



FUBON BANK (HONG KONG) LIMITED

富邦銀行(香港)有限公司

(incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

ANNOUNCEMENT OF 2010 UNAUDITED CONSOLIDATED INTERIM RESULTS

SUMMARY OF RESULTS

The Directors have pleasure in presenting the unaudited results of Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (collectively “the Group”) for the six months ended 30 June 2010. ^(Note 1)

Consolidated Statement of Comprehensive Income (Unaudited)

	Note	For the six months ended 30 June 2010 HK\$'000	30 June 2009 HK\$'000 (Restated)
Interest income	2(a)	597,678	861,572
Interest expense	2(b)	(142,630)	(261,659)
Net interest income		455,048	599,913
Fee and commission income	3(a)	169,377	124,524
Fee and commission expense	3(b)	(37,179)	(34,572)
Net fee and commission income		132,198	89,952
Revaluation loss on collateralised debt obligations		(5,595)	(78)
Other operating income	4	21,013	61,381
Operating income		602,664	751,168
Operating expenses	5	(410,750)	(463,372)
Operating profit before gains and impairment losses		191,914	287,796
Impairment losses on advances to customers	6	(48,008)	(206,247)
Impairment losses on available-for-sale securities		(18,404)	(26,416)
Write back of impairment losses on investment in an associate		12	95
Write back of impairment losses on assets acquired under lending agreements		433	3,900
Impairment losses		(65,967)	(228,668)
Net gains on disposals of available-for-sale securities	7	43,594	47,909
Net losses on disposals of fixed assets		(20)	(8)
Share of profits of an associate		13,376	7,512
Profit before taxation		182,897	114,541
Taxation	8	(29,602)	(13,893)
Profit for the period		153,295	100,648
Other comprehensive income for the period, net of tax:			
Available-for-sale securities: net movement in investment revaluation reserve		22,187	146,732
Exchange differences on translation of an associate		3,362	(256)
Total comprehensive income for the period		178,844	247,124

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Consolidated Statement of Comprehensive Income (Unaudited) (continued)

	Note	For the six months ended 30 June 2010 HK\$'000	30 June 2009 HK\$'000 (Restated)
Profit attributable to:			
- Equity holders of the Bank		153,535	100,842
- Minority interests		(240)	(194)
Profit for the period		153,295	100,648
Total comprehensive income attributable to:			
- Equity holders of the Bank		179,084	247,318
- Minority interests		(240)	(194)
Total comprehensive income for the period		178,844	247,124
Earnings per share (Hong Kong cents)	9	9.54	5.03

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Extracts from Consolidated Balance Sheet (Unaudited)

	Note	30 June 2010 HK\$'000	As at 31 December 2009 HK\$'000
ASSETS			
Cash and short-term funds		3,513,687	5,414,889
Balances with banks and other financial institutions		1,157,596	367,677
Trading securities		251,013	105,522
Financial assets designated at fair value through profit or loss		652,467	641,737
Derivative financial instruments	11	622,954	632,010
Advances to customers less impairment allowances	12	27,583,685	28,571,967
Other loans and receivables		3,101,051	3,392,218
Accrued interest and other assets		825,711	1,511,237
Available-for-sale securities		18,521,831	17,939,073
Held-to-maturity investments		908,720	902,222
Interests in associates		403,829	386,510
Fixed assets		1,062,061	1,079,094
Deferred tax assets		16,451	35,144
		58,621,056	60,979,300
LIABILITIES			
Deposits and balances from banks		2,997,359	2,424,903
Deposits from customers		43,274,775	46,602,175
Trading liabilities		203,848	14,275
Financial liabilities designated at fair value through profit or loss		261,876	201,096
Certificates of deposit issued		651,975	322,100
Debt securities issued		193,819	268,791
Derivative financial instruments	11	754,588	651,896
Other liabilities		3,595,246	3,919,179
Deferred tax liabilities		58	68
Subordinated notes issued	13	1,632,123	1,640,257
		53,565,667	56,044,740
EQUITY			
Share capital		2,097,519	2,097,519
Share premium		749,778	749,778
Reserves		2,205,641	2,084,572
Shareholders' funds		5,052,938	4,931,869
Minority interests		2,451	2,691
		5,055,389	4,934,560
		58,621,056	60,979,300

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Consolidated Statement of Changes in Equity (Unaudited)

Attributable to equity holders of the Bank

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Investment revaluation reserve HK\$'000	Foreign exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2009	2,097,519	749,778	372,000	12,969	175,211	(276,620)	-	1,587,088	4,717,945	3,152	4,721,097
Total comprehensive income for the period	-	-	-	-	-	146,732	(256)	100,842	247,318	(194)	247,124
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Preference share dividend paid during the period	-	-	-	-	-	-	-	(39,991)	(39,991)	-	(39,991)
Equity settled share-based transactions	-	-	-	2,027	-	-	-	-	2,027	-	2,027
At 30 June 2009	2,097,519	749,778	372,000	14,996	175,211	(129,888)	(256)	1,630,357	4,909,717	2,958	4,912,675
At 1 January 2010	2,097,519	749,778	372,000	15,684	175,211	28,577	67	1,493,033	4,931,869	2,691	4,934,560
Total comprehensive income for the period	-	-	-	-	-	22,187	3,362	153,535	179,084	(240)	178,844
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Preference share dividend paid during the period	-	-	-	-	-	-	-	(41,922)	(41,922)	-	(41,922)
Equity settled share-based transactions	-	-	-	1,489	-	-	-	-	1,489	-	1,489
At 30 June 2010	2,097,519	749,778	372,000	17,173	175,211	50,764	3,429	1,587,064	5,052,938	2,451	5,055,389

FUBON BANK (HONG KONG) LIMITED**Condensed Consolidated Cash Flow Statement (Unaudited)**

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Cash generated from / (used in) operations	618,114	(1,273,272)
Tax paid	(5,049)	(6,197)
Net cash generated from / (used in) operating activities	613,065	(1,279,469)
Net cash used in investing activities	(13,985)	(12,116)
Net cash used in financing activities	(488,679)	(2,061,232)
Net increase / (decrease) in cash and cash equivalents	110,401	(3,352,817)
Cash and cash equivalents as at 1 January	5,592,160	9,054,961
Cash and cash equivalents as at 30 June	5,702,561	5,702,144
<i>Analysis of cash and cash equivalents:</i>		
Cash on hand and at banks	2,481,982	909,098
Money at call and short notice	1,031,705	3,209,574
Treasury bills with original maturity within three months	2,111,803	1,160,969
Placements with banks and other financial institutions with original maturity within three months	77,071	422,503
	5,702,561	5,702,144

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Notes:

