loans and advances	<u>23,379</u>	<u>8,096</u>
	<u>115,823</u>	<u>298,654</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>572,188</u>	<u>805,823</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 31 December 2008 and 31 December 2007, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2008 amounted to HK\$26,674,000 (2007: HK\$87,570,000).

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9. NON-BANK MAINLAND EXPOSURES

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

	31 December 2007			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Types of counterparties				
Mainland entities	746,276	390,346	1,136,622	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,490,540	1,591,485	4,082,025	1,000
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	2,221	–	2,221	–
	<u>3,239,037</u>	<u>1,981,831</u>	<u>5,220,868</u>	<u>1,000</u>

10. LIQUIDITY RATIO

	2008 %	2007 %
Average liquidity ratio for the year	<u>50.48</u>	<u>55.82</u>

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

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11. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS

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

(i) Capital charge for credit risk

	Capital requirement	
	2008 HK\$'000	2007 HK\$'000
Sovereign exposures	422	1,775
Public sector entity exposures	17,103	16,647
Bank exposures	506,260	502,133
Securities firm exposures	10,316	29,082
Corporate exposures	1,588,782	1,563,442
Cash items	7,830	8,308
Regulatory retail exposures	14,399	18,468
Residential mortgage loans	336,492	296,859
Other exposures which are not past due exposures	294,604	297,349
Past due exposures	<u>24,989</u>	<u>40,780</u>
Total capital charge for on-balance sheet exposures	<u>2,801,197</u>	<u>2,774,843</u>
Direct credit substitutes	40,553	41,339
Trade-related contingencies	5,593	8,710
Forward asset purchases	1,084	2,634
Other commitments	186,713	213,047
Exchange rate contracts	70	50
Interest rate contracts	<u>58</u>	<u>122</u>
Total capital charge for off-balance sheet exposures	<u>234,071</u>	<u>265,902</u>
Total capital charge for credit risk	<u><u>3,035,268</u></u>	<u><u>3,040,745</u></u>

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11. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS - continued

(ii) Capital charge for market risk

The Group has an exemption from the calculation of market risk under section 22(1) of the Banking (Capital) Rules. However, the Group is required to provide details concerning market risk to the Hong Kong Monetary Authority annually based on the year-end position. The market risk capital charge set out below relates to net open positions of the Group's foreign exchange exposures as at 31 December 2008. There are no other market risk exposures as at that date.

	Capital charge	
	2008	2007
	HK\$'000	HK\$'000
Foreign exchange exposures (including gold and options)	<u>1,133</u>	<u>781</u>
Capital charge for market risk	<u>1,133</u>	<u>781</u>

(iii) Capital charge for operational risk

	2008	2007
	HK\$'000	HK\$'000
Capital charge for operational risk	<u>182,782</u>	<u>174,595</u>

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

12. RISK MANAGEMENT

(i) Credit risk

(a) Credit risk exposures

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

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12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(a) Credit risk exposures - continued

	2008							
	Class of exposures						Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts		
HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	HK\$'000	HK\$'000	HK\$'000	
A. On-balance Sheet								
1. Sovereign	952,324	1,349,312	-	5,274	-	5,274	-	-
2. Public sector entity	363,373	433,346	539,070	105,969	107,814	213,783	-	-
3. Bank	30,104,739	29,605,213	102,537	6,277,744	50,507	6,328,251	-	396,989
4. Securities firm	279,674	186,241	71,648	93,121	35,824	128,945	21,785	-
5. Corporate	22,588,937	3,220,096	18,461,699	1,398,079	18,461,699	19,859,778	907,142	720,000
6. Cash items	440,496	-	1,846,131	-	97,872	97,872	-	-
7. Regulatory retail	266,940	-	239,988	-	179,991	179,991	26,952	-
8. Residential mortgage loan	8,925,638	-	8,302,613	-	4,206,150	4,206,150	13,983	609,042
9. Other exposures which are not past due exposures	4,118,316	-	3,682,545	-	3,682,545	3,682,545	435,771	-
10. Past due exposures	302,614	-	302,614	-	312,367	312,367	280,467	891
B. Off-balance Sheet								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,215,951	145,081	3,070,870	53,940	2,870,344	2,924,284	166,362	145,081
2. OTC derivative transactions	<u>4,299</u>	<u>3,047</u>	<u>1,252</u>	<u>729</u>	<u>877</u>	<u>1,606</u>	<u>-</u>	<u>-</u>
Exposures deducted from Capital Base	<u>286,714</u>							