1. The financial information set out in this preliminary announcement does not constitute the Group's interim financial report for the six months ended 30 June 2010. Certain financial information in this preliminary announcement is extracted from the Group's interim financial report for the six months ended 30 June 2010 ("interim financial report"), which will be available from the websites of The Stock Exchange of Hong Kong Limited and the Bank.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements. A number of new and revised Hong Kong Financial Reporting Standards have become effective in 2010, but none of these have had a material effect on this interim financial report.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

2. Interest income and expense

(a) Interest income

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Listed investments	184,170	185,255
Others	401,672	663,384
Interest income on financial assets that are not at fair value through profit or loss	585,842	848,639
Interest income on trading assets		
- listed investments	9	365
- unlisted investments	917	440
Interest income on financial assets designated at fair value through profit or loss	10,910	12,128
	597,678	861,572

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2. Interest income and expense (continued)

(b) Interest expense

	For the six months ended	
	30 June 2010 HK\$'000	30 June 2009 HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	129,243	243,942
Debt securities issued which are wholly repayable within 5 years	1,178	4,345
Other borrowings	3,707	5,375
Interest expense on financial liabilities that are not at fair value through profit or loss	134,128	253,662
Interest expense on trading liabilities	1,508	1,336
Interest expense on financial liabilities designated at fair value through profit or loss	6,994	6,661
	142,630	261,659

3. Fee and commission income and expense

(a) Fee and commission income

	For the six months ended	
	30 June 2010 HK\$'000	30 June 2009 HK\$'000 (Restated)
Credit related fees and commissions	26,018	10,465
Trade finance	4,613	6,090
Credit card	45,525	40,432
Securities brokerage and investment services	23,292	24,313
Insurance	32,416	16,939
Unit trust commission	19,458	14,739
Other fees	18,055	11,546
	169,377	124,524

of which:

Fee and commission income arising from:

- Financial assets or financial liabilities which are not designated at fair value through profit or loss	48,533	56,783
- Trust or other fiduciary activities	714	692

Fee and commission income arising from trust and other fiduciary activities relate to fees from asset management activities where the Group will hold assets or invest on behalf of customers.

Certain comparative figures have been reclassified between "Fee and commission income" and "Other operating income" to conform to the current period's presentation.

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3. Fee and commission income and expense (continued)

(b) Fee and commission expense

	For the six months ended	
	30 June 2010 HK\$'000	30 June 2009 HK\$'000
Handling fees and commission	25,747	19,465
Other fees paid	11,432	15,107
	<u>37,179</u>	<u>34,572</u>
of which:		
Fee and commission expense arising from:		
- Financial assets or financial liabilities which are not designated at fair value through profit or loss	20,804	26,874

4. Other operating income

	For the six months ended	
	30 June 2010 HK\$'000	30 June 2009 HK\$'000 (Restated)
Gains less losses from dealing		
- Foreign currencies	(64,675)	79,495
- Trading securities	5,341	13,562
- Other dealing activities *	20,317	23,735
- Short selling activities	112	1,114
	<u>(38,905)</u>	<u>117,906</u>
Net hedging income from fair value hedges		
Net gain / (loss) on hedged items attributable to the hedged risk	132,935	(35,580)
Net (loss) / gain on hedging instruments	<u>(132,935)</u>	<u>35,580</u>
	-	-
Net (loss) / gain on other financial instruments designated at fair value through profit or loss		
Net loss on sale of other financial instruments designated at fair value through profit or loss	-	(1,533)
Revaluation (loss) / gain on other financial instruments designated at fair value through profit or loss	<u>(48,333)</u>	<u>29,148</u>
	<u>(48,333)</u>	<u>27,615</u>
Gains less losses from other financial liabilities measured at amortised cost	1,153	(10)
Revaluation gain / (loss) on derivative financial instruments	95,701	(99,031)
Dividend income from listed available-for-sale securities	-	501
Dividend income from unlisted available-for-sale securities	6,002	7,154
Rental income	823	371
Others	4,572	6,875
	<u>21,013</u>	<u>61,381</u>

* *Other dealing activities include customer-driven dealing in derivative financial instruments including equity linked notes, options and structured deposit products.*

Certain comparative figures have been reclassified between "Fee and commission income" and "Other operating income" to conform to the current period's presentation.

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5. Operating expenses

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Salaries and other staff costs	<u>224,859</u>	<u>254,047</u>
Premises and other fixed assets		
Rental of premises	22,301	24,299
Depreciation	30,998	33,502
Others	9,311	9,992
Auditors' remuneration	1,508	1,191
Other operating expenses		
Business promotion	23,412	30,495
Legal and professional fees	9,537	15,454
Communication	11,818	14,288
Electronic data processing and computer systems	39,229	36,076
Others	37,777	44,028
	<u>410,750</u>	<u>463,372</u>

6. Impairment losses on advances to customers

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Impairment losses (charged) / released on advances to customers		
- Additions	(86,744)	(245,382)
- Releases	38,736	39,135
	<u>(48,008)</u>	<u>(206,247)</u>

There were no impairment losses recognised on loans and advances other than advances to customers during the reporting period (2009: Nil).

7. Net gains on disposals of available-for-sale securities

	For the six months ended	
	30 June 2010	30 June 2009
	HK\$'000	HK\$'000
Realisation of revaluation surplus previously recognised in the investment revaluation reserve	18,639	22,762
Net gains arising in the current period	<u>24,955</u>	<u>25,147</u>
	<u>43,594</u>	<u>47,909</u>

8. Taxation

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the six months ended 30 June 2010. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be appropriate in the relevant countries.

9. Earnings per share

The earnings per share is calculated on profit attributable to equity holders of HK\$153,535,000 (2009: HK\$100,842,000) net of preference share dividend of HK\$41,703,000 (2009: HK\$41,850,000) and 1,172,160,000 (2009: 1,172,160,000) ordinary shares in issue during the period. There is no convertible loan capital, options or warrants outstanding which would cause a dilution on the earnings per share.

10. Segment reporting

Segment information is presented in respect of the Group's operating segments which are the components of the Group about which separate financial information is available and evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Several key changes in 2010 internal management reporting methodology are set out below:

- The Mass Market business is grouped under Wealth Management in 2010 as opposed to Consumer Banking in 2009;
- A new department, Funding Centre, is established in 2010 to closely monitor the overall funding, liquidity and interest rate risk positions of the Group. This is considered to be an operating segment as its results are separately reported to the Chief Executive Officer.
- In 2010, where operating income is derived from the joint efforts of two operating segments on a third-party fee-related transaction, the operating income is split equally between the relevant operating segments. In 2009, operating income (and the related funding costs) derived from the joint-effort transaction was recorded in all relevant operating segments and the additional operating income recorded from this treatment was eliminated on consolidation;
- In 2010, the assets attributable to a transaction with joint efforts of two or more operating segments are no longer recorded in all relevant operating segments and there are no additional assets recorded and eliminated on consolidation. In 2009, the assets attributable to the transaction were recorded in all relevant operating segments and the additional assets recorded from this treatment were eliminated on consolidation; and
- In 2010, there is no apportionment of centralised management overheads and only wholly and directly attributable costs of support units are charged to the respective operating segments. In 2009, there was apportionment of certain centralised management overheads and all support units' costs were allocated to the respective operating segments.

Operating segments

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services. Reportable segments of the Group are set out below.

Consumer Banking comprises credit card merchant acquiring, provision of credit card advances, mortgage lending and other consumer lending. For consistency with internal management reporting, provision of banking services to the Mass Market segment, defined as those with a lower value of assets under administration, has been grouped under Wealth Management reportable segment below.

Wealth Management comprises securities brokerage, the sales and distribution of wealth management products to wealth management clients, defined as those with a higher value of assets under administration, provision of banking services to the Mass Market segment, and provision of insurance and unit trust wealth management services.

Corporate and Investment Banking comprises the Small and Medium Enterprise business, and the Corporate Banking business. The Small and Medium Enterprise business include both personal and corporate equipment financing, commercial lending to small and medium enterprises, automobile and other consumer leasing contracts and lending activities. Corporate Banking business covers trade financing, syndicated loans and other corporate lending.

Financial Markets mainly engages in foreign exchange and fixed income securities trading activities and the marketing of investment products.

Funding Centre manages the overall funding, liquidity and interest rate risk positions arising from banking activities of the Group.

10. Segment reporting (continued)

Segment results, assets and liabilities

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the operating segments by way of internal capital allocation and fund transfer-pricing mechanisms. To reflect the benefit of joint efforts of two operating segments on a third-party fee-related transaction, operating income derived from the transaction is split equally and recorded in the relevant operating segments. This treatment has been changed for consistency with internal management reporting. Previously, operating income (and the related funding costs) derived from the joint-effort transaction was recorded in all relevant operating segments and the additional operating income recorded from this treatment was eliminated on consolidation.

Cost allocation is based on the direct costs incurred by the respective operating segments. For consistency with internal management reporting, there is no apportionment of centralised management overheads and only wholly and directly attributable costs of support units are charged to the respective operating segments. Rental charges at market rates for usage of premises are reflected in "Operating Expense" and "Inter-segment Expense" for the respective operating segments.

Segment assets mainly include advances to customers less impairment, investment in securities and financial instruments, inter-bank placements, current assets and premises attributable to the operating segments. For consistency with internal management reporting, the assets attributable to a transaction with joint efforts of two or more operating segments are no longer recorded in all relevant operating segments and there are no additional assets recorded and eliminated on consolidation.

Segment liabilities mainly include deposits from customers, certificates of deposit and debt securities issued, inter-bank borrowings, and accruals attributable to the operating segments.

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment lending), interest expense, depreciation, amortisation, impairment losses and additions to non-current segment assets used by the segments in their operations.

Unallocated items mainly comprise the central management unit, management of strategic investments, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

2010 segment information is presented in two bases below, one based on 2010 internal management reporting methodology and the other one based on 2009 methodology for comparative purpose. No restatement has been made to 2009 segment information.

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10. Segment reporting (continued)

Operating segments (continued)

2010 segment information prepared on the 2010 internal management reporting methodology is set out below:

	For the six months ended 30 June 2010					Reportable Segments Total HK\$'000
	Consumer Banking	Wealth Management	Investment and Banking	Financial Markets	Funding Centre	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Net interest income	86,013	27,079	123,443	120,375	98,476	455,386
Other operating income from external customers	61,464	99,551	30,556	8,272	(28,778)	171,065
Fee and commission expense	(20,215)	(7,840)	(992)	(4,907)	-	(33,954)
Other operating income	41,249	91,711	29,564	3,365	(28,778)	137,111
Operating income	127,262	118,790	153,007	123,740	69,698	592,497
Operating expenses	(55,206)	(105,639)	(42,630)	(25,767)	(1,734)	(230,976)
Inter-segment expenses	(1,464)	(16,472)	(1,510)	-	-	(19,446)
Operating profit before gains and impairment losses	70,592	(3,321)	108,867	97,973	67,964	342,075
Impairment losses on advances to customers	(8,385)	(1,180)	(40,023)	-	-	(49,588)
Impairment losses on available-for-sale securities	-	-	-	(15,402)	-	(15,402)
Write back of impairment losses on assets acquired under lending agreements	-	-	23	-	-	23
Net gains on disposal of available-for-sale assets	-	-	-	24,733	5,227	29,960
Profit / (loss) before taxation	62,207	(4,501)	68,867	107,304	73,191	307,068
Operating expenses – depreciation	(999)	(4,090)	(1,569)	(641)	(7)	(7,306)
Segment assets	12,191,809	1,392,730	14,890,474	12,165,891	15,852,501	56,493,405
Segment liabilities	370,315	28,498,695	12,839,003	203,847	10,854,664	52,766,524

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10. Segment reporting (continued)

Operating segments (continued)

2010 segment information prepared on the 2009 internal management reporting methodology for comparative purpose is set out below:

	For the six months ended 30 June 2010				Reportable Segments Total HK\$'000
	Consumer Banking HK\$'000	Wealth Management HK\$'000	Corporate and Investment Banking HK\$'000	Financial Markets HK\$'000	
Net interest income	104,811	31,018	123,443	218,851	478,123
Other operating income from external customers	79,674	98,295	35,594	2,414	215,977
Fee and commission expense	(26,766)	(1,289)	(992)	(4,907)	(33,954)
Other operating income	52,908	97,006	34,602	(2,493)	182,023
Operating income	157,719	128,024	158,045	216,358	660,146
Operating expenses	(105,620)	(146,415)	(91,982)	(59,562)	(403,579)
Inter-segment expenses	(1,464)	(16,472)	(1,510)	-	(19,446)
Operating profit before gains and impairment losses	50,635	(34,863)	64,553	156,796	237,121
Impairment losses on advances to customers	(8,424)	(838)	(40,007)	-	(49,269)
Impairment losses on available-for-sale securities	-	-	-	(18,404)	(18,404)
Write back of impairment losses on assets acquired under lending agreements	-	-	23	-	23
Net gains on disposal of available-for-sale assets	-	-	-	29,960	29,960
Profit / (loss) before taxation	42,211	(35,701)	24,569	168,352	199,431
Operating expenses – depreciation	(999)	(4,090)	(1,569)	(648)	(7,306)
Segment assets	15,703,900	2,719,413	14,890,474	28,191,980	61,505,767
Segment liabilities	370,315	28,498,695	12,839,003	11,058,511	52,766,524