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12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(a) Credit risk exposures - continued

	2007							
	Class of exposures						Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts		
HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	HK\$'000	HK\$'000	HK\$'000	
A. On-balance Sheet								
1. Sovereign	3,685,859	3,685,859	-	22,189	-	22,189	-	-
2. Public sector entity	250,545	316,028	651,065	77,870	130,213	208,083	-	-
3. Bank	27,930,418	27,382,251	548,167	6,074,768	201,889	6,276,657	-	-
4. Securities firm	1,001,706	697,790	274,836	226,106	137,418	363,524	29,080	-
5. Corporate	22,033,348	2,336,292	18,821,264	721,755	18,821,264	19,543,019	875,793	554,366
6. Cash items	318,069	-	1,755,182	-	103,854	103,854	-	-
7. Regulatory retail	337,052	-	307,798	-	230,848	230,848	29,254	-
8. Residential mortgage loan	7,697,740	-	6,956,459	-	3,710,735	3,710,735	24,733	716,548
9. Other exposures which are not past due exposures	4,195,111	-	3,716,858	-	3,716,858	3,716,858	478,252	-
10. Past due exposures	502,047	-	502,047	-	509,746	509,746	472,481	5,093
B. Off-balance Sheet								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,628,307	67,000	3,561,307	32,000	3,289,625	3,321,625	173,418	52,000
2. OTC derivative transactions	5,936	4,598	1,338	1,317	838	2,155	-	-
Exposures deducted from Capital Base	837,479							

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12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(a) Credit risk exposures - continued

Properties and cash deposits are recognised collateral for past due exposures and other exposures respectively. Recognised guarantees are guarantees issued by banks and the Government of the HKSAR. The Group has also taken properties and listed shares as collateral pledged as security against loans totalling HK\$19,540,071,000 (2007: HK\$17,841,134,000) and HK\$1,310,798,000 (2007: HK\$1,597,705,000) respectively.

(b) Counter-party credit risk exposures

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

The following table summarises the Group’s credit exposures arising from OTC derivative transactions. There are no repo-style transactions or credit derivative contracts outstanding as at 31 December 2008.

	OTC derivative transactions	
	2008 HK\$’000	2007 HK\$’000
OTC derivative		
Gross total positive fair value	<u>429</u>	<u>60</u>
Credit equivalent amounts	<u>4,299</u>	<u>5,936</u>
Risk-weighted amounts	<u>1,606</u>	<u>2,155</u>

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12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(b) Counter-party credit risk exposures - continued

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

	OTC derivative transactions	
	2008 HK\$'000	2007 HK\$'000
Notional amounts:		
- Banks	793,778	678,594
- Security firms	380,000	405,000
- Corporates	8,936	5,631
- Others	2,511	22,234
	<u>1,185,225</u>	<u>1,111,459</u>
Credit equivalent amounts:		
- Banks	2,647	3,698
- Security firms	1,150	1,900
- Corporates	420	116
- Others	82	222
	<u>4,299</u>	<u>5,936</u>
Risk-weighted amounts:		
- Banks	529	1,137
- Security firms	575	680
- Corporates	420	116
- Others	82	222
	<u>1,606</u>	<u>2,155</u>

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12. RISK MANAGEMENT - continued

(i) Credit risk - continued

(c) Credit risk mitigation

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

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

The Group only accepts collateral pledged as security

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

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

(ii) Asset Securitisation

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

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

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12. RISK MANAGEMENT - continued

(ii) Asset Securitisation - continued

Securitization exposures	Outstanding amounts HK\$'000	2008	
		Exposures deducted from its Core Capital HK\$'000	Supplementary Capital HK\$'000
Traditional securitisations			
Structured investment vehicles	<u>16,640</u>	<u>8,320</u>	<u>8,320</u>
		2007	
Securitization exposures	Outstanding amounts HK\$'000	Exposures deducted from its Core Capital HK\$'000	Supplementary Capital HK\$'000
Traditional securitisations			
Structured investment vehicles	<u>198,586</u>	<u>99,293</u>	<u>99,293</u>

(iii) Equity exposures in banking book

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

Equity securities are accounted for as available for sale financial assets, the accounting policy of which is set out in Note 4 to the consolidated financial statements on page 52. At the balance sheet date, listed equity securities are stated at fair value which is determined by reference to prices quoted in the respective stock markets. Unlisted equity securities are valued at cost, as adjusted to reflect earning multiples for comparable listed companies if the investee companies are performing at or above expectation. When deemed necessary, equity securities are carried at written down value to reflect the impairment in value of those investee companies.