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10. Segment reporting (continued)

Operating segments (continued)

	For the six months ended 30 June 2009				Reportable Segments Total HK\$'000
	Consumer Banking HK\$'000	Wealth Management HK\$'000	Investment and Banking HK\$'000	Financial Markets HK\$'000	
Net interest income	88,384	41,003	198,657	282,338	610,382
Other operating income from external customers	68,900	116,061	31,749	81,878	298,588
Fee and commission expense	(15,972)	(4,765)	(6,562)	(7,609)	(34,908)
Other operating income	52,928	111,296	25,187	74,269	263,680
Operating income	141,312	152,299	223,844	356,607	874,062
Operating expenses	(104,137)	(134,109)	(117,998)	(89,539)	(445,783)
Inter-segment expenses	(946)	(15,400)	(2,681)	-	(19,027)
Operating profit before gains and impairment losses	36,229	2,790	103,165	267,068	409,252
Impairment losses on advances to customers	(16,824)	(1,418)	(188,142)	(867)	(207,251)
Impairment losses on available-for-sale securities	-	-	-	(26,416)	(26,416)
Write back of impairment losses on assets acquired under lending agreements	-	-	(500)	-	(500)
Net gains on disposal of available-for-sale assets	-	-	-	35,222	35,222
Profit / (loss) before taxation	19,405	1,372	(85,477)	275,007	210,307
Operating expenses – depreciation	(189)	(3,008)	(1,579)	(3,144)	(7,920)
Segment assets	15,845,129	2,633,477	17,842,993	32,072,383	68,393,982
Segment liabilities	2,401,862	29,713,751	14,329,784	12,761,651	59,207,048

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10. Segment reporting (continued)

Reconciliation of Reportable Segment Revenue, Profit & Loss, Assets & Liabilities

	For the six months ended 30 June 2010 HK\$'000 (2010 Methodology)
Revenues	
Reportable segment operating income	592,497
Elimination of inter-segment operating income	(28,866)
Unallocated revenue	39,033
Consolidated operating income	<u>602,664</u>
	For the six months ended 30 June 2010 HK\$'000 (2010 Methodology)
Profit before tax	
Reportable segment profit before tax	307,068
Unallocated operating income	39,033
Unallocated operating expenses	(189,194)
Write back of impairment losses on advances to customers	1,580
Impairment losses on available-for-sale securities	(3,002)
Write back of impairment losses on investment in an associate	12
Write back of impairment losses on assets acquired under lending agreements	410
Net gains on disposals of available-for-sale securities	13,634
Net losses on disposals of fixed assets	(20)
Share of profits of an associate	13,376
Consolidated profit before tax	<u>182,897</u>
	As at 30 June 2010 HK\$'000 (2010 Methodology)
Assets	
Reportable segment assets	56,493,405
Unallocated fixed assets	576,414
Interests in associates	403,829
Unallocated other assets	1,147,408
Consolidated total assets	<u>58,621,056</u>
	As at 30 June 2010 HK\$'000 (2010 Methodology)
Liabilities	
Reportable segment liabilities	52,766,524
Unallocated other liabilities	799,143
Consolidated total liabilities	<u>53,565,667</u>

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10. Segment reporting (continued)

Reconciliation of Reportable Segment Revenue, Profit & Loss, Assets & Liabilities (continued)

	For the six months ended	
	30 June 2010 HK\$'000 (2009 Methodology)	30 June 2009 HK\$'000
Revenues		
Reportable segment operating income	660,146	874,062
Elimination of inter-segment operating income	(95,239)	(133,613)
Unallocated revenue	37,757	10,719
Consolidated operating income	<u>602,664</u>	<u>751,168</u>

	For the six months ended	
	30 June 2010 HK\$'000 (2009 Methodology)	30 June 2009 HK\$'000
Profit before tax		
Reportable segment profit before tax	199,431	210,307
Unallocated operating income	37,757	10,719
Unallocated operating expenses	(16,591)	(39,093)
Write back of impairment losses on advances to customers	1,583	165
Write back of impairment losses on investment in an associate	12	95
Write back of impairment losses on assets acquired under lending agreements	410	4,400
Net gains on disposals of available-for-sale securities	13,634	12,687
Net losses on disposals of fixed assets	(20)	(8)
Share of profits of an associate	13,376	7,512
Elimination of inter-segment profit before tax	(66,695)	(92,243)
Consolidated profit before tax	<u>182,897</u>	<u>114,541</u>

	As at	
	30 June 2010 HK\$'000 (2009 Methodology)	31 December 2009 HK\$'000
Assets		
Reportable segment assets	61,505,767	64,446,538
Unallocated advances to customers	-	135,100
Unallocated fixed assets	576,414	612,627
Interests in associates	403,829	386,510
Unallocated other assets	973,819	995,813
Elimination of inter-segment loans	(4,838,773)	(5,597,288)
Consolidated total assets	<u>58,621,056</u>	<u>60,979,300</u>

	As at	
	30 June 2010 HK\$'000 (2009 Methodology)	31 December 2009 HK\$'000
Liabilities		
Reportable segment liabilities	52,766,524	55,105,606
Unallocated other liabilities	799,143	939,134
Consolidated total liabilities	<u>53,565,667</u>	<u>56,044,740</u>

10. Segment reporting (continued)

Geographical information

The geographical information analysis is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of assets. For the periods ended 30 June 2010 and 2009, all of the Group's operating income and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiaries of the Bank located in Hong Kong. No single country or geographic segment other than Hong Kong contributes 10% or more of the Group's assets, liabilities, profit or loss before taxation, total operating income or contingent liabilities and commitments.

Major Customers

For the periods ended 30 June 2010 and 2009, no single customer or a group of customers under common control contributes 10% or more of the Group's revenues.

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11. Derivative financial instruments

(a) Notional amounts of derivatives financial instruments

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date and do not represent amounts at risk. The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	30 June 2010				As at				31 December 2009			
	Managed in conjunction with financial instruments designated at				Managed in conjunction with financial instruments designated at							
	Qualifying for hedge accounting	fair value through profit or loss	Held for trading	Total	Qualifying for hedge accounting	fair value through profit or loss	Held for trading	Total	Qualifying for hedge accounting	fair value through profit or loss	Held for trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate derivatives												
- Forwards	-	-	3,044,095	3,044,095	-	-	3,686,721	3,686,721	-	-	3,686,721	3,686,721
- Swaps	-	-	46,513,179	46,513,179	-	-	8,734,426	8,734,426	-	-	8,734,426	8,734,426
- Options purchased	-	-	7,191,020	7,191,020	-	-	1,132,132	1,132,132	-	-	1,132,132	1,132,132
- Options written	-	-	7,187,752	7,187,752	-	-	1,128,639	1,128,639	-	-	1,128,639	1,128,639
	-	-	63,936,046	63,936,046	-	-	14,681,918	14,681,918	-	-	14,681,918	14,681,918
Interest rate derivatives												
- Swaps	4,034,914	600,838	6,475,699	11,111,451	3,941,867	592,685	11,085,267	15,619,819	-	-	67,541	67,541
- Options purchased	-	-	228,161	228,161	-	-	67,541	67,541	-	-	67,541	67,541
	4,034,914	600,838	6,703,860	11,339,612	3,941,867	592,685	11,152,808	15,687,360	-	-	67,541	67,541
Equity derivatives												
- Swaps	-	-	647,638	647,638	-	-	787,594	787,594	-	-	787,594	787,594
- Options purchased	-	-	144,312	144,312	-	-	133,185	133,185	-	-	133,185	133,185
- Options written	-	-	144,312	144,312	-	-	133,185	133,185	-	-	133,185	133,185
	-	-	936,262	936,262	-	-	1,053,964	1,053,964	-	-	1,053,964	1,053,964
Total	4,034,914	600,838	71,576,168	76,211,920	3,941,867	592,685	26,888,690	31,423,242	-	-	67,541	67,541

The above amounts are shown on a gross basis without taking into account the effect of any bilateral netting arrangements.

Derivatives reported as qualifying for hedge accounting represent hedging instruments designated as hedges under HKAS 39.

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11. Derivative financial instruments (continued)

(b) Fair values and credit risk-weighted amounts of derivatives

	30 June 2010			As at 31 December 2009		
	Fair value assets	Fair value liabilities	Credit risk- weighted amount	Fair value assets	Fair value liabilities	Credit risk- weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate derivatives	400,240	141,333	262,304	338,816	12,672	24,244
Interest rate derivatives	195,399	341,598	93,654	224,401	328,652	78,910
Equity derivatives	27,315	27,315	9,170	68,793	68,793	11,770
Other derivatives	-	244,342	-	-	241,779	-
	622,954	754,588	365,128	632,010	651,896	114,924

The above amounts are shown on a gross basis without taking into account the effect of any bilateral netting arrangements.

12. Advances to customers less impairment allowances

(a) Advances to customers less impairment allowances

	As at	
	30 June 2010 HK\$'000	31 December 2009 HK\$'000
Gross advances to customers	28,156,856	29,112,658
Less: Impairment allowances		
- Individual impairment allowances	(404,932)	(364,647)
- Collective impairment allowance	(168,239)	(176,044)
	27,583,685	28,571,967

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12. Advances to customers less impairment allowances (continued)

(b) Advances to customers analysed by industry sector

Advances to customers analysed by industry sector and the coverage of collateral is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA:

	As at			
	30 June 2010	% of gross loans covered by collateral	31 December 2009	% of gross loans covered by collateral
	Gross loans and advances HK\$'000	%	Gross loans and advances HK\$'000	%
Gross advances for use in Hong Kong				
Industrial, commercial and financial				
- Property development	1,341,109	4.75	1,190,968	-
- Property investment	7,842,114	79.06	8,201,715	73.96
- Financial concerns	402,755	2.70	416,802	9.27
- Stockbrokers	38,000	100.00	13,745	62.97
- Wholesale and retail trade	186,329	26.20	64,511	33.10
- Manufacturing	1,830,116	9.52	1,666,263	12.68
- Transport and transport equipment	289,033	76.21	465,987	85.27
- Recreational activities	18,430	100.00	-	-
- Information technology	2,821	66.68	14,434	66.75
- Others	2,684,161	46.53	2,321,393	60.24
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	14,907	100.00	52,370	100.00
- Loans for the purchase of other residential properties	7,496,603	99.89	7,448,480	99.90
- Credit card advances	610,583	-	618,106	-
- Others	1,022,604	52.71	1,039,499	53.49
	<u>23,779,565</u>		<u>23,514,273</u>	
Trade finance	688,099	13.31	809,641	7.68
Gross advances for use outside Hong Kong	<u>3,689,192</u>	11.15	<u>4,788,744</u>	19.28
Gross advances to customers	<u>28,156,856</u>	58.85	<u>29,112,658</u>	59.03

13. Subordinated notes issued

Subordinated notes with a face value of US\$200 million (equivalent to HK\$1,557 million) and carrying amount of HK\$1,632 million (31 December 2009: HK\$1,640 million) which qualify as supplementary capital, were issued by the Bank on 25 April 2006. The notes bear interest at 6.125% per annum for the period from the issuance date to 26 April 2011, payable semi-annually. The notes carry a one-time call option exercisable by the Bank on 26 April 2011. If the call option is not exercised, the interest rate for the subordinated notes will be reset to the United States treasury rate plus 1.93875% for the period from 27 April 2011 to the final maturity date on 26 April 2016, payable semi-annually.

The carrying amount of the subordinated notes includes an adjustment of HK\$75.2 million (31 December 2009: HK\$89.3 million) due to the application of fair value hedge accounting.

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14. Regulatory reserve

	As at	
	30 June 2010 HK\$'000	31 December 2009 HK\$'000
At 1 January	175,211	175,211
Transfer to retained earnings	-	-
	175,211	175,211

The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.

15. Contingent liabilities and commitments

Credit related commitments and contingencies include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the credit default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

	30 June 2010		As at 31 December 2009	
	Contractual amounts HK\$'000	Credit risk- weighted amounts HK\$'000	Contractual amounts HK\$'000	Credit risk- weighted amounts HK\$'000
Direct credit substitutes	210,883	124,883	236,073	126,073
Transaction-related contingencies	16,144	8,072	29,193	14,597
Trade-related contingencies	174,291	34,858	158,264	31,653
Undrawn loan facilities				
- which are unconditionally cancellable	11,508,424	-	11,301,472	-
- with an original maturity of 1 year or over	305,362	152,681	296,321	148,161
	12,215,104	320,494	12,021,323	320,484

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital adequacy ratio

	30 June 2010 %	As at 31 December 2009 %
Capital adequacy ratio	18.15	17.18
Core capital ratio	10.17	9.47

The capital adequacy ratio and core capital ratio at 30 June 2010 are computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Hong Kong (Taiwan) Co., Ltd and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) as required by the Hong Kong Monetary Authority (“HKMA”) for its regulatory purposes, and are compiled in accordance with the Banking (Capital) Rules issued by the HKMA under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord.

In accordance with the Banking (Capital) Rules, the Group has adopted the “standardised approach” for the calculation of risk-weighted assets for credit risk and market risk and the “basic indicator approach” for the calculation of operational risk.

The Group operates subsidiaries in Hong Kong and the PRC. Exchange controls are in place and there may be restrictions on the transfer of regulatory capital and funds from members of the Group’s consolidation group in the PRC to Hong Kong.