	2008 HK\$'000	2007 HK\$'000
Net realised gains/losses from sales/liquidations	<u>108,706</u>	<u>177,351</u>
Net unrealised revaluation gains/losses:		
- Amount included in reserves but not through income statement	<u>10,702</u>	<u>138,680</u>
- Amount included in supplementary capital	<u>580</u>	<u>9,914</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2008

12. RISK MANAGEMENT - continued

(iv) Interest rate exposures in banking book

Note 7 to the consolidated financial statements on pages 92 to 96 sets out the nature and the frequency of measurement of the interest rate risk. In measuring the interest rate exposures, the Group assumes that past contractual re-pricing behaviour will continue in the same manner over the next 12 months.

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

	2008			
	HK\$	US\$	Others	Total
Interest rate risk shock				
Equivalent in thousand of HK\$				
- Variations in earnings (+100 basis points)	<u>65,537</u>	<u>(7,806)</u>	<u>2,042</u>	<u>59,773</u>
- Variations in earnings (-100 basis points)	<u>(65,537)</u>	<u>7,806</u>	<u>(2,042)</u>	<u>(59,773)</u>
	2007			
	HK\$	US\$	Others	Total
Interest rate risk shock				
Equivalent in thousand of HK\$				
- Variations in earnings (+100 basis points)	<u>59,770</u>	<u>(13,221)</u>	<u>(579)</u>	<u>45,970</u>
- Variations in earnings (-100 basis points)	<u>(59,770)</u>	<u>13,221</u>	<u>579</u>	<u>(45,970)</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2008

13. BASIS OF CONSOLIDATION

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

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

HEAD OFFICE, BRANCHES, PRINCIPAL SUBSIDIARIES AND AFFILIATES

as at 4 March 2009

		Telephone
HEAD OFFICE	24 Des Voeux Road Central, Hong Kong	3768 1111
HONG KONG ISLAND BRANCHES		
Aberdeen	166-168 Aberdeen Main Road	2553 9472
Causeway Bay	488 Jaffe Road	2893 6225
Happy Valley	1-9 Yuk Sau Street	2575 3201
North Point	376 King's Road	2570 0585
Sai Ying Pun	81-85 Des Voeux Road West	2547 6513
Shau Kei Wan	203-205 Shau Kei Wan Road	2560 6277
Sheung Wan	163 Wing Lok Street	2543 0653
Wan Chai	265-267 Hennessy Road	2511 3931
Wan Tsui Estate	Shop No. G11A, G/F, Wan Tsui Shopping Centre Wan Tsui Estate, Chai Wan	2976 0880
Western	347-349 Des Voeux Road West	2547 3809
KOWLOON BRANCHES		
Castle Peak Road	285-287 Castle Peak Road	2387 2421
Cho Yiu Chuen	G/F, Block C, King Cho Road	2742 2211
Ho Man Tin Plaza	Shop Nos. 7 & 8, G/F, Ho Man Tin Plaza 80 Fat Kwong Street, Ho Man Tin	2242 0681
Hoi Lai Estate	Shop No. 112, Hoi Lai Shopping Centre Hoi Lai Estate, Sham Shui Po	3514 6477
How Ming Street	114 How Ming Street	2342 6386
Jordan	G/F, 120 Woosung Street, Jordan	2735 8559
Kowloon Bay	Shop Unit 8, G/F, Chevalier Commercial Centre 8 Wang Hoi Road, Kowloon Bay	2750 8838
Kowloon City	31-33 Nga Tsin Wai Road	2382 7392
Kwong Tin Estate	No. 205, Kwong Tin Shopping Centre, Kwong Tin Estate	2717 2414
Kwun Tong	31-33 Mut Wah Street	2342 7328
Lai Chi Kok Road	139 Lai Chi Kok Road	2391 1573
Lei Yue Mun	Shop No. LG1, Lower Ground Floor Lei Yue Mun Plaza, Yau Tong	2772 6320
Mongkok	591 Nathan Road	3768 0001
Po Tat Estate	Shop No. 203B-204, 2/F, Po Tat Shopping Centre Po Tat Estate, Kwun Tong	2190 4110
San Po Kong	55-57 Yin Hing Street	2325 5303
Sham Shui Po	144-148 Tai Po Road	2777 4441
Shun Lee Estate	Lee Yat House, Shun Lee Estate	2342 7141
Tak Tin Estate	No. 207, Tak Tin Shopping Centre, Tak Tin Estate	2775 1175
To Kwa Wan	34-34A Tam Kung Road	2711 4404
Tsim Sha Tsui	16 Granville Road	2369 4091
Tsz Wan Shan	60-64 Sheung Fung Street	2327 0913