2. Capital base

The components of the total capital base after deductions used in the calculation of the above capital adequacy ratios and reported under Part II of the banking return “Capital Adequacy Return” (MA(BS)3) are analysed as follows:

	30 June 2010 HK\$’000	31 December 2009 HK\$’000
Core Capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,586,581	1,661,471
Share premium	749,778	749,778
Profit and loss account	110,451	(76,379)
Total deduction from core capital	(246,224)	(269,327)
Core capital after deduction	3,372,746	3,237,703
Eligible supplementary capital		
Reserves on revaluation of land and interest in land	23,701	23,701
Reserves on revaluation of holdings of available-for-sale securities	24,436	15,771
Collective impairment allowance	168,239	176,044
Regulatory reserve	175,211	175,211
Term subordinated notes	1,556,980	1,551,000
Paid-up irredeemable cumulative preference shares	925,359	925,359
Total deduction from eligible supplementary capital	(228,949)	(231,012)
Supplementary capital after deduction	2,644,977	2,636,074
Total capital base after deductions	6,017,723	5,873,777
Total deductions from the core capital and supplementary capital	(475,173)	(500,339)

All of the Bank’s investments in subsidiaries except for Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Hong Kong (Taiwan) Co., Ltd. and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) are deducted from core capital and supplementary capital.

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3. Liquidity ratio

	For the six months ended	
	30 June 2010 %	30 June 2009 %
Average liquidity ratio	49.89	47.74

The average liquidity ratio for the period is computed as the simple average of each calendar month's average ratio, as reported in Part I (2) of the "Return of Liquidity Position of an Authorised Institution" (MA(BS)1E) calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

The ratio for the period is computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited and 富邦租賃(中國)有限公司 ("Fubon Leasing (China) Co., Ltd") as required by the HKMA for its regulatory purposes.

4. Overdue advances to customers

	30 June 2010		As at 31 December 2009	
	HK\$'000	% of total advances %	HK\$'000	% of total advances %
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
- 6 months or less but over 3 months	23,223	0.08	20,299	0.07
- 1 year or less but over 6 months	135,421	0.48	238,086	0.82
- Over 1 year	235,830	0.84	153,409	0.53
	<u>394,474</u>	1.40	<u>411,794</u>	1.42
Covered portion of overdue loans and advances	<u>59,085</u>		<u>84,613</u>	
Current market value of collateral held against the covered portion of overdue loans and advances	<u>59,539</u>		<u>76,452</u>	
Amount of expected recoveries from companies in liquidation and government guarantee schemes in respect of the covered portion of overdue loans and advances	<u>7,358</u>		<u>11,913</u>	
Uncovered portion of overdue loans and advances	<u>335,389</u>		<u>327,181</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>327,868</u>		<u>302,735</u>	

Collateral held with respect to overdue loans and advances are mainly residential properties, cash deposits with the Group, and equipment held in respect of hire purchase and leasing loans.

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5. Rescheduled advances to customers

Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	30 June 2010		As at 31 December 2009	
	HK\$'000	% of gross advances %	HK\$'000	% of gross advances %
Rescheduled advances to customers	<u>21,576</u>	0.08	<u>19,710</u>	0.07

6. Currency concentration

The Group's net positions or net structural positions in foreign currencies are disclosed as follows when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies:

<i>Equivalent in HK\$ Million</i>	As at 30 June 2010			
	US dollars	Chinese Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	18,811	308	4,872	23,991
Spot liabilities	(17,358)	(301)	(5,979)	(23,638)
Forward purchases	26,386	99	4,289	30,774
Forward sales	<u>(27,977)</u>	<u>(99)</u>	<u>(3,191)</u>	<u>(31,267)</u>
Net long/(short) position	<u>(138)</u>	<u>7</u>	<u>(9)</u>	<u>(140)</u>
Net structural position	<u>78</u>	<u>383</u>	<u>-</u>	<u>461</u>

<i>Equivalent in HK\$ Million</i>	As at 31 December 2009			
	US dollars	Chinese Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	21,272	359	5,091	26,722
Spot liabilities	(19,488)	(321)	(5,210)	(25,019)
Forward purchases	7,324	91	4,624	12,039
Forward sales	<u>(9,234)</u>	<u>(91)</u>	<u>(4,509)</u>	<u>(13,834)</u>
Net long/(short) position	<u>(126)</u>	<u>38</u>	<u>(4)</u>	<u>(92)</u>
Net structural position	<u>78</u>	<u>261</u>	<u>-</u>	<u>339</u>

The net option position is calculated on the basis of the delta-weighted position of options contracts and was less than HK\$1 million for all foreign currencies as at 30 June 2010 and 31 December 2009. The structural position includes the Bank's investments in overseas subsidiaries and associates.

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7. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

As at 30 June 2010				
<i>Figures in HK\$ Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding				
Hong Kong	6,258	271	2,350	8,879
- Of which Australia	3,457	-	2	3,459
- Of which China	1,131	49	1,433	2,613
North America	2,348	318	1,348	4,014
- Of which USA	1,841	318	1,322	3,481
Western Europe	5,647	-	50	5,697

As at 31 December 2009				
<i>Figures in HK\$ Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding				
Hong Kong	6,346	279	2,899	9,524
- Of which Australia	3,675	-	2	3,677
North America	3,290	313	1,869	5,472
- Of which USA	1,936	313	1,847	4,096
Western Europe	5,571	-	56	5,627

8. Repossessed assets and assets acquired under lending agreements

The total repossessed assets and assets acquired under lending agreements of the Group as at 30 June 2010 amounted to HK\$27.7 million (31 December 2009: HK\$31.5 million).

HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST

Review of Hong Kong's Economy

Hong Kong's economy has staged a steady recovery since the 2008 financial crisis. Year-on-year Gross Domestic Product ("GDP") growth returned in the fourth quarter of 2009. GDP growth rebounded to a robust 8.2% year-on-year in real terms in the first quarter of 2010 from 2.5% in the fourth quarter of 2009.

Hong Kong exports rebounded commendably, bolstered by a speedy recovery in demand alongside robust intra-regional trade. Exports climbed a higher-than-expected 26.7% in June from a year earlier. They grew by 20.7% during the first quarter of 2010 after declining by 0.4% in the fourth quarter of 2009. Meanwhile private consumption expenditure growth gained pace to 6.5% year-on-year in real terms in the first quarter of 2010 from 4.8% in the last quarter of 2009 amid bettering conditions in the labour market, coupled with additional support coming from the Hong Kong Government's relief measures. Unemployment fell back and remained steady after a short bump upwards following the financial crisis. The seasonally adjusted unemployment rate remained at 4.6% in April-June 2010 for the second consecutive quarter following March-May 2010.

Exports of transportation and trade-related services have seen a visible turnaround on the reviving trade flows. Underpinned by rapid growth in visitors from most major sources, inbound tourism was likewise buoyant. With continued improvement in business sentiment, overall investment spending recorded another quarter of double-digit growth at 10.5% in the first quarter of 2010.

The stock market has regained confidence after turning more volatile, as sentiment was previously dampened by market concerns over increasing fiscal deficits and public debts in a few European economies. The property market sustained momentum for further growth but has steadied recently due to a series of measures introduced by the Hong Kong Government aimed at ensuring its stable and healthy development.

Outlook for Hong Kong's Economy

It is expected that the current strong growth momentum in Hong Kong and the Asian region as a whole will continue, provided that no major external shocks occur. Real GDP growth for 2010 is expected to come close to or even exceed the forecast of 4% to 5% as announced in the Hong Kong Government Budget in February.

The large enterprises surveyed in the latest Quarterly Business Tendency Survey conducted in March and early April demonstrated a broad-based rise in optimism while those firms who revealed their plans to resume hiring are on the increase. In the upcoming quarters, better job and income prospects are expected to be the key drivers for consumption growth. Further growth is forecast for investment as a whole, benefiting from further recovery in private sector investment alongside the expected pick-up in public sector projects.

Externally, the global economy is progressing on the recovery track with Asia taking the lead. On the other hand, the US Federal Reserve Chairman Ben Bernanke warned of "unusual uncertainty" in the US outlook, while the European economies remain lethargic hindered by high unemployment and huge fiscal deficits. The Greek sovereign-debt problem and the necessity to introduce austerity measures in some European economies may hamper the recovery in Europe while increasing volatility in the financial market. Given the questionable sustainability of the global recovery, the outlook for Hong Kong's exports will become more uncertain, particularly for the advanced economies with the effects of fiscal and monetary stimulus waning in the latter part of the year.

The underlying Consumer Price Index ("CPI") in June 2010 was at 1.7% year-on-year, which was still relatively moderate. The coming quarters may see a gradual rise in inflation, being part of the reflationary process as economic recovery progresses. The CPI is expected to be around 1.5% for the whole year.

Review of China's Economy

China's economic expansion eased to 10.3% in the second quarter. Its rate of economic growth accelerated to the fastest pace in almost three years in the first quarter of 2010, reaching 11.9% year-on-year following robust growth of 10.7% in the fourth quarter of 2009. The reason behind the strong recovery was partly due to the country's exports.

Monthly data for both exports and imports in June broke a record set in July of 2008. On a year-on-year basis, export growth was 43.9% in June. Meanwhile, imports slipped from a yearly growth rate of 48.3% in May to 34.1% in June, allowing the trade surplus to swell. Trade volumes with major trading partners - EU, US and Japan - have grown 37.2%, 30.2% and 37% respectively.

Chinese banks lent an unprecedented 9.59 trillion yuan of new loans in 2009, which was spent on infrastructure and

FUBON BANK (HONG KONG) LIMITED

real estate investment. This contributed not only to the strong growth of the economy but also to a significant increase in property prices. The People's Bank of China has reacted by imposing restrictions on property lending and purchases to slow the housing market. To prevent the economy from overheating, the Chinese Government also announced quotas on new bank lending and raised the level of reserves required to be held by banks. So far, tightening has come from increased reserve ratio requirements for banks and slower lending, but no rate increases.

The current policy settings seem to be having a gradual effect on output as the Purchasing Managers' Index ("PMI") of the manufacturing sector continued to fall in June for the second consecutive month following a drop in May, though it is still above 50% and indicated an expansion. The gain in GDP was less than the increase in the January-March period from a year earlier. The Chinese Government remains concerned that the Euro zone crisis could have an affect on China's exports, providing further impetus for keeping interest rates low. Urban fixed asset investment, which accounts for approximately two-thirds of GDP, grew 25.5% in the first six months of 2010 from a year earlier, which compares with a 33.6% increase in the first half of 2009. Overall the above data indicates that the economy may, if it not already has, experience a slowdown.

Outlook for China's Economy

China's GDP is expected to expand by nearly 10% this year. The economic data released in July signals a diminishing risk of economic overheating. Growth should be less investment-driven this year, while consumption is likely to remain supported by a strong labour market. It is quite clear that China will focus this year on economic rebalancing to boost domestic demand and for a more balanced trade, as evidenced by its announcement of currency reform in June, so as to re-peg the Chinese Yuan to a basket of major trading partners' currencies and allow more flexibility in exchange rate movement.

The greatest challenge that China's central government should be closely watching will be whether the European debt crisis will have any contagious effects and derail the pace of global economic recovery. The central government also has more room to scale back restrictions on bank lending and property purchases by yearend given easing concern on inflation and property prices.

China's Consumer Price Index ("CPI") in May accelerated to 3.1%, a 19-month high, but the latest figure for June showed that inflation cooled to 2.9%. It may still peak at about 4% in July or August and slow for the rest of the year.

FUBON PERFORMANCE

Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries ("the Group") reported a net profit of HK\$153 million for the first six months ended 30 June 2010 which was 52% or HK\$52 million better than the HK\$101 million reported for the corresponding period in 2009. The Hong Kong economy held up well in the first half of 2010, as evidenced by the strong growth in Gross Domestic Product, and rising exports and retail sales. Under the improved operating environment, the Bank's fee-based revenue continued its growth since the fourth quarter of 2009 while impairment losses on advances to customers reduced substantially year-on-year. After accounting for the dividend payment for preference shares, earnings per share increased to 9.54 Hong Kong cents, compared to 5.03 Hong Kong cents per share for the first half of 2009.

Gross interest income declined 31% to HK\$598 million for the first half of 2010 whereas gross interest expense decreased 45% to HK\$143 million over the corresponding period. As a result, net interest income decreased by HK\$145 million or 24% to HK\$455 million. The decline in net interest income was attributed to lower average interest-earning assets, as the Bank adopted a more cautious approach to loan underwriting, and fierce price competition among peers for lending and customers deposits. Moreover, credit spread tightening since the fourth quarter of 2009 caused assets to be priced at lower spreads. Effective net interest margin ("NIM") decreased by 34 bps to 1.71% from 2.05% for the first half of 2009.

Net fee and commission income increased 47% or HK\$42 million to HK\$132 million in the first half of 2010. The year-on-year growth was broad-based, underpinned by higher business volumes across consumer finance, wealth management and corporate banking segments. Credit-related fees and commissions increased HK\$16 million, credit card related fees & commission income increased HK\$5 million, and commission income derived from sales of insurance products and unit trust products increased HK\$20 million.

Credit spread tightening affected the fair value of financial instruments designated at fair value through profit or loss and its hedging derivatives, resulted in a decrease of HK\$40 million in other operating income. Including the revaluation loss of HK\$5.6 million on the CDO portfolio in the first half of 2010 (HK\$0.08 million in 2009), total non-interest income, included net fee and commission income and other operating income, recorded a 2% decrease or HK\$4 million to HK\$148 million in the first half of 2010.

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The Bank continued to maintain stringent cost discipline during the first half of the year. Proactive cost containment initiatives drove operating expenses down 11% or HK\$52 million year-on-year to HK\$411 million for the first half of 2010. The cost-to-income ratio increased to 68.2% for the first half of 2010, compared with 61.7% for the first half of 2009. The increase in cost-to-income ratio was mainly due to the decrease in net interest income. The Bank will continue to rationalize its operating expenses level and enhance its operating leverage in order to alleviate the negative impact of slowing revenues on the cost-to-income ratio. Operating profits before gains and impairment losses decreased 33% or HK\$96 million to HK\$192 million compared with HK\$288 million in the first half of 2009.

Net charge for impairment losses on advances to customers registered a year-on-year decrease of 77% or HK\$158 million to HK\$48 million for the first half of 2010. Most of the decrease was due to lower individual impairment losses on SME loans. The level of impaired loans has stabilized since the second quarter of 2009 and the impaired loans ratio further decreased to 1.72% as of 30 June 2010 from 1.78% as of 31 December 2009. Additional individual impairment losses were set aside during the first half of 2010, resulting in the coverage of impaired loans improving from 87% at 31 December 2009 to 95% at 30 June 2010.

Impairment losses on available-for-sale securities of HK\$18 million were provided in the first half of 2010. The share of profits of Xiamen Bank, in which the Bank owns a 19.99% stake, amounted to HK\$13 million, representing an increase of 78% as compared to HK\$8 million recognized for the first half of 2009. After accounting for impairment charges, other gains and tax charge, profits after taxation amounted to HK\$153 million, representing a 52% increase from HK\$101 million for the first half of 2009. Return on average assets and return on average equity increased from 0.31% to 0.50% and from 4.22% to 6.22% respectively when compared with the first half of 2009.

Total assets as at 30 June 2010 were at HK\$58.6 billion, a decrease of 4% or HK\$2.4 billion from HK\$61.0 billion as at 31 December 2009. Customer deposits registered a decrease of 7% to HK\$43.3 billion as at 30 June 2010. During the first half of 2010, the Bank maintained a prudent approach to credit underwriting and acquiring new loans in light of uncertainties in external markets. Therefore, the net loans portfolio decreased 4% or HK\$1.0 billion to HK\$27.6 billion as at 30 June 2010 from the 2009 year-end balance of HK\$28.6 billion. The Group's capital and liquidity positions remained strong. The consolidated capital adequacy ratio was 18.15% (17.18% at 2009 year-end) at the end of June 2010 and the average liquidity ratio for the first half of 2010 was at 49.89%.

Since the beginning of 2010, the Bank has adopted a growth-yet-prudent strategy to capture market opportunities while minimizing risks and costs. The Bank has started laying the groundwork for its strategic priorities of expanding the local franchise and reducing the overall risk profile. Steps have been taken to strengthen risk processes and build business resilience. Operations, information technology and other functions have been re-organized to create a more effective organization with greater efficiency and enhanced cost effectiveness for building a strong infrastructure for future growth. The improved Group earnings in the first half of 2010, mainly attributed to substantially lower credit impairment losses, was testimony to the Bank delivering on its strategy.

While the global economy is emerging from the harsh conditions experienced in the aftermath of the global financial crisis, the recovery is likely to be slow. The negative impacts of the European debt crisis have yet to be fully reflected while recent economic reports suggested the US recovery may be losing momentum. Concerns about the sustainability of the global economy prompt the Bank to continue to pursue a growth-yet-prudent strategy in the second half of the year. In its continuous efforts of establishing the local franchise, the Bank will strengthen its brand equity and continue to expand its customer base. The Bank will continue to invest on information technology, particularly on infrastructure and enhancements on risk and business application systems with a view to improving product and service delivery. The signing of the Economic Cooperation Framework Agreement ("ECFA") between Taiwan and Mainland China will further strengthen cross-straits economic and financial sector interaction. Benefiting from the strong support of Fubon Financial, and by leveraging on Fubon Financial's growing presence in mainland China, the Bank is well positioned to capitalize on the burgeoning trade and investment flows in the Greater China region.

INTERIM DIVIDEND

The Board of Directors have approved at the Board Meeting held on Tuesday, 10 August 2010 ("Board Meeting") the Payment of an interim dividend of 2.0 Hong Kong cents per ordinary share in respect of the six months period ended 30 June 2010, totalling HK\$23.4 million. The interim dividend will be paid on or about Friday, 22 October 2010 to the shareholders whose names are on the Register of Members as at the close of business on Friday, 8 October 2010.

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CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Wednesday, 6 October 2010 to Friday, 8 October 2010, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Share Registrars, Computershare Hong Kong Investor Services Limited, Shop 1712 - 1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 5 October 2010.

PREFERENCE DIVIDEND

The Directors have approved at the Board Meeting the payment of dividend for the period from (and including) 15 June 2010 to 14 December 2010 ("Preference Dividend") on the Irredeemable Cumulative Non-Voting Preference Shares ("Preference Shares"). The Preference Dividend will be paid on Wednesday, 15 December 2010 to the shareholders whose names are on the Register of Members of Preference Shares. Closure of the Register of Members of Preference Shares for the purpose of determining shareholders' entitlement to the Preference Dividend will be announced in November 2010.

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

The Bank has not redeemed any of its listed shares during the six months ended 30 June 2010. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to the highest standards of corporate governance including but not limited to strict adherence to the principles and all Code provisions set forth in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period for the six months ended 30 June 2010.

COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

The Group has made specific enquiries with all Directors regarding any non-compliance with the Model Code during the accounting period for the six months ended 30 June 2010, and received confirmations from all Directors that they have fully complied with the required standards set out in the Model Code.

For and on behalf of
Fubon Bank (Hong Kong) Limited
Pei-Hwa Thomas Liang
Managing Director

As at the date of this Announcement, the Board of Directors of the Bank comprises Pei-Hwa Thomas LIANG (Managing Director), Michael CHANG Ming-Yuen, James YIP as Executive Directors; Ming-Hsing (Richard) TSAI (Chairman), Ming-Chung (Daniel) TSAI (Vice Chairman), Victor KUNG, David CHANG Kuo-Chun as Non-Executive Directors; and Robert James KENRICK, Moses TSANG, Hung SHIH as Independent Non-Executive Directors.

Hong Kong, 10 August 2010