HEAD OFFICE, BRANCHES, PRINCIPAL SUBSIDIARIES AND AFFILIATES

		Telephone
NEW TERRITORIES BRANCHES		
Butterfly Estate	Shop Nos. 131-134, Level 1, Tip Ling House Butterfly Shopping Centre, Butterfly Estate Tuen Mun	2463 9263
Cheung Fat Estate	Shop Nos. 304 & 311, Level 3 Cheung Fat Shopping Centre Cheung Fat Estate, Tsing Yi	2495 7697
Choi Ming Court	Shop Nos. 265 & 267-268, 2/F, Choi Ming Shopping Centre Choi Ming Court, Tseung Kwan O	3409 5375
Fanling	2 Wo Lung Street, Luen Wo Market, Fanling	2675 6203
Fu Tai Estate	Shop 101, Level 1, Fu Tai Shopping Centre Fu Tai Estate, Tuen Mun	2453 7630
Hau Tak Estate	Shop Nos. L111-112, 1/F, West Wing Hau Tak Shopping Centre, Hau Tak Estate, Tseung Kwan O	2706 1863
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Sha Tin	2641 1911
Kwai Chung Estate	Shop 111, Podium Level 1 Kwai Chung Shopping Centre Kwai Chung Estate, Kwai Chung	2279 4161
Leung King Estate	Shop No. 209, Level Two, Leung King Shopping Centre Leung King Estate, Tuen Mun	2465 1882
On Ting Estate	Shop No. 103, Level 1, Restaurant Block On Ting Shopping Centre, On Ting Estate Tuen Mun	2441 7117
Sheung Shui	71 San Fung Avenue, Sheung Shui	2670 6295
Sheung Tak Estate	Shop No. 237, Sheung Tak Shopping Centre Sheung Tak Estate, Tseung Kwan O	2178 1203
Tin Chak Estate	Shop 112, 1/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	2486 3423
Tin Tsz Estate	Shop No. 110, 1/F, Tin Tsz Shopping Centre Tin Tsz Estate, Tin Shui Wai	2616 4618
Tsuen Wan	Jade Plaza, 298 Sha Tsui Road, Tsuen Wan	2408 7481
Tuen Mun Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	2453 0181
Wan Tau Tong Estate	Shop Nos. 11-12A, Wan Loi House Wan Tau Tong Estate, Tai Po	2656 4313
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3141 7115
Yuen Long	99-109 Castle Peak Road, Yuen Long	2475 5307

HEAD OFFICE, BRANCHES, PRINCIPAL SUBSIDIARIES AND AFFILIATES

Telephone

GUANGZHOU REPRESENTATIVE OFFICE

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

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

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

Shanghai	Room 1013, Donghai Plaza Tower 3 1486 Nanjing Road West Shanghai China	(86-21) 6279 4172
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SHANTOU BRANCH

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

Card Alliance Company Limited
Chong Hing Commodities and Futures Limited
Chong Hing Finance Limited
Chong Hing Information Technology Limited
Chong Hing Insurance Company Limited
Chong Hing (Nominees) Limited
Chong Hing Securities Limited
Gallbraith Limited
Liu Chong Hing Banking Corporation, Cayman

AFFILIATES

Liu Chong Hing Investment Limited
COSCO (Hong Kong) Group Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd